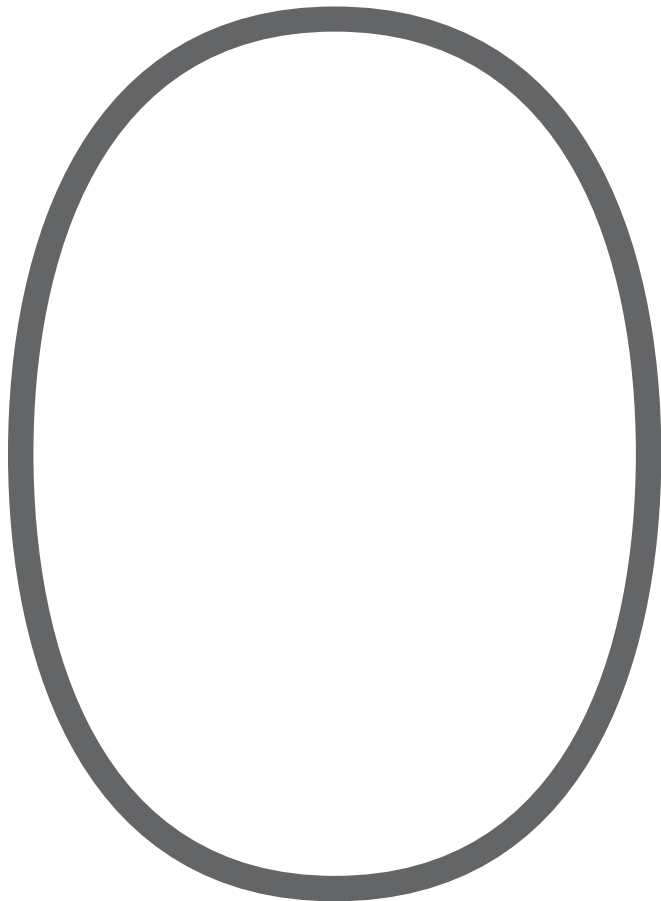
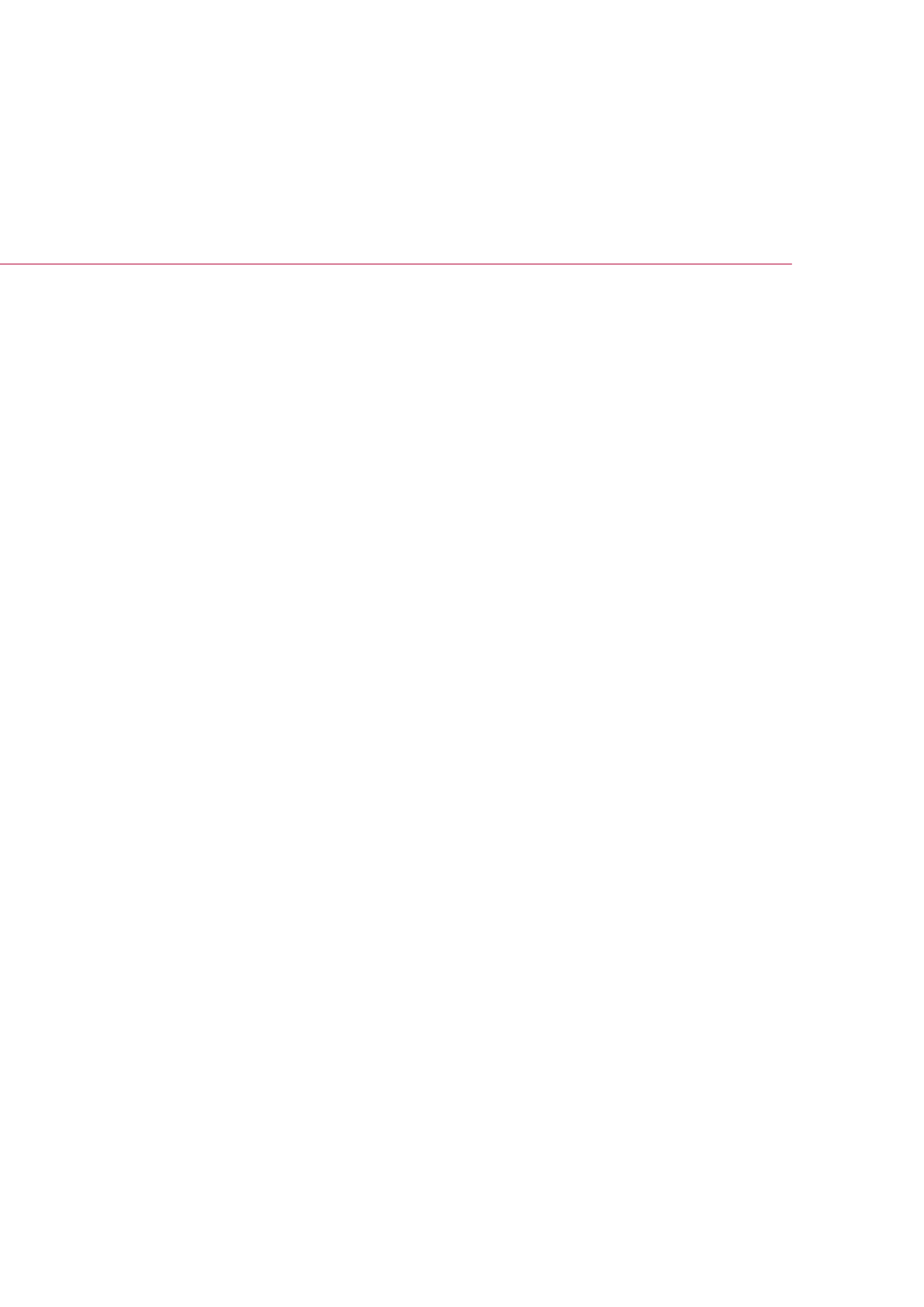




FMA

Financial Market Authority
Liechtenstein





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Vision

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

Foreword



The year 2007 was again marked by strong growth for the Liechtenstein financial center. The licensed financial intermediaries recorded increased growth and income across practically all financial market segments. New markets in the Middle East and Southeast Asia were opened up, so that the business of Liechtenstein financial intermediaries became even more international. In addition, new market niches and financial products were established, such as asset management companies, pension funds, and insurance brokers.

In the 2nd half of 2007, the U.S. subprime crisis shook the world economy, adversely affecting banks and stock markets. Close attention must be paid in 2008 to the effects of this crisis.

Two major themes for the FMA in 2007 were the development and implementation of a FMA Strategy and the IMF assessment. After two years of building up the organization, the time had come to set out the strategic orientation of the FMA, based on the experiences so far and with the assistance of a renowned European strategy consulting firm, and to implement appropriate strategic initiatives. The assessment of the financial center by the International Monetary Fund (IMF) in March /April 2007 was a further challenge for the FMA, requiring extraordinary effort by FMA staff in addition to day-to-day business and implementation of the Strategy.

The FMA mastered all of these challenges and tasks. This was only possible, however, thanks to the outstanding efforts of the entire FMA team. I would therefore like to extend my deepest gratitude and recognition to all FMA staff members for the work they accomplished in 2007.

The FMA will continue to do everything in its power to fulfill its sovereign mandate in a responsible and professional manner, in order to safeguard the stability of the financial market, the protection of clients, the prevention of abuse, and compliance with recognized international standards. In this way, the FMA will contribute to the competitiveness and standing of the financial market and thereby to the welfare of the country of Liechtenstein.

René H. Melliger
Chairman of the Board

Core Principles

1. SUPERVISION

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

2. REGULATION

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

3. EXTERNAL RELATIONS

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

4. ENTERPRISE

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

5. TEAM

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

Liechtenstein Financial Market

The Liechtenstein financial center continued its strong growth in 2007. Net assets under management grew from CHF 228.9 billion to CHF 277.72 billion as of 31 December 2007, which amounts to an increase of 21.3%. The 16 banks licensed in Liechtenstein managed consolidated client assets of CHF 201.3 billion as of 31 December 2007. This represents an increase of 16.1% over 2006. Investment undertakings recorded growth of 14.25% and managed assets amounting to approximately CHF 30.45 billion as of 31 December 2007. Even more significant is the growth of Liechtenstein as an asset management location. Compared with 2006, growth was about 92.1%. This increase, like the increase in 2006, is due to the new Asset Management Act (AMA), which entered into force on 1 January 2006. Insurance undertakings recorded capital investments of CHF 21.3 billion, an increase of 43.9% over the previous year. Assets managed by pension schemes rose by 6.9% to approximately CHF 3.1 billion.

Table 1: Overview of development of net client assets under management as of 31 December 2007

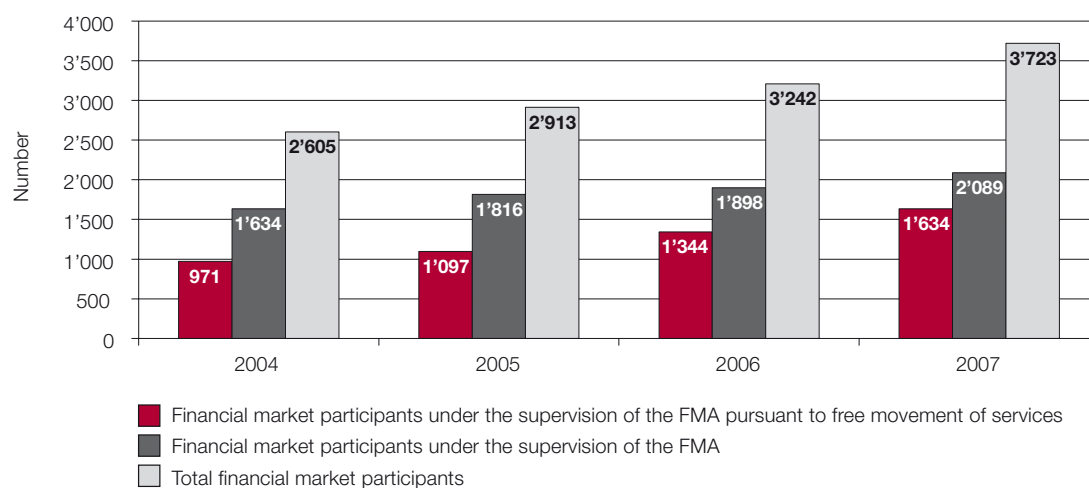
in billion CHF	2004	2005	2006	2007	Change in % 2006 / 2007	Change in % 2004 / 2007
Banks	119.4	148.7	173.4	201.3	16.1	68.6
Investment undertakings (funds)	15.6	20.6	26.6	30.45	14.25	95.5
Asset management companies	–	–	11.2	21.52	92.1	–
Insurance undertakings	5.1	10.2	14.8 ¹⁾	21.3 ³⁾	43.9	317.6
Pension schemes	2.8	3.1	2.9 ²⁾	3.1 ³⁾	6.9	10.7
Total⁴⁾	142.9	182.6	228.9	277.72	21.3	94.3

¹⁾ New basis starting in 2006: unearned premiums, actuarial reserves, and technical reserves for life insurance contracts, provided that the investment risk is borne by the policyholders, instead of total capital investments.

²⁾ New basis starting in 2006: old-age capital of members and pensioners, instead of total capital. The figures also include pension insurance for State employees.

³⁾ interim figures for 2007

⁴⁾ "Total" includes double counts, since the data for the banks also include assets managed by other financial intermediaries (e.g. investment undertakings).

Figure 1: Number of financial market participants, 2004 to 2007

A total of 2'089 financial market participants domiciled in Liechtenstein operated in the financial center as of the end of 2007. This represents an increase of 191 financial market participants or about 10 % over the previous year. Most of the growth was attributable to domestic investment undertakings (49%). Asset management companies and insurance intermediaries also accounted for a large share of the growth, with 22 % and 17 % respectively. The number of notified financial market participants rose from 1'344 to 1'634 in 2007.

INTRODUCTION

Table 2: Financial market participants under the supervision of the FMA as of 31 December 2007

	2004	2005	2006	2007	Increase 06/07
Banks/Investment firms/Liechtenstein Postal Service					
Banks	16	16	16	16	0
Investment firms (from 1 November 2007)	–	–	–	0	0
Liechtenstein Postal Service	1	1	1	1	0
Audit offices pursuant to the Banking Act	9	9	9	10	1
Asset management companies					
Asset management companies (from 1 January 2006)	–	–	48	90	42
Investment undertakings					
Active management companies	–	–	28	27	– 1
of which fund management companies			19	20	1
of which investment companies			9	7	– 2
Domestic investment undertakings	141	166	208	303	95
of which segmented	42	45	48	59	11
with a total of segments (individual funds)	141	156	179	224	45
Foreign investment undertakings	208	239	⁵⁾ 137	136	– 1
of which segmented	52	56	13	18	5
with a total of segments (individual funds)	580	659	48	89	41
Audit offices pursuant to the IUA	9	10	10	10	0
Entitled to market units pursuant to the IUA (from 1.9.05)	–	–	6	8	2
Insurance undertakings					
Insurance companies domiciled in Liechtenstein	28	32	35	37	2
Audit offices pursuant to the ISA	10	10	10	9	– 1
Insurance intermediaries					
Insurance intermediaries (from 1 July 2006)	–	–	3	35	32
Pension schemes					
Pension schemes	40	41	39	36	– 3
Audit offices pursuant to the OPA	–	–	0	12	12
Pension insurance experts pursuant to the OPA	–	–	0	10	10
Pension funds					
Pension funds	–	–	0	2	2
Other financial service providers					
Professional trustees	82	86	84	88	4
Professional trustees with restricted license	23	27	27	27	0
Trust companies	284	295	277	257	– 20
Trust companies with restricted license	10	13	15	17	2
Auditors	23	24	24	23	– 1
Auditing companies	28	26	25	24	– 1
Lawyers	110	116	124	128	4
Registrable Liechtenstein lawyers	48	55	55	63	8
Resident European lawyers	18	18	19	20	1
Lawyer cooperatives	27	28	26	25	– 1
Branches of law firms	–	1	0	0	0
Trainee lawyers	58	64	71	65	– 6
Legal agents	5	5	5	5	0
Patent attorneys	12	13	13	10	– 3
Patent attorney firms	5	5	4	4	0
Persons with a certification under art.180a PGR	438	461	495	505	10
Exchange offices	1	1	2	2	0
Real estate brokers	*	16	18	18	0
Dealers in high-value goods and auctioneers	*	17	37	38	1
Casinos	*	0	0	0	0
Other persons subject to due diligence	*	21	27	28	1
Total (including double counts)	1634	1816	1898	2089	191

* subject to the DDA since 1 February 2005

⁵⁾ The strong decrease in foreign investment undertakings is due to the fact that notified financial market participants were reported separately for the first time as of 1 December 2006.

Foreign financial market participants under the supervision of the FMA engaging in free movement of services as of 31 December 2007

	2004	2005	2006	2007	Increase 06/07
Banks / Investment firms					
Free movement of services of EEA banks	72	88	108	141	33
Free movement of services of EEA investment firms	653	737	840	1049	209
Branches of EEA investment firms	0	1	1	1	0
Free movement of services of e-banking institutes	-	-	-	5	5
Free movement of services of multilateral trading systems (from 1 November 2007)	-	-	-	2	2
Insurance undertakings					
Free movement of services of EEA and Swiss undertakings	201	225	240	271	31
Branches of Swiss undertakings	26	23	26	25	-1
Branches of EEA undertakings	1	1	1	1	0
Management companies and investment undertakings					
Free movement of services of EEA management companies	-	-	1	3	2
Free movement of services of EEA investment undertakings	-	-	103	110	7
of which segmented	-	-	42	49	7
with a total of segments (individual funds)	-	-	694	773	79
Branches of EEA management companies	-	-	0	0	0
Other financial service providers					
Auditors engaging in free movement of services	-	2	3	5	2
Auditing companies engaging in free movement of services	18	20	21	21	0
Total	971	1097	1344	1634	290

In addition to this quarterly overview of financial market participants, other continuously updated lists for each area of supervision are available at www.fma.li.li (Servicepoint / Publikationen / Listen).

The Board



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

Chairman (full-time)

Vice Chairman

Members

René H. Melliger, Schaan (FL) ¹

Dr. Jochen Hadermann, Triesen (FL) ²

Dr. Martin Batliner, Eschen (FL) ³

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

Dr. Stefan Jaeger, Teufen (CH) ⁵

In the third business year, the Board again fulfilled its responsibility in carrying out its many diverse tasks and competences within the FMA. As a rule, it met once a month.

In cooperation with the General Management, an FMA Strategy was elaborated. Building on its legislative performance mandate, the FMA has positioned itself according to key criteria and developed its self-conception. The basis for the Mission 2009 (as an interim goal) consists in the Vision, the Mission Statement, and the FMA Strategy.

To achieve the Mission 2009, the following objectives have been resolved within the Strategy project: optimization of the supervision system and supervision practice (Supervision), development of transparent regulatory principles and farsighted planning (Regulation), expansion of the reputation and confidence in the FMA and the Liechtenstein financial market (External Relations), ongoing corporate development, development of performances, operational and structural organization (Enterprise), and optimization of market competence and expertise among staff members (Team). On this basis, a total of 11 strategic initiatives have been launched or already implemented. As part of the Strategy project, a modern and professional IT solution has also been evaluated.

Under the supervision of the Board, the FMA's own accounting system was also implemented in mid-2007, in anticipation of further process optimizations. This allows the Board and the General Management to use the financial management instruments of the FMA as needs arise.

In the 2007, the Board approved an FMA fee model for the attention of the Government, which assesses the FMA's costs among supervised financial intermediaries in accordance with the actual workload involved in the individual areas of supervision. The FMA fee model is based on foreign prototypes. The fee model would distribute costs according to workload and would ensure the FMA's financing.

As part of its cultivation of external relations, the Board conducted monthly and need-based consultations with the Prime Minister, in particular for purposes of advising the Government within the framework of its legislative mandate on topics relating to financial market strategy, and to jointly discuss fundamental questions of the financial center's regulation.

In addition to meetings at the national level, especially with the Finance Committee of Parliament and the National Audit Office serving as the auditor of the FMA, the Chairman of the Board also took part in various international meetings. Of particular note is the Four-Country Meeting of the German-Speaking Financial Market Authorities (DACHL), which took place in Vaduz in 2007 and was hosted by the FMA. Particularly intensive and valuable was Liechtenstein's representation by René H. Melliger on behalf of the Government on the EFTA Board of Auditors in Brussels and the Council of Europe Development Bank in Paris. Other focus areas included the development and cultivation of relations with Dubai, Singapore, and China.

The General Management



Chief Executive Officer
Deputy of the CEO and Director of Insurance
and Pension Funds Supervision
Director of Banking and Securities Supervision
Director of Other Financial Service Providers
Supervision

* until 30 April 2008

Dr. Stephan Ochsner, Eschen (FL) ¹ *
Mario Gassner, Triesenberg (FL) ²

Christian Reich, St. Gallen (CH) ³

Miriam Chiara Klier, St. Gallen (CH) ⁴

The General Management's activities in the third year of the FMA's operations again focused on internal reorganization, process optimization, and consolidation. Due to entry into force of new legislation (Pension Funds Act, Market Abuse Act, Takeover Act, Financial Conglomerates Act), the supervisory and decision-making competences of the General Management were also expanded. In this connection and thanks to the positive business environment, the number of applications for licenses again rose significantly (especially asset management companies, investment undertakings, insurance undertakings, and insurance intermediaries).

With respect to structural organization, further competences were delegated to the operational divisions, which must submit monthly reports to the General Management. The Integrative Affairs Unit and the Banking and Securities Supervision Division were also restructured.

International cooperation was again deepened and intensified in 2007. The focus was on visits to supervisory colleagues in Dubai, Singapore, and China, to provide Liechtenstein financial intermediaries with access to the markets in the Middle East and Southeast Asia. Of particular note is the successful conclusion of a Memorandum of Understanding (MoU) with the Chinese Securities Regulatory Commission (CSRC). Upon adoption of Liechtenstein's pension funds legislation, the FMA sought membership in the International Organization of Pension Supervisors (IOPS) to allow Liechtenstein pension funds to engage in business worldwide. In the area of pension funds and insurance intermediaries, additional cooperation protocols were signed within the framework of the EEA supervisory authorities. Finally, an amendment to the Direct Insurance Agreement between Liechtenstein and Switzerland expands the home country principle in bilateral relations to include insurance intermediaries.

The IMF assessment in spring 2007 was a very significant challenge for the FMA. The focus of the IMF's assessment was on compliance with international standards in the field of anti-money-laundering and counter-terrorist-financing as well as banking and securities supervision. Already today, it can be said that the extraordinary efforts by the FMA and the other involved persons have been worthwhile. Publication of the reports is scheduled for the beginning of 2008.


After the exit of a Member of the General Management, the specialized expertise of the General Management was expanded with the inclusion of Ms. lic. iur. HSG Miriam Chiara Klier as a Member of the General Management and as Head of the Other Financial Service Providers Supervision Division.

Regulatory work again took up a large part of the General Management's resources in the 2007 reporting year. The focus was on implementation of the MiFID directive and the financial conglomerates legislation.

INTRODUCTION

The elaboration of the FMA Strategy in coordination with the Board and the implementation of the individual strategic initiatives, especially relating to supervision, demanded special efforts from the General Management and the entire FMA Team in 2007.

In 2008, the further development of reputation and recognition of the FMA in Liechtenstein and abroad, the implementation and review of the SPIR-IT Strategy Project, the development of the FMA Management Model, the consolidation of the organizational structure and the portfolios of staff members, and securing the financing of the FMA will be of particular importance.

A black and white portrait of a man with short hair and glasses, wearing a dark suit jacket, white shirt, and dark tie. He is looking directly at the camera with a neutral expression. The background is dark and out of focus. The lighting is dramatic, highlighting his face and the texture of his clothing.

When processing license applications, our responsibility toward the financial market is with especially large.

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

We execute the laws governing the Liechtenstein financial market.

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

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

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

We fight abuses and punish violations.

We protect the clients of the financial market.

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

SUPERVISION

Supervision and execution of laws

The 2007 business year saw the entry into force of the Pension Funds Act, the Market Abuse Act, the Takeover Act, and the Financial Conglomerates

Act. These expand the supervision and execution responsibilities of the FMA, which encompassed 23 financial market enactments by the end of 2006.

Table 3: Laws subject to the supervision and execution of the FMA as of 31 December 2007

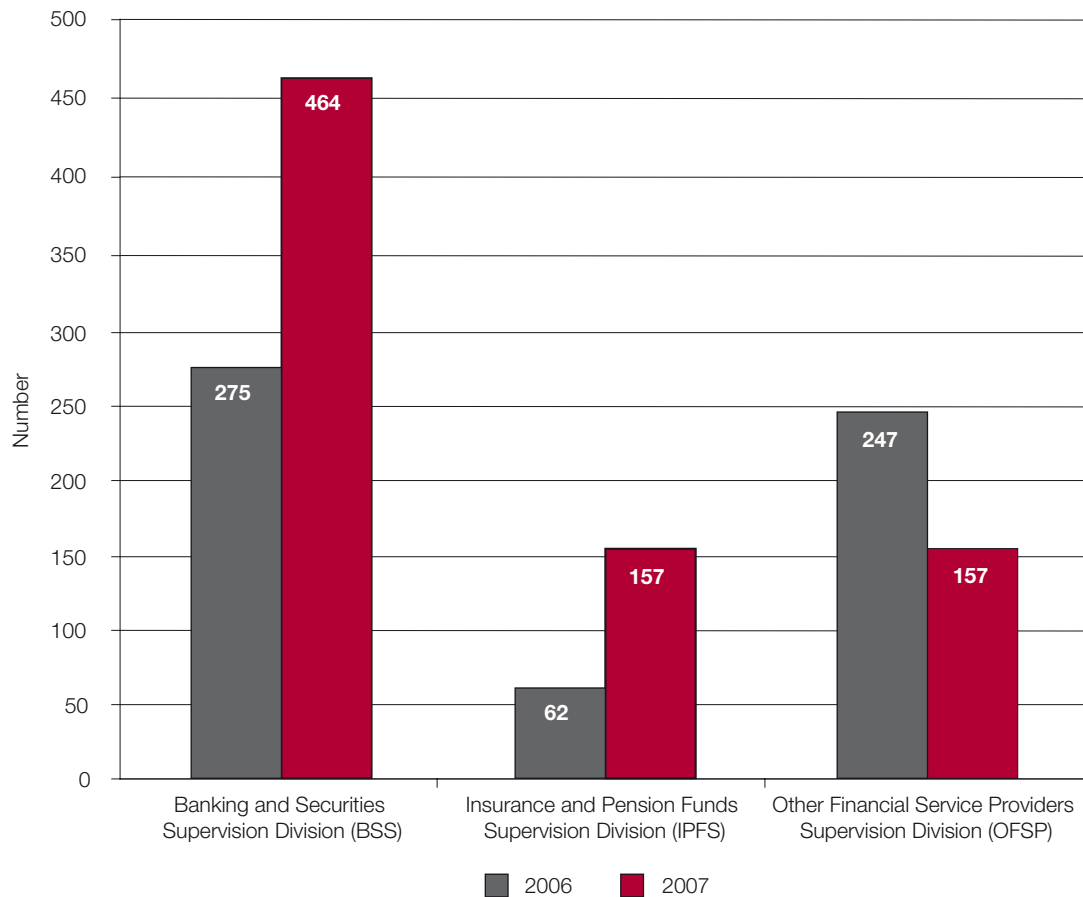
1. Law on Banks and Finance Companies (Banking Act);
2. Law on the Business of Electronic Money Institutions (E-Money Act);
3. Law on the Liechtensteinische Landesbank;
4. Law on the Execution of Cross-Border Credit Transfers (Financial Transfers Act)
5. Law on Settlement Finality in Payment and Securities Settlement Systems (Finality Act);
6. Law on the Disclosure of Major Holdings in Listed Companies (Disclosure Act);
7. Law on the Drawing-up, Scrutiny and Distribution of the Prospectus to be Published at Public Offerings of Securities (Prospectus Act);
8. Law on Investment Undertakings (Investment Undertakings Act; IUA);
9. Law on the Liechtenstein Postal Service (Postal Act);
10. Law on Lawyers (Lawyers Act, LA);
11. Law on Professional Trustees (Professional Trustees Act, PTA);
12. Law on Auditors and Auditing Companies (Auditors and Auditing Companies Act; AACA)
13. Law on Patent Attorneys (Patent Attorneys Act, PAA);
14. Law on the Supervision of Insurance Undertakings (Insurance Supervision Act, ISA);
15. Law on Professional Due Diligence in Financial Transactions (Due Diligence Act, DDA);
16. Law on Occupational Pensions (Occupational Pensions Act; OPA)
17. Law on Insurance Protection of Buildings against Fire Damage and Elementary Loss (Building Insurance Act; BIA)
18. Law on Asset Management (Asset Management Act; AMA)
19. Law on Insurance Mediation (Insurance Mediation Act; IMA)
20. Law on the Supervision of Institutions for Occupational Retirement Provision (Pension Funds Act; PFA)
21. Law against Market Abuse in the Trading of Financial Instruments (Market Abuse Act; MAA)
22. Law on Takeover Offers (Takeover Act)
23. Law on the Supplemental Supervision of Undertakings in a Financial Conglomerate (Financial Conglomerates Act; FCA)

Licensing

Licensing again represented a main task of the FMA in the 2007 reporting year, not just with respect to the granting of licenses, but also amendment,

rejection, withdrawal, and deletion of licenses. In general, most activity concerned amendments to licenses and new licenses.

Figure 2: Licensing activities*



* Licensing activities include the granting, amendment, rejection, withdrawal, and deletion of licenses.

Auditing

Auditing includes regular and extraordinary audits. While the divisions generally have the audits conducted by FMA-licensed auditing companies, case-specific on-site audits are conducted by the FMA itself as needed, where resources allow. In total, 13 such on-site inspections took place in 2007.

SUPERVISION

Table 4: Overview of inspection of audit reports

	2006		2007	
	prudential	pursuant to DDA	prudential	pursuant to DDA
Banks				15
Asset management companies	0	0	21	15
Management companies	26	2	26	2
Investment undertakings	145	0	190	0
Insurance undertakings	30	15	32	14
Pension schemes	39	0	36	0
Other financial service providers	0	240	0	156
Total	256	272	321	202

Combating abuse

While the number of cases of abuse in IPFS decreased, a strong increase was recorded in BSS and OFSP. The uncovered cases primarily concerned persons and undertakings offering services subject to a license on the financial market without such a

license. Most of the abuses identified by the FMA were remedied through measures under supervision law. In other cases, the abuses were reported to the Office of the Public Prosecutor and the Financial Intelligence Unit.

Figure 3: Number of cases of abuse

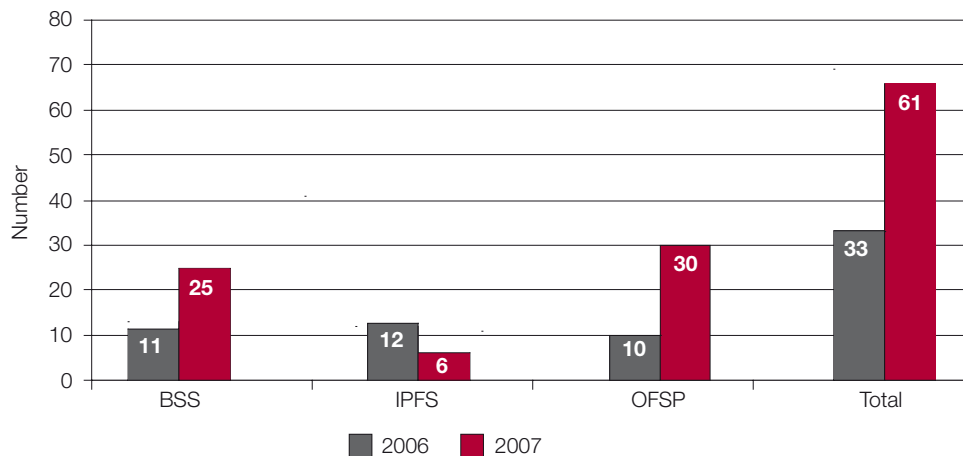
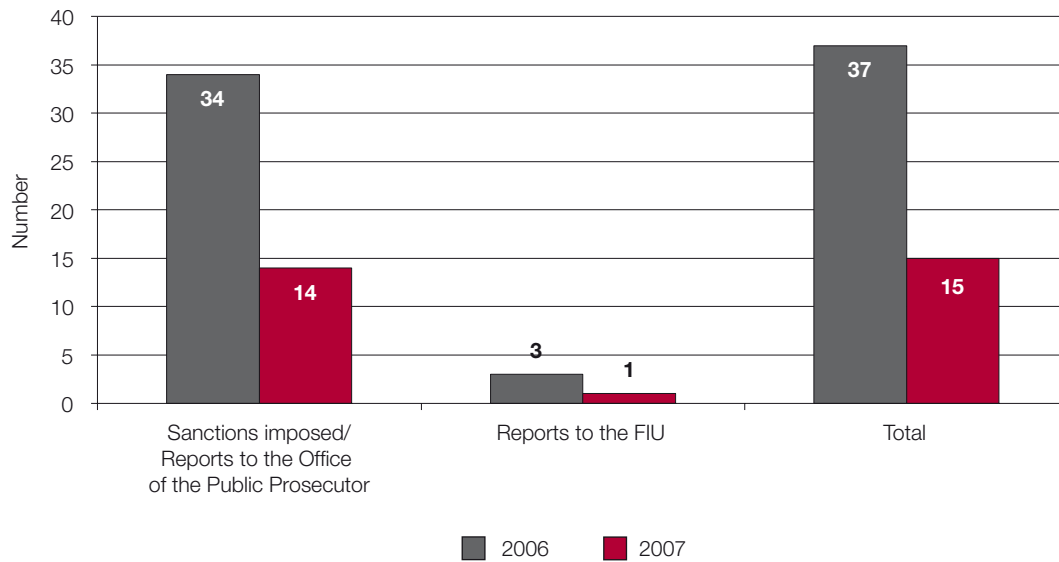


Figure 4: Overview of measures/sanctions by the FMA



Administrative assistance

The number of concluded requests for administrative assistance increased relative to the 2006 reporting year. A total of 20 requests were received in the reporting period. 14 requests were concluded in this period, some of which were from previous reporting years. 11 requests were still pending as of 31 December 2007.

Complaints

In the 2007 reporting year, 4 complaints against decrees and measures by the FMA were concluded. One case is pending before the Constitutional Court.

SUPERVISION

Table 5: Complaints

		2006		2007	
		concluded	pending as of 31 Dec	concluded	pending as of 31 Dec
BSS	FMA Complaints Commission (FMA-BK)	11	0	0	0
	Administrative Court (VGH)	0	0	0	0
	Constitutional Court (StGH)	2	0	0	0
IPFS	FMA Complaints Commission (FMA-BK)	0	0	3	0
	Administrative Court (VGH)	0	0	0	0
	Constitutional Court (StGH)	0	0	0	0
OFSP	FMA Complaints Commission (FMA-BK)	0	0	1	0
	Administrative Court (VGH)	0	0	0	0
	Constitutional Court (StGH)	0	4	0	1
Total		13	4	4	1

1.1 Banking Supervision

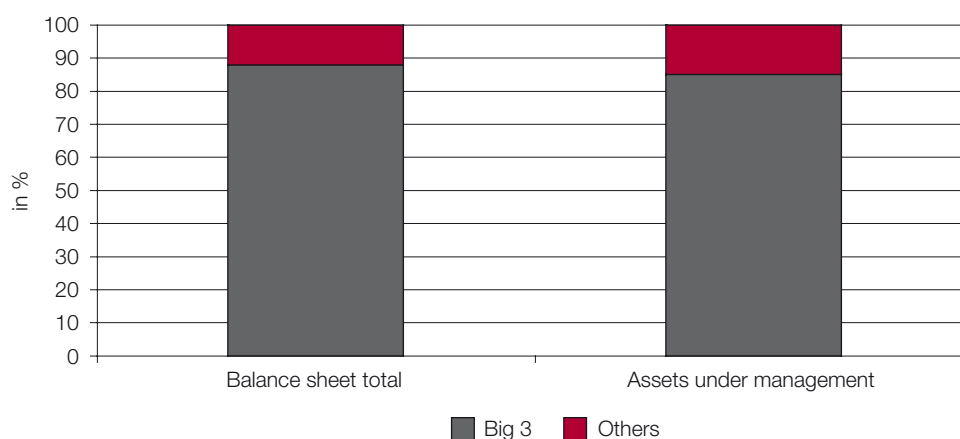
1.1.1 Liechtenstein banking location

As of the end of 2007, the Liechtenstein banking center was composed of 16 licensed banking institutions, 1 of which is undergoing voluntary liquidation. Of these 15 active banks, 9 are economically dominated by Liechtenstein investors, 3 by investors from the EEA (Austria), and 3 by investors from a third State (Switzerland).

