FMA

Financial Market Authority
Liechtenstein

08

CONTENTS

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 past year saw many extraordinary events: The theft of client data from a trust company and the resulting tax affair in February, the criminal proceedings against the blackmailer of a major Liechtenstein bank, the investigation by the US Senate Permanent Subcommittee on Investigations (PSI) against a Liechtenstein bank in June / July, complex supervision cases of global import, and the worldwide financial crisis shaped the year 2008 in the Liechtenstein financial center. While formerly renowned financial institutions in many countries experienced enormous financial strains, threatening the worldwide financial system itself, one thing became clear: The Liechtenstein financial center is stable.

Already several years ago, Liechtenstein became active in questions concerning the financial center, and it sought and already largely implemented future-oriented solutions. The Liechtenstein financial center is regulated and supervised according to the internationally recognized standards. Other important reforms have been launched, in order to create the framework conditions that will help prepare financial intermediaries for the future.

During this time, the FMA also fulfilled its mandate and, within the scope of its responsibilities, made a contribution to the stability of the financial center and the protection of creditors.

The events on the financial markets since 2007 have shown that the financial world has changed. But after every storm, calmer times await the financial system. This also affords new opportunities. A new orientation is in the air, both globally and in Liechtenstein. Security will be of the utmost importance. Planning and action must be more forward-looking, in order to identify potential risks and relevant developments at an early stage. But any new orientation of the financial center should also preserve what has proven its worth.

The task for the future will be to master these challenges together. The FMA will make its contribution in this regard.

René H. Melliger
Chairman of the Board

Mario Gassner
CEO

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

International financial markets

More than a year and half has already passed since the outbreak of the global financial crisis. Already in summer 2007, the price drops on the US real estate market were reflected in substantial losses of value in several financial instruments. The confidence crisis in the interbank market entailed a rapid increase in the premiums for interbank loans. As a consequence, the crisis rapidly got worse and culminated in autumn 2008 with the bankruptcy of Lehman Brothers. Meanwhile, it has become clear that this is the worst financial crisis since the Great Depression in the 1930s, and that it is now fully impacting the global nonfinancial sector as well.

In recent months, governments and central banks worldwide have intervened to a previously unimaginable extent, in order to counter a further deterioration of the economy. In addition to state guarantees, the assumption of risk items, and recapitalizations – some of which have even amounted to nationalizations – many countries are now trying to revive economic demand by way of tax policy measures. After massive interest rate cuts, the central banks are employing hitherto unorthodox monetary policy instruments.

The totality of these measures appears to have had some impact and at least cushioned the downward spiral for now. Cautiously, some experts are citing certain indications that at least the lowest point of the crisis phase may have been reached. But even if this is the case, we should have no illusions about what must come next. Restoring confidence in the financial markets and health in the stricken economy will take a long time and be marked by setbacks.

By coordinating measures to revive the economy and crisis management at the European and G20 level, important steps have been initiated. The same also is true of the measures launched to reform the European and international architecture of supervision.

Liechtenstein financial market

2008 was an eventful year for the Liechtenstein financial center as well. The events were indeed dramatic and far-reaching. In the first half of 2008, the domestic and international focus was on the consequences of the data theft from Liechtenstein financial intermediaries. The middle of the year, accusations were leveled by the Permanent Subcommittee on Investigations of the US Senate, according to which Liechtenstein financial intermediaries had abetted tax evasion by US citizens. In the second half of 2008, these developments were joined by the worsening global financial crisis, the effects of which on Liechtenstein had to be monitored.

The international pressure on the Liechtenstein financial center was enormous. Enormous is also the decisiveness, however, with which all participants in the Liechtenstein financial center have confronted these challenges, as well as the efforts undertaken to find constructive solutions in cooperation with foreign countries – not least of all to protect the attribute that distinguishes the Liechtenstein financial center internationally, especially in the context of the current financial crisis: stability.

Compared with other countries, Liechtenstein financial intermediaries were rather successful in absorbing the impact of the current financial crisis, thanks to their largely conservative and disciplined investment and lending policies. Liechtenstein financial institutions continue to be distinguished by their solid core capital ratio and liquidity. Liechtenstein is therefore one of the few European countries that has so far not needed to adopt support measures for the financial sector. In an international environment where trust is becoming more important than ever for the client, these framework conditions will constitute a decisive competitive advantage in the future.

The FMA also focused its resources on making a contribution to these framework conditions. The events mentioned above also confronted the FMA with special challenges. The risks arising from these challenges have been actively managed by introducing meticulous investigations, intensive crisis monitoring, and the elaboration of plans of step-by-step measures. For this purpose, the FMA worked closely together with foreign partner authorities, which proved to be an important trust-building and stabilizing measure. Mutual information was provided on the results of crisis monitoring and the measures taken.

The enhanced activities of the FMA represented a great challenge in terms of resources – not only for the supervisory authority, but also for the supervised financial intermediaries, especially smaller companies. The early recognition and reaction to any risks that may endanger the stability of the financial center is, however, ultimately to the benefit of all market participants. Smoothly functioning cooperation will therefore continue to be of the utmost importance.

Table 1: Overview of development of net client assets under management as of 31 December 2008

in billion CHF	2004	2005	2006	2007	2008	Change in % 2007 / 2008
Banks / Investment firms	119.4	148.7	173.4	201.3	156.65	– 22
Investment undertakings (funds)	15.6	20.6	26.6	30.45	26.43	– 13
Asset management companies	–	–	11.2	21.52	18.96	– 12
Insurance undertakings	5.1	10.2	14.8	21.3	20.5[1]	– 4
Pension schemes	2.8	3.1	2.9	3.2	2.9[1]	– 9
Total[2]	**142.9**	**182.6**	**228.9**	**277.77**	**225.44**	**– 19**

1) Provisional figures for 2008
2) "Total" contains double counts, since the information for the banks also includes assets managed by other financial intermediaries (such as investment undertakings).

Table 2: Overview of financial market participants as of 31 December 2008

Financial market participants	2005	2006	2007	2008	Change in % 2007 / 2008
Banks / Investment firms	16	16	16	15	– 7
Asset management companies	–	48	90	102	13
Investment undertakings	166	208	303	363	20
Insurance undertakings	32	35	37	42	14
Insurance intermediaries	–	3	35	64	83
Pension schemes	41	39	36	34	– 6
Pension funds	–	–	2	4	100
Other financial intermediaries	1,314	1,372	1,373	1,411	3
Total	**1,569**	**1,721**	**1,892**	**2,035**	**8**

Market development / Licenses

Banks / Investment firms

The 15 Liechtenstein banks were likewise not entirely immune to the negative developments on the international financial markets. The results of normal business operations sank by 60 % relative to the record year of 2007 to CHF 336.8 million, which is, however, still a respectable result in light of the current situation of many other institutions. As a rule, income from fees and services as well as trading dropped, while interest income rose at most banks.

The decline in assets under management by 22 % to CHF 156.65 billion is also mainly due to the massive losses on the international financial markets. Some Liechtenstein banks recorded outflows of client assets as a consequence of the discussions concerning the Liechtenstein financial center. Some of these were compensated by net new asset inflows from abroad, however. No new banks were licensed in the reporting year.