Currently, there are neither branches of foreign credit institutions nor branches of Liechtenstein banks abroad. However, 4 Liechtenstein banks have representative offices abroad.

Looking at all the banks licensed in Liechtenstein, the 3 largest banks account for 89 % of the balance sheet total in the Liechtenstein banking center and 85 % of the client assets under management.

Figure 5: The three largest banks together in relation to the entire banking center



The main activity and the most important business field of the domestic banks is private banking, including custody accounts and all associated services. In these fields, the banks work closely together with professional asset managers and fund companies. The lending business is limited (Lombard loans are offered by all the banks, however, against appropriate security). Mortgage and commercial loans, to the extent they are even offered by the banks, are generally limited to the domestic market. Letters of credit and investment banking play only a subordinate role. Due to the strategic focus of domestic banks on private banking and

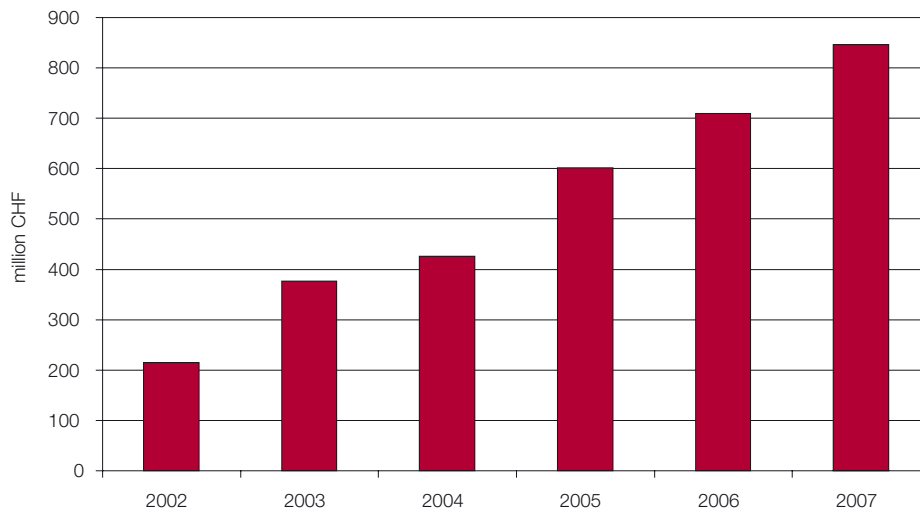
the subordinate role of other areas of banking, the main risks of the banks consist in reputation and market risk. The legal provisions for operating banking services in Liechtenstein, in particular also those concerning risk management, correspond to the harmonized rules in the EEA and are closely based on the Swiss rules.

SUPERVISION

The 2007 business year was again a very positive one for domestic banks. Looking at the consolidated figures, the result from normal busi-

ness activities grew by approximately 19.2% to CHF 846.6 million.

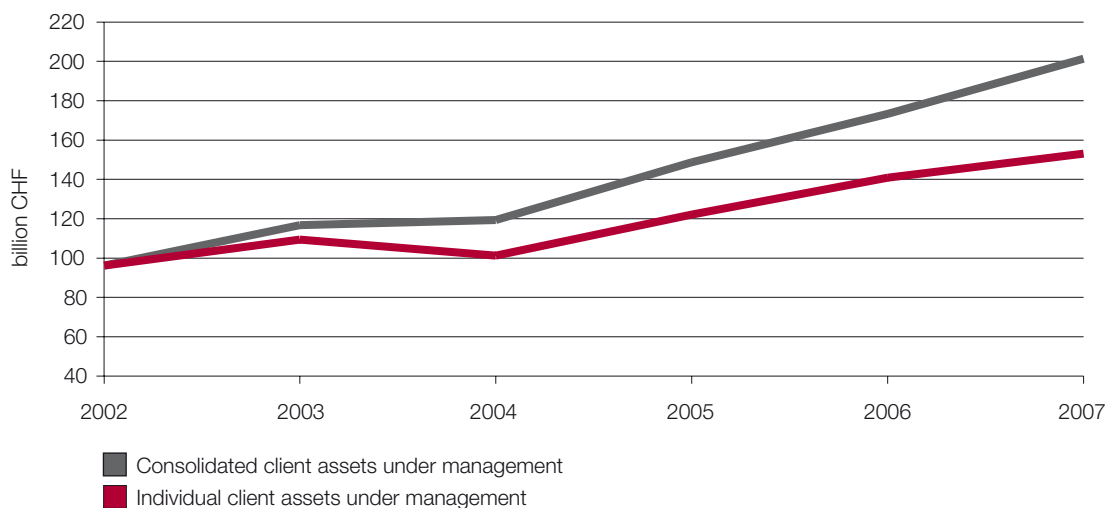
Figure 6: Result from normal business activities (in CHF million, consolidated)



This strong performance of the banks was largely due to the positive development on the financial markets, which naturally had a strong effect on private banking. Moreover, Liechtenstein banks were not directly affected by the subprime crisis, but rather only indirectly due to the resulting turbulences on the stock markets.

The total client assets under management increased by approximately 16.1% to CHF 201.3 billion. The inflow of new assets represented 71% of the increase. The balance sheet total of the banks also rose by 24.6% in comparison with the previous year and reached CHF 60.1 billion. The number of employees also rose by 18.8%. Accordingly, 2'680 employees worked for banks or banking groups in Liechtenstein as of the end of 2007.

Figure 7: Client assets under management since 2002 (in CHF billion)



Because all Liechtenstein banks have a solid equity capital base, they all are able to ensure protection of their depositors. In addition, Liechtenstein has a Deposit Guarantee and Investor Protection system, of which all Liechtenstein banks are members.

1.1.2 Banking supervision

Banking supervision in Liechtenstein is carried out in accordance with the European banking directives and the criteria established by the international bodies of supervisory authorities, in particular the Basel Committee on Banking Supervision and the International Organization of Securities Commissions (IOSCO).

In the FMA, banks are supervised by the Banking Supervision Section of the Banking and Securities Supervision Division. The main responsibility of the Banking Supervision Section is execution of specialized legislation, especially the Banking Act, the Banking Ordinance, the Due Diligence Act, the Due Diligence Ordinance, the Financial

Transfers Act, and the Finality Act. The Banking Supervision Section is responsible for the prudential supervision of banks and finance companies and, to a limited extent, of branches of investment firms from the EEA. Prudential supervision means ongoing supervision by the FMA after a license has been granted, the goal of which is the sound and proper functioning of the financial system as a whole and the good reputation of the financial center. In particular, prudential supervision encompasses auditing pursuant to the Banking Act and the Due Diligence Act, the reporting system, and combating abuse.

The supervisory activities of the FMA include inspection of compliance with the relevant legal norms by the supervised institutions. The demands on the FMA relating to banking supervision depend substantially on the organization and business activities of the banks.

SUPERVISION

1.1.3 Licenses

Licenses pursuant to the Banking Act

As in the previous three years, no new bank, finance company, or investment firm was licensed in 2007. As part of a restructuring of an audit office pursuant to the Banking Act, the parent company was granted a license to audit banks and investment firms.

In the 2007 business year, a total of 31 changes to the licensing conditions required by the Banking Act were made. These primarily concerned changes to the board of directors or general management.

Table 6: Changes to licenses, banking supervision (number)

	2007	2006
Change to organs (GM/BD)	13	15
Change of internal audit department	1	4
Changes to statutes subject to approval	3	5
Changes to business regulations subject to approval	3	3
Change of external audit office	0	1
Change of qualifying holdings of a bank	6	1
Notifications in the free movement of services	3	0
Change of business name	1	0
Expanded banking licenses	1	0
Total	31	29

Single license principle

A Liechtenstein bank may offer cross-border services throughout the EEA by virtue of free movement of services, provided that it applies to the FMA for a notification to this effect, which the FMA then forwards to the authority of the host Member State. The cross-border activities are subject to supervision by the FMA under the single license principle (European passport).

Over the course of 2007, notifications were made in 13 EEA Member State (Austria, Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia). As of the end of 2007, 7 Liechtenstein banks were notified for the provision of cross-border services in the EEA. Conversely, a total of 1'195 investment firms and credit institutes were notified in Liechtenstein by virtue of free movement of services.

1.1.4 Auditing

Auditing encompasses regular and extraordinary audits. While the Banking Supervision Section generally has auditing companies licensed by the FMA carry out the required audits under the Banking Act and Due Diligence Act, case-specific on-site inspections are carried out by the FMA itself, where resources allow. These on-site audits lead to a better understanding both of the activities of the bank and of the activities of the audit offices, so that the FMA becomes a better conversation partner for the market participants in the case of arising problems and for the identification of solutions. Also, the on-site audits directly carried out by the Banking Supervision Section facilitate faster and more detailed answers to questions, and allow the FMA to carry out an evaluation of risk profiles of the individual banks that supplements the findings in the audit reports. Time-consuming, unclearly delineated and complex problems, the workload for which cannot be precisely estimated and therefore might exceed the FMA's available capacities, continue to be audited by the auditing companies.

Regular audits under the Banking Act

The audit reports under the Banking Act for the 2006 business year, which were submitted in 2007, were again generally of good quality. The number of deficiencies noted in the audit reports was significantly reduced compared with the previous year. While there were 18 deficiencies in the previous year, only 7 cases involved deficiencies in 2006. On average, fewer than every second audit report noted a deficiency. The most frequent errors included those relating to the submission of reports under the Banking Act. There were also cases of ultra vires actions, shortcomings in credit transactions, and formal defects. All deficiencies were remedied by the banks by the time the au-

dit reports were prepared, so that the audit offices did not have to set deadlines for remedying the deficiencies.

The development over the last years shows that the number of deficiencies has steady decreased, despite the growth in the banking sector. This is in part due to the rising risk awareness of the banks, but certainly also due to the close monitoring by the FMA.

Regular audits under the Due Diligence Act

Pursuant to the Due Diligence Act in force, all banks in Liechtenstein are required to have a due diligence audit conducted by an external audit office. For this purpose, samples are taken from business cases associated with risk, depending on the size of the bank, which are then inspected with regard to whether all formal and material requirements under the Due Diligence Act have been complied with. An important point in this respect is whether any systematic shortcomings exist that may have an adverse effect on compliance with and monitoring of the due diligence obligations. The audit reports for the 2006 business year had to be submitted to the FMA by 30 June 2007. Overall, the inspection results were very positive. Compared with 39 deficiencies noted in the reports in the previous year across all banks, only 30 were recorded this year, a reduction by 9. No complaints were recorded in the case of nearly half of the credit institutions. This positive development shows that the banks attach great importance to due diligence and have undertaken great efforts in the fight against money laundering and terrorist financing. A frequent reason for noting deficiencies is that older business relationships are not documented in as much detail as new business relationships. Some of these business relationships were initiated by other financial inter-

mediaries, which often makes it more difficult to obtain additional information and documents via the intermediary. The most frequent deficiencies concerned the content, meaningfulness, and up-to-dateness of the client profile and insufficient assessment of the plausibility of transactions. The deadlines set by the audit offices to remedy the defects were generally complied with. The follow-up inspections by the audit offices were carried out after the legally specified deadline, and their results were then communicated in writing to the FMA.

Expert and management meetings in 2007

In 2007, the Banking Supervision Section conducted expert and management meetings for the fifth time. Before the meetings, the audit and business reports and the DDA inspection reports and the reporting system were analyzed. The arising questions were then answered by the experts of the banks.

These audit activities are generally concluded by a management meeting with each individual bank in the fourth quarter. These meetings are attended by staff members of the FMA, the management of the bank, and as a rule the chairman of the board of directors. Focus areas of the meetings include a short summary of the results of the analysis, the current business development, challenges, ongoing or planned (strategic) projects, the budget, and feedback to the FMA. This platform is readily used both by the FMA and the bank to address current topics and, for instance, to exchange the newest information on legislative projects and the financial center. In addition, the personal contacts help cultivate mutual understanding for the work of the banks and the FMA, which ultimately has a positive impact on banking supervision.

Frequent topics of discussion in the 2007 management meetings included the implementation of MiFID, Basel II, their impact on the banking system, and the dried-up labor market. The feedback of the banks on the working methods of the FMA was thoroughly positive. Suggestions on areas in which the FMA might improve its services were accepted with gratitude and, where possible, will be implemented.

Preparation and follow-up of the management meetings and the meetings themselves again consumed considerable resources. Approximately 1'300 working hours were invested for this purpose.

Pillar 2 – Risk assessment

It is one of the most fundamental needs of a banking supervision to be able to assess the risk of a bank. The risk profile of a bank is indispensable for banking supervision, in order to classify the threat to investor and creditor protection and confidence in the banking center, to take the necessary measures, to determine focus areas of supervision, and to allocate supervisory resources according to risk. For this reason, the FMA employs a Risk Assessment System (RAS), which documents statements concerning the risk character of a bank, taking into account both past-oriented and future-oriented, quantitative and qualitative factors, and allows a rating to be made.

Pillar 2 of Basel II concerns the risk management of banks. According to article 25 of the Capital Adequacy Ordinance, banks must have solid, ef-

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fective, and comprehensive strategies and procedures at their disposal to continuously evaluate the amount, the composition, and the distribution of internal capital that they deem appropriate for the quantitative and qualitative guarantee of their current and any future risks, and to keep this capital at a sufficiently high level. These strategies and procedures must be monitored internally on a regular basis, to ensure that they are appropriate in light of the type, scope, and complexity of the bank's business and do not leave out any aspect.

As part of the monitoring of capital adequacy under Pillar 2, the banking supervision authority must verify whether the banks employ appropriate strategies and procedures to control their risks and whether they have sufficient and appropriate equity capital. Sufficient equity capital covers the risks under Pillar 1 and all risks not covered or not fully encompassed by Pillar 1. The risks not covered by Pillar 1 that are considered by Pillar 2 include interest-rate risks in the bank book, concentration risks, strategic risks, liquidity risks, management and control risks. In this context, it is necessary to identify, assess, monitor, and limit risks, i.e. to control them. Nothing essential actually changes for banks in this regard. Already today, banks must have strategies and procedures at their disposal to plan and monitor risks and the requisite risk provisions. What is new is that the enactments now describe in more detail which risks in particular must be controlled and covered by sufficient own funds.

How the banks design their strategies and procedures depends on the size and complexity of the bank in question. Banks with large business volume and many different types of business and whose risk structure is significant must also employ more elaborate procedures to control their risks.

In order to evaluate whether the banks control their risks under Pillar 2 sufficiently, the FMA must now first of all inspect the risk profile of the individual banks. This is undertaken with the recently adapted Risk Assessment System: Components of the Risk Assessment System are an evaluation of the risk management procedures, the risk strategy, the financial situation, and the individual enterprise segments. The risk assessment continues to incorporate both a retrospective and a prospective view, so that future risks may also be compiled and assessed accordingly.

The goal of the RAS and the resulting dialogue on the risk management of the bank is to enhance the financial stability of the banks and the Liechtenstein financial center and to recognize any imbalances early on.

Extraordinary audits under the Banking Act and the DDA

In the 2007 business year, a total of 9 extraordinary audits were carried out by the Banking Supervision Section, 8 of which were conducted directly with respect to banks and 1 with respect to another financial intermediary concerning a due diligence case at a bank.

– On-site inspections arising from suspicious factors under the DDA

In two cases, on-site inspections were carried out on the basis of press monitoring, and in two other cases on the basis of deficiencies noted in the DDA inspection report. A deficiency noted in an inspection report concerning the organization of safekeeping of documents relevant to due diligence obligations at a bank triggered one on-site inspection. An assessment of the organizational structure with respect to safekeeping and subsequent verification by random samples showed that the problems indicated had been remedied. In two other cases, the financial intermediaries had to carry out additional inquiries and provide documents to show the origin

of the resources. In one case, the FMA saw a need to carry out an appraisal of the financial center in general to ascertain how the problem of subaccounts and beneficial owners as well as documentation thereof is dealt with in practice. The external audit offices were mandated to investigate this issue in the course of their regular audits of the banks, and to answer the questions set out by the FMA.

– On-site inspection arising from a case of credit fraud

One bank client managed to obtain payment of an unsecured loan in the amount of several hundred thousand Swiss francs. This caused the FMA to carry out an on-site inspection to gain a detailed picture of the way in which this case of fraud evolved. The FMA found that the bank had released the loan before receiving confirmation of the repurchase value and the notification of a life insurance policy. The client acted with considerable criminal energy and presumably with the collaboration of an employee of the German insurance company in question. The bank also did not know that German life insurance policies, in this case with a single premium, are issued before the single premium has been paid in. In the view of the FMA, the modifications of the bank's regulations, pursuant to the recommendations of its internal audit department, are sufficient to prevent the risk of repetition of a similar case, provided that they are put into practice. The criminal case has not yet been concluded.

– Appraisal of risk management process

The FMA carried out an appraisal of the risk management process of two banks in 2007. The goal of this appraisal was to obtain an overview of the risk management system employed by the



banks, to ascertain the status of implementation of Pillar 2 of Basel II, and to gain feedback for the Pillar 2 obligations yet to be defined in detail by the FMA in the FMA Communication on "Risk management, monitoring, and internal control in banks and investment firms". In summary, the risk management of the two inspected banks is already at a high level, and neither Pillar 2 nor the precise definition thereof in the FMA Communication will require a revolution in the banking center.

– **Appraisal of MiFID implementation process**

In 2007, the FMA carried out an appraisal of a bank's MiFID implementation process. This focus was on ascertaining the (technical) possibilities and problems in adjusting the bank-internal securities training and clearance systems. The FMA gained useful insights for the next steps to be taken, especially with a view to the notifications of securities transactions mandated by MiFID.

1.1.5 Reporting

Reporting is an important instrument to monitor compliance with the legal requirements and the timely communication of information. A basic distinction is made between periodic and case-specific reporting obligations. All reports are reviewed with respect to timely submission and content. Reporting frequencies range from monthly to annually. Some reports must be submitted on a case-by-case basis, for instance in the event of changes to the general management or board of directors, changes to equity capital, or crossing of a specified threshold.

Complaints relating to reports

Both the timeliness and quality of the reports have improved significantly in recent years and can now be deemed very good. Nevertheless, individual cases arise in which reports are submitted to the Banking Supervision Section with delay or errors. In the 2007 reporting year, reminders had to be issued in two cases for late submission of reports, which is half the number in the previous year. No fines had to be imposed, since the reports were then immediately submitted by the institutions receiving the reminders. One report from the previous year contained a slight defect, but since the error was minor, no correction or renewed submission was required.

1.1.6 Supervision practice

Measures under supervision law

The FMA is responsible for ensuring compliance with the laws under its supervision. If, in the course of its ongoing supervision activities, the Banking Supervision Section gains knowledge of deficient implementation of provisions under banking law, it takes the necessary measures to restore a lawful state of affairs. In the 2007 reporting year, measures under supervision law were required in the following cases, among others:

– **On-site inspections by the FMA**

In the past year, the FMA carried out 9 on-site inspections pursuant to deficiencies noted in audit reports, press monitoring, or other evidence. A written audit report was prepared on each inspection. In the cases where defects were identified, the inspection results led the FMA to demand measures to eliminate the defects. This demand was either made in writing or in the form of a decree. The inspection or elimination of the defects was either carried out by the FMA itself or by the audit office pursuant to the Banking Act.

– **Monitoring of bank liquidation**

The FMA closely accompanied the progress in the voluntary liquidation of a bank, in cooperation with the liquidator and the audit office pursuant to the Banking Act. All legal procedures have been successfully clarified in the meantime. The deletion of the company and its removal from banking status is expected to be complete in the first half of 2008. In the course of the liquidation, the bank was able to meet all its obligations.

– **Decree issued to bank due to defects in credit business and risk management**

On the basis of findings from an on-site inspection, the FMA ordered various short-term measures to eliminate the defects identified. Other measures were ordered to ensure that the bank's credit business and risk management are henceforth in conformity with the law.

– **Sanctions / Referrals**

In the area of banking supervision, the FMA neither imposed fines in the 2007 reporting year nor referred violations to the Office of the Public Prosecutor. In one case, a report was submitted to the Financial Intelligence Unit in accordance with article 16, paragraph 1 DDA.

– **FMA Communications**

In the 2007 reporting year, the Banking Supervision Section published two FMA Communications on "The Interpretation of Terms in the Financial Analysis and Market Abuse Ordinance" and "Volatility Adjustments for Calculating Credit Risk Reduction Effects". The FMA Communications are publicly available on the FMA website.

1.1.7 Combating abuse

The commercial offering of services under article 3 of the Banking Act is subject to a license. In this connection, combating abuse includes the prosecution of services rendered without the necessary license pursuant to the Banking Act. The FMA conducts preliminary investigations in this regard and reports violations to the Office of the Public Prosecutor if the suspicion is confirmed that activities subject to a license have been carried out without the appropriate license. The FMA also intervenes in the case of business names that falsely indicate activities as a bank or investment firm. The FMA can withdraw licenses and forcibly dissolve companies acting as a bank or investment firm without a license.

In the reporting period, 3 cases of abuse were evaluated in depth.

In one case, the business conduct of a company which had been under suspicion of engaging in the deposit business without a license was investigated. The investigations did not uncover sufficient evidence to forward the case to the law enforcement authorities, however.

A second case was investigated in which a foreign company unlawfully used the name of a Liechtenstein institution for advertising purposes. In this case, the supervisory authority of the foreign country was requested to prosecute the case in which the abuse arose.

In a third case, a foreign supervisory authority requested information concerning a company domiciled in Liechtenstein under suspicion of accepting unauthorized deposits from the public. This investigation has not yet been concluded.

1.1.8 Operational focus areas in 2007

Basel II processes

A central operational focus area was the establishment of processes and systems under Basel II. For this purpose, the legal foundations or their drafts were analyzed, and 247 processes were identified that required action on the part of the FMA. The demands on the processes arise from the newly added competences, administrative discretion, and responsibilities of the FMA, which are due in part to the rather extensive choices available under the new capital adequacy system of the banks. For all such cases, an approach and necessary resources have been defined according to which the FMA either ex officio or on application of the banks or other stakeholders, such as other supervisory authorities and rating agencies, is called upon to make a decision.

Of particular note in this connection is the development of a new own funds reporting form, which was undertaken by an external software company in cooperation with the Liechtenstein Bankers Association and the FMA. As of 31 March 2008, all banks reported their own funds for the first time using this form.

FMA Communication on “Risk Management, Monitoring, and Internal Control in Banks and Investment Firms”

The implementation of the EU directives on Basel II (2006/48/EC, 2006/49/EC) in the Capital Adequacy Ordinance requires banks to ensure capital adequacy. Capital adequacy consists of the components Pillar 1 and Pillar 2. Pillar 1 governs the minimum requirements for credit, market, and operational risks; Pillar 2 covers the risks not fully (e.g. credit risk concentration) or not at all (e.g. interest rate risk in the asset ledger, business risks, and strategic risks) accounted for in Pillar 1, as well as risks outside the scope of influence of the bank (e.g. impact of the economic cycle). To determine the necessary capital adequacy, the Capital Adequacy Ordinance requires banks to implement solid, effective, and comprehensive strategies and procedures (article 25 CAO).

The FMA is responsible for the verification and evaluation of these strategies and procedures (article 26 CAO). The question now arises what banks are expected to do to meet the Pillar 2 requirements. The FMA has thus decided to issue an FMA Communication that deals with this topic, offering the banks an interpretation aid and setting out the minimum requirements expected by the FMA.

This Communication sets out the requirements on risk management, monitoring of business activities, internal control, and monitoring thereof by the responsible bodies. The Communication discusses the responsibilities of the board of directors and the general management with respect to risk management and the internal control system.

For purposes of this Communication, risk management includes the definition of appropriate risk management and risk control processes. These strategies and processes are intended to guarantee that sufficient internal capital is available to cover all significant risks (“Internal Capital Adequacy Assessment Process” – ICAAP).

In cooperation with the business associations, this Communication is expected to be finalized by the second quarter of 2008 and will become the basis for the audit activities of the audit offices and the Banking Supervision Section with respect to the risk management systems employed.

Implementation of MiFID in practice

On 1 November 2007, the provisions in the Banking Act and Banking Ordinance on implementation of Directive 2004/39/EC on Markets in Financial Instruments (MiFID) entered into force. The declared objectives of MiFID are to improve investor protection and to enhance the transparency of investment services.

The new provisions of the Banking Act entail numerous changes for Liechtenstein banks with respect to organizational requirements and rules of conduct.

After the legislative implementation of MiFID (on behalf of the Government), the practical implementation of these new provisions in practice now represents an important operational focus. For this purpose, the FMA analyzed the Banking Act and the Banking Ordinance with respect to need for action (in particular new supervision processes).

In particular, the goal was to define a uniform supervision practice with respect to the new provisions. For this purpose, the FMA began to prepare internal supervision guidelines on the various MiFID areas of regulation.

The primary areas affected were risk management, client classification, documentation and information requirements, review of qualifications and appropriateness, best execution of client orders, disclosure of inducements, and outsourcing of business areas.

In this context, the FMA also aimed to answer practical questions of application with respect to the outsourcing of asset management for non-professional clients to asset managers in third

countries, the upward and downward reclassification of clients, the notification system, the registration of contractually bound intermediaries, the arbitration body, and the deposit guarantee and investor protection system.

Another focus of activities concerned the creation of an FMA-internal IT solution to receive and analyze the transaction reporting obligations under MiFID. The reporting obligation only includes the minimum reporting fields contained in the annex to the MiFID implementation ordinance (i.e. client data is not subject to the reporting requirement). Another function of this IT solution will also be the forwarding of the reports to the authority responsible for the type of financial instrument in question. In this connection, the goal was also to answer questions from the market participants with respect to scope of application of this provision.

At a MiFID information event hosted by the Liechtenstein Bankers Association in September 2007, the FMA gave a presentation on “MiFID (implementation) from the perspective of the supervisory authority”. The presentation included information on the transaction reporting obligations mentioned above.

1.1.9 Outlook for 2008

Risk-oriented supervision

To guarantee efficient supervision work that is recognized internationally, it will be unavoidable for the banks and the FMA to move closer together. The FMA will increasingly focus its supervisory work on those areas exposed to a higher risk. Accordingly, the resources in the Banking Supervision Section will be employed where the greatest risks for bank, the financial center, or clients are identified. On the basis of an annually conduct-



ed analysis process for every individual bank in Liechtenstein, the FMA prepares a risk map of the banks and areas that permits the higher risks to be identified. Verification that these risks are also correctly identified by the banks, managed appropriately, monitored without gaps, and communicated in a timely manner to the bank management is carried out in coordination with the bank’s audit office. The FMA continues to be committed to the system of indirect supervision, and it promotes close cooperation between the FMA and the audit office by means of appropriate measures. For this purpose, auditor workshops will again be conducted in 2008 to further improve the quality of banking supervision in Liechtenstein.

Basel II

Basel II will continue to play an important role in the coming year. This is particularly true with respect to the implementation of risk management, monitoring, and internal control of banks in accordance with Pillar 2 of Basel II. The FMA has prepared a Communication on this topic to inform the banks of the supervisory authority’s expectations in this regard. The FMA is also pre-

paring its dialogue with the banks under the Pillar 2 system. Starting in the second quarter of 2008, the risk management systems of the banks will be assessed on-site by the FMA. Other focus areas will be the reporting tool, which has been adjusted to the new requirements, and the disclosure obligations of the banks.

MiFID supervision

As part of its supervisory activities, the FMA will pay particular attention to implementation by the banks of the new relevant provisions under the Banking Law, taking into account the time pressure the banks are under.

The FMA has informed the audit offices pursuant to the Banking Act that an advance report on the result of the interim audit in the fourth quarter of 2008 must be presented for the next audit cycle only (2008 business year), which must only contain information on the audit areas specific to MiFID. The FMA will inform the audit offices of the form and content of the advance report. This report serves to provide the FMA with timely information on the individual banks' fulfillment of the MiFID requirements. The FMA also expects that in the course of the practical application of MiFID-specific provisions, numerous additional questions of interpretation will arise that must be answered. Accordingly, the existing internal guidelines on uniform supervision practice must be refined in this regard.

1.2 Securities Supervision

1.2.1 Investment undertakings (IUs)

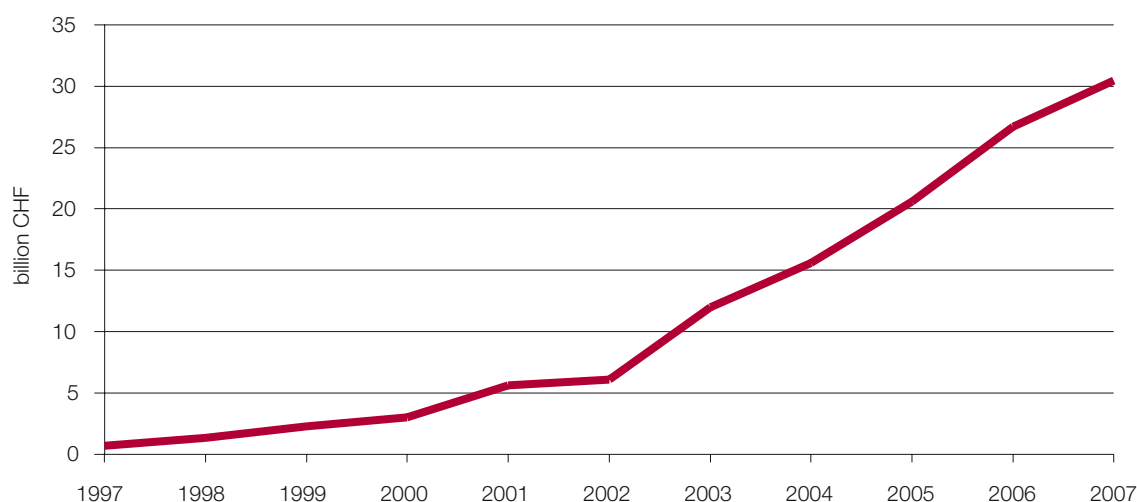
1.2.1.1 Liechtenstein fund center

Despite the turbulences on the leading markets that shook up the financial world at the end of the last quarter, the fund assets under management increased by more than 14% over the course of the year. The disadvantageous performance could thus be more than compensated for by the inflow of resources to the Liechtenstein fund center.

At the end of 2007, 303 domestic IUs, of which 59 were segmented with a total of 224 segments, were licensed or certified, which on a consolidated basis, taking into account all segments, corresponds to 468 individual funds⁶⁾. Domestic IUs are meanwhile managed by 27 active management companies (MCs). In addition, 246 foreign IUs with a total of 1'041 individual funds were licensed to market their units in Liechtenstein as of 31 December 2007. A total of 3 foreign management companies have now notified that they are engaging in the free movement of services in Liechtenstein.

⁶⁾ Individual funds are the sum of the non-segmented IUs and the individual segments of all segmented IUs.

Figure 8: Development of net assets under the management of domestic investment undertakings (in billion CHF)



As mentioned above, the net assets under the management of domestic IUs increased by CHF 3.8 billion (+14.25 %) to CHF 30.45 billion as of the end of 2007, which is a positive development in light of the turbulent end of the year on the financial markets. The management companies affiliated with banks manage 82 % of the net assets under management of the entire financial center.

The FMA is confident that the growth of the fund center can be continued in this form, provided that the economy remains stable. The fund promoters continue to value the possibilities offered by the Liechtenstein fund center within the regulatory framework. Also in the current year, an increased tendency toward IUs for qualified investors was noted. Of the net increase of 95 investment undertakings in 2007, 44 (46 %) were designed as IUs for qualified investors.

As of the end of 2007, 69 investment undertakings for qualified investors were certified, man-

aging assets in the amount of approximately CHF 7.9 billion.

1.2.1.2 Supervision of IUs

Within the FMA, the Securities Supervision Section of the Banking and Securities Supervision Division is responsible for the supervision of IUs. It covers execution of the IUA and the DDA along with the corresponding ordinances, guidelines, and instructions. The precepts of the International Organization of Securities Commissions (IOSCO) serve as another basic principle to be taken into account by supervision.

Thanks to its small size, the Liechtenstein financial center is predestined for personal exchanges between the FMA and the individual financial market participants. Fast and competent solutions to legal and practical questions and to any complaints in connection with the supervision activities can thus be found.



1.2.1.3 Licenses and certifications

Licenses and certifications of domestic IUs

In 2007, a total of 107 licenses and certifications for domestic IUs were granted, including 8 licenses for investment companies. 2 fund managements were approved, and 44 certifications for IUs for qualified investors were issued.

Taking into account the liquidations and deletions of domestic IUs, the number of Liechtenstein IUs increased by 95 in 2007, from 208 to a total of 303. Conversely, 11 IUs were liquidated and 1 IU was expired in the reporting year. In most cases, the reasons included failure to meet the legally proscribed minimum net assets, failure to launch the IU, and structural optimizations (transfer and merger of IUs, concentration on one management company within the group, etc.).

Liechtenstein has committed itself to legally defined maximum waiting periods for the grant of licenses to domestic IUs. Upon issue of the confirmation of receipt, license applications for IUs for transferable securities must be decided on within at most six weeks, and within four months for IUs for other values. A maximum waiting period of three months is provided for management companies. If the application materials are complete, a confirmation of receipt is issued; the applicant is informed within 10 working days of receipt of the application whether the application is formally complete or whether additional documentation or information must be submitted. With few exceptions, in which the legal deadline was extended for purposes of carrying out necessary inquiries in consultation with the applicants, the FMA rendered its decisions by or before the deadlines. The average processing time for granting a license to an IU, taking into account all applications received, was 46 working days from receipt of the complete application to grant of the license. The shortest processing time was 1 working day.

As of 31 December 2007, the status of licensing categories was:

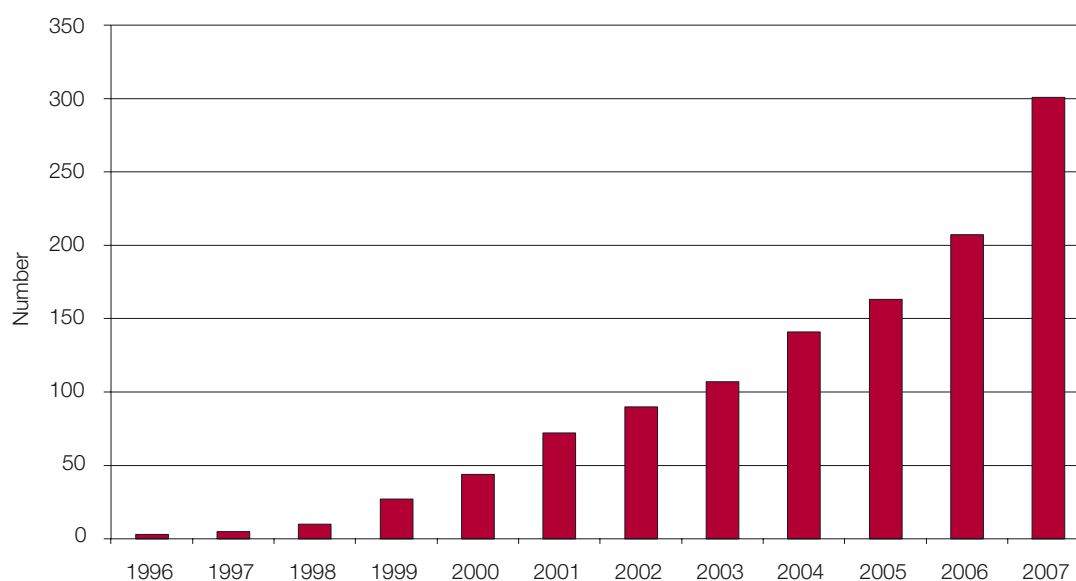
Table 7: Licensing categories under the IUA (number of cases/licensing category)

	2006	2007	+/-
Active management companies	28	27	- 1
of which fund managements	19	20	+ 1
of which investment companies	9	7	- 2
Domestic investment undertakings	208	303	+ 95
of which segmented	48	59	+ 11
with a total of segments (individual funds)	179	224	+ 45
of which IUs for securities	75	97	+ 22
of which IUs for other values	108	137	+ 29
of which IUs for qualified investors	25	69	+ 44
Foreign investment undertakings	240	246	+ 6
of which segmented	55	67	+ 12
with a total of segments (individual funds)	741	862	+ 121
Audit offices	10	10	-

Among newly established IUs for qualified investors, a clear trend toward the legal form of non-self-managed investment companies can be observed.

The development of the licenses of domestic IUs as of 31 December 2007 is as follows:

Figure 9: Development of licenses of domestic IUs as of 31 December 2007 (number)

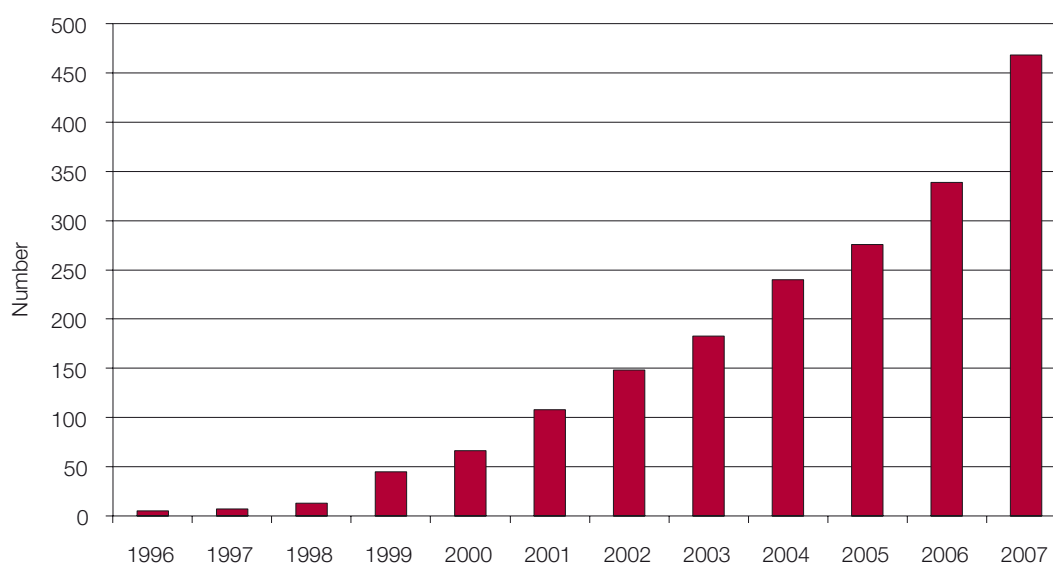


SUPERVISION

The development of the existing individual funds (sum of unsegmented investment undertakings and individual segments of segmented investment

undertakings) as of 31 December 2007 is as follows:

Figure 10: Development of individual funds as of 31 December 2007 (number)



In 2007, a total of 187 changes to existing licenses and certifications were processed. These included the following:

- Changes to functions of organs: 16
- Changes with respect to delegations: 57
- Significant changes to investment policy: 4
- Conversion of types: 2
- Change of management company: 16
- Change of depositary bank: 9
- Change of audit office: 9
- Change of ownership: 1
- Name change: 20
- Creation/closing of segments: 8

A significant component of the procedure for granting licenses to management companies is the review of the persons involved (board of directors,

general management, shareholders). The “fit and proper” review of the owners is conducted all the way back to the ultimate beneficial owners.

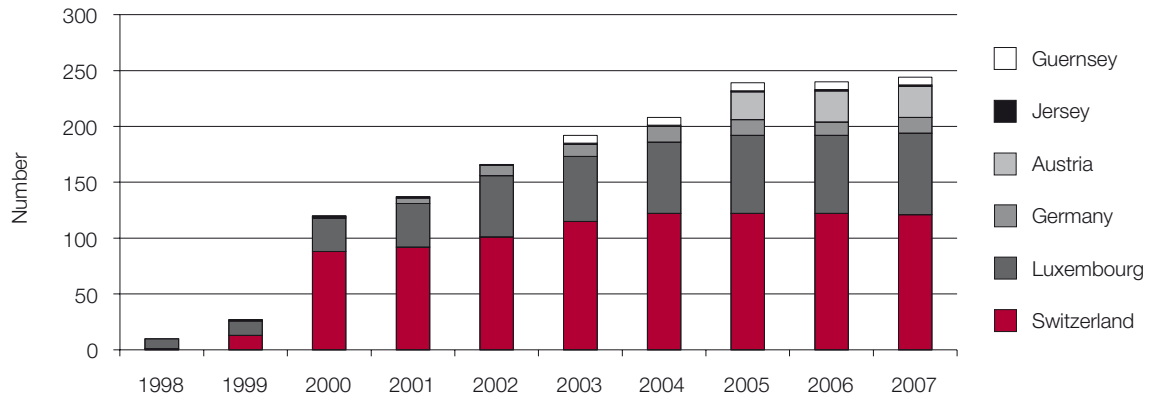
Admission of foreign IUs

The experiences with the European passports for management companies and funds were again thoroughly positive. The CESR (Committee of European Securities Regulators) guidelines on simplifying the notification procedure for UCITS have certainly be a success story. In addition to the EU passport used by an EEA management company last year, two other management companies were engaged in free movement of services in Liechtenstein pursuant to the UCITS directive as of the end of 2007.

Taking into account mergers, non-launches, and liquidations, the number of foreign IUs admitted to distribute units in Liechtenstein rose by 4, from 240 IUs (2006) to 246 IUs (2007). These 246 IUs have a total of 862 segments (previous year: 741). In 2007, 4 foreign IUs ceased distributing units in Liechtenstein.

The foreign IUs licensed to distribute units in Liechtenstein are from the home territories of Switzerland, Luxembourg, Germany, Austria, Jersey, and Guernsey. The breakdown by home territory is as follows:

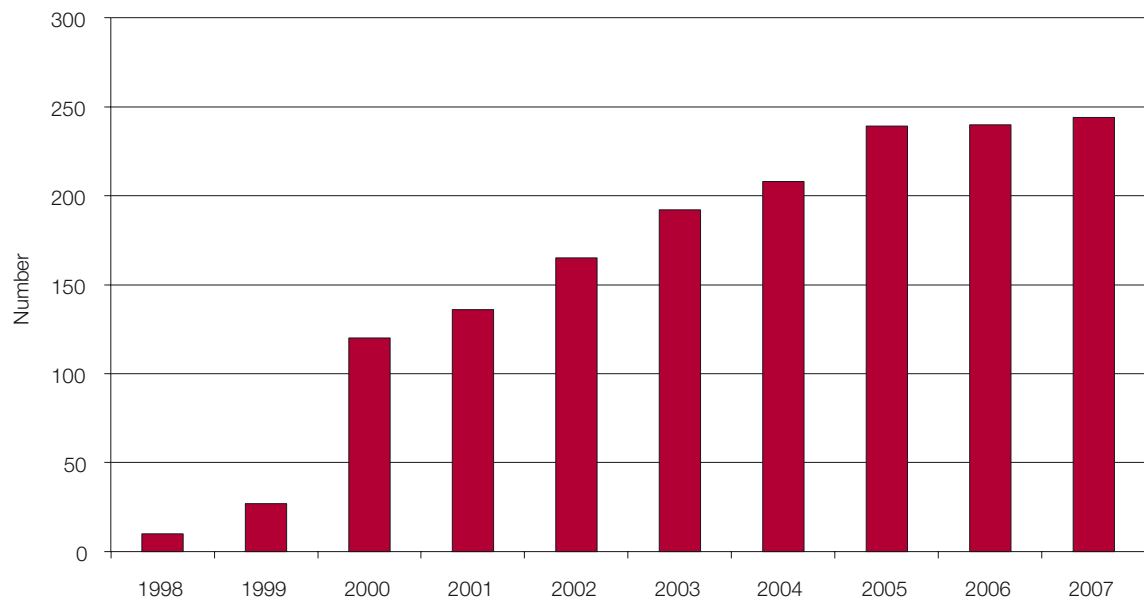
Figure 11: Foreign investment undertakings licensed to distribute units in Liechtenstein, by home territory, as of 31 December 2007 (number)



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The following graph shows the development of foreign IUs as of 31 December 2007:

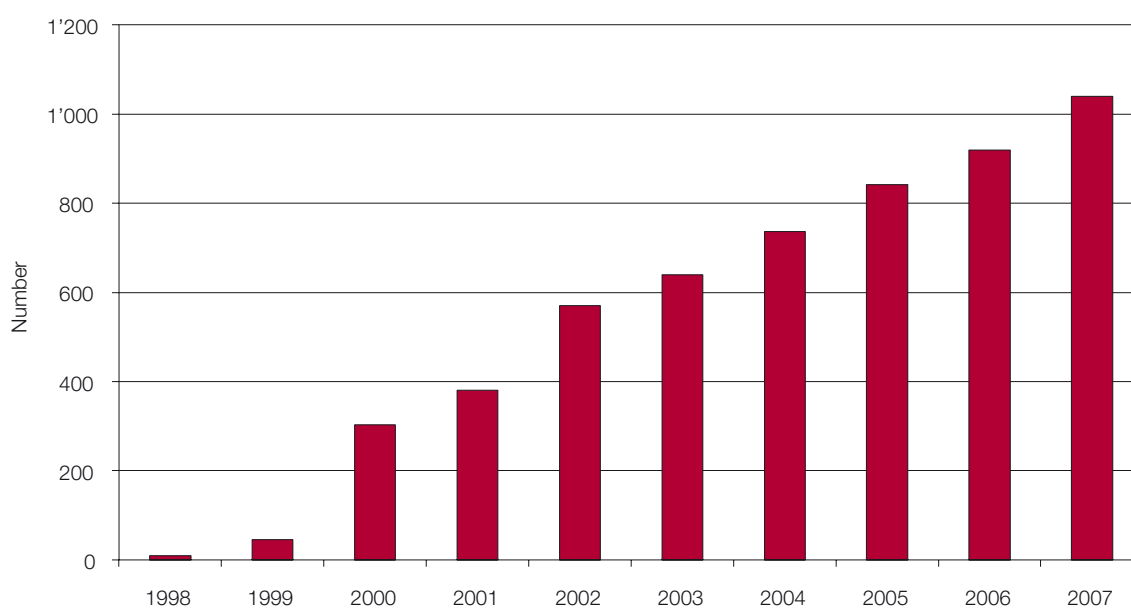
Figure 12: Development of foreign IUs as of 31 December 2007 (number of IUs)



The managed individual funds (sum of unsegmented investment undertakings and individual segments of segmented investment undertakings)

of foreign IUs developed as follows over the last 10 years:

Figure 13: Development of individual funds of foreign IUs as of 31 December 2007
(number of individual funds)



Licensing of persons entitled to market units

In addition to the persons entitled to market units per se mentioned in the IUA – these are companies with a special license pursuant to a Liechtenstein financial law – the FMA may also license other persons entitled to market units, if they have a good reputation, the appropriate professional education, the requisite experience, a written marketing contract, and can present information on the use of the permissible marketing modalities.

In 2007, 2 new licenses were issued in addition to the already existing 6 persons entitled to market units. In total, 8 persons entitled to market units are now licensed; 7 are legal persons, 1 is a natural person.

License as an audit office pursuant to the IUA

Audit offices auditing investment undertakings and management companies must have a license under the IUA. An exception applies to audit offices already licensed under the Banking Act. According to the Government Resolution of 2 July 1996, these audit offices may also accept auditing mandates under the IUA.

In 2007, no new audit offices were licensed under the IUA. In total, 10 audit offices may accept mandates for MCs and for their IUs.

Licensing practice

– **Granting of a license for individual portfolio management**

With a supplemental license, the FMA can additionally license a fund management to manage individual portfolios in addition to its fund business. In 2007, 4 supplemental licenses were issued, so that as of 31 December 2007, 9 fund managements are authorized to manage individual portfolios. No additional materials must be submitted for a license under article 24, paragraph 3 IUA for individual portfolio management if the application is submitted by a fund management with an existing license. However, the fund managements must comply with various provisions of the Asset Management Act and the associated ordinance.

– **Amendment to prospectus of IUs for qualified investors**

The audit office confirms that the amendments to the prospectus are in accordance with the applicable laws and ordinances. As soon as the FMA certifies receipt of the audit office's confirmation and the amended prospectus, the amendments to the prospectus can be declared effective.

If the amendments to the prospectus concern a change of the management company, the depositary bank, the audit office, the delegation of responsibilities to third parties, or the creation or closing of segments, however, then the FMA applies a two-stage procedure. In the first step, the aforementioned amendments are approved by the FMA in accordance with article 29, paragraph 1 IUA. In the second step, the

amendments to the prospectuses can be declared effective after receipt of the audit office's confirmation and issue of the certification by the FMA.

1.2.1.4 Auditing

Auditing encompasses the legally prescribed, annually conducted regular audits under the IUA and the DDA as well as, where necessary, extraordinary audits. As a rule, the audits are conducted by the audit offices (system of indirect supervision). However, the FMA has the legal option of carrying out audits itself. The audit offices combine the audits under the Law on Persons and Companies (PGR) and the audits under the IUA and the DDA.

Management companies are required to submit a semi-annual report and an annual report to the FMA by the legally stipulated deadlines. These reports must be structured according to Annex 3 of the IUO and must be made available to the investors free of charge.

*As an independent
Supervisory authority,
the FMA sets a
clear example.*

In addition, the management company must report to the FMA on a quarterly basis on the current asset development of each investment undertaking and, in the event of special occurrences such as disproportionately high performance, submit a statement.

The data from these reports are compiled, analyzed, and serve in part to initiate supervisory measures in a timely manner should the need arise. The data may also be used for statistical analyses showing trends in the Liechtenstein financial center.

Regular audits under the IUA

Indirect supervision allows legally mandated audit offices to serve as an extended arm of the FMA for purposes of prudential on-site supervision. According to article 27 IUA, each investment undertaking must be audited at least once a year by an independent audit office recognized by the FMA. Each year, the audit offices audit permanent compliance with the licensing conditions and ongoing business activities on the basis of the legally prescribed contents, and they summarize their findings in an audit report. The FMA also has the possibility of ordering unannounced audits.

In the reporting year, the FMA analyzed and evaluated 216 audit reports of MCs (26) and IUs (190). 195 audit reports (90%) noted no deficiencies. Of the 21 audit reports (10%) noting deficiencies, 9 were of MCs and 12 of IUs. Numerous contacts with the responsible general managements during the reporting year helped ensure that the number of deficiencies in previous years could be reduced.

In the reporting year, the audit reports of the IUs for qualified investors were subject to a detailed audit. No deficiencies needed to be pursued in this area. This is particularly pleasing given that IUs for qualified investors are a relatively new product. The main reason is certainly in part that the lion's share of the IUs for qualified investors were formed by established fund managements, which are able to draw on a smoothly functioning network for legal and practical questions.

The focus areas were not fundamentally altered in comparison with the previous year. Primary attention was paid to compliance with the investment policy, diversification, and calculation of the issue and redemption prices for IU units.

The following defects were identified:

- violation of investment guidelines
- failure to maintain minimum net assets
- failure to maintain equity capital
- erroneous calculation of fees
- failure to implement code of conduct
- violation of publication requirement
- insufficient diversification
- negative balance of offset account
- delegation of investment decisions
- violation of provisions on calculating net assets and issue and redemption prices

A concentration of defects in the reporting year was found with respect to violations of investment guidelines. Generally, these were of a passive nature, however, and were often compensated shortly after becoming known. On the basis of the points criticized by the audit offices, the FMA called upon the individual MCs to remedy the defects in a timely manner and to submit a statement on the organizational measures taken to prevent future deficiencies. Most deficiencies were remedied by the MCs within a short period after the intervention by the audit offices. In these cases, a statement by the FMA on the criticized points was sent to the MCs, some of which with the demand to adjust their organizational measures to the legal requirements. No sanctions needed to be imposed.

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Since no serious deficiencies arose in the reporting year, the otherwise usual personal discussion with the general managements as part of the annual inspection of the MCs and IUs was dispensed with.

Regular audits pursuant to the DDA

Pursuant to the exception clause in article 4 DDA, only 2 MCs were audited in the reporting year. As in the previous year, the focus was on a material inspection. No deficiencies had to be addressed in this area.

Extraordinary audits under the IUA and the DDA

No extraordinary audits were ordered in the reporting year pursuant to the IUA or the DDA.

1.2.1.5 Reporting

MCs are required to submit audit reports, quarterly reports, semi-annual reports, and business reports of the IUs they manage. The MC itself must also submit such reports to the FMA, with the exception of quarterly reports. The Securities Supervision Section reviews and analyzes these reports and reacts to irregularities with the appropriate measures:

Table 8: Reports by management companies (MCs)

Report	Article	Number of reports	Number of reminders	Number of deficiencies
Quarterly reporting	art. 23 IUA	1'012	4	0
Business report	art. 20 IUA	244	0	0
Semi-annual report	art. 20 IUA	244	0	0
Audit report	art. 27 IUA	216	0	21

The quarterly reports were all of good quality, were submitted on time, and no deficiencies had to be noted in the reporting year. Due to the poor market situation especially in the last quarter of the reporting year, some of the IUs fell below the legally prescribed minimum volume of CHF 2 million. The affected MCs were called upon to restore the legally required minimum net assets. Maintaining these minimum net assets is a licensing condition, and the MCs were reminded that these conditions must be permanently met. Should the incident re-

cur, the MCs were informed that a liquidation of the IU may be considered.

1.2.1.6 Supervision practice

Measures under supervision law

Where the FMA learns that the legal requirements under the IUA are not implemented or only insufficiently implemented, it must order the necessary steps and take the appropriate measures to protect investors and secure confidence in the Liechtenstein financial market. Some examples will be presented below by way of illustration.

Insufficient diversification of one IU

The deficiency noted by the legally mandated audit office in the 2006 annual report, according to which the diversification of one fund was severely limited, was remedied in the reporting year. The management company liquidated the segment in question.

Violation of investment guidelines

In 15 cases, a violation of the investment guidelines was found. In 9 cases, these were passive violations due to price fluctuations in accordance with article 53 IUO. These violations were remedied within the legally prescribed time period. In 5 cases, the violations had been remedied by the time the FMA analyzed the audit reports, or the investment guidelines had been adjusted. One of the cases concerned a fund of hedge funds, which could not undertake any adjustments to the invested hedge funds due to various lock-up periods. Accordingly, the investment guidelines could not be complied with within a useful period. This violation was corrected during the reporting year.



Failure to maintain minimum net assets

2 IUs failed to maintain their minimum net assets. In one case, this defect was remedied by merging 2 segments. In the other case, the minimum net assets had already been reached again by the time the audit report was evaluated. Accordingly, both failures to maintain minimum net assets were corrected in a timely manner.

Failure to implement code of conduct

With 1 exception, the main defects referred to in the last annual report in connection with the timely implementation of the code of conduct were remedied. This exception concerns 1 IU, which was unable to demonstrate transparent processes in connection with its delegation of investment decisions, due to the lack of correct implementation of the code of conduct. The MC has undertaken the necessary steps to design the processes in accordance with the code of conduct.

Violation of publication requirement

In 1 case, a notice subject to the publication requirement was not duly published. However, the IU was liquidated shortly after preparation of the audit report.

Negative balance of offset account

Various foreign exchange accounts of an IU carried a negative balance for a significant length of time. These negative balances occurred during the 2006 business year, but had been squared by 31 December 2006.

Failure to maintain initial capital

One MC failed to maintain the legally required equity capital of CHF 1 million. The FMA called upon the general management and board of directors to take appropriate measures to ensure that the equity capital would again reach the required minimum amount. These measures had not yet been fully implemented by the end of the reporting year.

Violation of provisions on calculating net assets

For various reasons, one IU was unable to carry out a valuation of one of its segments. This circumstance was criticized by the FMA. The segment in question was liquidated.

Erroneous calculation of fees

One case of erroneous fee calculation entailed that the fund assets of an IU were debited by too large an amount. The FMA called upon the MC to submit a report in writing about the erroneous calculation and the corrective measures taken. The amount had now been reimbursed in such a way that the unit holders have suffered no disadvantage.

Sanctions / Referrals

The Securities Supervision Section did not impose any sanctions under the IUA or DDA in the 2006 reporting year. No cases had to be referred to the prosecution or disciplinary authorities or the FIU in 2007.

FMA Communications

The Securities Supervision Section did not publish any FMA Communications in the 2007 reporting year.

Responding to inquiries

As in the past, the FMA answered many inquiries by financial intermediaries submitted on the telephone, in writing, and by e-mail. Some of these questions referred to ongoing processes such as licenses, prospectus amendments, and liquidations, while others concerned questions of interpretation. Since responses to questions of interpretation in particular are always considered an official response, the FMA consults not only the national legal provisions, but also domestic and foreign authorities, in order to ensure a reliable



response that corresponds to international practice. This approach requires substantial time and effort, representing a major part of daily business. In the reporting year, far more than 250 questions of interpretation were answered.

1.2.1.7 Combating abuse

At the beginning of the reporting year, a press release was published concerning the establishment of a special fund for gambling. This advertisement was published in several print and online media. According to article 1, paragraph 3 of the IUA, MCs and their IUs domiciled in Liechtenstein or publicly offering or distributing units from Liechtenstein are subject to the IUA. Moreover, §168 of the Criminal Code (StGB) expressly outlaws gambling. The FMA called upon the persons responsible for this press release to submit the requisite licensing materials without delay. The case is currently pending.

In 2006, one IU was licensed under the condition that it replace its delegation of asset management to a professional trustee with a delegation to an asset management company under Liechtenstein law or another authorized person, effective 1 January 2006 upon entry into force of the Asset Management Act. This condition was not met. The FMA called upon the management company and the statutory audit office to submit a statement. Both parties explained that the contract with the professional trustee had been cancelled in a timely manner, but that the prospectuses had not been adjusted accordingly. This was remedied immediately, so that a lawful state of affairs was restored.

In the reporting year, the FMA was often confronted with stated business purposes of non-licensed and non-supervised companies that re-

ferred to brokerage of financial products or the like. These companies were informed of the licensing requirement, depending on the activity in question, and called upon to submit statements. Some cases were brought to a conclusion, while others are still pending.

1.2.1.8 Operational focus areas in 2007

Strong increase of new licenses

In addition to daily business, the Securities Supervision Section was particularly challenged by the surge of license applications. While applications for IUs for qualified investors had been rather hesitant in the previous year and only 24 IUs for qualified investors were established, 43 were certified in the reporting year, almost nearly twice as many as in the previous year. As of the end of 2007, 23% of Liechtenstein investment undertakings were IUs for qualified investors.

Strong increase of amendments/prospectus amendments

Especially due to the transitional provisions of the revised IUA from 2005 that expired during the reporting year, the FMA was kept in suspense by the arising need for prospectus amendments. Effective 1 March 2007, all prospectuses with integrated investment rules under the old Investment Undertakings Act of 3 May 1996 had to be converted to the full and simplified prospectus. Due to the very late submission of numerous applications for prospectus amendments, it was not possible to complete the transformations in a timely manner. Moreover, all licenses had to be adjusted to the new IUA effective 1 September 2007. Among other changes, this entailed increases in own funds of the self-managed investment companies and additional compliance with the provisions under the AMA in the case of individual portfolio management by fund managements.

Transfer of responsibilities in the Banking and Securities Supervision Division

In the reporting year, the General Management transferred more competences to the Banking and Securities Supervision Division. Starting this year, this allows unproblematic cases to be licensed directly by the Division. The General Management must only be consulted in extraordinary cases or cases serving as precedents. This transfer of responsibilities has resulted in shorter decision-making channels and shorter processing times.

Intensification of contacts with management companies

In 2007, the already good contacts between the management companies and the FMA were intensified. The Liechtenstein Investment Fund Association plays a particularly important role in this regard. The FMA endeavors to identify problems early on through close cooperation and to take timely measures.

Intensification of contacts with audit offices under the IUA

On 4 July 2007, an auditors' workshop was held for the first time on the topic of the IUA. Representatives of the legally mandated audit offices were invited to participate in an exchange of experiences with FMA representatives, to clear up uncertainties, and to discuss individual anonymized cases involving deficiencies. The FMA discussed the focus areas of the next audit with the participants in the workshop and responded to questions in writing that arose in the course of this event. The thoroughly positive feedback by the participating auditors strengthens the FMA's intention to host this event every year. The new IUA workshop for auditors will take place on 14 February 2008.

1.2.1.9 Outlook for 2008

Introduction of new IT tool

After the initial spark had been lit in 2006 for a long-term IT solution with the establishment of a fund database and the further development of the supervision tool, a new IT system will be introduced in 2008 to support a wide range of processes within the FMA. The implementation of this new system will require a high degree of logistical and personnel resources before it can go live, but it will henceforth contribute to greater efficiency in the processes of the Securities Supervision Section.

Further expansion of supervision/on-site inspections

Supervision under the IUA will be further expanded in 2008. This may be done by having FMA staff members accompany audit offices during their audits for training purposes, or by carrying out systematic on-site inspections in specific focus areas at the offices of MCs.

1.2.2 Asset management companies (AMCs)

1.2.2.1 Liechtenstein asset management center

In 2007, the Liechtenstein asset management center again experienced strong growth. The reason for this, as in the previous year, can be found in the new Asset Management Act (AMA), which entered into force on 1 January 2006. Until the end of 2005, asset management on an individual client basis was governed by the Professional Trustees Act (PTA) and the Banking Act. The separation of classic asset management and investment advisory services from the professional scope of trustees was designed in a way that does justice to practice, and the new rules correspond to the internationally recognized supervision provisions, especially Directive 2004/39/EC (MiFID). Through the creation of the AMA, a new and in-

ternationally recognized financial intermediary – the asset management company (AMC) – has been developed, which fully meets European standards. Thanks to compatibility with the EU, the financial intermediary has the option of obtaining an EU passport, with which he can carry out activities throughout the entire European Economic Area. With its rapid development of the AMA in 2005, Liechtenstein played a pioneering role in Europe, since no other tailor-made law for asset managers had existed previously.

By the end of 2007, 90 AMCs had received a license from the FMA in Liechtenstein. Since the number of licensed AMCs at the end of 2006 was 48, this means that the number of AMCs nearly doubled in the 2007 reporting year. 43 companies were licensed during the reporting period; most of the applicants were from Liechtenstein and Switzerland.

	2006	2007	+ / -
Licensed AMCs	48	90	+ 42
Former PTA	19	38	+ 19
Former commercial companies	3	3	0
New formations	26	49	+ 23
from			
Liechtenstein	10	22	+ 12
Austria	5	6	+ 1
Switzerland	9	16	+ 7
Germany	2	5	+3

The licensed AMCs current employ more than 322 people and they maintain more than 10'622 client relationships, 7'808 of which are with an asset management mandate. The assets under the management of AMCs amount to approximately CHF 21.52 billion, of which approximately CHF 18.24 billion are invested at Liechtenstein banks⁷⁾.

⁷⁾ These amounts include double counts with the fund center and the banks' assets under management.

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	2006	2007	+/-
Number of client relationships of all AMCs	3'760	10'622	+ 6'862
Asset management mandates	1'600	7'808	+ 6'208
Client assets under management (general)	CHF 11.2 billion	CHF 21.52 billion	+ CHF 10.32 billion
Client assets under management at LI banks	CHF 9.8 billion	CHF 18.24 billion	+ CHF 8.44 billion

1.2.2.2 Supervision of AMCs

Within the FMA, the Securities Supervision Section of the Banking and Securities Supervision Division is responsible for supervision of AMCs. The FMA is responsible for supervision under the AMA, the corresponding European rules, and the principles of the International Organization of Securities Commissions (IOSCO). The tasks in this connection include auditing, inspection of reporting, combating abuse, and supervision of AMCs under the DDA.

The effective and comprehensive licensing procedure administered by the FMA is a very important pillar of supervision activities, since the AMCs actually licensed under the procedure have a high standard, and prudential supervision can benefit considerably from this.

Prudential supervision was expanded in 2007. After the first licenses for AMCs were granted in 2006, inspection of reporting had to be introduced and cooperation with the legally mandated audit companies placed on a solid foundation. For this purpose, a workshop on the AMA was organized for the audit offices, at which the FMA provided information on specific topics and clarified open questions.

The development of AMC supervision could largely build on experiences gained in the supervision of banks and investment undertakings, while adjusting the processes to the demands of the AMA.

In addition to prudential supervision, the focus during the reporting period was on combating abuse and responding to inquiries.

1.2.2.3 Licenses

In 2007, a total of 43 licenses were granted to AMCs. This increased the number of AMCs licensed in the Liechtenstein financial center to currently 90 companies. 22 applications are currently pending with the FMA, about half of which required the submission of additional materials. In 2007, 3 applicants were withdrawn; 1 license expired. Unfortunately, the duration until the application materials were complete increased continually, since the applications were not submitted in accordance with the instructions. Accordingly, most of the applications contained omissions, and additional materials had to be repeatedly requested.

The FMA is an attractive employer for professionals.

In 2007, a total of 33 changes to existing licenses were applied for or notified:

Changes to shareholders:	7
Changes to governing bodies:	14
Changes to business name:	9
Changes to audit office:	3

24 licensed AMCs used the possibilities of cross-border provision of services within the EEA. The FMA issued a total of 78 notifications to 19 different supervisory authorities: Germany, Austria, Italy, Sweden, United Kingdom, Ireland, Belgium, the Netherlands, Luxembourg, Poland, the Czech Republic, Slovakia, Hungary, Slovenia, Finland, Malta, Denmark, Norway, Spain.

1.2.2.4 Auditing

Auditing encompasses the legally prescribed, annually conducted regular audits under the AMA and the DDA as well as, where necessary, extraordinary audits. As a rule, the audits are conducted by the audit offices (system of indirect supervision). However, the FMA has the legal option of carrying out audits itself. The audit offices combine the audits under the Law on Persons and Companies and the audits under the AMA and the DDA. Six months after the end of the business year, the audit offices have to present the audit report to the FMA.

Regular audits under the AMA

After the first licenses for AMCs were issued in 2006, 21 AMCs finished their first business year on 31 December 2006 or during 2007. The audit offices had to perform an audit of these companies for the first time. Each year, the audit offices audit permanent compliance with the licensing conditions on the basis of the legally prescribed contents and summarize their findings in an audit report.