Asset management companies

This sector was characterized by a trend toward consolidation. This relatively young licensing category was created in 2006 by the entry into force of the Asset Management Act. Asset management companies meet MiFID's requirements for investment firms and thus benefit from the European single-license principle. In the subsequent years, the FMA received numerous license applications. As expected, the number of these applications has now declined. As of the end of 2008, 102 licensed asset management companies were active. Their client assets under management declined by 12 % relative to 2007 to about CHF 18.96 billion. The financial crisis has therefore had an impact here as well.

Investment undertakings

Liechtenstein investment undertakings fared relatively well in light of the financial crisis, compared to other countries. The net assets under the management of domestic investment undertakings declined by 13 % and now amount to CHF 26.43 billion. Due to the financial crisis, more investment undertakings suspended business or underwent liquidation. In total, however, the number of licensed investment undertakings rose. Nevertheless, the acquisition of new client assets in the fund industry is currently difficult. A large amount of assets withdrawn from funds has now been parked in bank deposits. A return of these assets should not be expected until the international financial market situation has quieted down.

Insurance undertakings

For Liechtenstein insurance undertakings, the 2008 business year was mixed. Overall, the provisional figures indicate a slight decline in the insurance market for the first time. The premium income of insurance undertakings was CHF 5.99 billion in 2008, which corresponds to a decrease of about 13 % relative to 2007. Of the premiums received, 94 % were in life insurance, about 5 % in non-life insurance, and 1 % in reinsurance.

The capital invested for clients in connection with fund-linked or unit-linked insurance was CHF 18.7 billion in 2008, which corresponds to a decrease of 11 %. The balance sheet total of all insurance undertakings domiciled in Liechtenstein declined by about 8 % to CHF 21.6 billion relative to 2007. In addition to the financial crisis, this development is also due to the discussions concerning the Liechtenstein financial center.

Insurance intermediaries

The number of registered and licensed insurance intermediaries rose by 83 % in 2008. Of the total of 64 registered insurance intermediaries, 50 are insurance brokers and 14 insurance agents.

Pension schemes

The Liechtenstein pension scheme center (occupational pensions, Pillar 2) included a total of 34 pension schemes at the end of 2008. Nine of these were collective foundations, 24 company pension schemes, as well as the pension insurance for state employees, which came under FMA supervision effective 2009.

Assets held by pension schemes themselves (as opposed to transferred to insurance undertakings) rose in 2007 by 6 % to CHF 3.03 billion (the definite figures for 2008 will not be available until summer 2009). The evaluations of the second half-year (as of 31 December 2008) show that, due to the tense situation on the financial markets, pension schemes have also been hit in the 2008 business year. In 2008, 57 % of active pension schemes reported a funding ratio of less than 100 %.

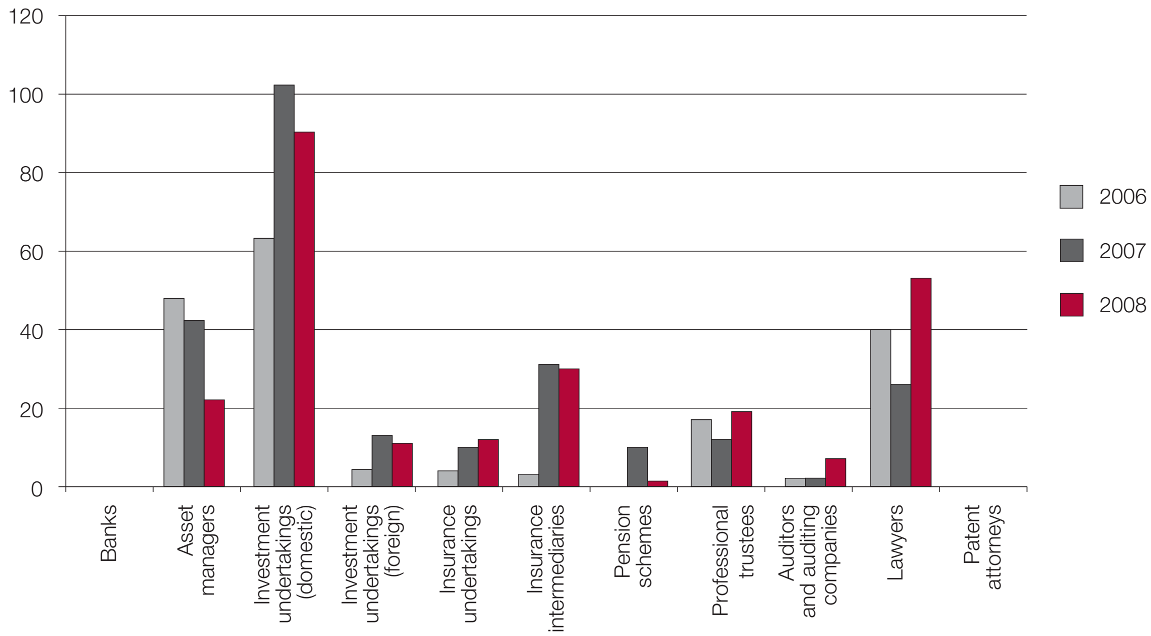
Pension funds

For pension funds, 2008 was a positive business year. New pension funds are expected to be formed in 2009 as well.

Other financial service providers

Eighty licenses were granted in 2008 allowing natural or legal persons to carry out a liberal profession and participate in the Liechtenstein financial market. 34 licenses were cancelled. At the end of 2008, 327 persons held a license under the Lawyers Act. The steady increase since 2003 continued in the reporting year as well. The number of licensed trust companies remained constant, as did the number of patent attorney firms (14). Among persons licensed pursuant to the AACA, there was no change to the number of Liechtenstein auditors in 2008, while the number of auditing companies rose slightly (plus 2).

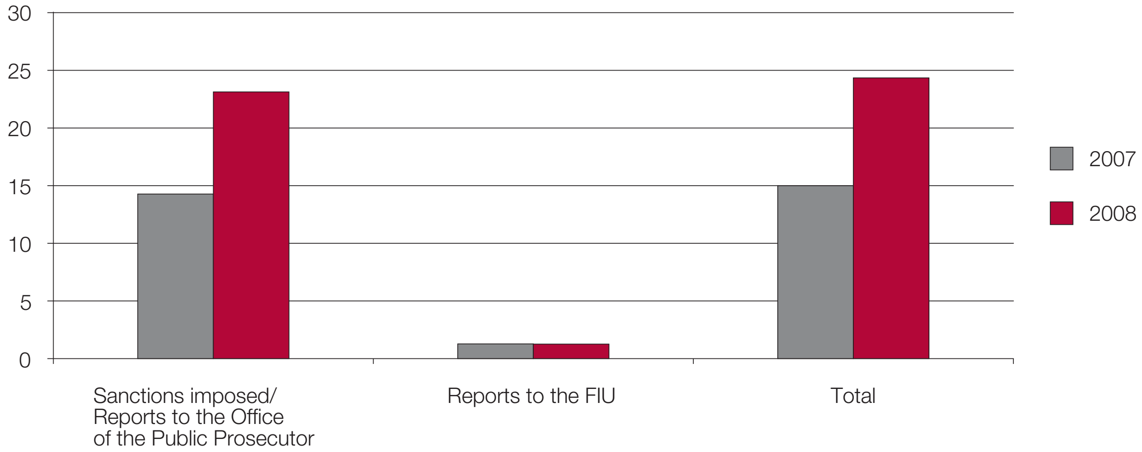
Figure 1: Overview of licences granted



Sanctions

The number of measures/sanctions imposed by the FMA rose dramatically (plus 60 %), as did the number of referrals to the Office of the Public Prosecutor. Twenty-four orders were issued in 2008 (2007: 15). The number of reports to the FIU remained the same.