Due to the volume and the novelty of the law, the first regular audits under the AMA by the audit offices and the subsequent analysis of the audit reports by the FMA represented a challenge for everyone involved. To nonetheless ensure a good quality of the audits and the audit reports, an intensive dialogue was conducted between the FMA and the audit offices. The summarized experiences were presented to the legally mandated audit offices at a joint AMA workshop. Moreover, a sample audit report was prepared, offering the audit offices an aid with respect to procedure and especially with respect to reporting on audit activities.

The FMA refrained from specifying specific focus areas for the regular audits carried out during the reporting year. Rather, the goal was to assess the risks/opportunities of the audited AMCs, in addition to the legally stipulated audit contents. The audit offices were also called upon to define an ideal degree of depth and detail with respect to the information contained in the audit report. In this initial phase, the FMA relied on the experience and judgment of the head auditors.

In the reporting year, the FMA analyzed and evaluated 21 audit reports of AMCs.

The findings of the audit round for the 2006 reporting year were positive. The number of deficiencies, especially serious deficiencies, is low. By and large, the audit offices have been successful in implementing the FMA's requirements, and a satisfactory standard has already been achieved.

The following main defects were identified:

– **Non-compliance with licensing conditions**

In one case, an AMC was found not to have the necessary own funds on the reporting date. The complaint was noted, but the AMC's own funds have now already been adjusted to the legal requirements pursuant to a capital increase.

– **Non-compliance or incorrect compliance with reporting obligations**

What the Securities Supervision Section had already noticed with respect to its inspections of reporting activities was also included in the audit reports. Compliance with reporting obligations still has potential for improvement.

– **Missing or incomplete organizational rules, internal instructions, manuals, and internal regulations on preventing conflicts of interest**

Because of the large number of AMCs, the standards vary considerably with respect to these topics. The standards must be harmonized in the future and inspected by the audit offices.

– **Missing or incorrect client profiles**

Depending on the situation, the client profiles are compiled in strongly diverging ways. Particularly in this area, the modified provisions of the AMA will help bring clarity. These provisions must then be consistently implemented and complied with.

The FMA reviewed all deficiencies and initiated appropriate measures. In the case of minor violations, the FMA engaged in coaching with the audit offices and AMCs to discuss and remedy the deficiencies, in light of the need for the new provisions to become established. With this approach, the FMA expects improvements in the next audit round.

Extraordinary audits under the AMA

In the 2007 reporting period, no factors of suspicion arose that would have required the performance of extraordinary audits of AMCs.

Final DDA audit of former trust companies

Since many licensed AMCs emerged from trust companies, it was important that DDA supervision, to which all trust companies are subject, could be concluded for such companies. The audit offices of the AMCs in question were therefore called upon to carry out final DDA audits, in addition to the regular audits under the AMA. In the 2007 reporting period, 15 such final DDA audits were carried out. All audits were concluded without any deficiencies.

1.2.2.5 Reporting

AMCs are required to submit an annual report to the FMA within four months of the end of the business year and a semi-annual report within two months of the end of the calendar year or the half-year. The audit offices of AMCs submit a comprehensive audit report to the FMA within six months of the end of the business year. The FMA analyzes the reports and, where necessary, takes appropriate measures. The semi-annual reports also provide data for statistical purposes and indicate trends.

In summary, many AMCs have potential for improvement with respect to reporting. In particular in the case of newly licensed AMCs, starting difficulties both of a formal and a substantive nature have been noted. Reports are submitted either too late, with errors, or not at all. The measures taken by the Securities Supervision Section in this regard are primarily manifested in active coaching of the AMCs, in order to establish a smoothly functioning and meaningful reporting system. However, repeated violations are punished consistently.

1.2.2.6 Supervision practice

Measures under supervision law

If indications come to the attention of the FMA that requirements under asset management law have not been implemented or have only been implemented insufficiently, then it shall order the requisite steps and take the appropriate measures to protect the investors and secure confidence in the Liechtenstein financial market. In the 2007 reporting year, no such measures under supervision law had to be taken.

Sanctions/Referrals

In 2007, the FMA did not impose any sanctions relating to the supervision of asset management. However, two criminal complaints – prepared in cooperation with the Other Financial Service Providers Supervision Division – had to be submitted to the law enforcement authorities. In these cases, the companies were acting as AMCs without a license. In both cases, the FMA was informed of these companies and their activities by market participants. No measures had to be ordered under due diligence law.

FMA Communications

In the 2007 reporting year, there was no need for supervision practice to be concretized in an FMA Communication.

Instructions

Pursuant to the recommendations by the Committee of European Securities Regulators (CESR), the notification materials for the free movement of services and the establishment of branches in the EEA were modified, and the corresponding instructions and documents were published on the FMA website. The new materials are intended to simplify notification in the various countries and strengthen the uniform approach.





Responding to inquiries

Once again, the Securities Supervision Section received numerous oral and written inquiries by financial intermediaries in the 2007 reporting year. Many of these inquiries were answered in writing. The focus of the inquiries was on implementation and interpretation of the AMA and Asset Management Ordinance (AMO) and primarily concerned questions relating to application procedures, licensing, and notification of the companies abroad.

1.2.2.7 Combating abuse

Engaging in the activities enumerated in article 3 AMA and the use of business names referring to such activities are subject to the license. Under the Professional Trustees Act (PTA), most of these activities were reserved to professional trustees until 31 December 2005. Transitional rules were adopted for trust companies, according to which they were allowed to engage in these activities until 31 December 2006; by 31 December 2007, they were required to adjust the stated purpose of their business and, where necessary, their business name in accordance with the changed legal

foundations. Because the transitional period was about to expire, the FMA sent a circular to all trust companies, asking them to confirm by 29 February 2008 that they no longer carry out such activities and that they no longer refer to them in their stated business purpose.

Already during the licensing procedure, the applicants were reviewed as to whether they have abusively carried out activities under the AMA prior to receiving a license. In the reporting period, the FMA had to pursue evidence in this regard with respect to 5 applicants. In 4 cases, the suspicions were confirmed, and the abuses were prosecuted by the FMA.

In collaboration with the Office of Land and Public Registration, several companies were also called upon to change their stated business purpose. A detailed review of the Public Registry extracts will be carried out upon expiration of the additional adjustment period. In the case of first entries or changes to a stated purpose of business, the Office of Land and Public Registration carries out the necessary clarifications to determine whether licenses under specialized legislation are necessary.

Additionally, the Securities Supervision Section investigates evidence of abusive activities. Important evidence is submitted to the FMA by the professional associations, affected market participants, and authorities of the Liechtenstein National Administration or discovered by the FMA in the press and on the Internet. The Securities Supervision Section also intensified its cooperation with the

IPFS and OFSP Divisions, since in several cases, the persons involved were already known and additional license applications had been submitted. In total, 22 cases of abuse were investigated in depth during the reporting period.

1.2.2.8 Operational focus areas in 2007

In the 2007 reporting year, asset management supervision focused on the following areas:

AMA licenses

Enhanced quality of the licensing procedure

As in the previous year, the main focus of the asset management team was on licensing. All applications received were reviewed by the FMA, according to a detailed, high-quality review schema. This review schema is carried out by at least two staff members, ensuring that the procedure is both transparent and comprehensible. A significant component is the review of the persons involved. In addition to the persons involved in the general management and board of directors, this includes the owners of the company. The owners must be disclosed all the way back to the natural person who is the ultimate beneficial owner. In the 2007 reporting period, a risk assessment was included in the review schema. This assessment is based on the “traffic light principle” and serves as a useful initial evaluation for purposes of supervision. To obtain a comprehensive picture of the application, a meeting is generally held with the responsible persons.

“Shell companies”

Another important review criterion is the prevention of “shell companies”. In particular when establishing subsidiaries of foreign companies, a special area of tension is created: On the one hand, activities are outsourced to the parent company for reasons of efficiency and cost, while on

the other hand, functional organizational units are to be built up in Liechtenstein. The FMA only licenses functional business units that do not have the character of a mailbox company (shell), but rather ensure long-term business activity in Liechtenstein. In 2007, several companies had to be evaluated with respect to their outsourcing of core activities; over the course of the licensing procedure, the design of the companies was modified to ensure long-term business activities in Liechtenstein.

Changes to licenses

In the reporting year, a higher number of changes to licenses were applied for or notified. In the event a new person or company enters an AMCs, the new person or company must be reviewed similarly to a new license before the change can be approved or acknowledged. Several changes have already been carried out, and the processes are becoming increasingly standardized.

Transfer of responsibilities in the Banking and Securities Supervision Division

In the reporting year, the General Management transferred more competences to the Banking and Securities Supervision Division. Starting this year, this allows unproblematic cases to be licensed directly by the Division. The General Management must only be consulted in extraordinary cases or cases serving as precedents. This transfer of responsibilities has resulted in shorter decision-making channels and shorter processing times.

Intensification of contacts with asset management companies

In 2007, the first foundations were laid for intensified contacts between the AMCs and the FMA. The Association of Independent Asset Managers in Liechtenstein (VuVL) plays a particularly important role in this regard. The FMA endeavors to identify problems early on through close cooperation and to take timely measures.

Development of supervision

The Securities Supervision Section paid particular attention to the supervision of AMCs in 2007. To support the supervisory activities with respect to AMCs, an auditors' workshop on the topic of the AMA was organized. Moreover, the FMA made a sample audit report available, which was prepared in cooperation with the audit companies.

1.2.2.9 Outlook for 2008

Processing of pending licensing procedures

A first focus area will be the processing of pending licensing procedures. These will be concluded in a timely manner with the expanded personnel resources.

Expiration of transitional periods

Effective 1 January 2008, all transitional periods set out in the AMA have expired. In particular, all company names and stated purposes of business must be modified to comply with the provisions of the AMA and the PTA by this time. In cooperation with the Office of Land and Public Registration, companies violating the AMA can be identified and prosecuted more effectively.

Continued expansion of supervision / on-site inspections

Supervision of AMCs will be expanded in both qualitative and quantitative terms. Thanks to a larger database, it will be possible to make improved comparisons, and at the same time, the initiated qualitative improvements will be monitored and enhanced. Where useful, it is also planned to carry out systematic and focus-oriented on-site inspections at the offices of the AMCs.

Expansion of the FMA database

The FMA uses its own electronic database, in which the key data of the individual financial intermediaries are recorded. These data constitute the basis for publishing information on the licensed AMCs, which is updated monthly. In this connection, an expansion of the list to include additional information on the companies is being considered.

Contractually tied intermediaries

Contractually tied intermediaries may become active subject to unrestricted and unreserved liability of a single asset management company. Contractually tied intermediaries must be registered by the FMA to become active. Contractually tied intermediaries are to be made visible to clients via an access tool on the FMA website.

In 2008, the internal and external processes will be defined, and the instructions and electronic access procedures will be put online. The contractually tied intermediaries will also be subject to a qualitative review.

Extrajudicial arbitration body

The AMA provides that an extrajudicial arbitration body may be invoked in disputes between clients and AMCs, before civil proceedings are initiated. The responsibility of the arbitration body is to mediate between the parties as appropriate and to strive to achieve a settlement.

The extrajudicial arbitration body will be appointed pursuant to the AMA in 2008. Documentation in this regard will be published in a timely manner.

1.2.3 Securities sales prospectuses

1.2.3.1 Liechtenstein securities issue center

The number and volume of issues of securities in the Principality of Liechtenstein are rather modest. Reasons certainly include the small (geographical) market, the financing structure of Liechtenstein banks, which are largely not dependent on issues, and the lack of a national stock exchange.

1.2.3.2 Licenses

Licensing activities in 2007 were marked by introduction of the Securities Prospectus Act (SPA) on 1 September 2007, which facilitated licensing considerably. This is primarily true with respect to the popular “structured products”, which until 31 August 2007 had to be licensed in their entirety under the former Prospectus Act by 31 August 2007. Since 1 September 2007, only a licensed valid base prospectus must be available, which can then be notified in all EU/EEA countries. The structured products based on this base prospectus must then only be submitted to the FMA by means of their final terms. They must therefore no longer be separately approved.

In 2007, a total of 5 applications were approved in accordance with the Prospectus Act. The applications concerned 3 structured products, 1 bond issue, and 1 stock issue. The average processing time was 3.8 days, given a permissible processing time of at most 8 days.

Since entry into force of the SPA, no new securities prospectuses have been approved on the basis of the new legislation. One structured product was approved for public distribution by submission of the final terms.

Additionally, 2 license applications were processed that, due to questions of interpretation and lack of time, were withdrawn.

The FMA also answered various questions concerning the Prospectus Act and, later, the SPA. These questions often concerned whether a prospectus was required or not. In many cases, the answer was no, and no prospectus needed to be published. However, these inquiries often involved other questions of law, so that questions of delineation had to be addressed, or other legal questions arose that likewise needed to be answered.

1.2.3.3 Combating abuse

In the reporting year, 3 cases of abuse had to be pursued by the FMA.

In one case, an undertaking domiciled in Liechtenstein offered participation certificate capital that was only available on the Internet. This offer was made even though the licensing procedure was still pending. This case has been taken care of, in that the public offering was terminated once the FMA approached the undertaking, and the participation certificate capital was only offered to a limited circle of investors.

In the second case, a structured product was publicly offered in the Liechtenstein daily newspapers. It turned out after the fact that these advertisements were submitted from Switzerland, without the submitter knowing that a license would be required in Liechtenstein. Here again, the responsible persons (issuer and offeror) reacted very quickly and terminated the issue immediately before it was initiated.

In the third case, shortly after the SPA entered into force, a public offering appeared in the Liechtenstein press and on the Internet for a structured product without an approved prospectus. The offered product had a minimum denomination of EUR 40'000, which according to the Prospectus Act would have been considered an exceptional case and would not have required a prospectus. In the SPA, however, this minimum denomination was raised to EUR 50'000. Here again, the persons responsible reacted immediately and increased the minimum denomination to EUR 50'000, so that the amended public offer no longer fell within the scope of the SPA.

1.2.3.4 Operational focus areas in 2007

In addition to licenses issued under the existing Prospectus Act and combating abuse, final questions in connection with the drafting of the new Prospectus Act were discussed. The SPA was then considered in a first reading by Parliament on 27 April 2007 and adopted in a second reading on 23 May 2007.

1.2.3.5 Outlook for 2008

The Securities Supervision Section, which is responsible for supervision under the SPA, must prepare relevant FMA Instructions in 2008 and process the EU regulation at the national level so that financial service providers obtain legal certainty with respect to implementation, interpretation, and application.

Initial experiences with the SPA have shown that even with the SPA, securities issues have not increased significantly. However, it can be expected that in particular in the area of structured products, issues will increase thanks to the easier procedures. Many specific inquiries and a steadily increasing number of notified base prospectuses are indications of this development.

1.3 Insurance Supervision

1.3.1 Insurance undertakings

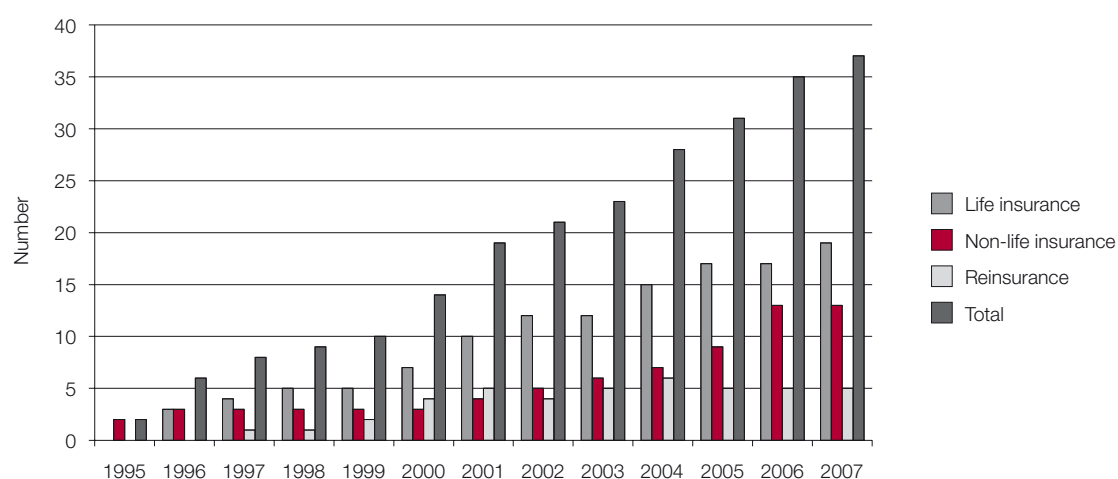
1.3.1.1 Liechtenstein insurance center

At the end of 2007, a total of 37 (previous year: 35) insurance undertakings were domiciled in Liechtenstein (19 life, 13 non-life, and 5 reinsurance undertakings). 11 undertakings operated in own-insurance (so-called captives, i.e. insurance

undertakings that exclusively reinsure risks within their own group), 6 of which as direct insurers and 5 as reinsurers.

In 2007, 3 new life insurers were licensed by the FMA, and 2 life insurance undertakings merged.

Figure 14: Development of the number of insurance undertakings by sector, 1995 to 2007



The direct insurance undertakings operated almost exclusively by virtue of free movement of services in the European Economic Area and Switzerland. As the home State supervisory authority, the FMA supervised the entire business of these insurance undertakings.

The main business of the Liechtenstein insurance undertakings is life insurance, especially fund-linked and unit-linked life insurance. The activities of non-life insurers cover all classes of insurance. All of the reinsurance undertakings are captives.

Liechtenstein insurance undertakings maintained a total of 3 branches in Members States of the European Economic Area and 2 branches in Switzerland. The branches of the 3 Liechtenstein insurance undertakings in the EEA are located in Italy (Milan), Germany (Cologne), and Luxembourg. The branches of the Liechtenstein insurance undertakings in Switzerland are located in Zurich. The former agencies of Swiss insurance undertakings operating in Liechtenstein were converted into branches in 1998, pursuant to the Direct Insurance Agreement between Liechtenstein and Switzerland. In total, 25 Swiss insurance under-

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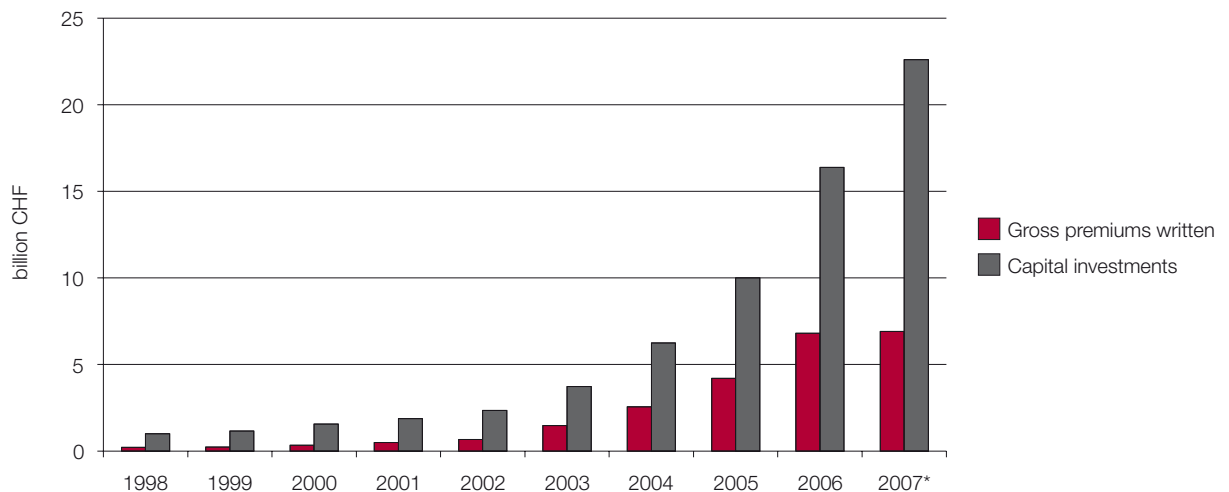
takings and 1 insurance undertaking domiciled in a Member State of the EEA maintained branches in Liechtenstein.

As in the two previous years, the insurance undertakings were called upon at the beginning of 2008 to provide interim figures on the 2007 business year, including information on the 2008 budget. On the one hand, this is intended to provide an initial overview of the market development; on the other hand, any problems that may arise can then be identified at an early stage. The interim figures showed that the positive development of the insurance center has continued. The premium income for insurance undertakings was about CHF 6.9 billion in 2007, compared with CHF 6.8 billion in 2006. Although most insurance undertakings experienced substantial premium growth, the overall increase was only small,

since one company recorded a strong decrease. Of the total premium volume, approximately CHF 6.62 billion (95.9%) was generated by life insurers, approx. CHF 231.6 million (3.4%) by non-life insurers, and approx. CHF 52.6 million (0.7%) by reinsurers. The capital invested on behalf of clients in connection with fund-linked or unit-linked insurance policies rose from CHF 14.91 billion in 2006 by approx. 40.6% to about CHF 20.97 billion in 2007. The balance sheet total of all insurance undertakings domiciled in Liechtenstein amounted to approximately CHF 23.76 billion in 2007, compared with CHF 17.03 billion in 2006. This represents an increase of about 39.5%.

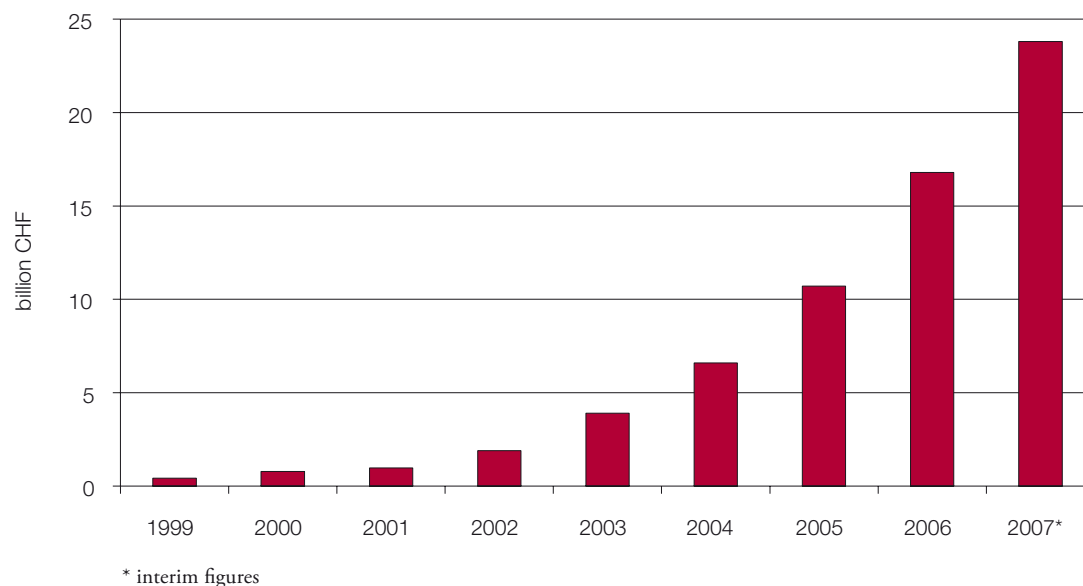
The budget figures submitted by the undertakings show that a positive development can continue to be expected.

Figure 15: Development of gross premiums written and capital investments, 1998 to 2007
(in billion CHF)



* interim figures

Figure 16: Development of balance sheet total, 1999 to 2007 (in billion CHF)



Among life insurers, 17 companies (89 %, previous year: 81 %) expected a positive result in 2007. The solvency margin is covered with sufficient own funds in the case of all life insurers. Most of the non-life and reinsurers also had a positive result (88 %, previous year: 81 %), and the solvency margin in this sector is also covered for all of the companies. The total equity capital (excluding the results for the year) of all undertakings increased by approx. 42 % from CHF 489.1 million at the end of 2006 to CHF 696.3 million at the end of 2007. The number of persons employed by insurance undertakings increased from 223 in 2006 to 311 in 2007. This represents an increase of 39.5 %.

1.3.1.2 Licenses

Grants/withdrawals of licenses

In 2007, the FMA granted a total of 3 life insurance undertakings the license to take up business activities under the Insurance Supervision Act (ISA). 2 life insurance undertakings merged in 2007. In total, the number of insurance undertakings domiciled in Liechtenstein rose to 37 (previous year: 35).

Table 9: Insurance undertakings domiciled in Liechtenstein, broken down by category of license (number)

Category of license	2006	of which captives	2007	of which captives	2006 / 2007 +/-
Non-life insurance	13	6	13	6	0
Life insurance	17	0	19	0	+ 2*
Reinsurance	5	5	5	5	0
Total licenses	35	11	37	11	+ 2

* including merger

The FMA is also responsible for recognizing audit offices pursuant to the Insurance Supervision Act. In 2007, no new licenses were granted.

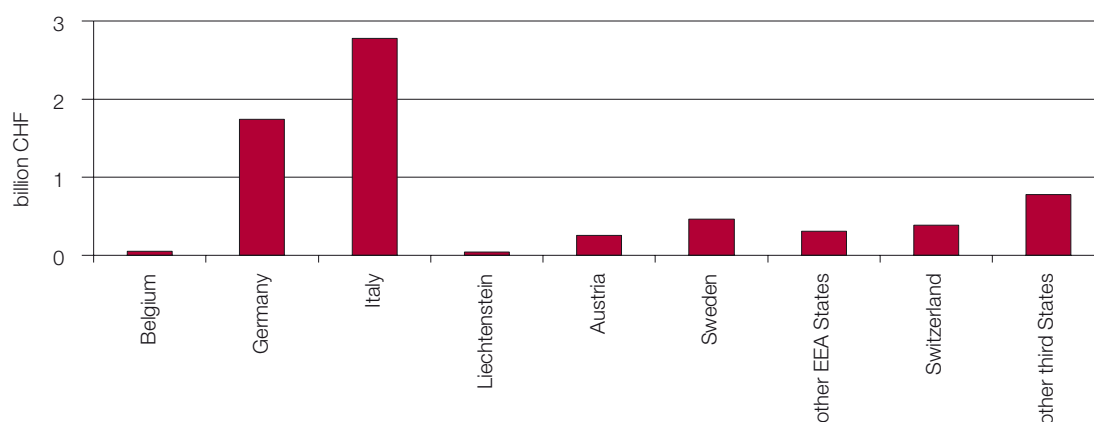
Changes to licenses

In the reporting year, one license was granted to a non-life insurance undertaking to conduct business in an additional class of insurance. Additionally, changes to the approved business plans were reported by the insurance undertakings, all of which the FMA was able to approve (see point 1.3.1.4).

Cross-border movement of services

Insurance undertakings domiciled in Liechtenstein or with licenses issued by the FMA may offer direct insurance in another EEA Contracting Party by way of a subsidiary or free movement of services (single license). Also, EEA insurance undertakings may operate in Liechtenstein by way of cross-border provision of services or by establishing a branch. Pursuant to the Direct Insurance Agreement between Liechtenstein and Switzerland, the same applies in relation to Switzerland (see figure below).

Figure 17: Cross-border business of Liechtenstein insurance undertakings, broken down by country (based on gross premiums written) in 2006 (in billion CHF)



By the end of 2007, 271 (previous year: 240) insurance undertakings from different EEA States and Switzerland notified the assumption of cross-

border services in Liechtenstein via their home country supervisory authority to the FMA.

Table 10: Branches or free movement of services of foreign insurance undertakings notified in Liechtenstein (number)

Branches or free movement of services	2004	2005	2006	2007	2006/2007 +/-
Branches of Swiss insurance undertakings	26	26	26	25	- 1
Branches of insurance undertakings domiciled in the EEA	1	1	1	1	0
Free movement of services of insurance undertakings notified in Liechtenstein (CH and EEA)	201	225	240	271	+ 31

Pursuant to the Direct Insurance Agreement between Liechtenstein and Switzerland, Liechtenstein insurance undertakings may engage in insurance activities in Switzerland, and Swiss insurance undertakings may engage in insurance activities in Liechtenstein. In 2006, the total gross premiums written in Switzerland of Liechtenstein insurance undertakings amounted to about CHF 97.4 million in non-life insurance and about CHF 239.2 million in life insurance. With the exception of one life insurer, the Liechtenstein non-life and life insurance undertakings did not operate by virtue of the freedom of establishment in Switzerland in 2006, but rather only by virtue of the free movement of services. Conversely, Swiss insurance undertakings generated total gross premiums amounting to approximately CHF 151.1 million in non-life insurance and about CHF 125.0 million in life insurance (free movement of services and freedom of establishment).

The following figures show the cross-border business of Liechtenstein and Swiss insurance undertakings in 2006, broken down by non-life and life insurance and by class of insurance.



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Figure 18: Free movement of services of Liechtenstein non-life insurance undertakings in Switzerland in 2006 (based on gross premiums written, in million CHF)

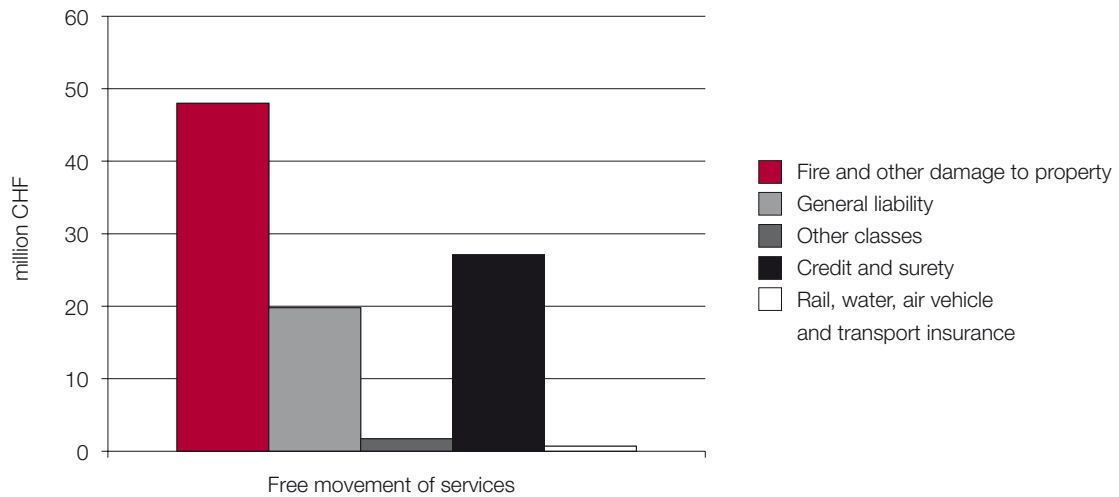


Figure 19: Free movement of services of Liechtenstein life insurance undertakings in Switzerland in 2006 (based on gross premiums written, in million CHF)

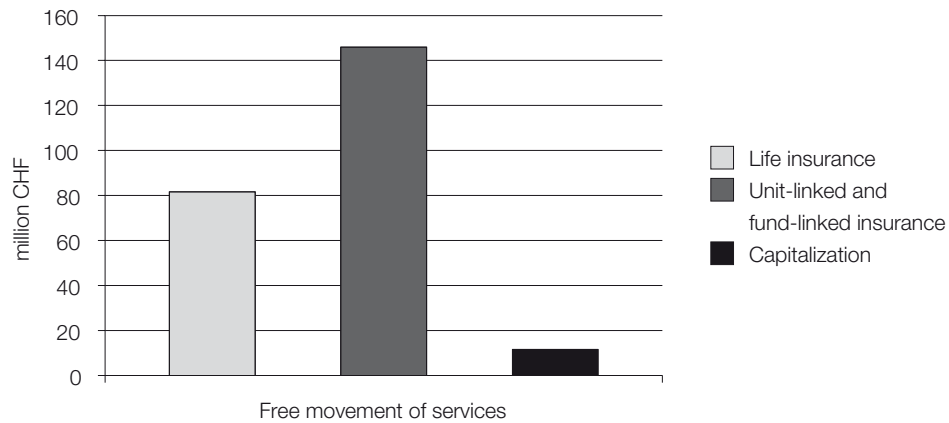


Figure 20: Business through branches and free movement of services of Swiss non-life insurance undertakings in Liechtenstein in 2006 (based on gross premiums written, in million CHF)

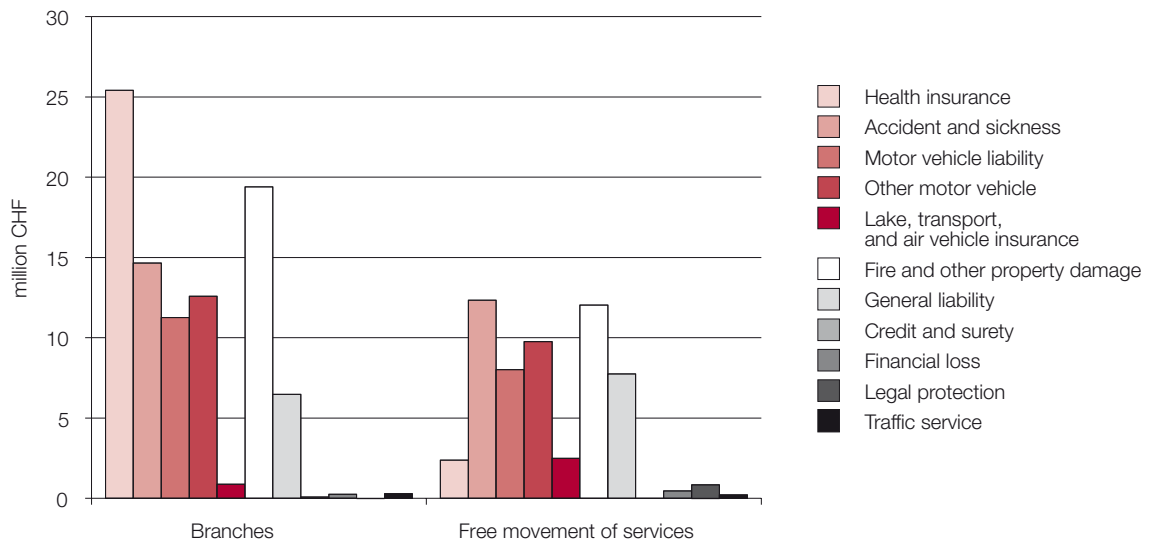
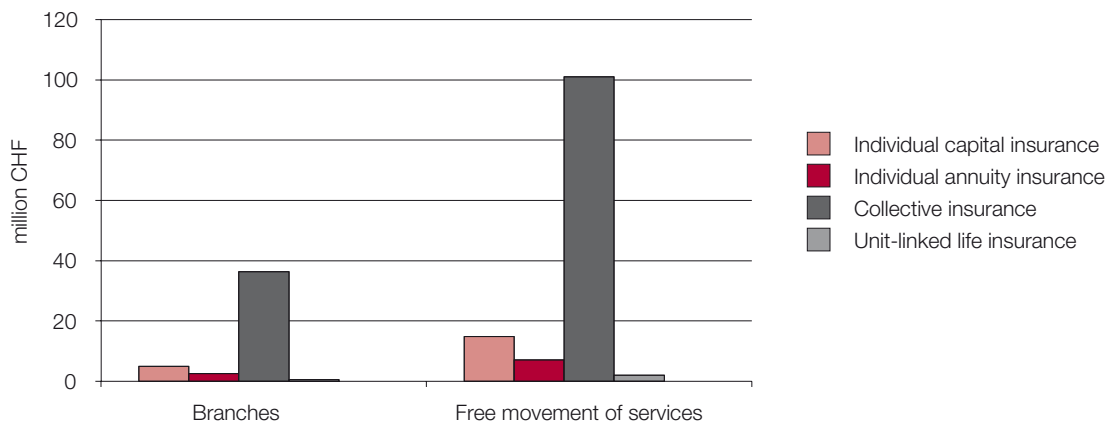


Figure 21: Business through branches and free movement of services of Swiss life insurance undertakings in Liechtenstein in 2006 (based on gross premiums written, in million CHF)



1.3.1.3 Auditing

Regular audits under the ISA

The FMA called upon the insurance undertakings to submit their reports for the 2006 business year, including figures for the previous year, in accordance with the template. In 2007, the reports for the 2006 business year were audited under article 39 ISA for all insurance undertakings. Three insurance undertakings founded in the second half of 2006 made use of the option of an extended business year provided in article 1048 of the Law on Persons and Companies. These undertakings are only required to submit a report as of the 2007 business year.

The FMA subjected the submitted materials to a detailed review, assessed the plausibility of the data, and verified compliance with the approved business plan. The results of the 2007 audit round can be summarized as follows:

- One insurance undertaking did not submit the materials on time.
- Overall, the submitted reporting materials for the 2006 business year were complete and plausible. In many cases, however, the undertakings had to be called upon to carry out formal corrections in their reporting forms.
- In the case of one insurance undertaking, the audit reports contained one reservation.

The 2007 audit round was concluded by the FMA as planned at the end of August 2007.



Regular audits under the DDA

According to article 3, paragraph 1(d) and article 4 DDA, life insurance undertakings are subject to the personal and material scope of application of the DDA. In the reporting year, due diligence audits were conducted for 14 insurance undertakings. Most of the DDA inspection reports were submitted on time. Three inspection reports were submitted shortly after the deadline.

In the case of one life insurance undertaking, no regular due diligence audit was conducted. In this case, the FMA assigned a special mandate to the audit office under insurance supervision law to verify the remedy of deficient due diligence materials.

In the 2006 audit round, a total of 14 deficiencies were noted; in the case of 5 life insurance undertakings, there were no deficiencies. Some of the deficiencies were formal, some were substantive; the substantive deficiencies generally concerned the meaningfulness of the profile information. In 1 case, a follow-up audit by the audit office was ordered.

According to the inspection reports of the audit offices on the due diligence audits in the reporting year, no life insurance undertaking submitted any suspicious activity reports to the FIU under article 16, paragraph 1 DDA.

Extraordinary audits

In 2007, the FMA carried out on-site inspections of 1 life insurance undertaking, 1 non-life insurance undertaking, and 2 captives. One extraordinary audit was carried out together with an audit office, since the audit office in this case was unable to carry out the regular audit, given that the necessary materials were not physically available in the office premises in Liechtenstein (see 1.3.1.5 on supervision practice).

The audit areas of the on-site inspections were, in particular: general situation and business policy, location of main administrative offices and accounting, ownership structures, management audit, financing and adequacy of own funds, relationship with external undertakings, investment funds, distribution system, due diligence audit (in the case of life insurance undertakings), processes and internal control system, accounting, controlling and reporting, technical foundations.

1.3.1.4 Reporting

In the reporting year, the FMA approved a total of 26 changes to business plans (e.g. changes to the board of directors or the general management, change of the audit office, amendments to statutes, changes to the share capital). Only 1 change to the approved business plan is still pending as of 31 December 2007.

1.3.1.5 Supervision practice

As part of ongoing supervision, the FMA had to carry out one extraordinary on-site inspection in the reporting year:

The FMA was informed by the audit office of a Liechtenstein insurance undertaking that the regular audit could not be conducted at that undertaking. The audit in the office premises in Liechtenstein was not possible, since the necessary materials were not physically available. The FMA therefore conducted an on-site inspection together with the audit office, which found that several licensing conditions were not met at the time of the extraordinary audit.

By means of a decree, the insurance undertaking was called upon to restore a lawful state of affairs. A fine was also levied in the amount of CHF 30'000 for violations of article 64, paragraph 3(a), (c) and (d) of the ISA. Fees of CHF 1'000 for the decree and CHF 10'000 for the extraordinary audit workload were assessed. The decree entered into effect and was not appealed.

1.3.1.6 Combating abuse

In the reporting period, the FMA was concerned in particular with a case involving compulsory building insurance in Liechtenstein:

An insurance undertaking domiciled in a Member State of the EEA has insured risks situated in Liechtenstein for several years, without possessing a supervisory license (notification procedure pursuant to articles 28 et seqq. ISA) for that purpose. In a first step, the correct situation under supervision law was restored. The insurance supervision authority of the home country responsible for the affected insurance undertaking executed the required notification procedure. The insurance

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undertaking was then made aware of the special circumstances of compulsory building insurance in Liechtenstein.

The two pending cases from the previous year were concluded.

Responding to inquiries

Once again in the 2007 reporting period, the FMA responded to numerous inquiries on a wide range of topics. In the field of insurance supervision law, most of the inquiries were submitted by supervised undertakings concerning the legal enactments, as well as inquiries on the Liechtenstein insurance center in general and the licensing conditions for the formation of an insurance undertaking in Liechtenstein. In 2007, the FMA also received inquiries from life insurance undertakings and audit offices in connection with the DDA and the associated ordinance, which as a rule were answered in writing.

The FMA as a complaints body

In the reporting year, 20 cases of complaints arose, affecting 6 different life insurance undertakings. The majority of the complaints cases concerned the processing of surrendered policies, especially the deductions made and misleading advice by the insurance intermediaries, the calculation of surrender values, and commissions deducted. The FMA also took up an increasing number of fact patterns in which the policyholders of Liechtenstein insurance undertakings did not file complaints directly against the insurance undertaking itself, but rather against financial services undertakings (banks, asset managers, insurance intermediaries) working together with Liechtenstein insurance undertakings. Moreover, a Liechtenstein policyholder filed a complaint against a foreign insurance undertaking. In such cases, the

FMA works closely together with the competent foreign supervisory authority.

5 cases of complaints are currently still pending from the reporting year and 2 from the previous years. Overall, the FMA did not find any violations of the law in the reporting year.

1.3.1.7 Compulsory building insurance

In Liechtenstein, all buildings must be insured against fire and natural hazards. Since natural hazard risks are very difficult to calculate, insurance against fire may be offered only in conjunction with insurance against natural hazards. The scope of coverage and the scale of premiums for natural hazard insurance are uniform and binding for the insurance undertakings. Insurance of household effects and other chattels is voluntary.

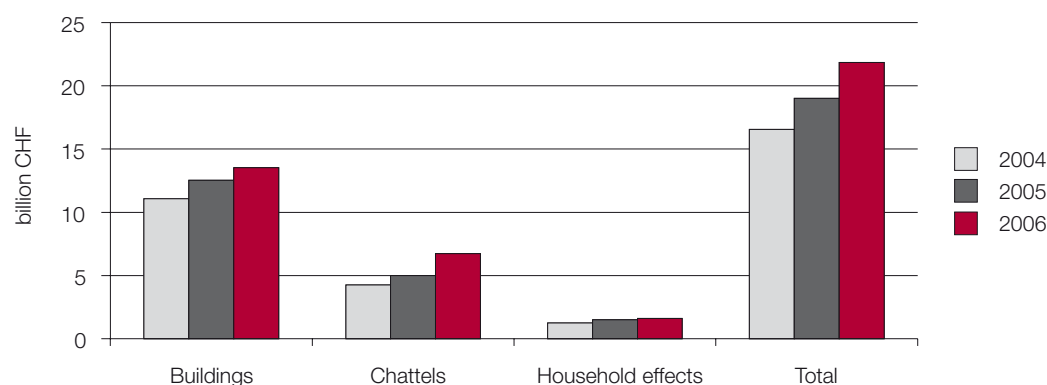
As of 31 December 2006, a total of 18 insurance undertakings were offering compulsory building insurance in Liechtenstein. Of these insurance undertakings, 5 are domiciled in an EEA Member State (including Liechtenstein) and 13 in Switzerland.

Building insurers operating in Liechtenstein are required to make a contribution to fire protection and the prevention of damages arising from natural hazards in terms of article 13 of the Building Insurance Act. The fire insurance sums of the individual undertakings serve as the basis for calculating the contribution.

The fire insurance sum of Liechtenstein buildings was about CHF 13.52 billion (2005: CHF 12.53 billion) as of 31 December 2006, about CHF 1.61 billion (2005: CHF 1.49 billion) for

household effects, and about CHF 6.73 billion (2005: CHF 5.0 billion) for all other chattels. In total, the fire insurance sum amounted to approximately CHF 21.86 billion (2005: CHF 19.02 billion) in 2006. Premium income for fire insurance was CHF 8.1 million in 2006 (2005: CHF 6.4 million). In total, premiums in the amount of CHF 15.8 million were received for compulsory building insurance in 2006. Payments for claims were CHF 2.8 million (CHF 2.5 million for fire damage and CHF 0.3 for natural hazard damage).

Figure 22: Fire insurance sum for building insurance, 2004 to 2006 (in billion CHF)



1.3.1.8 Operational focus areas in 2007

On-site inspections

In 2007, the FMA continued and intensified its practice begun in autumn 2006 of carrying out systematic and focus-oriented on-site inspections at the registered offices of insurance undertakings. By the end of 2007, on-site inspections had been carried out at 1 life insurance undertaking and 2 captives. Additionally, the FMA had to conduct an extraordinary on-site inspection at a non-life insurance undertaking (see 1.3.1.5 on supervision practice).

1.3.1.9 Outlook for 2008

The operational focus areas with respect to insurance undertakings will essentially be the following:

For the last two years at the end of January, the insurance undertakings have had to report important key figures to the FMA. The FMA will now expand that data to include budget numbers. Additionally, a quarterly report of similar extent will be required, containing aggregate numbers for the past quarters of the current year and the previous year as well as updated year-end estimates.

In 2008, the FMA will further intensify its systematic on-site inspections of insurance undertakings. In addition, the FMA plans to begin management meetings with the insurance undertakings.

The preliminary work on risk-based supervision initiated in 2007 will be concluded in 2008. Additionally, the required minimum contents of the audit report will be expanded significantly, by specifying in detail which points and topics must henceforth be audited and commented on. The scope of the audit and the audit report of the responsible actuary will also be specified.

In 2008, the FMA will initiate project planning on implementation of Solvency II and begin implementation in the second half of 2008.

1.3.2 Insurance intermediaries

1.3.2.1 Supervision of intermediaries

On 1 July 2007, the transitional period for submitting license applications under the Insurance Mediation Act (IMA) expired. All insurance intermediaries who already were engaged in insurance mediation activities at the time of entry into force of the IMA on 1 July 2006 had to submit their license application to the FMA by 1 July 2007 at the latest. Accordingly, numerous license applications were submitted to the FMA shortly before expiration of the transitional period, which then had to be reviewed by the FMA during the reporting year.

1.3.2.2 Licenses

At the end of 2007, there were a total of 35 licensed and registered insurance intermediaries. Of these, 29 are registered as legal persons, 3 as sole proprietorships, and 3 as natural persons. Of the 35 registered intermediaries, 10 work as insurance agents and 25 as insurance brokers.

In the reporting year, a total of 32 insurance intermediaries (26 legal persons, 3 sole proprietorships, 3 natural persons) were newly licensed and registered.

1.3.2.3 Reporting

Insurance intermediaries must immediately inform the FMA of all changes to the information provided in the license application (article 19, paragraph 2 IMA). In the 2007 reporting year, 5 changes of licenses were carried out. In 2 cases, new employees of a legal person were licensed and registered; in 1 case, the license was expanded to include reinsurance mediation, and in another case to the mediation of other classes of insurance.

1.3.2.4 Cross-border activities

Insurance intermediaries with an FMA license can carry out cross-border activities throughout the entire European Economic Area by virtue of free movement of services or freedom of establishment. Similarly, insurance intermediaries licensed in other Contracting Parties of the EEA Agreement may perform their work in Liechtenstein by virtue of free movement of services or freedom of establishment. Pursuant to the extension of the Direct Insurance Agreement between Liechtenstein and Switzerland to include insurance intermediaries, which has been applied provisionally since 1 July 2007, the same also applies in relation to Switzerland. 14 insurance intermediaries

submitted notifications in the reporting year for cross-border activities in the EEA or Switzerland.

1.3.2.5 Supervision practice

In the reporting year, no measures under the IMA had to be ordered to restore a lawful state of affairs by means of a decree.

1.3.2.6 Combating abuse

Taking up and carrying out activities as insurance intermediaries is subject to a license pursuant to article 9 of the Insurance Mediation Act. Combating abuse in this connection means suppressing activities rendered without the required license under the Insurance Mediation Act.

One case, in which the FMA filed criminal charges with the Office of the Public Prosecutor on reasonable suspicion of performance of activities without a license, has been resolved without further legal measures.

In 9 cases, the FMA reviewed whether persons or companies render or rendered insurance mediation services without the required license. In most cases, the review was undertaken on the basis of the stated purpose in the commercial license or in the Public Registry. 6 cases were concluded in the reporting year without further measures, while 3 cases are still pending.

According to article 24 of the Insurance Mediation Act, the FMA serves as the complaints body in cases of complaints by policyholders and other affected persons, especially consumer protection organizations, with respect to insurance intermediaries. No complaints were received by the FMA in the reporting year.

1.3.2.7 Operational focus areas in 2007

In the reporting year, the operational focus was on reviewing license applications submitted before expiration of the transitional period on 1 July 2007. Also at the end of 2007, new license applications were submitted.

In cooperation with the Liechtenstein Insurance Brokers Association, a reporting form for insurance intermediaries was created, which will be finalized by the beginning of 2008.

1.3.2.8 Outlook for 2008

An operational focus in 2008 will again be the processing of numerous license applications under the IMA that could not be completed in the reporting year due to the large volume.





Registered insurance intermediaries were required to submit annual reports for the first time in 2008. This allows the establishment of prudential supervision of registered insurance intermediaries. Insurance intermediaries must submit the reporting form to the FMA by 31 March 2008. The annual reporting also allows the FMA to verify that the licensing conditions continue to be met, and it provides the basis for gathering specific market data from the intermediaries.

In autumn 2008, the FMA will also conduct the first on-site inspections of insurance intermediaries, based on the results of the reports.

To maintain the requisite professional qualifications, insurance intermediaries and their employees must undergo ongoing and appropriate continuing education. In cooperation with the Liechtenstein University of Applied Sciences, the FMA will therefore develop a training and continuing education concept for insurance intermediaries in 2008.

1.4 Pension Funds Supervision

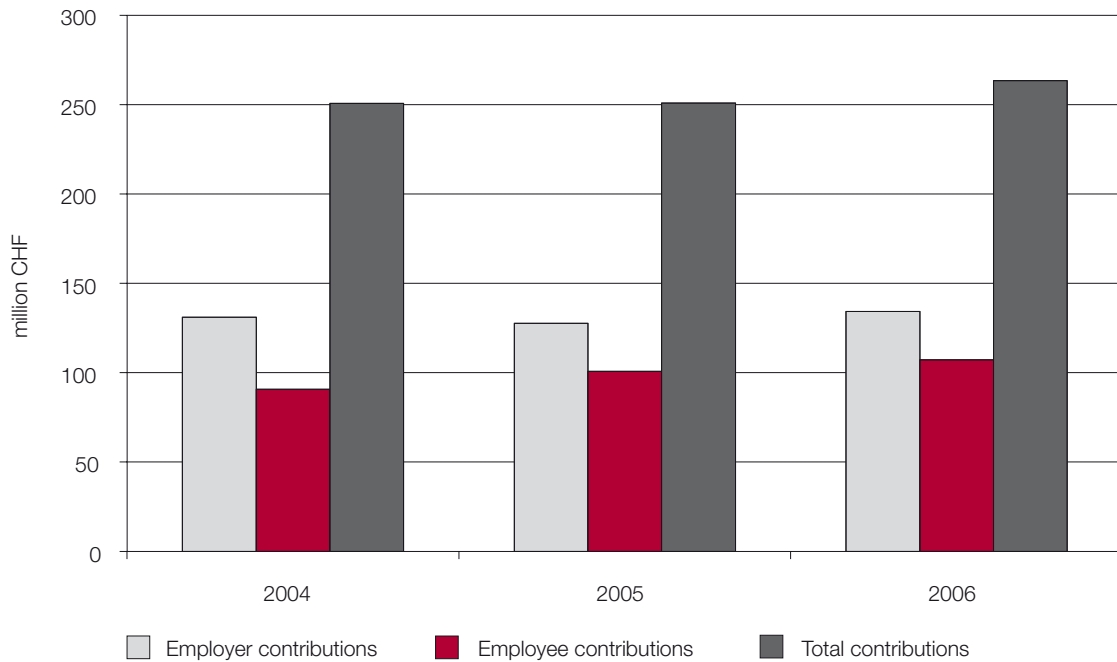
1.4.1 Pension schemes

1.4.1.1 Liechtenstein pension schemes center

The Liechtenstein pension schemes center (occupational pension plans, so-called Pillar 2) was home to a total of 36 (previous year: 39) pension schemes at the end of 2007. Of these, 11 operate as collective foundations and 25 as company pension schemes. This number includes the pension insurance for State employees, which is however not subject to FMA supervision. 4 pension schemes use only defined benefits, while most prefer defined contributions for old-age savings and defined benefits for risk insurance. 2 collective foundations and 1 company pension scheme were liquidated and released from supervision in the course of 2007. 1 collective foundation was converted into a pension fund during the reporting year. In the case of 7 collective foundations, a Swiss life insurance undertaking serves as the founder company.

Unlike the 2006 annual report, the following data include the pension insurance for State employees. In 2006 (the final data for 2007 will only be available in summer 2008), the contributions of employees amounted to CHF 107.1 million and the contributions of employers to CHF 134.3 million, for a total of CHF 263.4 million (including special and supplemental contributions as well as deposits in employer contribution reserves).

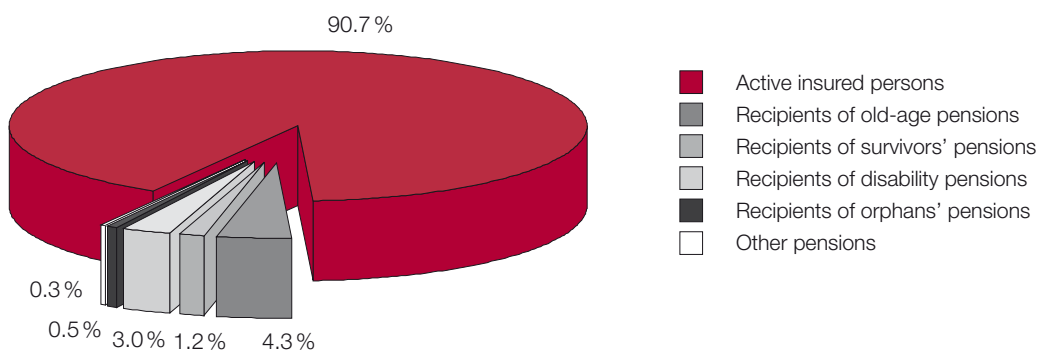
Figure 23: Development of contributions, 2004 to 2006 (in million CHF)



The number of persons insured under the OPA is 34'539 as of 31 December 2006 (previous year: 33'548). 19'881 insured persons (57.6 %) belong to collective foundations, 11'148 (32.3 %) to company pension schemes, and 3'510 (10.1 %) to

the pension insurance for State employees. Figure 24 shows the breakdown of these insured persons by pensioners recipients and active insured persons.

Figure 24: Breakdown of insured persons by category



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The self-administered financial investments of pension schemes (not transferred to insurance undertakings) amounted to a total of CHF 2.87 billion (previous year: CHF 2.59 billion) as of 31 December 2006. The breakdown of these investments by investment category is shown in

figure 25. The foreign currency share of these financial investments amounted to approximately 27%. The weighted average performance of self-administered financial investments was 5.5% in 2006. In the case of the pension scheme for State employees, this value was 5.7%.

Figure 25: Breakdown of financial investments by investment category, 2006

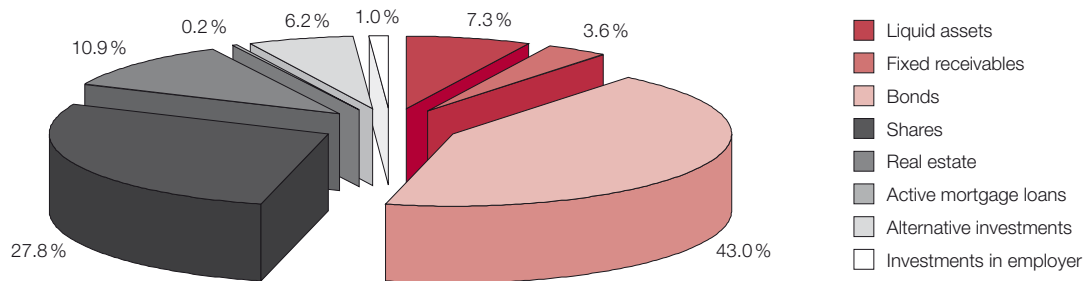
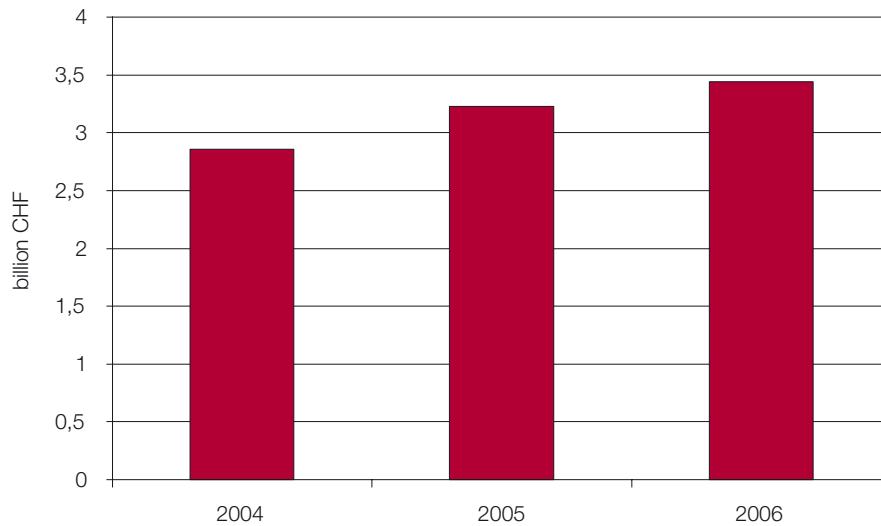


Figure 26: Development of balance sheet total, 2004 to 2006 (in billion CHF)



Pension capital and technical provisions amounted to CHF 3.07 billion (previous year CHF 2.91 billion) as of 31 December 2006. Of this amount, CHF 0.85 billion was allotted to the pension capital of collective foundations, CHF 1.74 billion to the pension capital of company pension schemes, and CHF 0.48 billion to the pension capital of the pension insurance for State employees. The balance sheet total of all pension schemes was CHF 3.45 billion in 2006 (previous year: CHF 3.24 billion).

The funding ratio (net assets in % of pension capital plus technical provisions) amounted to more than 100 % among all pension schemes supervised by the FMA, with one exception. The interest rates applicable to the pension capital fluctuated between 1.0 % and 5.0 % for the pension schemes in 2006.

As in the previous year, the pension schemes were called upon at the beginning of 2008 to deliver interim figures on their 2007 business year. The evaluation of the interim figures shows that, due to the weaker performance of the equity market, the returns on financial investments were lower in the 2007 business year than in the previous year. These returns are nevertheless sufficient to cover the interest on the pension capital. At the end of 2007, all pension schemes supervised by the FMA achieved a funding ratio of more than 100%. However, both the funding ratio and the fluctuation reserve were lower than in 2006, due to the lower average returns. The evaluations show further that both the interest rates for the pension capital and the pension conversion rates for 2007 have remained constant relative to the previous year and are being forecast at the same amount for the current business year 2008.

1.4.1.2 Taking-up and termination of business operations

In the 2007 reporting year, no new pension schemes were established or placed under FMA supervision. Two collective foundations of Swiss life insurance undertakings and one captive pension scheme were liquidated and released from supervision. One pension scheme previously subject to the OPA was newly placed under the Pension Funds Act. On 31 December 2007, one collective foundation of a Swiss life insurance company and two captive pension schemes were undergoing liquidation due to voluntary closure of business. Two collective foundations merged in 2007.

1.4.1.3 Auditing Regular audits

The pension schemes must annually report to the FMA by 30 June on their business activities in the previous year (article 23 of the Occupational Pensions Act and article 34 of the Occupational Pensions Ordinance). Accordingly, the FMA called upon all pension schemes operating in 2006 to submit reports on the 2006 business year (including figures for the previous year) in accordance with the template. Three of the largest Liechtenstein employers have pension schemes with registered offices in neighboring Switzerland and are thus subject to Swiss supervision. In these cases, however, reports are also submitted to the FMA in consultation with the competent Swiss authority. The audit result is harmonized between the two supervisory authorities.

In the case of five (previous year: three) company pension schemes, the audit reports contained reservations or qualifications. These concerned: violation of investment limitation guidelines in 2 cases, failure to confirm the pension insurance expert, claim vis-à-vis the bankrupt founder company, contributions in default. The first 3 qualifications did not constitute serious problems, however. Of the last two cases, one was remedied in November 2007 and the other has been substantially defused.

The FMA reviewed the submitted materials in detail, assessed the plausibility of the data, and reviewed compliance with the provisions set out in law and rules and regulations. The result of the 2007 audit round can be summarized as follows:

- In most cases, the reports were submitted on time. This was a significant improvement over the previous year.
- The submitted reporting materials on the 2006 business year were, in most cases, plausible. In many cases, however, the pension schemes were called upon to carry out formal corrections or amendments to the reporting form.
- While in the previous year, one pension scheme still had an insufficient funding ratio, none of the funding ratios of the pension schemes audited by the FMA were insufficient in the 2007 reporting year.

The FMA concluded the audit round for the 2006 business year in November 2007.

Extraordinary audits

In 2007, one on-site inspection of a collective foundation was carried out. The focus of the audit was on the organization/administration, general management, financial investment, and financing.

1.4.1.4 Reporting

Review of statutes and rules and regulations

In total, 7 pension schemes revised their legal foundations and submitted them to the FMA for review. These included the amendment of 2 statutes or foundation deeds, 3 pension regulations, 4 partial liquidation regulations, 5 investment regulations, 1 organizational regulation, 2 pension plans, 1 provision regulation, 1 functional diagram, and 1 insurance contract. Moreover, many legal foundations submitted by the pension schemes at the end of 2006 pursuant to the revision of the OPA effective 1 January 2006 were reviewed in 2007.

Vested benefits accounts

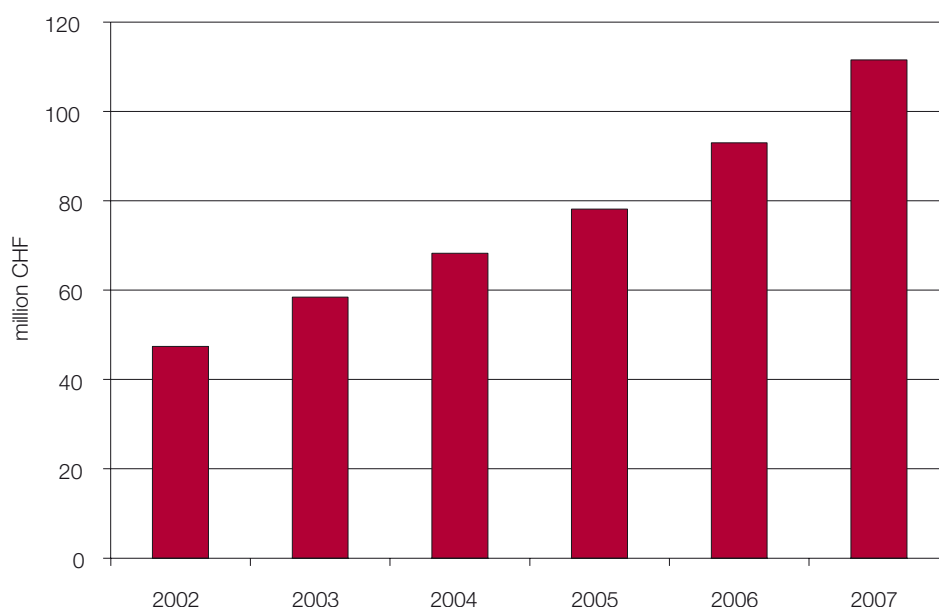
Vested benefits, i.e. the asset balance of the employee upon leaving the pension scheme, must be transferred to the pension scheme of the new employer. If this cannot be done, the vested benefits must be paid into a vested benefits policy with an insurance undertaking or into an account blocked for pension purposes (vested benefits account) at a Liechtenstein bank.

Liechtenstein banks maintaining such vested benefits accounts report statistical data on these accounts to the FMA pursuant to article 30, paragraph 6 OPO.

In the 2007 reporting year, 3 banks maintained vested benefits accounts. As of 31 December 2007, a total of 3'697 (2006: 3'036) such accounts existed, with managed capital of CHF 111.5 million (2006: CHF 92.9 million). The average amount of the vested benefits was CHF 30'166 (2006:

CHF 30'614), and the average duration of the account was 1'586 days (2006: 1'550 days). In total, 1'089 new blocked accounts were opened (2006: 668) and 428 were closed (2006: 328). The applicable interest rate was between 1.75% and 2.00%.

Figure 27: Vested benefits accounts: Total capital managed, 2002 to 2007 (in million CHF)



Verification of association

If the association agreement between the pension scheme and the employer is cancelled, the pension scheme must report this to the FMA within 30 days of cancellation of the association agreement. The FMA then verifies whether the employer continues to employ persons subject to the insurance requirement and, if applicable, which new pension scheme the employer has joined.

In 2007, the FMA conducted 74 such association inspections. In one case, the FMA ordered the compulsory association of an employer with a col-

lective foundation. In this case, criminal charges were also filed with the Office of the Public Prosecutor.

1.4.1.5 Cash payout of vested benefits/Confirmations of self-employment

A cash payout of vested benefits is only possible in very specific cases that are exhaustively enumerated by law (article 12, paragraphs 3 and 4 OPA). Vested benefits can also be paid out early upon request of the insured party if he receives a full disability pension, and the disability risk is not already additionally insured by a vested benefits

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policy (article 9, paragraph 3 OPO). Finally, vested benefits are also paid out if the insured party enters (early) retirement (article 8, paragraphs 1 and 2 OPO).

The FMA is responsible for processing cash payout applications under the OPA. The FMA verifies whether one of the aforementioned conditions is met and a payout is therefore possible. Additionally, the FMA issues confirmations for self-employed persons, who are not subject to the compulsory insurance requirement under the Occupational Pensions Act (article 3, paragraph 3(c) OPA).

In 2007, the FMA dealt with a total of 97 (previous year: 76) applications, pursuant to which the cash payout was approved in 71 (previous year: 55) cases and not approved in 26 (previous year: 21) cases.

The applications broken down by the various cash payout reasons were as follows: 27 applications due to assumption of self-employment (of which rejected: 9), 53 applications due to departure from the Liechtenstein/Swiss economic area (rejected: 13), 8 applications because the vested benefits amounted to less than one annual contribution of the insured party (rejected: 3), 2 applications due to receipt of a full disability pension (rejected: 1), and 7 applications due to early retirement (rejected: 0). Broken down by the nationality of the applicant, the figures are as follows: 13 applicants were Liechtenstein citizens, 39 Austrians, 4 Swiss, 5 Germans, 23 Spaniards, 5 from other EEA States, and the remaining 8 from States outside the EEA and Switzerland.

In total, the FMA decided on vested benefits in the amount of CHF 5.48 million.

The decisions by the FMA may be appealed to the FMA Complaints Commission. Two cases were appealed in 2007. One appeal was rejected, while the other was granted.

1.4.1.6 Combating abuse

The FMA is responsible for receiving complaints within the scope of supervision of pension schemes. In 2007, 5 (previous year: 6) complaints were filed. In 4 cases, compliance with the compulsory coverage provisions and the OPA insurance requirement were reviewed; in one other case, correct implementation of the OPA by a pension scheme was reviewed. One complaint was still pending as of 31 December 2007.