Figure 2: Overview of measures/sanctions by the FMA



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:

(standing, from left)
Vice Chairman
Dr. Jochen Hadermann, Triesen (FL)
Member
Dr. Hans Haumer, Vienna (A)

(seated, from left)
Member
Dr. Martin Batliner, Eschen (FL)
Chairman
René H. Melliger, Schaan (FL)
Member
Dr. Stefan Jaeger, Teufen (CH)

The FMA faced enormous challenges in its fourth business year, 2008. The FMA was not immune to the extraordinary events over the past year.

With the appointment of Mario Gassner as the new CEO and Christian Reich as the new Deputy CEO at the end of June 2008, the Board created a solid management basis for the FMA.

Beginning in February 2008, the Board and the General Management took the necessary urgent measures with respect to organization and infrastructure, in order to manage this extraordinary year together with the FMA staff. These measures included an increase in staff, the acceleration of certain projects (especially in IT, security, crisis prevention, and crisis management), the rapid expansion of knowledge due to the growth and increasing complexity of the financial markets and products, the expansion of the FMA's international network, and professional communications.

The changed financial environment caused the Board in February 2008 to rethink and reprioritize the strategies of the Mission 2009, "A Strong FMA". These strategic decisions of importance for operational business include: establishment of risk-based supervision, elaboration of regulation principles, elaboration of a communication strategy, introduction of a process for enterprise development, establishment, expansion, and cultivation of qualified knowledge management.

To clearly separate the strategic and operational levels of the FMA, an analysis was carried out of the competences and responsibilities of the Board and the General Management. The corporate governance guidelines for state-affiliated businesses in Liechtenstein were used as a basis for implementation. The new rules also covering the information requirement will entail amendments to the Financial Market Authority Act, the Statute of the Financial Market Authority, and the Rules of Procedure of the Financial Market Authority.

To ensure goal-oriented reporting to the Board, the Finance Committee of Parliament, and Parliament itself, a process optimization of FMA accounting was carried out. In this connection, the Board approved a revised reporting concept and new budget guidelines.

The Board would like to thank Mario Gassner and the General Management as well as all staff members of the FMA for their extraordinary effort in this extraordinary business year. Strong supervision relies on motivated staff. The Board will do everything it can to ensure that the FMA environment continues to provide an incentive for outstanding performance. Especially in turbulent times, clear values and convictions are important. The FMA has clear values, a convincing vision, binding core principles, and a determined strategy. The goal now, in the fifth and last year of the first term of the Board (2005 – 2009) is to complete the successful and effective implementation of that strategy.

René H. Melliger
Chairman of the Board

GENERAL MANAGEMENT

(from right)
Chief Executive Officer and Director of Insurance and Pension Funds Supervision (a.i.)
Mario Gassner, Triesenberg (FL)
Director of Other Financial Service Providers Supervision
Miriam Chiara Klier, St. Gallen (CH)
Deputy of the CEO and Director of Banking and Securities Supervision
Christian Reich, St. Gallen (CH)

The FMA's contribution to stability despite two crises

The year 2008 will go down in history as an especially challenging year for the country and financial center of Liechtenstein. The impact of the extraordinary events in 2008 was only fully felt in 2009, and the consequences are (as of spring 2009) still not entirely foreseeable. Many questions in this connection remain unanswered for the Liechtenstein financial center as well.

In 2009 this extraordinary situation will also be particularly demanding for the supervisory authority. Over the years, the FMA, established in 2005, has evolved steadily, but it was not prepared for the challenges it faced in the beginning of 2008. In addition to the many supervision cases and investigations in parallel, the goal was to tackle regulatory projects in the context of too few human resources and many other challenges.

Analogous to the development of the financial center, the development of the FMA is not yet complete. Several lessons have already been learned so far, however. To carry out credible supervision in an internationally networked financial center, a minimum size is needed for the supervisory authority. In this connection, justified discussions about the need for a professionally organized and endowed supervisory authority were part of the FMA budget debate in parliament. In 2008, "Supervision" very clearly crystallized as the core mandate. Financial intermediaries who unambiguously and deliberately violate the law damage the reputation of the financial center and thus directly also the business of other financial intermediaries. Intervening and correcting these violations is the responsibility of the FMA.

Against the backdrop of the enormous upcoming changes in the world of finance, the path the financial center – but also the FMA – has embarked on must be consistently pursued. For the FMA, this means: The work on a forward-looking Risk Radar for the Liechtenstein financial center, already begun in 2008, must be continued at full speed; the lessons learned from the concluded supervision cases must be conveyed transparently to all financial intermediaries and policymakers; and national and international networking with other authorities and institutions must be further strengthened.

As a learning organization in continuous contact with financial intermediaries, business associations, and authorities, we noted in 2008 that our service orientation must also be given greater importance, in light of the demanding events and the challenge of further developing the FMA.

The services of the FMA are provided by staff members who were under enormous pressure in 2008. On behalf of the entire General Management, we would like to warmly thank our staff members for what they have achieved!

General Management

SUPERVISION

1.1 Banking Supervision

Liechtenstein banking location

Banking supervision came under enormous pressure in 2008. Contributing to this were the extraordinary events in the Liechtenstein financial center and in the financial sector as a whole (tax affair, US mortgage crisis, financial crisis, Lehman Brothers, Madoff). The consequences for banking supervision included a considerably greater workload.

Figure 3: The three largest banks together in relation to the entire banking center

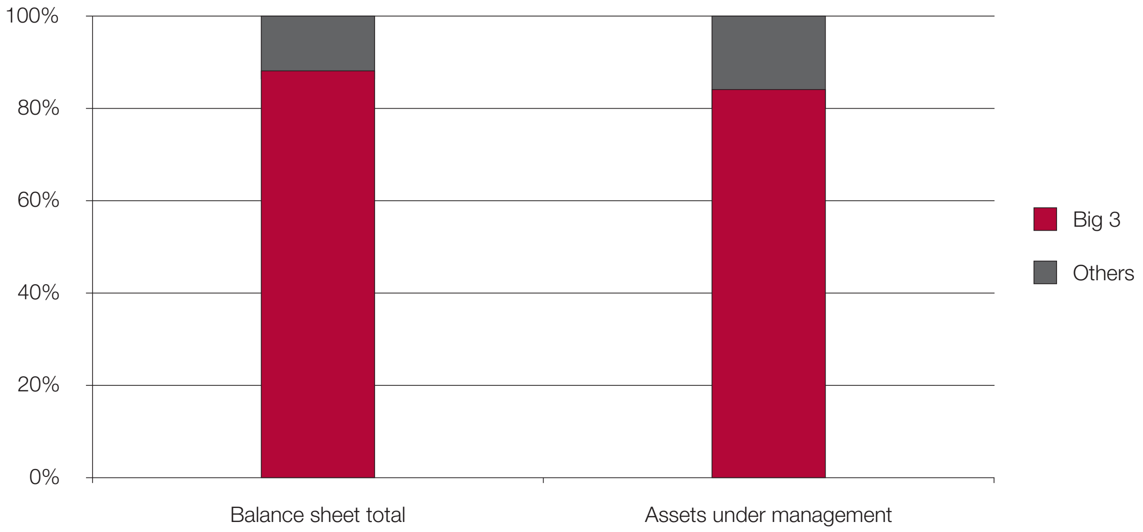


Figure 4: Result from normal business activities (in CHF million, consolidated)

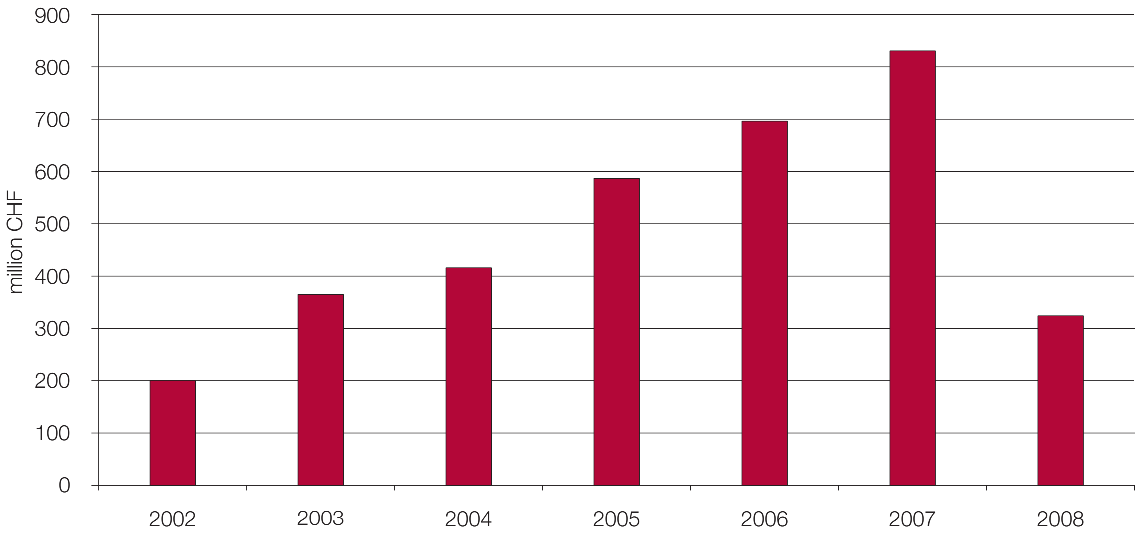


Figure 5: Client assets under management since 2002 (in CHF billion)

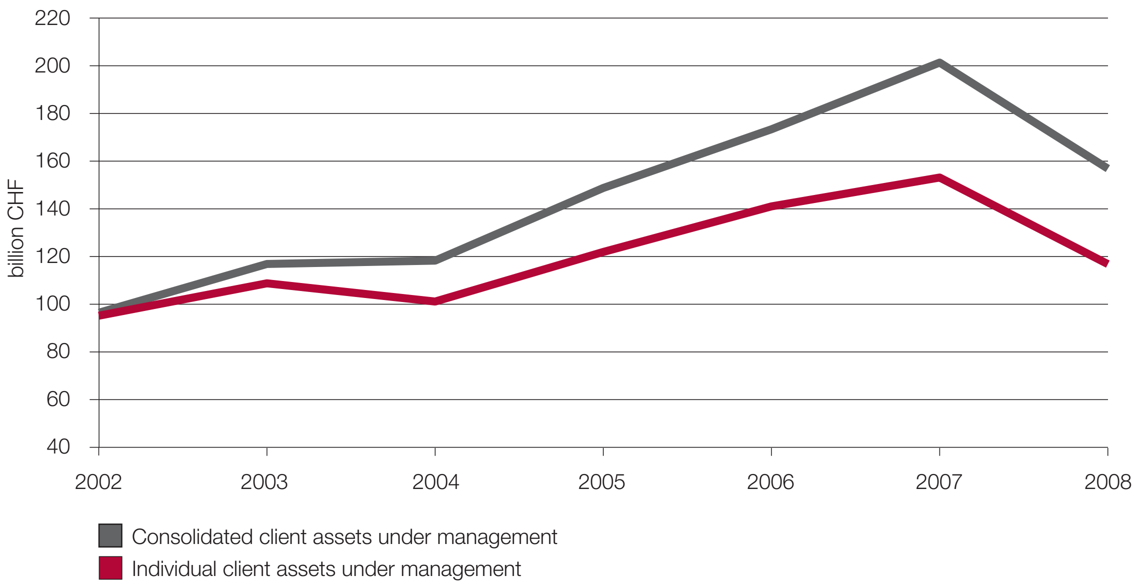


Table 3: Changes to licenses, banking supervision (number)

	2008	2007
Change to organs (GM / BD)	43	13
Change of internal audit department	2	1
Changes to statutes subject to approval	2	3
Changes to business regulations subject to approval	2	3
Change of external audit office	1	0
Change of qualifying holdings of a bank	0	6
Notifications in the free movement of services	1	3
Change of business name	3	1
Expanded banking licenses	0	1
Total	**54**	**31**

Auditing

The analysis of regular Banking Act audit reports showed that the number of qualifications in the audit reports more than doubled within a year. While the number of total qualifications in all audit reports for the 2006 business year was only 7, the number of qualifications in the 2007 audit reports rose to 19.

The FMA assumes that the auditor workshops contributed to a more critical assessment and to an increased classification of findings as qualifications. In general, the quality of the audit reports has improved.

A different picture emerged when analyzing the regular audit reports under the Due Diligence Act (DDA). In this area, the number of qualifications was cut nearly in half, decreasing to 17 (previous year: 30). The quality of inspection reports is in general good. However, the FMA wishes more detailed information in the reports, especially in the case of risky business relationships, and that banks engage in more thorough, risk-adequate monitoring. Due to entry into force of the new provisions pursuant to the 3rd Money Laundering Directive effective 1 March 2009, the banks will be called upon to comply with the new due diligence provisions.

Management meetings in 2008

The expert and management meetings with the general managements of the banks and the chairmen of their boards of directors take place in the fourth quarter of each year. The meetings are based on the audit reports and annual reports, the DDA inspection reports, and other reporting. Together, a short version of the analysis results is discussed, and an outlook is prepared on the basis of the current situation. The management meetings constitute an ideal platform for information exchange between the FMA and the banking institutions. Banks use this opportunity to inform the FMA about upcoming projects. The results of the meetings allow the FMA to gain a clearer picture of the Liechtenstein banking center. In open discussions, improvements of cooperation are also addressed.

Even though the management meetings as well as their preparation and follow-up are very work-intensive, they allow the FMA to build trust by cultivating relationships and making personal contacts.

Selective audits on data security

The disclosure at the beginning of the year that client data had been stolen made data security a priority topic on the FMA's agenda. The loss of trust caused by the data theft and the resulting damage to its reputation have put pressure on the Liechtenstein financial center. Consequently, the FMA mandates the external auditors of the banking institutions to carry out a selective audit on data security as part of the regular audit.

The goal of the selective audit was to assess and review existing security measures and to raise the awareness of financial intermediaries for aspects of security. A complementary goal was to expand expertise of the persons responsible for security.

The FMA conducted a workshop to prepare the auditors for the selective audit. The content of the workshop included explanations of the audit criteria, the depth of the audit, and the instruments of the actual audit.