In a total of 8 cases (previous year: 2), the fact pattern was forwarded to the Office of the Public Prosecutor pursuant to article 25, paragraph 1 OPA. In all of these cases, the employers in question did not or did not properly administer the compulsory insurance under the OPA.

1.4.1.7 Operational focus areas in 2007 Implementation of OPA revision

Pursuant to the OPA revision effective 1 January 2006, all pension schemes had to review their legal foundations (statutes, rules and regulations) with respect to necessary modifications and submit the revised documents to the FMA for review. Most pension schemes submitted the documents at the end of 2006, so that the FMA had to review them in the reporting year.

In the reporting year, the FMA defined a procedure for systematic verification of association in cooperation with the Old Age and Survivors' Insurance Authority (AHV). Beginning in January 2008, the AHV will verify whether all employers have signed up their employees subject to compulsory coverage with a pension scheme. The content and process is governed by FMA Guideline 2008/1 on verification of the association requirement under the OPA, which entered into force on 1 January 2008.

Pursuant to the OPA revision effective 1 January 2006, which introduced a legal obligation to provide for training and continuing education of members of the foundation board, the FMA in cooperation with the Liechtenstein University of Applied Sciences began at the end of 2007 to institutionalize a training program for members of the foundation board. The definition of the training concept will be finalized in 2008.

1.4.1.8 Outlook for 2008

In 2008, the number of active pension schemes is expected to continue to decline. The pension schemes undergoing liquidation will withdraw from the Liechtenstein pension market in 2008.

The FMA will carry out further on-site inspections in 2008 and for the first time conduct management talks with pension schemes.

The preliminary work begun in 2007 for the implementation of risk-based supervision will be continued in 2008. Additionally, the required scope of the audit will be expanded, by providing in detail which points and topics must henceforth be audited and commented on.

For the first time in 2008, reporting during the business year will be introduced. This will give the FMA an up-to-date overview of the financial situation of the pension schemes and thus the possibility of intervening in a timely manner should problems arise. The FMA will define the content of the reporting during the business year by way of appropriate FMA Instructions.

1.4.2 Pension funds

1.4.2.1 Liechtenstein pension funds center

On 17 January 2007, the Law of 24 November 2006 on the Supervision of Institutions for Occupational Retirement Provision (Pension Funds Act, PFA; LGBl. 2007 No. 11) and the associated ordinance entered into force.

The PFA serves to implement Directive 2003/41/EC of the European Parliament and the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision (Pension Funds Directive). Institutions offering occupational retirement provision in Liechten-

stein or from Liechtenstein are subject to the PFA. The PFA governs the taking-up and performance of the activities of such institutions and, in particular, has the purpose of protecting members and beneficiaries as well as confidence in the Liechtenstein insurance and financial system.

*Doing the right things -
doing things right.*

Liechtenstein pension schemes that previously only offered voluntary occupational pension plans for employees not subject to Old Age and Survivors' Insurance in Liechtenstein or that are engaged in cross-border activities abroad now fall within the scope of the PFA and must therefore be placed under these legislative provisions. Liechtenstein employers now have the option of choosing whether to offer purely voluntary occupational retirement provision of their employees under the provisions of the Occupational Pensions Act (OPA) or, in the form of pension fund, under the new provisions of the Pension Funds Act. According to article 1 of the Occupational Pensions Ordinance (OPO), the OPA and the OPO only apply to persons insured with Liechtenstein Old Age and Survivors' Insurance (AHV). Compulsory occupational pension plans must continue to be offered in accordance with the OPA.

1.4.2.2 Licensing of business activities

Companies and pension schemes now falling within the scope of the PFA must submit an application for a business license to the FMA, along with a business plan (article 7 PFA). The transitional period for submitting such a license application expired on 18 January 2008 (transitional period according to article 53 PFA).

The first license under the PFA was issued on 6 February 2007. The license was granted to the pension fund of a German life insurance undertaking. On 18 December 2007, the second license under the PFA was granted to a collective foundation that previously had been subject to the OPA, but only insured expatriates.

1.4.2.3 Changes to licenses

So far, no changes to licenses have occurred that would have needed approval by the FMA.

1.4.2.4 Cross-border movement of services

Pension funds licensed in Liechtenstein may also be administered by undertakings domiciled in another Contracting Party to the EEA Agreement, i.e. they may accept sponsoring undertakings from other Contracting Parties and engage in cross-border provision of services. A Liechtenstein institution wanting to accept a sponsoring undertaking domiciled in another Contracting Party to the EEA Agreement must obtain prior approval by the FMA. Business activities may only be taken up once the FMA has notified the supervisory authority of the host country. The Liechtenstein pension fund must observe the applicable provisions of labor and social law of the host country applicable to retirement provision systems.

One of the Liechtenstein pension funds is currently engaged in cross-border activities in Germany. The second Liechtenstein pension fund is primarily active in third countries outside the FMA.

In the reporting year, the FMA did not receive any notifications from foreign supervisory authorities that a pension fund domiciled in another Contracting Party to the EEA Agreement is engaged in cross-border activities in Liechtenstein.

1.4.2.5 Reporting

The licensed pension funds must present changes to the approved business plan to the FMA. No such changes were made in the reporting year.

1.4.2.6 Operational focus areas in 2007

In connection with the entry into force of the Pension Funds Act on 17 January 2007, the FMA had to carry out various preparatory activities to ensure execution, especially the development of forms and FMA Instructions for the submission of license applications.

Another focus area was the processing of license applications already received in the reporting year and the implementation of the notification procedure for cross-border movement of services.

1.4.2.7 Outlook for 2008

In 2007, the FMA received two new license applications that are expected to be approved in the first half of 2008. Various inquiries concerning the establishment of pension funds in Liechtenstein were received by the FMA, so that the submission of further license applications in 2008 can be expected.

With respect to the supervision of pension funds, the Insurance and Pension Funds Supervision Division will continue to focus on the further implementation and execution of the Pension Funds Act. In particular, reporting by pension funds to the FMA will be further developed in 2008 and specified in detail in an FMA Instruction.

The FMA will also set out the provisions under labor law and social law that must be observed by a pension fund domiciled in another Contracting Party to the EEA that wants to engage in the provision of cross-border services in Liechtenstein.

1.5 Other Financial Service Providers Supervision

1.5.1 Introduction

The Other Financial Service Providers (OFSP) Supervision Division is responsible for supervision under due diligence law of Other Financial Service Providers as well as admissions to examinations and professional activities for the liberal professions operating on the financial market. Against this background, the OFSP Supervision Division executes the following laws and the associated implementing ordinances:

- Due Diligence Act (DDA)
- Professional Trustees Act (PTA)
- Auditors and Auditing Companies Act (AACAA)
- Lawyers Act (LA)
- Patent Attorneys Act (PAA)

1.5.2 Admission to examinations – Licenses / Professional licensing

Admission to examinations

In 2007, the OFSP Supervision Division received a total of 35 applications for admission to the various examinations and aptitude tests. In 33 cases, the applicant was admitted to the examination. One application was withdrawn (Lawyers Act), and one application (PTA) was rejected.

22 of the total of 33 candidates (66 %) passed their examinations. In the previous year, 14 out of 25 passed (56 %).

The following table provides an overview of the admissions to examinations and the examination results in 2006 and 2007, as well as the change according to professional group.

Table 11: Admissions to examinations and results (number)

Professional group	Examinations 2006			Examinations 2007			+/-		
	Adm.	Rej.	Passed	Adm.	Rej.	Passed	Adm.	Rej.	Passed
Lawyers	12	0	8	15 ¹⁾	0	11	+ 3	0	+ 3
Professional trustees	11	1	6	11	1	7	0	0	+ 1
Patent attorneys	0	0	0	0	0	0	0	0	0
Auditors	2	0	0	7 ²⁾	0	4	+ 5	0	+ 4
Total	25	1	14	33	1	22	+ 8	0	+ 8

Admitted, Rejected, Passed

¹⁾ of which 4 aptitude tests

²⁾ of which 3 aptitude tests

Licenses/Professional licensing

In 2007, the FMA granted 51 licenses allowing natural or legal persons to engage in one of the liberal professions participating in the financial market. In 37 cases, amendments were made to existing licenses upon application. The most frequent were changes to the company name or of the responsible general manager. In addition, 56 licenses were cancelled upon application. The average wait for the grant of a license or amendment to a license by issuing an ordinary decree was approximately three weeks. In the case of a simple notification without justification, if the applicant waived the right to an ordinary decree, the wait was approximately eight days. The reduction of the processing time (as a rule about 50 %)

observed in the previous year, after introduction of the simplified licensing procedure, was again confirmed in the reporting year, allowing the OFSP Supervision Division to react more quickly to the needs of the market.

Lawyers

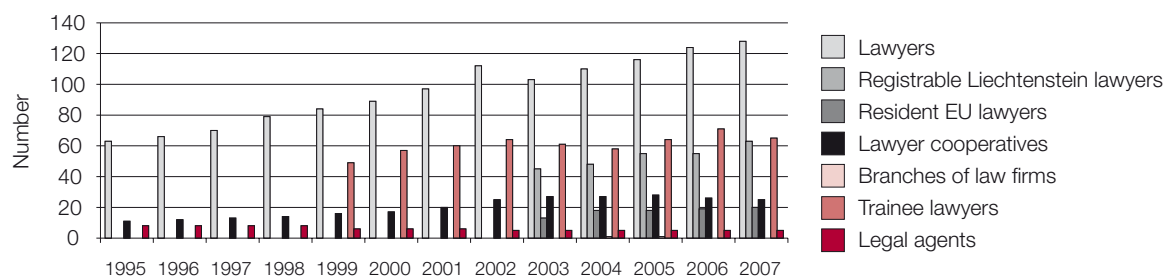
Unlike the other liberal professions, only the Lawyers Act so far did not provide the option of working in the form of a legal person. Pursuant to the Lawyers Act, joint legal activities could only be performed in the form of simple company or partnership. With the amendment of the LA on 27 July 2007, lawyers are now permitted to organize themselves together with other lawyers in the form of a legal person for the purpose of engag-

ing in joint professional activities. In addition to the existing possibility of working together as a simple company or partnership, the legal forms of a company limited by shares (Aktiengesellschaft, AG) and a limited liability company (Gesellschaft mit beschränkter Haftung, GmbH) are now available. The legislative amendment is due in particular to a judgment of the Constitutional Court dated 3 July 2006 (StGH 2006/5), which found that while the restriction of lawyer cooperatives to simple companies and partnerships was permissible and reasonable, changed realities would certainly speak in favor of adjusting the existing rule. These changed realities include the international developments in this field and the associated competitiveness and goal of ensuring an equivalent market presence of Liechtenstein lawyers. Advantages of a law firm, e.g. in the form of a company limited by shares, are in particular the limitation

of liability to the company's assets, the simplified succession rules, and advantages with respect to insurance and taxation. In addition, the company limited by shares is a modern organizational form that is internationally known and transparent. After entry into force of the amendment, already five existing companies transformed themselves into companies limited by shares by the end of 2007, while no new company formations have occurred so far.

The total number of persons with a license under the Lawyers Act was 306 as of 31 December 2007. Since 2003, the number of lawyers (working as natural persons) and registrable lawyers has increased, a trend that continued in the reporting year. The number of trainee lawyers decreased in comparison with the previous year.

Figure 28: Development of the number of persons entered in accordance with the lists pursuant to the Lawyers Act



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Table 12: Licenses/Admissions to the profession under the Lawyers Act (number)

Supervisory activities pursuant to the LA	2005	2006	2007
Grants	26	31	29
Amendments	22	20	16
Rejections	1	–	–
Withdrawals	–	–	–
Deletions	14	17	24

Professional trustees

As in the previous year, the number of licensed trust companies decreased, due to numerous conversions into asset management companies pursuant to entry into force of the AMA on 1 January 2006. The number of professional trustees (working as natural persons), restricted professional trustees, and restricted trust companies

remained approximately the same, however. The total number of persons with licenses under the PTA was 389 as of 31 December 2007. Amendments to licenses occurred primarily as a consequence of various changes of general managers and business names.

Figure 29: Development of the number of persons licensed under the Professional Trustees Act

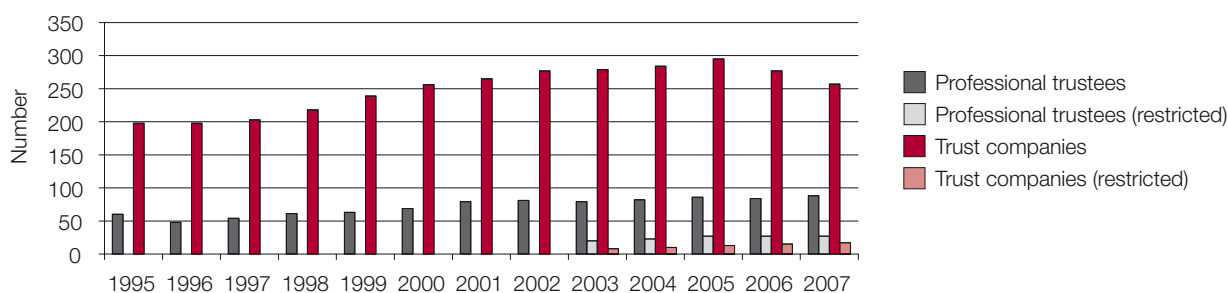


Table 13: Supervisory activities pursuant to the PTA (number)

Supervisory activities pursuant to the PTA	2005	2006	2007
Grants	34	15	16
Amendments	5	9	19
Rejections	–	–	–
Withdrawals	–	1	1
Deletions	5	32	26

Patent attorneys

The number of natural persons licensed under the PAA continued to decrease in 2007. Three deletions were recorded. The number of patent

attorney firms remained at the same level as the previous year. The total number of persons with a license under the PAA was 14 as of 31 December 2007.

Figure 30: Development of the number of persons licensed under the Patent Attorneys Act

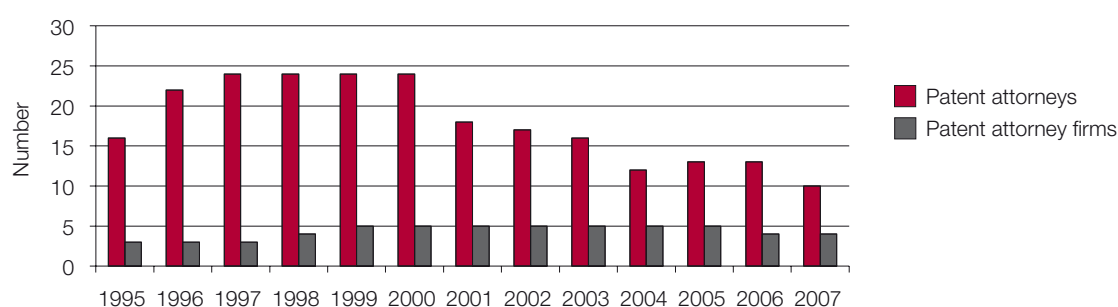


Table 14: Supervisory activities pursuant to the PAA (number)

Supervisory activities pursuant to the PAA	2005	2006	2007
Grants	1	–	–
Amendments	–	–	1
Rejections	–	–	–
Withdrawals	–	–	–
Deletions	–	1	3

Auditors and auditing companies

The number of persons licensed under the AACCA continued to decrease in the reporting year with respect to Liechtenstein auditing companies. The number of auditing companies engaged in cross-border activities, in contrast, remained the same as the previous year. The number of auditors has also remained more or less steady. In contrast, the number of auditors engaged in free movement of services has increased continuously since 2005.

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The total number of persons with a license under the AACA was 72 as of 31 December 2007.

Figure 31: Development of the number of persons licensed under the Auditors and Auditing Companies Act

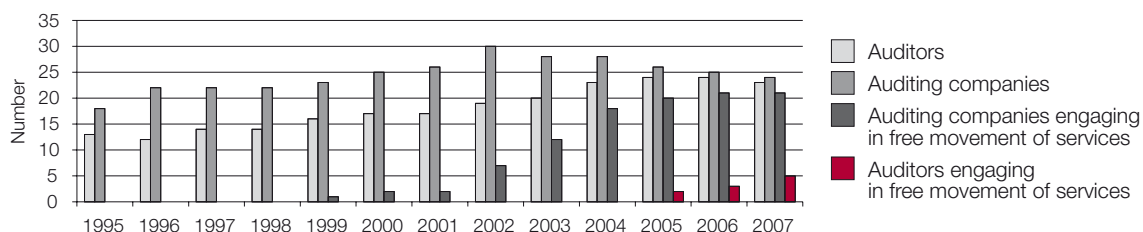


Table 15: Supervisory activities pursuant to the AACA (number)

Supervisory activities pursuant to the AACA	2005	2006	2007
Grants	10	2	6
Amendments	1	3	1
Rejections	1	–	–
Withdrawals	–	–	1
Deletions	6	2	3

1.5.3 Supervision under the DDA

In 2007, the OFSP Supervision Division accompanied a greater number of regular due diligence audits and carried out a greater number of extraordinary due diligence audits itself. One reason for this greater presence of the OFSP Supervision Division in the financial center is the recommendation in this regard by the International Monetary Fund (IMF) pursuant to the second IMF assessment conducted from 20 March to 4 April 2007. The OFSP Supervision Division also believes that a direct exchange with the persons subject to due diligence will result in higher quality of practical implementation of Liechtenstein due diligence law.

Regular due diligence audits

Table 16: OFSPs subject to due diligence as of 31 December 2006 (number)

OFSPs subject to due diligence as of 31 December	2005	2006
Lawyers	134	143
Legal agents	5	5
Professional trustees	421	403
Auditors	72	73
Persons with a certification under art. 180a PGR	461	495
Exchange offices	1	2
Real estate brokers	16	18
Dealers in high-value goods	17	37
Other persons subject to due diligence	21	28
Total	1'148	1'204

Since, as a rule, due diligence audits of OFSPs are carried out with a frequency of three years, the OFSP Supervision Division selected the natural and legal persons represented in the table above that had either never⁸⁾ undergone a due diligence audit or whose last inspection was 2004 or earlier. Approximately 333 natural and legal persons fell into this category. In the further selection procedure, the OFSP Supervision Division determined whether the OFSP in question had carried out financial transactions on a professional basis in the period since the last due diligence audit or, in the event that no due diligence audit of the OFSP had ever been performed, in the previous year (2006). This applied to 156 natural and legal persons, including 24 lawyers, 1 legal agent,

77 professional trustees, 3 auditors, 87 persons with a certification under article 180a PGR, and 9 other persons subject to due diligence (including double counts).

These 156 identified OFSPs were then assigned to 48 groups, each of which was assigned an auditor or auditing company. In March 2007, each affected OFSP was informed of the fact that it was being audited. At the same time, the affected auditors and auditing companies were given written audit mandates. Most of the inspections took place between May and August. Depending on the size of the financial intermediary, a sample of the business relationships was selected, which was then audited with regard to compliance with all

⁸⁾ There are two possible reasons why an OFSP had never been audited. Either the OFSP took up business as an OFSP within the six months immediately prior to the last inspection, so that the OFSP would not have been taken into consideration for this inspection, or the OFSP was not considered in previous inspections because it indicated that it had not conducted any financial transactions during the relevant period.

formal and substantive requirements of the Due Diligence Act. All audit reports were received by the OFSP Supervision Division by the end of 2007, which then evaluated them. All audited OFSPs were given feedback in writing on the overall results of the audit.

The performance of a due diligence audit with respect to the dealers in high-value goods and real estate brokers subject to the DDA depended on whether they had carried out financial transactions or commercial transactions deemed equivalent to financial transactions between 1 January 2006 and 31 December 2006. If this was the case, the OFSP Supervision Division generally conducted the regular due diligence audit itself, on the basis of the annual report of the OFSP in question. In 2007, the OFSP Supervision Division conducted 55 such inspections of dealers in high-value goods and real estate brokers.

Overall, as in the previous year, the conclusions drawn from the 2007 audit round were positive. The focus of the 2007 audit round was on material inspections. Based on the evaluation of all audit reports, the OFSP Supervision Division determined that a certain potential for improving the quality of compliance with and implementation of due diligence obligations exists in the following areas:

- Completeness and up-to-dateness of the profiles of the business relationships, and increase of meaningfulness with respect to economic background as well as origin and intended use of the deposited assets
- Assessment of the plausibility of transactions deviating from the profile of the business relationship or from the risk criteria defined in the internal instructions
- Use of appropriate aids in connection with the monitoring of business relations (transaction monitoring) and identification of PEPs
- Definition of risk categories (“risk positions”) by dividing business relationships into categories exposed to different risks, and definition of adequate risk criteria depending on each category

Many of the audit reports contained recommendations by the due diligence auditor – not rising to the level of deficiencies or violations – to remedy the abovementioned weaknesses with respect to due diligence law. In 18 audit reports, however, deficiencies were identified with respect to these weaknesses. In none of the audited business relationships did suspicious factors arise with respect to criminal offenses pursuant to article 30 of the Due Diligence Act.

In 8 cases, the deficiencies were remedied without follow-up inspections, while in 10 cases, the due diligence auditor ordered follow-up inspections to verify compliance. In particular, follow-up inspections are ordered if complaints are raised during the regular audit and violations are found that cannot be remedied during the on-site inspection. For this purpose, the due diligence auditor specifies a deadline by which the person subject to due diligence must remedy the defects. Upon expiration of the deadline, the auditor himself verifies – without the need for an additional mandate by

the OFSP Supervision Division – whether the deficiencies and violations have been remedied by the person subject to due diligence, and the result of the audit is immediately notified to the OFSP Supervision Division in writing.

Extraordinary due diligence audits

In the 2007 reporting year, extraordinary on-site audits were conducted by the OFSP Supervision Division in three cases. In two cases, the trigger was doubts concerning the guarantee of proper conduct of business and sound and proper business management within the meaning of due diligence law. In one case, the minimum standard required by due diligence law was restored, while in the other case, supervision measures by the OFSP Supervision Division continue. In the third case, to which the OFSP Supervision Division's attention was drawn in the course of press monitoring, an extraordinary on-site audit was carried out to determine whether the person subject to due diligence had complied with all due diligence obligations in his business relationships, which the press reports suspected of involving money laundering. On the basis of the audit findings, the OFSP Supervision Division did not identify grounds for referring the case to the Office of the Public Prosecutor.



1.5.4 Supervision practice

In total, the OFSP Supervision Division issued 89 formal decrees concerning admissions to examinations or the profession or concerning fact patterns relevant to due diligence law with respect to OFSPs. One of these decrees was appealed, but the FMA Complaints Commission rejected it on the basis of a formal defect. 1 complaint filed in 2005 concerning the change of the responsible general manager of an auditing company (see below) is still pending.

Measures under supervision law

To verify compliance with the legal requirement for liberal professions to conclude a liability insurance policy prior to taking up business, especially with regard to the protection of clients, the OFSP Supervision Division called upon all lawyers, professional trustees, auditors, and patent attorneys licensed and active in Liechtenstein to provide up-to-date proof of their professional liability insurance. Additional attention was paid to the average amount of the liability insurance as well as the deductible.

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

In the 2007 reporting year, no reports had to be submitted to the FIU under article 16, paragraph 1 DDA. However, the OFSP Supervision Division referred two cases to the Office of the Public Prosecutor, and in a third case, the relevant fact pattern was presented to the law enforcement authorities.

One case was brought to the attention of the OFSP Supervision Division by a financial market participant. The case concerned a company using a Liechtenstein domain name on the Internet, offering fiduciary, asset management, auditing, and tax and legal services, without having obtained the license required by specialized legislation from the OFSP Supervision Division. Against this background, the OFSP Supervision Division filed charges with the Office of the Public Prosecutor on suspicion of the criminal offenses set out in various financial market laws (PTA, AACA, AMA, and LA). The case is pending with the OPP.

The other case came to the attention of the OFSP Supervision Division in the course of regular due diligence audit. The due diligence audit in 2006 performed on behalf of the OFSP Supervision Division found that the financial intermediary concerned had violated various due diligence obligations. The follow-up audit ordered by the auditing company likewise indicated no improvements in this regard. Against this background, the OFSP Supervision Division saw itself compelled to file charges with the Office of the Public Prosecutor on the suspicion that the financial intermediary had intentionally violated the legal due diligence obligations as referred to in article 30, paragraph 1 DDA. This case is also pending with the OPP.

In one further case, a fact pattern had to be transmitted to the Office of the Public Prosecutor. This case concerned a Liechtenstein person subject to due diligence who served as the trustee of a trust established under foreign law. The fact pattern was conveyed to the OFSP Supervision Division by the allegedly injured settlor. The settlor accused the person subject to due diligence of criminal breach of trust. In the course of its inquiries under due diligence law, the OFSP Supervision Division found that the person subject to due diligence did not possess a license under the Professional Trustees Act and thus was not authorized to administer trusteeships on a professional basis. Against this background, the OFSP presented the Office of the Public Prosecutor with the relevant fact pattern. The case is pending with the Office of the Public Prosecutor.



FMA Communications

On the initiative of the OFSP Supervision Division, the following FMA Communication was issued in 2007:

– **FMA Communication 1/2007 of 13 March 2007 concerning the Taliban Ordinance: Delisting, satisfaction of basic existential needs, and uncertain assignment of listed names to specific persons**

Within the framework of implementation of the UN Security Council resolution on measures to combat terrorism, the Government issued the so-called Taliban Ordinance on 10 October 2000, based on the Law on Measures concerning Economic Transactions with Foreign States (Sanctions Act). Annex 2 of the Taliban Ordinance contains a list of persons and organizations brought into connection with terrorism. Pursuant to article 3 of the Taliban Ordinance, all assets in the possession or under the control of the natural and legal persons, groups, and organizations referred to in Annex 2 must be blocked. Since the blocking of assets is an extremely serious measure, FMA Communication 1/2007 specifies how assets should be blocked in connection with anti-terrorist-financing measures when:

- a person is listed in Annex 2 of the Taliban Ordinance, but believes that the listing and therefore also the blocking of assets and economic resources is unjustified;
- the assets or economic resources of a person have been blocked such that basic existential needs can no longer be met; or
- the information concerning the persons listed in Annex 2 of the Taliban Ordinance is unclear, or there are doubts concerning correct identification.

Decrees of particular interest

– **If a person subject to due diligence does not comply with a demand to remedy deficiencies despite warning, the OFSP Supervision Division may take measures under articles 28, 30, and 31 DDA**

On behalf of the OFSP Supervision Division, an auditing company carried out a due diligence audit of a financial intermediary in 2006. The audit report noted various violations of due diligence obligations, so that the auditing company ordered a follow-up inspection. During the follow-up inspection, the auditing company determined that some of the deficiencies had been remedied in the meantime, but others had not. In the view of the auditing company, it could not be expected that further measures by the auditing company would result in the financial intermediary taking the necessary steps to remedy the remaining deficiencies. Against this background, the OFSP Supervision Division filed charges with the Office of the Public Prosecutor on the suspicion that the financial intermediary had not fully complied with due diligence obligations. With respect to further, still pending deficiencies that could not be subsumed under the list set forth in article 30, paragraph 1 DDA, the OFSP Supervision Division issued a decree calling upon the financial intermediary to restore a lawful state of affairs, under threat of a fine (article 31, paragraph 1(b) DDA). The OFSP Supervision Division also issued a supervisory measure as set out in article 28, paragraph 1(d) DDA prohibiting the financial intermediaries from entering into new business relations until a lawful state of affairs had been restored. To verify progress with respect to the pending deficiencies, the OFSP Supervision Division carried out an on-site inspection. The OFSP Supervision Division is also being in-

formed of progress on the pending deficiencies in the course of regular reporting. The case has not yet been concluded.

– **Change of the responsible general manager of an auditing company**

A Liechtenstein auditing company applied to change its responsible general manager pursuant to article 21, paragraph 1(c) of the AACA. The OFSP Supervision Division rejected this application in 2006, since the nominated general manager neither held the auditor license within the meaning of article 1 of the AACA required for the general manager of auditing companies, nor would he have been able to attain one – based on the findings at the time – since he neither was a citizen of an EEA State nor did he reside in Liechtenstein or any other EEA State. Even if the provisions had been interpreted in light of the treaty law applicable to this case, namely the Vaduz Convention and the special rules of the bilateral protocol between Liechtenstein and Switzerland, the OFSP Supervision Division would have been unable to reach a different decision, since these provisions only contain rights of free movement for natural persons, not legal persons, so that the requirements for general managers must be adhered to for legal persons. A general rule of reciprocity based on the existing legal situation in Switzerland also had to be rejected.

A complaint filed against this decree was dismissed by the FMA Complaints Commission. The applicants appealed this decision to the Administrative Court, which dismissed the appeal in its judgment of 1 June 2006. This judgment was appealed by way of an individual complaint to the Constitutional Court. The Constitutional Court has still not reached a decision in this case.

1.5.5 Combating abuse

In the 2007 reporting period, a total of 30 cases raised suspicion and were subject to detailed review. In another 11 cases, the suspicions could be eliminated in advance pursuant to contacts with the persons concerned. Anti-abuse measures focused on the unlawful use of business names, impermissible advertising, and activities carried out without the appropriate license. Most of the defects were remedied immediately by the persons in question. In particular, statements of business purpose were corrected, or company websites or advertisements were removed from the Internet or corrected in accordance with the demands of the OFSP Supervision Division. In one case, the OFSP Supervision Division carried out an on-site inspection to verify whether the licensing conditions for a trust company were still met. Specifically, the OFSP Supervision Division had to clarify whether the trust company continued to have a full-time general manager, who could in fact fulfill the associated control and monitoring responsibilities. In one case in connection with electronic advertising on the Internet for financial services subject to a license, charges were filed with the Office of the Public Prosecutor. In another case in connection with a trustee position subject to a license, the fact pattern was transmitted to the Office of the Public Prosecutor, since the person subject to due diligence did not have

an appropriate license issued by the OFSP Supervision Division.

In general, cases of abuse pertaining to company presentation and advertisement, especially on the Internet, are becoming more common, frequently with an international connection.

*Confidence in our
own ability, resolve,
and judgement.*

For purposes of preventing abusive activities, the OFSP Supervision Division strengthened its cooperation with the competent authorities with respect to entries in the Public Registry and applications for commercial licenses, in order to prevent potential violations of the specialized legislation governing statement of business purpose and business registrations in advance.

1.5.6 Projects in 2007

The OFSP Supervision Division tackled the following projects in 2007:

– Law firms

Since the legislative amendment in 2007, lawyers have had the option of organizing themselves in the form of a legal person to carry out their profession jointly. Against this background, the OFSP Supervision Division provided the market participants with the relevant information, reviewed its internal processes, and adjusted them to the changed licensing regime.

– Revision of anti-abuse concept

Due to the increase in cases of abuse and the developments concerning abuse potential and exposure to abuse on the Internet, the existing anti-abuse concept had to be revised and the relevant resources reoriented. On the basis of the changes and problems identified across the various divisions, internal processes were brought up to date and standardized across divisions. Furthermore, adequate aids were developed to enable an optimal use of available synergies in national and international cases, for purposes of enhancing the efficiency and effectiveness of anti-abuse measures.

– **Training of auditors**

Each year, the Liechtenstein Association of Auditors (WPV) organizes a training session for auditors (Due Diligence Training), which serves as an external basic and continuing training program for purposes of the Due Diligence Act. The OFSP Supervision Division considers this program to be extremely important, and it regularly makes lecturers available for this purpose.

In 2007, the lecturers for the Due Diligence Training were all provided by the OFSP Supervision Division. The lecturers provided an in-depth introduction to the auditors and auditing companies of FMA Guideline 2006/2 on due diligence audits conducted by mandated due diligence auditors, which entered into force on 1 January 2007, and the associated new sample inspection report. Along with a brief review of the 2006 due diligence audit round, this represented the main focus of the event.

– **Increased on-site presence**

In 2007, the OFSP Supervision Division increasingly accompanied auditors during on-site inspections. The goal in particular was to intensify the dialogue with the auditors as the extended arm of the FMA's due diligence supervision, and to experience their approach to due diligence audits in practice. This allowed the OFSP Supervision Division to identify and react to changes, needs, and challenges in the market more quickly. The goal is also to ensure that all persons subject to due diligence are audited in a uniform manner with respect to their due diligence obligations.

1.5.7 Outlook for 2008

The OFSP Supervision Division is planning the following projects for 2008:

– **Increased DDA supervision**

The OFSP Supervision Division plans to continue and expand the increased supervision already initiated in 2007, by means of accompanied or independent on-site inspections. Furthermore, based on the submitted audit reports, the OFSP Supervision Division intends to conduct more feedback discussions with the mandated due diligence auditors. The experiences in 2007 have shown that discussions with the persons subject to due diligence and the due diligence auditors contribute considerably to the improvement of quality with respect to due diligence.

– **Participation of OFSP Supervision Division in various regulatory projects**


As discussed below in the chapter on regulation, the OFSP Supervision Division is participating in the implementation of the Professional Qualifications Directive, the Statutory Audit Directive, the Services Directive, the Third Money Laundering Directive with the PEP Directive, and the Cross-Border Payments Regulation. Because of the large number of regulatory projects and their implications for the available resources and internal processes, new supervisory duties and processes, Internet registers, reporting tools, and/or other supervisory regulation requirements must be identified early on and taken into account during the further course of the projects.



vision is responsible for the tax consultant/auditor professional group within the framework of the project.