The audit template covered the following twelve inspection goals:

- Management of data life cycle
- Organization of information security and risk management
- Rules governing information security
- Information management
- Personal information security
- Physical security (real estate, infrastructure rooms)
- Data carrier security
- Communication security
- IT infrastructure security
- End device security
- Input/output device security
- Security of nonelectronic archives

More than half the banks met all inspection goals or only exhibited one instance where optimization was needed. In the case of four banks, auditors identified need for action with respect to several inspection goals. The inspection goal where the most need for action exists is information management.

The banks had the opportunity to comment on the evaluation by the audit companies. After the deadline for remedying the identified weaknesses, a follow-up inspection will take place. Implementation of the recommendations is the responsibility of the banks, however; as a rule, the auditors' recommendations were implemented.

Selective audits on MiFID

The second selective audit concerned MiFID. The deadline for implementing the MiFID directives was 1 November 2007. The auditors were mandated to review implementation of the new regulatory requirements with respect to nine inspection goals.

These were:
– Organization
– Client classification
– Documentation and information requirements
– Code of conduct
– Execution of client orders
– Recording and notification of transactions and preservation of market integrity
– Reporting requirements
– Recognition of and dealing with conflicts of interest
– Disclosure of inducements

Over all, the banks met the inspection goals almost completely. The FMA will work toward fulfillment of the remaining goals and verify implementation either itself or via the external auditors. The inspection goals relating to client classification, documentation and information requirements, and disclosure of inducements were fulfilled to a very high degree.

Extraordinary Banking Act and DDA audits

The business year 2008 saw fewer but more extensive extraordinary audits than the previous year. In addition to the annual on-site audits by the Banking Act auditors, the Banking Supervision Section carried out five major inspections; due to the scope of the investigations, the FMA relied on support by external audit companies. The FMA carried out smaller inspections in various areas itself.

– **On-site inspections of data security / bank client confidentiality**
  Because of the reports of cases at the beginning of the 2008 business year in which bank client data had ended up in the hands of unauthorized third parties, the FMA initiated extensive on-site inspections for the purpose of clarifying the facts and identifying potential violations of supervisory provisions. Since the topic of "data security" met with a huge media echo, the FMA also decided to sensitize all banks in the financial center about this topic. For this purpose, it mandated all Banking Act auditors to review data security with the help of a defined template during the next regular inspections. The evaluation of the audit reports showed that the security level at Liechtenstein banks is high.

– **On-site inspection on suspicion of market manipulation**
  Pursuant to several requests for administrative assistance in connection with possible market manipulations, the FMA carried out various on-site inspections. Insights relating to the identified mechanisms of the market manipulations were included in an FMA circular in which the banks were sensitized about this topic.

– **On-site inspection of possible abetment of tax fraud**
  On the basis of various pieces of evidence, the FMA carried out a supervisory examination of the conduct of a bank in connection with possible abetment of tax fraud. The complexity and scope of the investigation in this case necessitated assistance by a qualified audit company.

Various extraordinary investigations

Qualifications contained in the audit reports of two banks caused the FMA to immediately contact the banks in question and initiate an investigation. One case was in connection with problems in the IT organization, and one case involved qualifications concerning the monthly notification of minimum reserves to the Swiss National Bank.

Auditor workshops

The FMA strives to intensify cooperation with head auditors. After last year's survey indicated that external auditors desire closer cooperation and more intensive communication with the FMA, a further audit workshop took place in March. The auditors would like the FMA to provide more prospective information concerning new problem fields in the financial center.

The goal of the workshop was to provide information on changes to supervision and on supervisory observations. Together with the auditors, the FMA seeks to achieve an increase of the expressiveness of the report as well as uniform reporting for the purpose of comparability. Furthermore, sensitization with respect to possible risk areas should arise from the discussion of anonymized cases from practice.

Reporting

Extraordinary times demand extraordinary measures. The financial crisis and the resulting massive uncertainty and deterioration of the situation on the markets led to a situationally intensified reporting system as requested by the FMA, in order to better assess the risk situation of the banks.

The goal of the intensified monitoring was to capture the general risk situation in order to assess potential consequences for clients, the financial center, and the banks, and to initiate measures called for by that assessment. The intention was also to sensitize banks about their specific risk situation. Depending on the development on the financial market, financial indicators were notified to the FMA on a daily, weekly, or monthly basis. The FMA took care to adjust the frequency of the notifications rapidly to the changing developments in order to limit the necessary efforts by the banks. The FMA endeavored to adjust the frequency of notifications to the current situation, in order to keep the effort demanded of the banks manageable.

The FMA will adjust this monitoring to the new developments and, where needed, initiate appropriate measures up to the level of the entire financial center.

Changes to reporting

Reporting will henceforth be simplified. With the help of an electronic platform, a secure direct channel to the FMA was inaugurated in the autumn. This channel allows rapid processing and transmission of information, even in the case of inquiries on special topics on short notice. This completely eliminates the need to send or deliver physical data carriers. Additionally, simpler verification of processing is ensured.

The electronic platform was used for the first time for MiFID transaction notifications. Paperless handling makes automatic processing and forwarding of the notifications possible. Reporting becomes more efficient.

Complaints relating to reporting

Unfortunately, compliance with deadlines and the quality of some of the bank reports deteriorated in the reporting year. An increasing number of reports were submitted late to Banking Supervision or arrived with substantive errors. In a total of 9 cases during the 2008 reporting year, reminders had to be sent out due to failure to meet submission deadlines (previous year: 2). Because the reports were then quickly submitted, however, no fines had to be imposed. Three reports contained slight deficiencies, which resulted in appropriate measures depending on the type of deficiency. In one other case, a calculation error by the bank resulted in an incorrect notification of minimum reserves, which led to a qualification in the audit report. The bank was then called upon to remedy the calculation error and resubmit the corrected report. The incorrect report also resulted in imposition of a fine.

Supervision practice

Prudential measures

The FMA's task is to ensure compliance with the laws subject to its supervision. If, in the course of its ongoing supervisory activities, the Banking Supervision Section learns of insufficient implementation of Banking Act provisions, it seizes the requisite measures to restore a lawful state of affairs. In the 2007 reporting year, numerous supervisory measures were necessary.

– **On-site inspections and investigations by the FMA**
  Pursuant to qualifications in audit reports, press monitoring, or other evidence, the FMA carried out five major on-site inspections in the reporting year and various smaller investigations. A written audit report was prepared for each audit. In the cases where deficiencies had been identified, the inspection results caused the FMA to demand proportionate measures to remedy these deficiencies.

Conclusion of bank liquidation

In cooperation with the liquidator and the Banking Act auditors, the FMA closely accompanied the voluntary liquidation of a bank. The deletion of the company and its removal from bank status were effective the end of February 2008. In the course of its liquidation, the bank was able to honor all its liabilities.

Accompanying external auditors during regular audits

In 2008, the FMA began accompanying external auditors selectively during their regular audits. The FMA will accompany even more audits in 2009.

Sanctions/referrals

In the 2008 reporting year, the FMA imposed no fines relating to banking supervision, but it did refer various violations to the Office of the Public Prosecutor or notified the FIU.

Operational focus areas in 2008

Market abuse

In the past year, the FMA observed a greater number of cases of market manipulation and insider dealing at minor exchanges involving various financial intermediaries. In a letter to the financial intermediaries, the FMA provided information on how to recognize such violations. Where grounds for suspicion arise, the Financial Intelligence Unit must be contacted immediately.

DDA/DDO

The year 2008 was dedicated to implementation of the 3rd Money Laundering Directive and thus amendment of the Due Diligence Act and Due Diligence Ordinance. Both entered into force on 1 March 2009.

Outlook for 2009

Risk-based supervision

The goal of the "Risk-based Supervision" project is to minimize damage to clients, abuses, violations of the law, and negative impacts on the reputation of the financial center, taking account of international rules and optimal resource allocation.

DDA supervision

In 2009, the Banking Supervision Section will increasingly focus its inspection activity on enforcing the Due Diligence Act.

Automation of reporting

An analysis of the notification process showed that it could be optimized with the help of IT systems. By implementing the "Bank Reporting" project, the efforts for preparing the notified figures will be decreased and the quality of the evaluations increased. The focus will be on indicators and ratios relevant to supervision.

Consolidated supervision

Consolidated supervision will be strengthened. For this purpose, a structure will be set up and processes will be defined. Reporting must also be adjusted to accommodate the consolidated approach.

International cooperation

At the international level, more intensive exchanges with other supervisory authorities will be necessary. By way of increased on-site visits, knowledge about the Liechtenstein financial center will be expanded and a basis created for expanding domestic financial intermediaries into new markets.

1.2 Securities Supervision

Investment undertakings (IUs)

Liechtenstein fund center

Due to the turbulences on the international financial markets, the fund assets under management declined by a total of 13 % over the course of the year, but was still good in an international comparison. The negative performance could partially be compensated by the inflow of new assets to the Liechtenstein fund center.

At the end of 2008, 363 domestic IUs with a total of 269 segments were licensed or attested; on a consolidated basis, taking into account all segments, this corresponds to 560 individual funds.[1)]

Domestic IUs are meanwhile being managed by 28 active management companies (MCs). Additionally, 219 foreign IUs with a total of 1,176 individual funds were licensed to market their units in Liechtenstein as of 31 December 2008. 112 of these IUs were licensed by virtue of free movement of services and 107 were IUs from third countries.

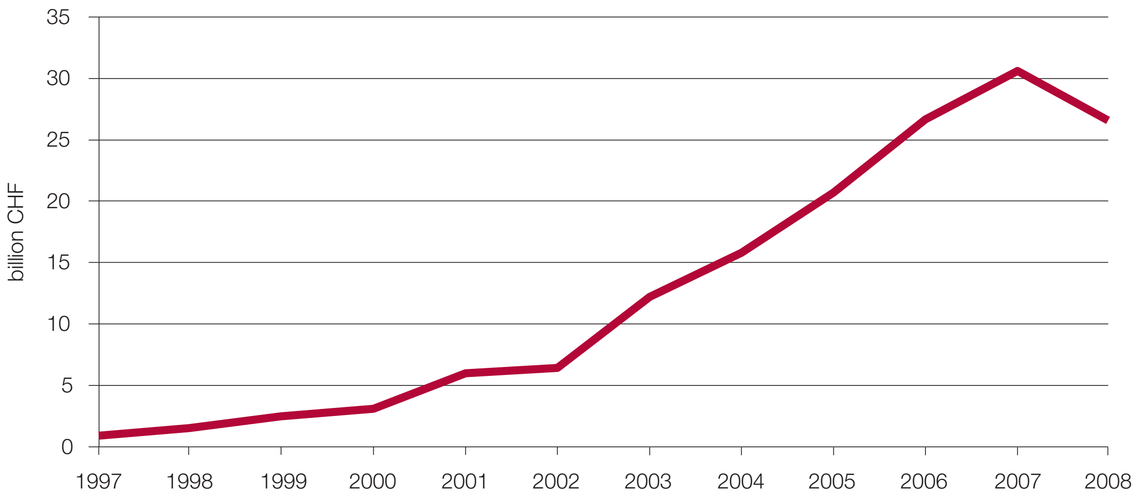
Additionally, one foreign MC notified that it is engaging in the free movement of services. A total of 4 foreign MCs have thus notified that they are providing services in Liechtenstein as of 31 December 2008.

The net assets under the management of domestic IUs sank by CHF 3.99 billion to CHF 26.43 billion (–13 %) as of the end of 2008. MCs affiliated with banks continue to manage the bulk of net assets under management.

Fund promoters continue to value the possibilities offered by the Liechtenstein fund center. Again in 2008, an increased trend toward IUs for qualified investors can be observed. Of the more than 90 investment undertakings newly established in 2008, nearly 30 are labeled as IUs for qualified investors. As of the end of 2008, 79 investment undertakings in total were attested for qualified investors.

1) individual funds are the sum of nonsegmented IUs and the individual segments of all segmented IUs.

Figure 6: Development of net assets under the management of domestic investment undertakings (in CHF billion)



Licenses and attestations

In October 2008, the first investment company in the legal form of an AG & Co. Kommanditgesellschaft (partnership limited by shares) was licensed by way of an individual decree. The investment company is self-managing, while the AG (company limited by shares) is responsible for operational business. The FMA had an expert opinion prepared in this connection.

Within the framework of the Investment Undertakings Act (IUA) and the Securities Prospectus Act (SPA), the supervisory authority licensed two closed-end funds in 2008. According to article 2, paragraph 1(d) IUA, closed-end investment undertakings are not obliged issue and / or redeem units. The special feature of such funds is that only the provisions of the Securities Prospectus Act (SPA) apply with respect to the preparation, licensing, and distribution of the prospectus.

Another notable development was the establishment of the first fund in Liechtenstein implementing the idea of microfinance.

Domestic IUs

In 2008, a total of 97 licenses for domestic IUs were granted. Seven of these licenses were granted to investment companies. Additionally, one fund management was licensed and 27 attestations for IUs for qualified investors were issued.

Taking account of the liquidations and deletions of domestic IUs, the number of Liechtenstein IUs rose in 2008 by 60 to a total of 363. The liquidations and deletions were in most cases due to failure to meet the legally required minimum net assets, nonlaunch of the IU, or structure optimizations (transfer and unification of IUs, concentration on one management company within a group, and the like).