– **IMI Project (Internal Market Information System)**

The IMI Project was launched to facilitate cooperation among EEA Member States in the implementation of numerous internal market rules. Problems exist especially with regard to the differing administrative processes, structures, and languages, as well as lacking agreement on procedures and fixed contact persons. This problem is addressed with the Internal Market Information System (IMI). The IMI is an electronic system to support administrative cooperation among national and regional authorities of EU Member States and EEA/EFTA States, in order to facilitate, simplify, and improve communication. The first areas of application will be the Professional Qualifications Directive 2005/36/EC and later the Services Directive 2006/123/EC, which provide an electronic system for information exchange. The operational pilot phase in February 2008 will initially cover 4 of approximately 800 professional groups. These 4 groups are physicians, pharmacists, physiotherapists, and tax consultants/auditors/accountants. As the “pilot authority”, the OFSP Supervision Di-

A black and white portrait of a woman with dark hair, looking directly at the camera. She is wearing a dark, high-collared garment. The background is dark, and the lighting is dramatic, highlighting her face and hands. Her hands are positioned in the lower right quadrant of the frame, with fingers slightly curled.

*Efficient regulation means
the creation of optimal
framework conditions.*

Martina Tschanz

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

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

We issue guidelines, thereby contributing to legal certainty.

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

We review and revise existing regulations.

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

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

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

REGULATION

As in 2006, regulatory activities again constituted an important and resource-intensive responsibility of the FMA. The FMA was again strongly integrated in regulatory projects at the national level. On the one hand, these projects concerned preparation of implementation of EEA law relevant to the financial market into national legislation; on the other hand, national laws and ordinances in the financial market sector were concretized at the level of FMA regulatory acts.

The regulatory activities were carried out under consideration of the needs of the Liechtenstein financial center while simultaneously observing international standards. As before, the goal was to create competitive solutions for the Liechtenstein financial market. Again in 2007, the FMA engaged in a continuous and intensive dialogue with the individual interest associations.

The focus of regulatory activities in the Banking and Securities Supervision Division in the reporting year was the time-intensive and ambitious schedule for implementation of MiFID and the remaining implementation of the Basel II as part of MiFID implementation. Additionally, individual smaller implementation projects such as the partial revision of the E-Money Act had to be dealt with and concluded. The Market Abuse Act also entered into force in the reporting year.

In the Insurance and Pension Funds Supervision Division, various regulatory projects were concluded or advanced in the 2007 reporting year. In January 2007, the Pension Funds Act (PFA) and the Pension Funds Ordinance (PFO) entered into force. Also, Directive 2002/87/EC on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate was implemented into

national law, through the creation of the Financial Conglomerates Act (FCA) and the associated ordinance (FCO). Implementation work relating to the Reinsurance Directive 2005/68/EC was also begun, and the revision of the FMA Fee Ordinance was accompanied.

In the Other Financial Service Providers Supervision Division, the treaty violation procedure of the EFTA Surveillance Authority (ESA) was brought to a close with the revision of the LA, PTA, PAA, and AACA as well as the ordinances on the examinations and aptitude tests for lawyers, professional trustees, patent attorneys, and auditors. The work on implementation of the Professional Qualifications Directive 2005/36/EC into the LA, PTA, and PAA was accompanied. Another focus of regulation was the preliminary work on the Third Money Laundering Directive 2005/60/EC, the PEP Directive 2006/70/EC, and Regulation (EC) No. 1781/2006 on information on the payer accompanying transfers of funds, which will be implemented through amendments to the DDA and the DDO. Also, initial preparatory work was



undertaken to implement the Statutory Audit Directive 2006/43/EC and the Services Directive 2006/123/EC.

2.1 Banking and Securities Supervision

2.1.1 Completed regulatory projects as of 31 December 2007

Market Abuse Act

On 1 February 2007, the Market Abuse Act (MAA) entered into force, which had been passed by Parliament on 24 November 2006.

The purpose of the MAA is to combat insider dealing and market manipulation – examples of market manipulation are found in article 1 of the Market Abuse Ordinance (MAO) – and to secure the integrity of the market. Since entry into force of the MAA, market-abusive behavior has been fought primarily on the basis of the MAA. In this connection, attention must be paid to the new reporting requirement for financial intermediaries: Where financial intermediaries suspect that a transaction is contaminated by insider dealing or market manipulation, they must report this suspicion to the Financial Intelligence Unit. Also new is the responsibility of persons entrusted with management responsibilities pertaining to a domestic issuer to notify the FMA of their transactions with the issuer's financial instruments.

The FMA is responsible for enforcing the MAA. Using the powers granted to it under the MAA, it is responsible for cooperating especially with the competent foreign authorities to combat insider dealing and market manipulation. In particular because of the steadily increasing global connectedness also or especially within the financial markets, this cooperation plays an extremely important role. The MAA thus also contains detailed rules governing administrative assistance. In order to accelerate administrative assistance, these provisions contain the special procedural feature that FMA decrees can only be appealed to the Administrative Court.

Implementing enactments on market abuse

Implementation of the relevant European rules required, in addition to enactment of the MAA, the creation of the MAO, the Financial Analysis Market Abuse Ordinance (FAMAO), and FMA Communication 1 / 2007 on the interpretation of terms in the FAMAO. While the MAO further specifies certain provisions in the MAA, especially the concept of market manipulation and the permissible market practices, the FAMAO is concerned with regulating the proper presentation of investment recommendations.

Basel II

The two EU directives 2006/48/EC and 2006/49/EC, which incorporate the decisions of the Basel Committee on Banking Supervision known as "Basel II" into European law and are therefore referred to here as Basel II rules, replace their predecessor directives 2000/12/EC and 93/6/EEC. Prior to implementation into national law, the decision was made to carry out the implementation in two phases – both due to the scope and complexity of the content of the provisions to be amended, but also in order to

provide the persons affected with information on the content of the new capital adequacy and risk distribution requirements as early as possible. The circumstance that the further provisions to be amended concerned, to a large extent, supervisory activities as such and not the market participants directly was also a factor in favor of implementation in two phases.

In a first phase, the Banking Act was modified so that the requisite Ordinance on Capital Adequacy and Risk Diversification for Banks, Finance Companies, and Securities Firms (Capital Adequacy Ordinance, CAO) has a sufficient legal foundation. These amendments to the Banking Act entered into force at the same time as the CAO on 1 January 2007.

In the second phase of Basel II, the supervisory provisions were transformed into national law. These rules have also been implemented within the Banking Act. They entered into force on 1 January 2008. In addition to individual modifications of the licensing rules, the Basel II provisions primarily manifest themselves in the complete revision

of the articles governing consolidated supervision. In this connection, the provisions on responsibilities, cooperation, information exchange, as well as on financial holding companies and mixed undertakings were modified significantly.

Due to the time of entry into force and the connectedness of the Basel II provisions with MiFID (see below) in several areas, but also because the two clusters of directives were implemented within banking law (Banking Act and Banking Ordinance), it became indispensable to unify and harmonize these two implementations. The two implementation projects in effect amounted to a total revision of the Banking Act.

MiFID

The greatest regulatory challenge during the reporting period was the complete and timely implementation and entry into force of Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC (Second Investment Services Directive; MiFID). The challenges were overcome through outstanding cooperation with the market participants.

MiFID primarily governs the provision of investment services. In addition to the receipt, transmission, and execution of client orders, asset management, on-market and over-the-counter transactions, and issuing securities, investment services now also include investment advice as a separate service. In addition to these services, MiFID in combination with the European implementing regulations also governs the relevant



horizontal functions such as organizational (e.g. outsourcing, conflicts of interest), technical (e.g. transaction reporting), and procedural (e.g. extrajudicial arbitration, cooperation with other supervisory authorities) aspects of the investment firm and investment transactions as well as the applicable rules of conduct. Of special note is the extraordinarily high level of detail of many MiFID provisions, which significantly restricted room for maneuver during the implementation process.

Stability of the financial center and compliance with international standards are the goals of supervision.

Like Basel II, MiFID was also implemented in two phases. In a first phase, the Asset Management Act was created on the basis of MiFID alone, prior to enactment of the MiFID implementation regulations. The AMA created a new class of financial intermediaries in Liechtenstein and has been a thorough success in the two years since its entry into force. By 31 December 2007, a total of 90 licenses were granted for asset management companies.

In a second step, the remaining MiFID provisions were transformed and the AMA was updated accordingly. The remaining implementation of MiFID was carried out, as described above, by way of modification of the Banking Act and associated ordinances. In addition to the de facto total revision of the Banking Act, the Banking Ordinance also underwent numerous amendments. Of particular note in this regard are the newly created

Annexes 7.1 to 7.4, which implement the majority of the MiFID implementing regulations. The implementation has also created a further class of financial intermediaries, the investment firm.

FMA enactments on MiFID

The transformation of the MiFID provisions – as well as some of the Basel II provisions – has required the modification of several FMA Instructions. These adjustments concern the documents to be submitted upon formation of a bank, investment firm, or asset management company, the notification requirements, and the requirements for the formation of a branch.

E-Money Act

After the EFTA Surveillance Authority (ESA) reviewed implementation of the E-Money Directive (2000/46/EC) in Liechtenstein and found certain defects, the criticized provisions had to be modified. Primarily the capital investment limits for e-money institutions, and secondarily the references to banking legislation – which apply mutatis mutandis to e-money institutions – were corrected.

2.1.2 Pending regulatory projects as of 31 December 2007

Transparency Directive

By way of a Government resolution dated 4 December 2007, the draft revised Disclosure Act, which serves to implement Directive 2004/109/EC of the European Parliament and Council on the harmonization of transparency requirements in relation to information about issues whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC (Transparency Directive) and its implementing directive 2007/14/EC, was circulated for consultations. The Transparency Directive is a component of the

European Commission's Financial Services Action Plan (FSAP) and supplements the regulatory regime of the IAS Regulation, the Market Abuse Directive, the Investment Services Directive, and the Prospectus Directive. The Transparency Directive also contains several elements relating to company law and corporate governance.

The Transparency Directive updates EEA rules on information to be transmitted regularly to investors and also redefines the rules governing the reporting of shareholders' holdings.

Since the scope of application of the existing Liechtenstein Disclosure Act is limited to the disclosure of significant holdings in companies listed on EEA stock markets, both the substance and the form of the Disclosure Act must be totally revised, and a new ordinance on the Disclosure Act must be created. Since the scope of the law will be expanded, the Disclosure Act will be renamed "Law on Disclosure and Transparency Obligations".

The revised Disclosure Act is expected to enter into force on 1 December 2008.

UCITS implementing directive

The UCITS Directive 85/611/EEC, which was implemented in Liechtenstein by way of the IUA and the associated ordinance, contains several partially interrelated definitions, such as of "transferable securities" and "money market instruments", relating to assets that can be used by undertakings for collective investments in transferable securities (UCITS). Since the number of financial instruments traded on the financial markets has increased substantially since enactment of the UCITS Directive 85/611/EEC, uncertainties arose within the EU as to whether certain types of financial instruments fell within these definitions

and thus whether UCITS were allowed to invest in them. To ensure uniform interpretation of the definitions, Commission Directive 2007/16/EC of 19 March 2007 implementing Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) as regards the clarification of certain definitions was enacted.

The implementing directive requires amendments to the Investment Undertakings Ordinance. The modifications will be implemented in 2008.

Payment Services Directive (PSD)

Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC must be transformed into national law by 1 November 2009. The goal of the PSD is to harmonize payment services in the EEA internal market. The PSD also introduces a new financial intermediary, the payment institution. Roughly speaking, the PSD governs both the (supervisory) legal aspects of the payment institutions and other payment services providers as well as the payment services themselves. It specifies who has to inform whom, what rights and duties must be observed when submitting and processing payment orders, as well as procedural aspects such as official cooperation and extrajudicial arbitration. While implementation only has to be completed by 1 November 2009, the scope of the PSD and the points of contact with third countries – especially Switzerland – during the execution of payment services require that the implementation work commence already in 2008.

FMA enactments

The enactment of both new and updated FMA rules is planned for 2008. These enactments (FMA Instructions and FMA Communications) concern topics such as risk management, the distinction between public and private placements with respect to advertisement, offering, and distribution, the licensing requirements for audit offices, and the conditions for establishing and dissolving (self-administered or third-party-administered) management and investment companies, and the creation and distribution of funds and fund units.

2.1.3 Administrative assistance

Administrative assistance has both an institutional and a functional aspect. Institutional administrative assistance primarily serves the prudential supervision of financial intermediaries. The applicable rules are contained in the relevant specialized legislation. In contrast, functional aspects are concerned when administrative assistance is used to supervised market occurrences. The primary legislation governing this aspect of administrative assistance is the Market Abuse Act (MAA), secondarily also the Disclosure Act and the Takeover Act.

Given that clients of Liechtenstein financial intermediaries are continuously increasing their demand for cross-border financial transactions, it is indispensable for the Liechtenstein financial center to have access to international financial markets. Conditions for access to these international markets include a close cooperation between the supervisory authorities responsible for supervision of these markets and market actions, such as quick and efficient exchange of information relevant to supervision. This supervisory cooperation does



not only serve supervisory interests, however, but also represents an important contribution to the international recognition of the Liechtenstein financial center, thus providing a guarantee for the participation of Liechtenstein financial intermediaries in the international financial markets.

Functional administrative assistance (MAA)

The main rules governing functional administrative assistance are contained in the MAA. According to these rules, the FMA renders administrative assistance to combat market abuse (insider dealing and market manipulation). This type of administrative assistance primarily concerns the exchange of client-related information. For an authority investigating potential market manipulation, it is indispensable to receive client-related data, such as the identifying data of a client, a beneficial owner, or the person submitting the specific order. Only with the help of such information is the investigating authority able to determine or negate a spe-

cific connection with market abuse behavior. The ascertainment of such connections is not possible on the basis of market data alone. The persons affected have the possibility of appealing the transmission of such data to the foreign authorities, so that their legal protection remains guaranteed.

Institutional administrative assistance (Banking Act, IUA, AMA)

Institutional administrative assistance is based on the cooperation rules set out in the institution-specific specialized legislation such as the Banking Act, the IUA, and the AMA. All of the three aforementioned laws contain extensive provisions on cooperation with competent foreign authorities. Institutional administrative assistance in particular encompasses the exchange of information on the financial situation, organizational structure, and risk management of the supervised institutions. It also includes information exchange concerning companies that are not being supervised, but that would be subject to supervision.

Administrative assistance practice of the FMA

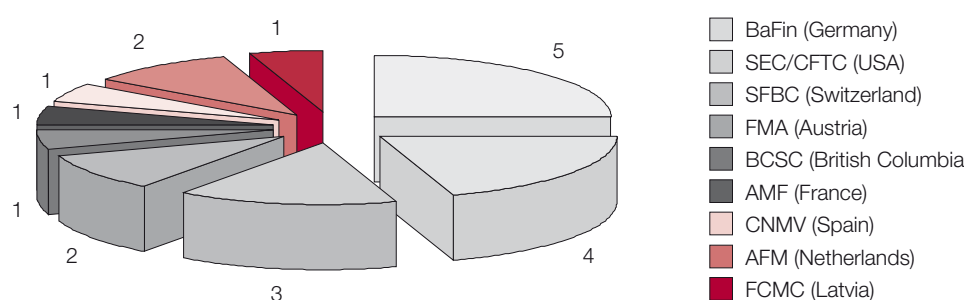
The administrative assistance practice of the FMA was discussed in detail in the 2006 Annual Report (pages 18 et seqq.). It changed during the year 2007 in particular due to entry into force of the MAA. Under the MAA, administrative assistance must be accelerated, so that the stages of appeal have also been reduced. The principle of the “long arm” has also been weakened. The same is also true with respect to administrative assistance under the Banking Act. Administrative assistance under the MAA has also discontinued the practice of prohibiting administrative assistance to financial market supervisory authorities that must make the received information public after additional internal clarifications and filing of a lawsuit (litigation release).

Administrative assistance statistics

In the reporting period, 20 requests for administrative assistance (+33 % over the previous year) were submitted by foreign authorities to the FMA. Of these 20 requests, 17 were pursuant to the MAA, while 3 were based on the institution-specific specialized legislation. In 4 cases, the FMA decrees were appealed. In the reporting period, the Administrative Court considered 3 appeals and confirmed the FMA decrees in all 3 cases.

The FMA was able to conclude 14 administrative assistance cases in the reporting period, 3 of which concerned requests from 2006.

Figure 32: Authorities requesting administrative assistance relating to market abuse, 2007
(number of requests)



2.2 Insurance Supervision

2.2.1 Completed regulatory projects as of 31 December 2007

Implementation of the EU Financial Conglomerates Directive (2002/87/EC)

Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate and amending Council Directives 73/239/EEC, 79/267/EEC, 92/49/EEC, 92/96/EEC, 93/6/EEC and 93/22/EEC, and Directives 98/78/EC and 2000/12/EC of the European Parliament and of the Council has been implemented into Liechtenstein law with the Financial Conglomerates Act (FCA, LGBl. 2007 No. 275) and the Financial Conglomerates Ordinance (FCO, LGBl. 2007 No. 281), both of which entered into force on 1 November 2007.

The supervision of conglomerates is supplementary to the applicable sectoral supervision. The supplementary supervision applies to individual sectors (banks, insurance undertakings, management companies of investment undertakings,

investment firms, and asset management companies) and refers to a group of undertakings that constitute a financial conglomerate.

The supplementary supervision applies to a group of undertakings consisting of a parent undertaking, its subsidiaries, and the subsidiaries in which the parent undertaking (or its subsidiaries) have holdings; undertakings are also deemed to be a group which are connected to each other through a relationship that requires consolidated accounting. To fall within the scope of supplementary supervision, the enterprise group must constitute a financial conglomerate, i.e., it must predominantly operate in the financial sector. The Act describes the individual criteria and preconditions for such a financial conglomerate to exist; in particular, threshold values are also specified that must be fulfilled so that a group is considered to be a financial conglomerate subject to supervision.



The goal of the Act is to monitor the financial situation of financial conglomerates. The primary task is to monitor capital adequacy. It must be ensured that own funds of a particular amount are always available at the level of the financial conglomerate. Additionally, risk concentrations within the financial conglomerate must be avoided, and intra-group transactions are supervised.

By appointing a coordinator as the competent authority for supplementary supervision, cooperation among the supervisory authorities concerned is facilitated, and it is clarified which responsibilities are assigned to each supervisory authority with respect to supplementary supervision.

The FMA is envisaged as the competent authority for supplementary supervision at the level of financial conglomerates.

Amendment of the FMA Fee Ordinance

An ordinance dated 18 December 2007 (LGBl. 2007 No. 355) amended the Ordinance of 21 December 2004 on the Levying of Supervision

Taxes and Fees according to the Financial Market Authority Act (FMA Fee Ordinance; LGBl. 2004 No. 288).

The annual supervision tax for insurance intermediaries now encompasses a basic tax of CHF 1'000 for natural persons and CHF 2'000 for legal persons. A supplemental tax of CHF 200 for each natural person entered into the register is levied.

The fee for issuing a license to insurance intermediaries was raised to CHF 1'000 for natural persons and CHF 2'000 for legal persons. Additionally, an amount of CHF 200 is levied for each employer engaged in insurance mediation.

The amendment to the FMA Fee Ordinance entered into force on 1 January 2008.

2.2.2 Pending regulatory projects as of 31 December 2007

Implementation of the EU Reinsurance Directive (2005/68/EC)

With the implementation of the Reinsurance Directive 2005/68/EC, new supervisory provisions for professional reinsurance undertakings engaging in pure reinsurance activities are being introduced in Liechtenstein. Until now, such reinsurance undertakings have been supervised according to the supervision legislation for direct insurance undertakings. This will continue to be the case with respect to licensing conditions. However, the supervisory rules for the monitoring of reinsurance undertakings will be strengthened, and the special features of different types of reinsurance contracts or classes of business will be taken into account.

With the implementation of the Reinsurance Directive, reinsurance undertakings will, like direct insurance undertakings, receive a “single passport” for cross-border activities throughout the European Economic Area. Existing “safeguard systems” in individual States will be abolished. With respect to the capital investments of reinsurance undertakings, the “prudent person principle” will be introduced.

This directive will be implemented by way of amendment of the Insurance Supervision Act and in particular the Insurance Supervision Ordinance. In parallel with implementation of the Reinsurance Directive, the applicable supervision legislation will be specified in more detail and optimized.

Due to the question of regulation of various specialized topics, in relation to which the directive grants Member States different implementation options, the preparation of the legislative proposal has been delayed and is now expected to be circulated for consultations in February 2008. Entry into force is planned for 1 January 2009.

Implementation of the Fifth EU Motor Insurance Directive (2005/14/EC)

The Fifth EU Directive relating to insurance against civil liability in respect of the use of motor vehicles (2005/14/EC) does not have an object of its own, but rather essentially updates, modernizes, and further specifies the existing motor insurance directives. The directive focuses on redefining minimum amounts of cover for compulsory insurance against personal injuries and damage to property, improving the insurance protection of pedestrians, cyclists, and other non-motorized users of the road, accelerating the settlement of claims through the electronic provision of acci-

dent data, and facilitating the change of insurers, the procurement of temporary insurance protection in the case of a time-limited stay in a foreign country, and the insurance on short notice of motor vehicle purchases outside the country of residence of the owner. In addition, the directive includes additional specifications to close existing gaps.

Implementation of the directive will likely be effected by amendment of the Road Traffic Act and the associated ordinances. Because of the close similarity to the legal provisions in Switzerland and the almost 100% coverage of the domestic motor vehicle insurance market by Swiss insurance undertakings, the developments in Switzerland will be observed closely.

Solvency II

On 10 July 2007, the European Commission presented a Proposal for a Directive of the European Parliament and Council on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II).

The proposed Solvency II directive codifies the existing insurance directives, but also introduces additional provisions that reflect the new solvency system. This system focuses less on the individual risks than on a holistic system of overall solvency. In addition to quantitative aspects – whether, for instance, sufficient solvency capital is available – Solvency II focuses on qualitative aspects, such as the availability of adequate risk management within the undertaking. The goal of Solvency II is to improve the protection of consumers, to modernize supervision, to deepen the integration of the markets, and to improve the international competitiveness of European insurers. Under the new system, insurers and reinsurers will be re-

quired to take all types of risks into account and to manage them more effectively. Under Solvency II, insurers and reinsurers will have the choice of whether to calculate the solvency capital requirements using a European standard formula or pursuant to an internal model. Additionally, insurance groups will be placed under the supervision of a group supervisor, enabling better monitoring of the entire group.

In mid-2008, the FMA will define a plan to implement Solvency II into Liechtenstein law and launch the implementation.



2.3 Pension Funds Supervision

2.3.1 Completed regulatory projects as of 31 December 2007

Investment requirements for vested pension benefits at banks (article 30 OPO)

On 7 September 2007, revised article 30 of the Occupational Pensions Ordinance entered into force. This provision governs the investment requirements for vested pension benefits at banks. The insured person now has the option of investing his vested pension benefits in investment undertakings (funds) for transferable securities within the meaning of article 3(a) of the Investment Undertakings Act (IUA). Investing in investment undertakings for other values in accordance with article 3(b) is also permissible if the restrictions applicable to investment undertakings for transferable securities are complied with. Expressly excluded are investment undertakings for other values with higher risk in accordance with article 44 IUA. The amendment also introduces an express reporting requirement for banks, according to which they must transmit statistical data concerning vested pension benefit accounts to the FMA by 31 January of each year. Additionally, the funds offered under article 30 OPO must be reported to the FMA.

FMA Guideline 2008 / 1 – Verification of the association requirement under the Occupational Pensions Act

FMA Guideline 2008 / 1 on verification of the association requirement under the Occupational Pensions Act was adopted the end of 2007 and entered into force on 1 January 2008. This Guideline was issued by the FMA based on article 4a, paragraph 7 of the OPA in consultation with the Liechtenstein Old Age and Survivors' Insurance Authority. On the basis of this Guideline, the

AHV verified whether the employers within its authority are associated with a pension scheme in accordance with article 3, paragraph 1 OPA. The AHV will thus carry out a systematic verification of association for the first time. Association will be verified by the AHV upon registration of a new employer (initial verification), at the time of annual settlement of AHV contributions (periodic verification of association), and as part of employer verification. As before, the FMA is responsible for verification of reassociation – i.e. it verifies whether, upon cancellation of an association contract between an employer and a pension scheme, the employer has associated its eligible employees with another pension scheme.

Amendment of FMA Fee Ordinance

The FMA Fee Ordinance was amended with respect to occupational pensions by way of an ordinance adopted on 18 December 2007.

The annual supervision tax for pension schemes is now 0.01% of the balance sheet total, including the surrender value of collective insurance contracts, but at least CHF 3'000. The fee for specific activities such as placement under supervision is now between CHF 5'000 and CHF 10'000. Additionally, a new fee between CHF 1'000 and CHF 5'000 will now be levied for the merger or liquidation of pension schemes and for measures ordered to remedy deficiencies. The amount of the fee depends on the actual effort involved. A new fee of CHF 5'000 will also be levied for the recognition of auditing companies that do not already have a license under the Insurance Supervision Act, and a fee of CHF 2'000 for the recognition of pension insurance experts.

The amendment of the FMA Fee Ordinance entered into force on 1 January 2008.

2.4 Other Financial Service Providers Supervision

2.4.1 Completed regulatory projects as of 31 December 2007

Treaty violation procedure

The laws of 26 April 2007 amending the LA, the PTA, the PAA, and the AACA have taken into account the points criticized by the EFTA Surveillance Authority (ESA) with respect to incorrect implementation of the Diploma Recognition Directives 89/48/EEC and 92/51/EEC in the version of Directive 2001/19/EC (general system for the recognition of diplomas). The principle of the general system for the recognition of diplomas is that a professional meeting the qualifications for carrying out a profession in one Member State shall be deemed sufficiently qualified to carry out this profession in another Member State. In the case of professional education not harmonized with the EEA, a Member State may – while complying with certain procedural rules – require compensation steps, such as an aptitude test or adaptation period.

In its previous laws, Liechtenstein did not distinguish between the recognition of foreign training qualifications for first-time admission to the profession (academic recognition) and the recognition of already achieved admission to the profession in the home State (professional recognition). “Mixing” these two forms of recognition resulted in an accumulation of compensation steps (such as evidence of practical experience and passing of an aptitude test).

The ordinances on the examinations and aptitude tests for lawyers, professional trustees, and auditors have been amended in accordance with the new laws. An Ordinance on Aptitude Tests for Patent Attorneys from the European Economic Area was newly adopted. The amendments to the laws and ordinances entered into force on 6 July 2007.

2.4.2 Pending regulatory projects as of 31 December 2007

Amendment of the specialized ordinances with respect to change of residency requirement

On 23 May 2007, Parliament abolished the residency requirement for engaging in employment. For this reason, the provisions in conflict with the free movement of persons and the freedom of establishment (residency requirements) in the LA, PTA, PAA, and AACA were repealed. The trigger for abolishing the residency requirements for engaging in employment was the most recent jurisprudence of the EFTA Court and the treaty violation procedure initiated against Liechtenstein by the EFTA Surveillance Authority (ESA). Against this background, the draft ordinances prepared by the OFSP Supervision Division envisage – like the aforementioned laws – an abolition of the provisions in conflict with the free movement of persons and the freedom of establishment. The ordinances amended in this respect will be transmitted to the Government for review at the beginning of 2008.

Implementation of the Professional Qualifications Directive 2005/36/EC

The Professional Qualifications Directive 2005/36/EC applies to all citizens of EEA Member States who want to engage in a regulated profession in an employed or self-employed capacity in another Member State than the one in which they acquired their professional qualification. The implementation of this directive aims to achieve a greater liberalization and facilitation of the temporary and occasional provision of services (free movement of services), greater automaticity, an improvement of the rules on the recognition of qualifications for the purpose of permanent settlement, and strengthened cooperation of the Member States with respect to the recognition of professional qualifications. The implementation deadline for EU States expired on 20 October 2007. The procedure for incorporating the directive into the EEA Agreement is currently underway.

Implementation of the Professional Qualifications Directive will be carried out by way of a total revision of the Law on the Recognition of Higher-Education Diplomas and Professional Qualifications (new title: “Professional Qualifications Act”, PQA) and in the various profession-specific laws, including the LA, PTA, and PAA. The AACA will not be amended for now, since the EU Commission is unclear as to whether the Statutory Audit Directive 2006/43/EC takes precedence over this directive. The ordinances on the LA, PTA, and PAA must be amended accordingly. The PQA is limited to regulation of the general system of recognition with respect to permanent residence in Liechtenstein. It applies subsidiarily to the regulated professions in this area, to the extent that questions of diploma recognition are not answered by the profession-specific laws. The

temporary cross-border provision of services is governed by the profession-specific laws.

The consultation period on amendment of the LA, PTA, and PAA expired on 30 November 2007. The first reading in Parliament is scheduled for spring 2008.

Implementation of the Statutory Audit Directive 2006/43/EC

Implementation of Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC aims to improve the reliability of annual financial statements of undertakings by defining minimum requirements for the statutory audit of annual financial statements and consolidated financial statements, thus achieving harmonization at a high level. The directive defines the responsibilities of auditors, independence requirements and codes of ethics, and minimum requirements on external quality assurance. The directive also re-

quires public supervision of statutory auditors and improves cooperation between supervisory authorities of the Member States. The FMA is envisaged as the competent authority for supervision of statutory auditors.

On 26 April 2007, Parliament assented to the decision of the EEA Joint Committee incorporating the Statutory Audit Directive into the EEA Agreement.

Implementation of the Third Money Laundering Directive 2005/60/EC

The implementation of the Third Money Laundering Directive 2005/60/EC adjusted the existing requirements relating to suppression of money laundering and terrorist financing to the 40 Recommendations of the Financial Action Task Force (FATF), which were extensively revised and expanded in June 2003. The following two areas are focuses of the implementation of the Third Money Laundering Directive: First, the Third Money Laundering Directive provides with respect to the substantive scope of application of due diligence law that any “business, professional or commercial relationship” of the persons subject to due diligence must be placed under the due diligence regime. The current substantive scope of application of Liechtenstein due diligence law, which currently is limited to “financial transactions and transactions equivalent to financial transactions” (article 4 DDA) is thus significantly expanded. Second, by introducing a threshold, the Third Money Laundering Directive now provides in connection with the identification of the beneficial owner the option that only persons owning or controlling more than 25% of the assets in question must be identified as beneficial owners.



REGULATION

The directive will be implemented by amending the Due Diligence Act, the Due Diligence Ordinance, and FMA Guideline 2005 / 1 on monitoring of business relationships. The goal is to circulate the draft amendments for consultations in spring 2008.

Implementation of the PEP Directive 2006/70/EC

The PEP Directive 2006/70/EC is a Commission Directive implementing the Third Money Laundering Directive. It specifies the technical aspects of the definition of “politically exposed persons” (PEPs). The PEP Directive also contains technical criteria for determining whether only a minor risk of money laundering or terrorist financing exists and therefore a simplified customer due diligence procedure can be applied. Finally, it also specifies technical criteria for determining whether it is justified in certain cases to exempt certain legal or natural persons from the scope of the Third Money Laundering Directive if they conduct financial activities only on an occasional or very limited basis.

On 26 April 2007, Parliament assented to the decision of the EEA Joint Committee incorporating the PEP Directive into the EEA Agreement. Implementation of the PEP Directive is linked to implementation of the Third Money Laundering Directive and will be carried out by amending the Due Diligence Act and Due Diligence Ordinance.

Implementation work in connection with Regulation (EC) No. 1781/2006 on cross-border payments

With the help of provisions applicable to all payment service providers involved in a transfer of funds, Regulation (EC) No. 1781/2006 aims to ensure the traceability of such transfers. While the service provider of the payer must ensure that complete, accurate, and meaningful information on the payer is transmitted with every transfer of funds, every intermediary payment service provider must ensure that all transmitted payer data is forwarded or appropriately stored. The payment service provider of the payee must be able to determine if any payer information is missing upon receiving a transfer and take appropriate countermeasures to ensure that incoming transfers of funds do not remain anonymous.



Values, convictions and motives define cooperation.

In the context of Liechtenstein's close ties with Switzerland under the Currency Treaty, article 17 of Regulation (EC) No. 1781/2006 is of particular interest. According to this provision, it may be possible under clearly defined conditions to conclude an agreement with Switzerland that would allow transfers of funds between the Principality of Liechtenstein and Switzerland to be treated as domestic transfers, so that only simplified payer data would have to be transmitted in the case of such transfers. Efforts in this regard are currently underway.

On 20 September 2007, Parliament assented to the decision of the EEA Joint Committee incorporating Regulation (EC) No. 1781/2006 into the EEA Agreement. In principle, EU regulations are immediately applicable upon incorporation into the EEA Agreement, without the need for implementation by domestic authorities. However, regulations may entail the need for legislation if, for instance, they demand special punishments for violations at the national level, as is the case with Regulation (EC) No. 1781/2006. The necessary implementation efforts are linked to the implementation of the Third Money Laundering Directive and will be carried out by amending the Due Diligence Act and Due Diligence Ordinance.

Implementation of the Services Directive 2006/123/EC

Directive 2006/123/EC of the European Parliament and of the Council of 12 December 2006 on services in the internal market creates a general legal framework for all services provided for remuneration, with the exception of certain specified areas (e.g. financial services). The Services Directive 2006/123/EC serves to eliminate legal and administrative obstacles to the movement of services between Member States and pursues four main objectives:

- facilitating the freedom of establishment and the free movement of services between Member States;
- strengthening the rights of recipients of services;
- improving the quality of services;
- creating effective administrative cooperation between Member States.

A current object of clarifications is the broadly defined scope of application of this directive. The OFSP Supervision Division is investigating in particular whether the profession-specific laws on lawyers, professional trustees, patent attorneys, and auditors are affected by the implementation.



*Our network of domestic
and foreign partners
leads to high-value
solutions.*

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

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

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

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

We inform our stakeholders transparently and proactively.

We inform the public about our activities.