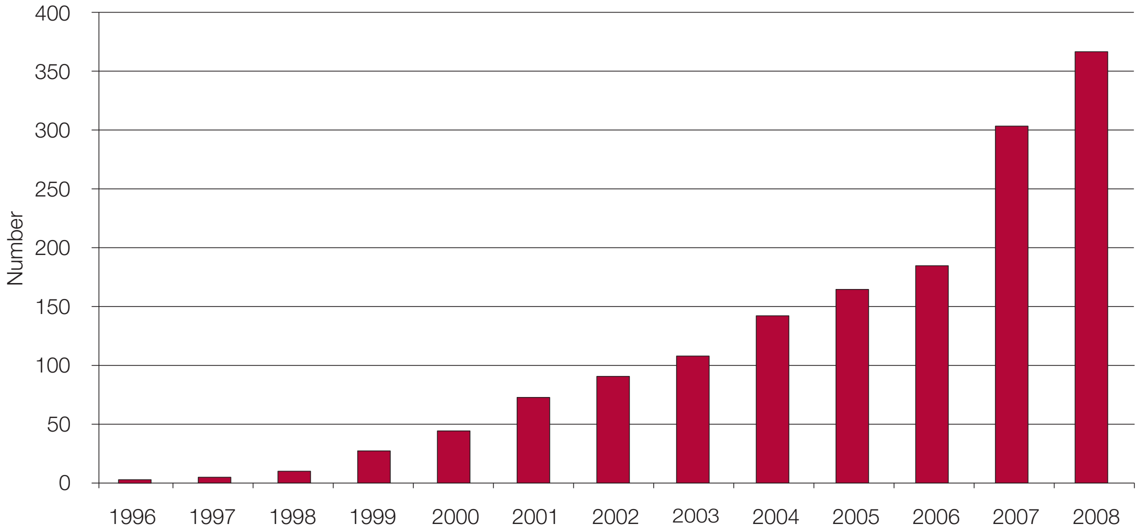
As of 31 December 2008, the status of the individual licensing categories was:

Table 4: Licensing categories under the IUA (number of cases / licensing categories)

	2007	2008	+/–
Active MCs	27	28	+ 1
of which fund managements	20	21	+ 1
of which investment companies	7	7	0
Domestic IUs	303	363	+ 60
of which segmented	59	72	+ 13
with a total of segments (individual funds)	224	269	+ 45
of which IUs for securities	97	127	+ 30
of which IUs for other values	137	157	+ 20
of which IUs for qualified investors	69	79	+ 10
Foreign IUs	246	219	– 27
of which segmented	67	74	+ 7
with a total of segments (individual funds)	862	917	+ 55
External auditors	10	12	+ 2

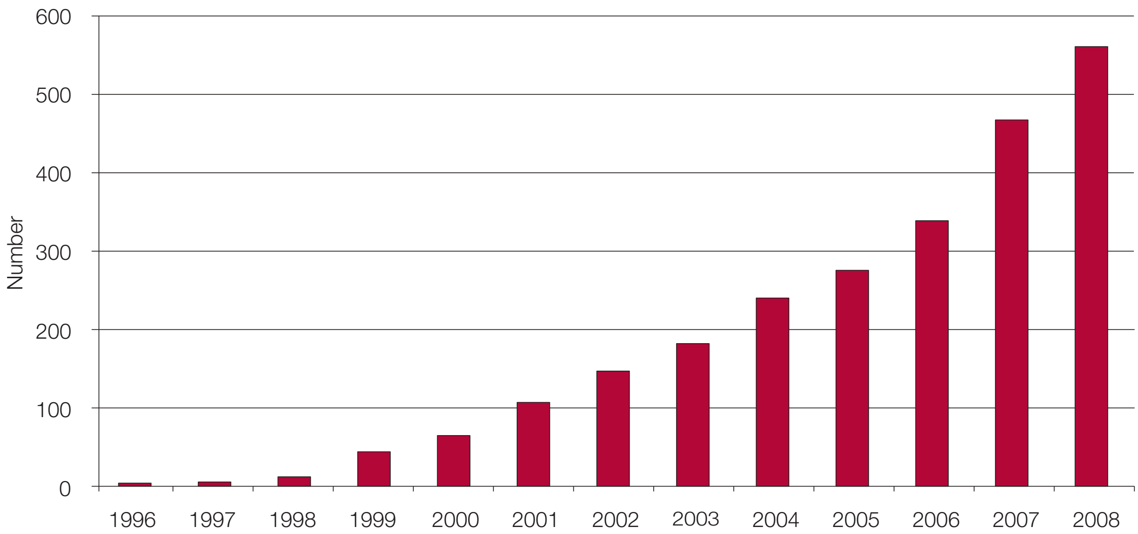
The development of licenses of the domestic IUs as of 31 December 2008 is as follows:

Figure 7: Development of licenses and attestations of domestic IUs as of 31 December 2008 (number)



The development of the existing individual funds as of 31 December 2008 is as follows:

Figure 8: Development of individual funds as of 31 December 2008 (number of individual funds)



In 2008, a total of 196 changes to existing licenses and attestations were processed. These included the following:

– Changes to functions of governing bodies:	14
– Changes with respect to delegations:	56
– Significant changes to investment policy:	15
– Conversion of types:	11
– Changes of management company:	5
– Changes of depositary bank:	6
– Changes of external auditor:	8
– Name changes:	11
– Creation/closing of segments:	17

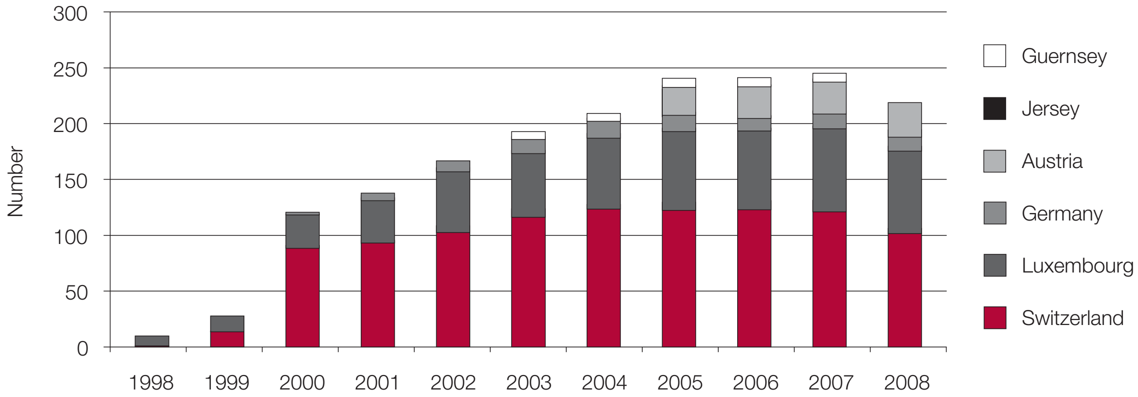
A striking change compared with 2007 is the strong increase in the number of significant changes to investment policy (2007: 4) and the conversion of types (2007: 2). Also, more than twice as many segments were created or closed in 2008 (2007: 8).

Admission of foreign IUs

Including mergers, nonlaunches, and liquidations, the number of foreign IUs authorized to distribute units in Liechtenstein declined by 27 from a total of 246 IUs (2007) to 219 IUs (2008). These 219 IUs have a total of 1,031 segments (previous year: 862). In 2007, 4 foreign IUs ceased distributing units in Liechtenstein.