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

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

EXTERNAL RELATIONS

3.1 National External Relations

General

At the national level, the FMA continued to maintain a vibrant dialogue with practitioners in the field in 2007. The mutual interest of the FMA and of the business associations, financial market participants, and other interested circles in a dialogue manifested itself again in 2007 in a tight inclusion of these groups in regulatory projects and in the participation of the FMA in sector-specific projects. In addition, the staff members of the FMA gave numerous lectures and training sessions on topics specific to the financial market, especially in connection with various courses of study at the Liechtenstein University of Applied Sciences. Again in 2007, this dialogue made an important contribution to securing the quality and stability of the financial center.

Enhanced cooperation with business associations and authorities

This year, the FMA increasingly sought out cooperation with the various associations active in the financial market. In particular, regular meetings and workshops took place. The goal of this enhanced cooperation is to create a discussion platform both for the business associations and the FMA, where current supervision topics as well as developments and needs of the financial center can be discussed and experiences can be exchanged.

In addition, the FMA sought to strengthen contacts with other domestic authorities, in order to optimize interfaces and shorten "long channels" with a view to efficiency and effectiveness in the interest of the authorities, but also of the market participants.



3.2 International External Relations

General

The promotion of international cooperation and information exchange is a very important concern of the FMA. The FMA's goal, in addition to participation in international bodies, is especially to intensify contacts with the most important supervisory authorities for Liechtenstein financial intermediaries in Europe, the Middle East, and the Asian financial centers, in order to support the market expansion of Liechtenstein companies.

Global cooperation

At the global level, the FMA further deepened cooperation and information exchange especially relating to the fight against money laundering and terrorist financing (FATF/Moneyval), insurance supervision (International Association of Insurance Supervisors, IAIS), pension fund supervision (International Organization of Pension Supervisors, IOPS), and securities supervision (International Organization of Securities Commissions, IOSCO). As part of the IMF assessment, the

FMA worked together very intensively with the International Monetary Fund (IMF).

Participation in Moneyval

The Moneyval committee of the Council of Europe is a subgroup of the Financial Action Task Force (FATF), a so-called FATF Style Regional Body, FSRB. Moneyval is dedicated to the fight against money laundering and terrorist financing. This is implemented primarily by carrying out mutual on-site evaluations in Moneyval Member States. Liechtenstein had been evaluated twice so far, in 1999 and 2002. In 2007, the 3rd evaluation round took place together with the IMF assessment. The Moneyval country evaluations on compliance with the 40+9 FATF Recommendations are carried out by experts appointed by the individual Member States. To ensure a uniform standard in this regard, Moneyval regularly organizes evaluator trainings. In the reporting year, three staff members of the OFSP Supervision Division had the opportunity to take part in these training sessions. The head of the OFSP Supervision Division also regularly participated in meetings of the Moneyval committee.

IMF assessment 2007

From 21 March to 4 April 2007, the 2nd assessment by the International Monetary Fund (IMF) took place in the Principality of Liechtenstein. The IMF is committed to the promotion of international cooperation in the field of monetary policy and the stabilization of international financial systems. Against this background, assessment procedures are intended to identify and remedy weaknesses in the financial systems of the participating States. The second assessment procedure in Liechtenstein was based on the 40 Recommendations and 9 Special Recommendations of the

Financial Action Task Force (FATF) and the international standards for banking, insurance, and securities supervision. As part of the evaluation of securities supervision, the progress of banking and securities supervision on the basis of the IMF assessment in 2002 was evaluated. The same international standards as in 2002 were evaluated (Basel Core Principles of the Basel Committee on Banking Supervision and the standards of the International Organization of Securities Commissions (IOSCO) on securities supervision). A new evaluation was carried out with respect to Liechtenstein's anti-money-laundering and counter-terrorist-financing measures, since the 40 Recommendations of the FATF from 2003 had been totally revised and tightened. Publication of the IMF's final reports is expected in early 2008.

Membership in the International Organization of Pension Supervisors

The creation of Liechtenstein's pension funds legislation in January 2007 aims to build up an internationally recognized pension funds location. Thanks to Liechtenstein's EEA membership, recognition within the EEA is guaranteed. To give Liechtenstein pension funds access to foreign markets outside the EEA as well, worldwide recognition of the FMA as the supervisory authority for pension funds must be ensured. The FMA therefore applied for membership in IOPS. IOPS is an independent international organization representing the authorities responsible for supervision of private pension funds. IOPS works closely together with other international organizations involved in the development of and dialogue on pension supervision issues, such as the OECD, the World Bank, the IAIS, and the IMF. The FMA will be accepted as a regular member of IOPS in 2008.

Membership in the International Organization of Securities Commissions (IOSCO)

IOSCO is the international umbrella organization of securities and stock exchange supervision authorities. Membership in this organization would grant FMA, and thus indirectly the Liechtenstein financial center, the recognition necessary for the worldwide provision of investment services, especially the trade in transferable securities. To achieve this recognition and therefore to be able to maintain the global activities of Liechtenstein financial intermediaries, the FMA is striving to join IOSCO. Initial talks have already taken place in this connection.

European cooperation

Within the framework of Liechtenstein's EEA membership, representatives of the FMA took part in the following EU bodies in 2007:

- Committee of European Banking Supervision (CEBS) including Groupe de Contact
- Committee of European Insurance and Occupational Pension Supervisors (CEIOPS)
- European Banking Committee (EBC)
- European Insurance and Occupational Pensions Committee (EIOPC)
- European Securities Committee (ESC)

At the EFTA level, the FMA participated in meetings of the Working Group on Financial Services (WGFS) and the EFTA Board of Auditors (EBOA). The FMA also represented Liechtenstein in the Council of Europe Development Bank (CEB).

Bilateral cooperation

In 2007, the primary focus of bilateral relations was on cooperation and exchange of experiences with German-speaking supervisory authorities. In this connection, the FMA served for the first time as host of the annual meeting of the integrated financial market authorities of Germany, Austria, Switzerland, and Liechtenstein (DACHL), where the representatives of these authorities exchanged views on current topics of supervision.

Moreover, contacts were established with the supervisory authorities in Dubai, Singapore, and China, in order to allow Liechtenstein financial intermediaries to take up business in the Middle East and Southeast Asia. Of particular note is the successful conclusion of a Memorandum of Understanding (MoU) with the China Securities Regulatory Commission (CSRC).

Direct Insurance Agreement between Liechtenstein and Switzerland

The FMA and the competent Swiss supervisory authority, the Federal Office of Private Insurance, represent the two States Parties of the Direct Insurance Agreement (Agreement between the Principality of Liechtenstein and the Swiss Confederation concerning Direct Insurance of 19 December 1996, LGBl. 1998 No. 129).

The Joint Commission and its Working Group dealt with important agenda items in 2007. In the reporting year, a special focus was on preparation of a proposal to extend the Direct Insurance Agreement to insurance intermediaries, in order to allow them to engage in cross-border activities analogous to insurance undertakings in the other country. On 1 July 2006, the Law of 17 May 2006 on Insurance Mediation (Insurance Mediation Act, IMA; LGBl. 2006 No. 125)

entered into force. Pursuant to the IMA, insurance intermediaries are subject to a licensing and registration requirement. As part of the revision of Swiss insurance supervision law, a registration requirement for (independent) insurance brokers was also introduced on 1 January 2006. Without an extension of the Direct Insurance Agreement, cross-border activities in Switzerland of insurance intermediaries registered in Liechtenstein and vice-versa, analogous to insurance undertakings, had not been possible.


The amendment to the Direct Insurance Agreement basically provides that, given the existing equivalence of supervision law relating to insurance mediation in Switzerland and Liechtenstein, cross-border activities of insurance intermediaries should be permitted, and the obstacles to taking up and pursuing mediation activities in the territory of the other country should be eliminated on the basis of reciprocity, in order to permit freedom of establishment and provision of services for insurance intermediaries limited to the territories of the two States. Only those intermediaries fall

within the scope of the agreement who have been licensed in Switzerland or in Liechtenstein or who are entered in the respective register.

Due to the urgency of the proposal, the amendment to the agreement could not be presented to Parliament pursuant to the normal approval procedure. The amendment entered into force provisionally on 1 July 2007. In spring 2008, the Government will present Parliament with the Report and Application for regular approval.

Furthermore, the Working Group and the Joint Commission again discussed the question of the activities of Liechtenstein insurance undertakings in Switzerland in the field of tax privileged pension products provision, in order to permit Liechtenstein insurance undertakings to distribute 3a products also by virtue of free movement of services. Other questions and problematic cases relating to cross-border activities were also discussed in the reporting year.



A black and white portrait of a man with dark, curly hair and glasses perched on his head. He is looking directly at the camera with a neutral expression. The background is dark and out of focus.

*A professional authority
is characterized by a
high degree of service-
orientation.*

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

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

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

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

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

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

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

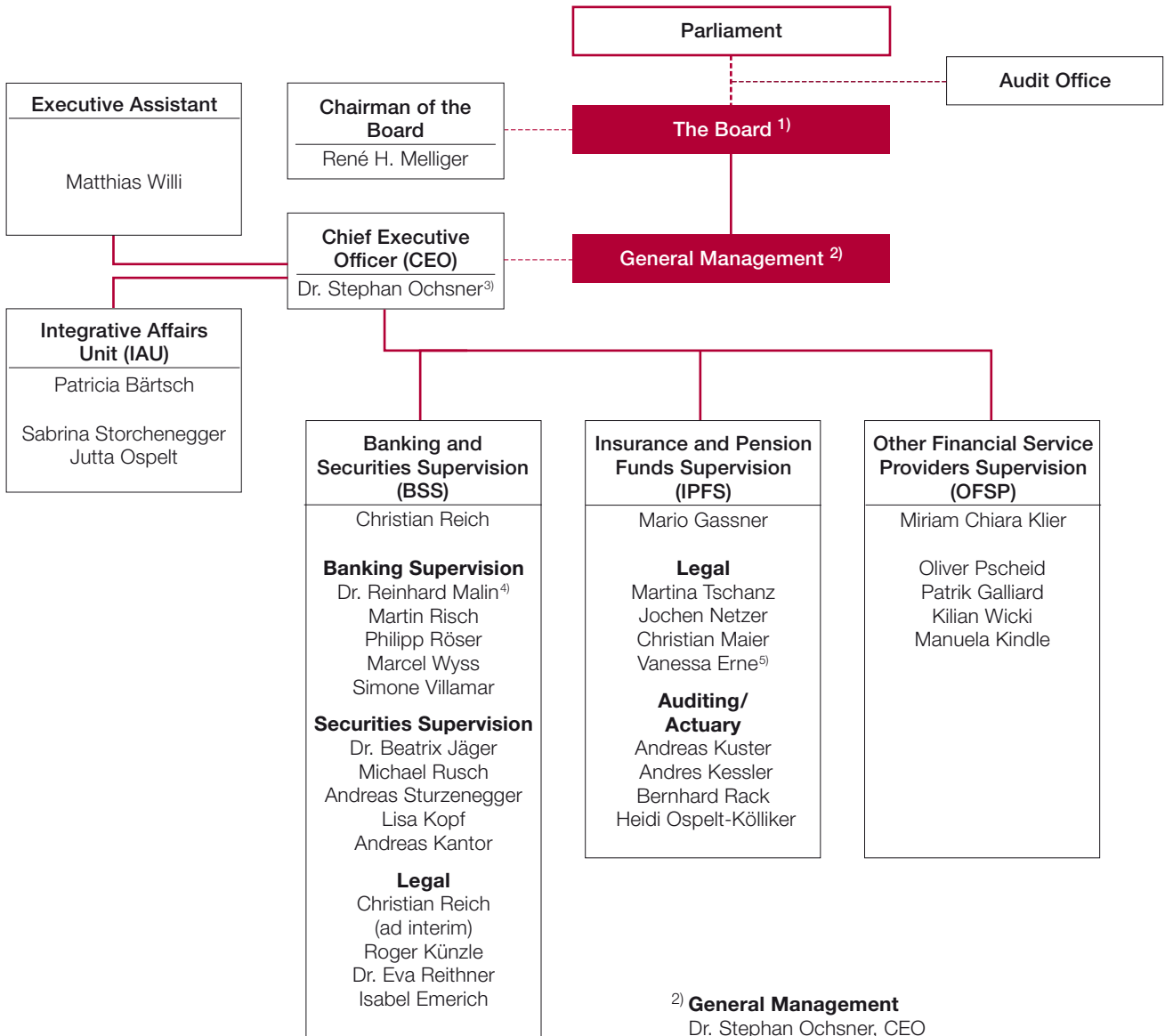
We work efficiently and effectively and only invest resources where necessary and justifiable.

We are open to change.

We are oriented toward the future and develop sustainable solutions.

We strive for full funding by the financial market participants.

Figure 33: Organizational structure of the Financial Market Authority (FMA) Liechtenstein as of 31 December 2007



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

2) General Management
 Dr. Stephan Ochsner, CEO
 Mario Gassner, Deputy of the CEO
 Christian Reich
 Miriam Chiara Klier

Exits
³⁾ Dr. Stephan Ochsner effective 30.04.2008
⁴⁾ Dr. Reinhard Malin effective 29.02.2008
⁵⁾ Vanessa Erne effective 31.12.2007

In the third year of operations of the FMA, the implementation of entrepreneurial principles was continued. Due to the growth and evolution of the FMA, individual adjustments to the organizational and operational structure of the FMA became necessary.

4.1 Divisions

Banking and Securities Supervision (BSS) Division

The staff of the Banking and Securities Supervision Division has grown considerably since the operational launch of the FMA. The causes include numerous new supervisory duties and a high volume of day-to-day business. The former organizational and operational structure could no longer meet the increased demands.

It was therefore decided to adapt the organizational and operational structure to the changing requirements. The goal of the restructuring was to improve quality through specialization, clear prioritization of enactments and supervision, relief of management, and increase in performance.

As of 1 September 2007, a Legal Section was established within the Banking and Securities Supervision Division, in addition to the existing Banking Supervision Section and the Securities Supervision Section. The position of head of division was successfully filled by the end of 2007, and three former legal officers in the Banking Supervision Section were integrated into the newly created Legal Section.

Other Financial Service Providers (OFSP) Supervision Division

After the previous head of the OSFP Supervision Division left the FMA for family reasons (maternity), the position was filled on 1 July 2007 by Ms. lic. iur. HSG Miriam Chiara Klier, formerly Head of the Integrative and International Affairs Unit. Ms. Klier was simultaneously appointed as a Member of the General Management.

Insurance and Pension Funds Supervision (IPFS) Division

Also due to an exit from the FMA, the position of Head of the Legal Section within the Insurance and Pension Funds Supervision Division had to be filled. The position was filled with a previous staff member in the Legal Section, Ms. lic. iur. Martina Tschanz.

4.2 Integrative Units

Integrative Affairs Unit

After the merger of the Central Services Unit and the Integrative and International Affairs Unit into a single unit in 2006, an organizational restructuring again became necessary in 2007. Due to the changed needs of the internal stakeholders and the growth of the FMA, a shift of the operational focus from originally mainly legal and international activities to primarily organizational and administrative issues was undertaken.

Effective 1 September 2007, all international issues were transferred to the individual divisions, and the unit was renamed Integrative Affairs Unit (IAU). The main integrative responsibilities of the IAU include human resources, accounting, the administration of moveable property and IT, and

general administrative and organizational duties for all organizational units of the FMA.

The centralization of numerous tasks in the IAU previously distributed among the individual divisions was successfully expanded in the reporting year.

Due to the appointment of Ms. lic. iur. HSG Miriam Chiara Klier as Head of the Other Financial Service Providers Supervision Division and as a Member of the General Management, the position of Head of the IAU was filled internally by Ms. Patricia Bärtsch. The positions of two business administration staff members were immediately advertised, in order to complete the staffing requirements of the IAU and prepare the unit for its new operational focus areas.

A three-year position approved by Parliament in November 2006 was successfully filled in March 2007. This position grants a recent university graduate the opportunity to gain insight into the diverse activities of the FMA and the Liechten-

stein financial center through alternating assignments in all operational divisions of the FMA.

Executive Assistant

After conclusion of the initial phase of the Strategy project in August, a staff member from the IAU was transferred to dedicate himself fully to the implementation and administration of the defined strategic initiatives. For this purpose, a new position of Executive Assistant reporting directly to the CEO was created, which was filled by the previous holder of the three-year position, Mr. Matthias Willi.

IMF assessment

The IMF assessment also represented a highlight of the 2007 business year for the IAU. After long and intensive preparations, the IAU was responsible for the smooth organizational execution of the assessment.

DACHL

From 11 to 14 September 2007, the four-country meeting of the representatives of insurance and banking supervisors of Germany, Austria, Switzerland, and Liechtenstein (DACHL) convened in Vaduz. For the first time, the FMA hosted this annual event. This DACHL meeting was of the utmost importance for the FMA, since topics of common interest were discussed at the highest level, so that the FMA could position itself accordingly. The IAU was responsible for the organizational preparation and execution of this event.



Accounting

Accounting serves as a basis for decision-making and as a management instrument for the General Management and the Board. According to the service agreement between the FMA and the Liechtenstein National Administration of November 2004, the FMA's accounting has been administered by the Office of Financial Accounting. On the basis of the experiences and insights from the first two business years, however, it became apparent that the opportunities afforded by this solution did not meet the FMA's requirements, especially with respect to evaluation and bases for decision-making. In autumn 2006, the Board therefore decided to set up an autonomous accounting system. This decision was to be implemented in the reporting year.

The objectives of autonomous accounting were to optimize processes, increase flexibility and independence from external offices, and enhance the timely execution of the evaluations and their appropriateness to the addressees. Additionally, an autonomous administration of invoicing aimed to ensure that the FMA would appear to financial intermediaries as a separate entity with respect to its invoices and fee orders.

Pursuant to the Board's decision in autumn 2006 to create a separate FMA accounting system, the FMA-internal accounting was introduced on schedule on 1 July 2007, after intensive preparations.

As a further step at the beginning of 2008, all liquid assets of the FMA will be transferred from the Office of Financial Accounting to the FMA for autonomous administration. A basic decision in this regard was taken by the Board in December 2007.



4.3 Finances

In its November 2006 session, Parliament approved the FMA's budget for the 2007 business year in the amount of CHF 7'270'000. According to article 29 of the FMA Act, the State contribution was CHF 3'950'000.

As in the first two business years of the FMA, the 2007 budget was met. The surplus of CHF 302'367 will be allocated to reserves. In comparison with the previous year, the State contribution was reduced, and the self-financing level was increased to 55 %.

ENTERPRISE

Balance sheet as of 31 December (in CHF)

Assets	2007	2006
Long-term assets		
Tangible fixed assets	270'660	398'000
Current assets		
Liquid assets	2'222'743	–
Accounts receivable	244'347	99'706
Receivables from the State	1'639'921	3'208'298
Accrued items		
Accounts paid in advance	45'755	5'342
Total assets	4'423'426	3'711'345

Liabilities	2007	2006
Equity capital		
Endowment	2'000'000	2'000'000
Reserves as of 1 January	1'449'744	697'028
Allocation to reserves	302'367	752'715
Provisions		
Provisions	180'000	80'000
Accounts payable		
Accounts payable	346'103	–
Deferred items		
Accounts received in advance	145'212	181'602
Total liabilities	4'423'426	3'711'345

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

	2007	2006
Income		
Income from supervision taxes and fees	4'371'585	3'190'633
State contribution	3'950'000	3'959'000
Total income	8'321'585	7'149'633
Expenses		
Personnel expenses	5'996'775	4'890'447
Material expenses	1'892'121	1'376'550
Depreciation	130'323	129'918
Total expenses	8'019'218	6'396'915
Annual surplus	302'367	752'715

The 2007 annual account statement of the FMA was reviewed by the National Audit Office on the basis of the separate detailed 2007 business report and recommended to Parliament for approval.

Attestation of the National Audit Office



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

As the audit office within the meaning of articles 19 and 20 of the Law on the Financial Market Authority (FMA Act), we have audited the accounting, the annual financial statement (balance sheet, income statement, and notes) and the business report of the Financial Market Authority Liechtenstein (FMA) for the business year ending 31 December 2007.

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


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


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

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

We recommend that the present annual financial statement be approved.

NATIONAL AUDIT OFFICE
of the Principality of Liechtenstein


Cornelia Lang
Director


Oliver Hermann
Certified Public Accountant

Vaduz, 14 March 2008

Enclosure:

- Annual financial statement (balance sheet, income statement, and notes)
- Business report

4.4 Public Outreach

Again in 2007, the FMA met its legislative mandate to inform the public on its supervisory activities by way of various media.

FMA Annual Report 2006

The FMA presented its detailed annual report on its second operational business year to the public in April 2007. The report met with a very positive response. A printed version of the annual report was made available in German and in English. At international meetings, the English version of the annual report helped the FMA convey a comprehensive picture of financial market supervision and the Liechtenstein financial center to the foreign partners of the FMA.

FMA Practice

For purposes of in-depth information on supervisory practice, the FMA also published its FMA Practice for the 2006 business year on its website in October 2007. The FMA Practice contains excerpts of important decisions and decrees of the FMA, of resolutions of the FMA Complaints Commission, and of judgments of the Administrative Court and Constitutional Court in an anonymized form, provided that they were of particular significance for the establishment of new supervisory practices or the further development of existing practices. This additional information platform serves the purpose of legal certainty and transparency with respect to the supervision of the Liechtenstein financial center as practiced by the FMA.




FMA website

On the FMA website (www.fma-li.li), the FMA continually provides financial intermediaries with updated information, instructions, fact sheets, and forms in German and English.

FMA Newsletter

The FMA regularly provides information on important events by way of the FMA Newsletter.



*A strong team is the basic
prerequisite for achieving
high-quality results.*

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

We are a team, actively valuing each other in our interactions and supporting each other.
We communicate openly and directly and provide active feedback.
We address conflicts and use them as an engine for progress.
We identify with our goals and responsibilities and are proud to make a contribution to success.
We are characterized by a strong willingness to perform.
We work within the framework of an attractive environment and cultivate a positive working climate.
We pay attention to our physical and mental health.
We actively support basic and continuing training and education.
We are role models, think and act in an entrepreneurial manner, and we distinguish ourselves with leadership, integrity, and social competence.

5.1 FMA Team

Also with respect to the FMA team, the year 2007 was characterized by ongoing development and adaptation of the FMA to the changing needs of the market. In the individual divisions and in the International Affairs Unit (IAU), there were various staffing changes (see also chapter on Enterprise).

Due to the enormous growth of assets under management, the number of financial market participants subject to supervision, and the new responsibilities of the FMA, an expansion of the FMA staff became necessary in the 2007 business year.

An adequate FMA staffing level is an important factor for the success of the Liechtenstein financial market. Only with adequate staffing is the FMA able to meet its responsibilities in a qualitatively satisfactory manner and thus fulfill its sovereign mandate.

Despite three newly created positions, the FMA was able to manage the strong growth as well as several maternity leaves only thanks to the ex-

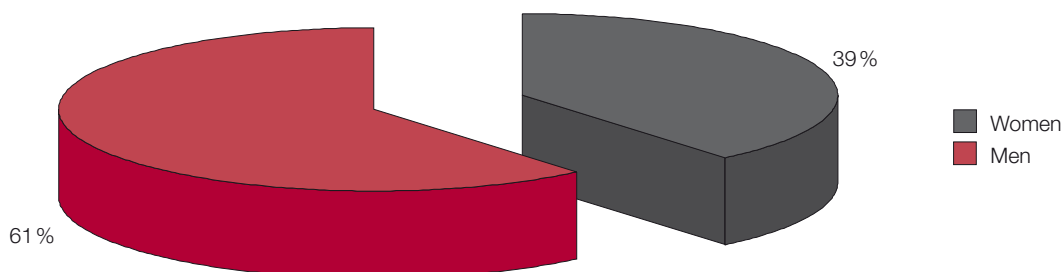
traordinary efforts of its staff members and the additional employment of interns. In its November 2007 session, Parliament also noted that the FMA fulfills its responsibilities under difficult conditions, and that the staffing level is insufficient in light of growth in numerous areas. At the same time, Parliament supported the staff expansion of the FMA in 2008 by approving the 2008 FMA budget.

Staff figures

In addition to the full-time Chairman of the Board, 30 permanent employees, 3 temporary employees (for a total of 28.8 full-time equivalents) and 12 interns (a total of 9.5 full-time equivalents) worked for the FMA as of 31 December 2007. Accordingly, the staff level of the FMA was 28.8 full-time equivalents, an increase of 2.8 since the operational start of the FMA on 1 January 2005.

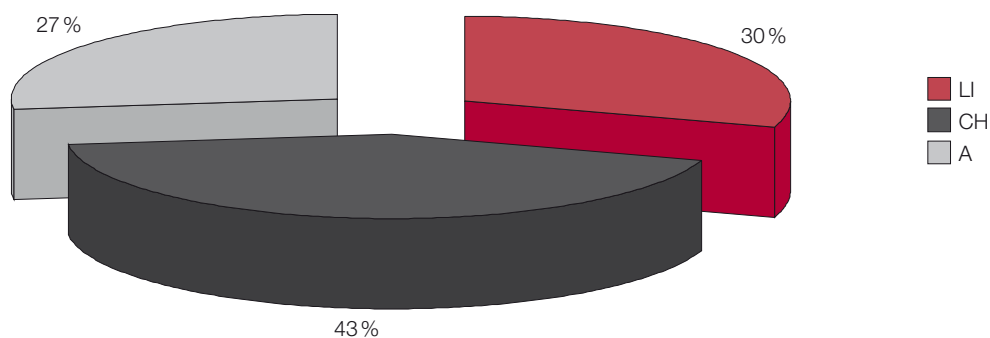
As of the end of 2007, 13 female and 20 male staff members were permanently or temporarily employed with the FMA, in addition to the Chairman of the Board.

Figure 34: Gender distribution of the FMA team



Among the staff members employed, there were 10 Liechtenstein citizens, 14 Swiss citizens, and 9 Austrian citizens. Approximately one third of the FMA staff are therefore Liechtenstein citizens.

Figure 35: Citizenship of the FMA team



In addition to employees with permanent positions, a total of 19 interns worked in various divisions of the FMA over the course of the year for several months. These interns were graduates of law and business administration at universities in Liechtenstein and abroad as well as persons with commercial training. The FMA allowed these young professionals to gain in-depth insight into the activities of a financial market supervisory authority and to work actively on current projects. The interns especially valued the practice-oriented work and the status of the FMA as a good reference for their personal careers.

In 2007, 6 staff members left the FMA. Two exits were due to family reasons (maternity). The other four staff members found new challenges in the private sector. In these cases, it became apparent that the FMA is regarded very highly as a reference by human resource officers in the private sector. All vacant positions were successfully filled.

TEAM

Team development

To promote team spirit and as a sign of recognition and appreciation of the efforts of FMA staff members, various staff events took place in the reporting year.

As set out in the FMA Vision, the FMA's work makes a contribution "to the welfare of the country of Liechtenstein". Since many staff members of the FMA are not from Liechtenstein, but rather from neighboring regions, the General Management has set out the goal of expanding the team's knowledge of the special characteristics of the country. A weekly newsletter with trivia and news in the areas of culture, history, geography, sports, politics, and customs in Liechtenstein has been introduced for this purpose

5.2 Specialized Training

The specialized training of staff members was again actively promoted in the 2007 business year. The active promotion of staff member expertise is an important prerequisite for ensuring a functioning and proactive supervision.

Apprenticeships

The FMA offers 6-month traineeship positions for commercial apprentices within the Liechtenstein National Administration. In 2007, a total of 5 apprentices gained insight into the activities of the individual divisions and the IAU during their work for the FMA.



Patricia Bärtsch



Martin Batliner



Rebecca Emberson



Stefan Jaeger



Beatrix Jäger



Andreas Kantor



Sandra Madlener



Bettina Mähr



Christian Maier



Christian Reich



Eva Reithner



Martin Risch



Martina Tschanz



Simone Villamar



Kilian Wicki

TEAM



Isabel Emerich



Patrik Galliard



Selina Gartler



Mario Gassner



Gregor Gmeiner



Jochen Hadermann



Hans Haumer



Andres Kessler



Manuela Kindle



Miriam Chiara Klier



Lisa Kopf



Roger Künzle



Andreas Kuster



Dalia Längle



René H. Melliger



Jochen Netzer



Stephan Ochsner



Heidi Ospelt



Jutta Ospelt



Oliver Pscheid



Bernhard Rack



Philipp Röser



Michael Rusch



Martin Schädler



Bianca Seemayer



Regula Sieber



Sabrina Storchenegger



Andreas Sturzenegger



Matthias Willi



Marcel Würmli



Marcel Wyss

As of 1 March 2008

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Abbreviations

A	Austria/Austrian nationality
AACA	Auditors and Auditing Companies Act
AFM	Autoriteit Financiële Markten (Netherlands)
AG	Aktiengesellschaft (company limited by shares)
AHV/IV	Alters- und Hinterlassenenversicherung/Invalidenversicherung (Old Age and Survivors' Insurance/Disability Insurance)
AMA	Asset Management Act
AMC	Asset Management Company
AMF	Autorité des Marchés Financiers (France)
AMO	Asset Management Ordinance
approx.	Approximately
art.	Article
BaFin	Bundesanstalt für Finanzdienstleistungsaufsicht (Germany)
BCSC	British Columbia Securities Commission
BD	Board of Directors
BIA	Law on Insurance Protection of Buildings against Fire Damage and Elementary Loss (Building Insurance Act)
CAO	Capital Adequacy Ordinance
CEB	Council of Europe Development Bank
CEBS	Committee of European Banking Supervisors
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
CEO	Chief Executive Officer
CESR	Committee of European Securities Regulators
cf.	confer (compare)
CFTC	Commodity Futures Trading Commission
CH	Switzerland/Swiss nationality
CHF	Swiss francs
CNMV	Comisión Nacional del Mercado de Valores (Spain)
CSRC	China Securities Regulatory Commission
CSSF	Commission de surveillance du secteur financier (Luxembourg)
DACHL	Four-Country Meeting of the German-Language Supervisory Authorities
DDA	Law on Professional Due Diligence in Financial Transactions (Due Diligence Act)
DDO	Due Diligence Ordinance
Dr.	Doctor
EBC	European Banking Committee
EBOA	EFTA Board of Auditors
EC	European Community
ECJ	European Court of Justice
EEA	European Economic Area

ABBREVIATIONS

EEC	European Economic Community
EFTA	European Free Trade Association
e.g.	exempli gratia (for example)
EIOPC	European Insurance and Occupational Pensions Committee
ESA	EFTA Surveillance Authority
ESC	European Securities Committee
et seqq.	et sequentes (and following)
etc.	et cetera
EU	European Union
EUR	Euros
FAMAo	Financial Analysis Market Abuse Ordinance
FATF	Financial Action Task Force
FCA	Financial Conglomerates Act
FCMC	Financial and Capital Market Commission
FCO	Financial Conglomerates Ordinance
FIU	Financial Intelligence Unit
FL	Fürstentum Liechtenstein (Principality of Liechtenstein)
FMA	Financial Market Authority Liechtenstein
FMAA	FMA Act
FMA-BK	FMA-Beschwerdekommission (FMA Complaints Commission)
FSAP	Financial Services Action Plan
FSRB	FATF Style Regional Body
GM	General Management
GmbH	Gesellschaft mit beschränkter Haftung (limited liability company)
IAIS	International Association of Insurance Supervisors
IAS	International Accounting Standards
IAU	Integrative Affairs Unit
ICAAP	International Capital Adequacy Assessment Process
i.e.	id est (that is)
IFRS	International Financial Reporting Standards
IPFS	Insurance and Pension Funds Supervision
IMA	Insurance Mediation Act
IMF	International Monetary Fund
IMI	Internal Market Information System
IOPS	International Organization of Pension Supervisors
IORP	Institution for Occupational Retirement Provision
IOSCO	International Organization of Securities Commissions
ISA	Insurance Supervision Act
ISO	Insurance Supervision Ordinance
IT	Information Technology

IU	Investment Undertaking
IUA	Investment Undertakings Act
IUO	Investment Undertakings Ordinance
IUPF	Insurance Undertakings and Pension Funds
LA	Lawyers Act
LBA	Liechtenstein Bankers Association
LGBl.	Landesgesetzblatt (Liechtenstein Law Gazette)
lic. iur.	licentiatus iuris
MAA	Market Abuse Act
MAO	Market Abuse Ordinance
MC	Management Company
MiFID	Markets in Financial Instruments Directive
MoU	Memorandum of Understanding
No.	Number
OECD	Organization for Economic Co-operation and Development
OFSP	Other Financial Service Providers (Supervision)
OPA	Occupational Pensions Act
OPO	Occupational Pensions Ordinance
OPP	Office of the Public Prosecutor
PAA	Patent Attorneys Act
para.	Paragraph
PC-R-EV	Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures
PEP	Politically Exposed Person
PFA	Pension Funds Act
PFO	Pension Funds Ordinance
PGR	Personen- und Gesellschaftsrecht (Law on Persons and Companies)
PQA	Professional Qualifications Act
PSD	Payment Services Directive
PTA	Professional Trustees Act
RAS	Risk Assessment System
SEC	Securities Exchange Commission
SFBC	Swiss Federal Banking Commission
SPA	Securities Prospectus Act
StGB	Strafgesetzbuch (Criminal Code)
StGH	Staatsgerichtshof (Constitutional Court)
subpara.	Subparagraph
SWX	Swiss Exchange
Trust reg.	Trust registered
UCITS	Undertaking for Collective Investments in Transferable Securities
UK	United Kingdom

ABBREVIATIONS

UN	United Nations
US	United States
USA	United States of America
VGH	Verwaltungsgerichtshof (Administrative Court)
VuVL	Verein unabhängiger Vermögensverwalter in Liechtenstein (Association of Independent Asset Managers in Liechtenstein)
WGFS	Working Group on Financial Services
WPV	Liechtensteinische Wirtschaftsprüfervereinigung (Liechtenstein Association of Auditors)
WTO	World Trade Organization

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