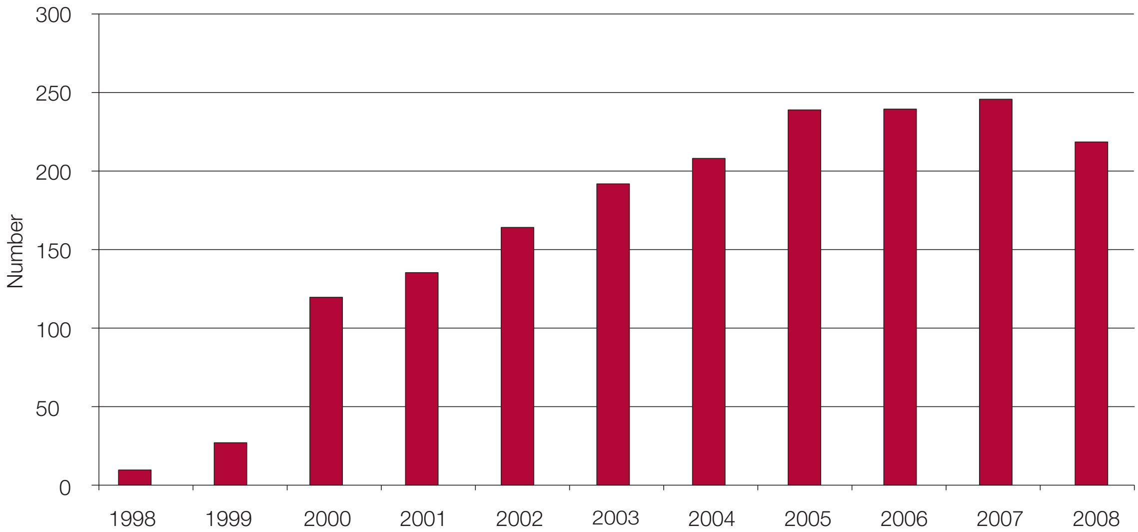
The home territories of the foreign IUs licensed to distribute units in Liechtenstein are Switzerland, Luxembourg, Germany, Austria, Jersey, and Guernsey. The breakdown by home territory is as follows:

Figure 9: Foreign investment undertakings authorized to distribute units in Liechtenstein, by home territory, as of 31 December 2008 (number)



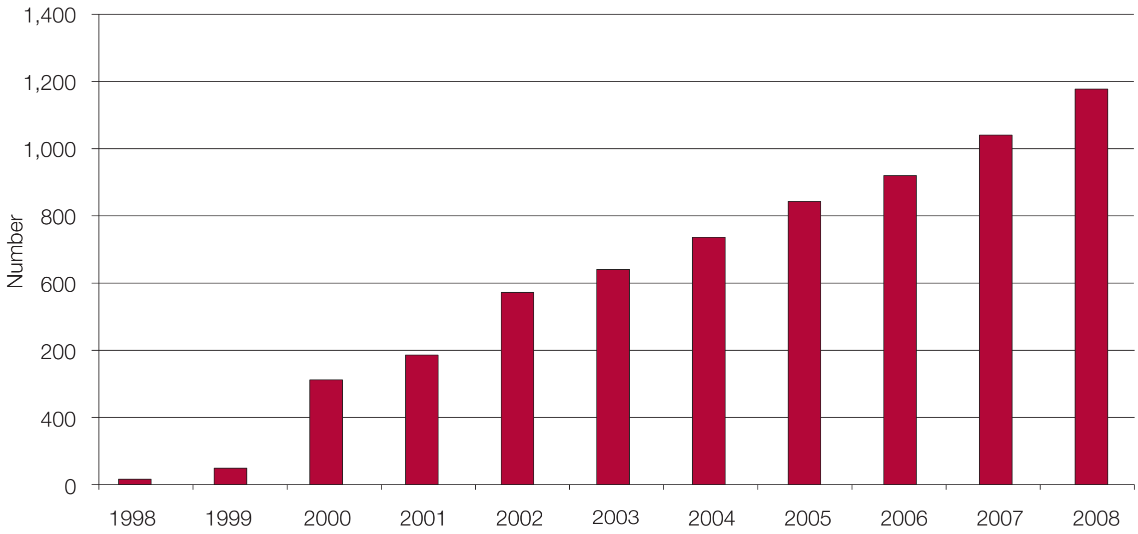
The following figure shows the development of foreign IUs as of 31 December 2008:

Figure 10: Development of foreign IUs as of 31 December 2008 (number of IUs)



The managed individual funds of foreign IUs developed as follows over the last 10 years:

Figure 11: Development of individual funds of foreign IUs as of 31 December 2008 (number of individual funds)



Authorization 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 authorize 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 2008, 10 legal persons and 1 natural person were entitled to market units, which is 3 more than in the previous year.

Supervision of IUs

Regular IUA audits

In the reporting year, the FMA analyzed and evaluated 272 audit reports of MCs and IUs. Of these, 249 audit reports (91 %) contained no deficiencies, while the external auditors noted deficiencies in 23 audit reports (9 %). Numerous contacts with the responsible general managements during the reporting year helped ensure that the number of deficiencies in previous years increased only minimally, despite the greater number of IUs, and even decreased by one percentage point in relative terms.

The focus areas were not significantly 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. Deficiencies identified are explained in the section on supervision practice.

A concentration of deficiencies in the reporting year was again found with respect to violations of investment guidelines. Most of these were of a passive nature, however, and were often remedied shortly after becoming known. On the basis of the points criticized by the external auditors, the FMA called upon the individual MCs to remedy the deficiencies 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. No sanctions needed to be imposed. Since no serious deficiencies arose in the reporting year, extraordinary meetings with the general managements within the framework of the annual inspections of MCs and IUs were dispensed with.

Regular DDA audits

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 were noted in this area.

Extraordinary IUA and DDA audits

In the case of 2 IUs, organizational structures and possible violations of the Market Abuse Act had to be reviewed. Both undertakings are still being observed.

Reporting

The Securities Supervision Section reviews and analyzes quarterly reports, semi-annual reports, annual reports, and audit reports and reacts to irregularities with the appropriate measures. The following provides an overview of the reports evaluated.

Table 5: Reports by management companies (MCs)

Report	Article	Number reports	Number reminders	Number deficiencies
Quarterly reporting	Art. 23 IUO	1,473	0	0
Annual report	Art. 20 IUO	290	0	0
Semi-annual report	Art. 20 IUO	290	0	0
Audit reports	Art. 27 IUA	272	0	23

Supervision practice

Where the FMA learns that the legal requirements under the IUA are not or only insufficiently complied with, appropriate measures are taken to protect investors and secure confidence in the Liechtenstein financial market. Some examples will be presented below.

Audit report deficiencies

Insufficient diversification of IUs

In 3 cases during the reporting year, the external auditor criticized insufficient diversification of the IU or segment. In all cases, diversification in conformity with the law and prospectus have been restored in the meantime.

Violation of investment guidelines

In 12 cases, a violation of the investment guidelines was identified or stronger verification of compliance with investment guidelines recommended. The violations were already remedied within the legally required period or at the time of analysis of the audit reports by the FMA, or the investment guidelines have meanwhile been amended.

Failure to maintain minimum net assets

In the case of 4 IUs, failure to maintain the minimum net assets was criticized in the audit report. In most cases, however, the FMA already reacted during the year pursuant to any failures to maintain minimum net assets.

Sanctions/referrals

In 2008, the Securities Supervision Section did not have to refer any cases to the prosecution or disciplinary authorities or the FIU on the basis of the IUA and the DDA.

Operational focus areas in 2008

Data security

In 2008, external auditors were mandated to carry out data security audits of the financial intermediaries. The reports were to be submitted by the end of the year. The goal of sensitizing the financial center has clearly been achieved.

Financial market crisis

As a consequence of the financial market crisis, the number of suspensions and liquidations of IUs increased especially in the last two quarters of the year. In 2008, the FMA was notified of a total of 11 suspensions of trading in units, 6 of which were, however, lifted again before the end of the year. In total, more than 30 IUs or segments were liquidated.

Furthermore, a stronger reporting system was instituted for selected MCs, for the purpose of obtaining an up-to-date and representative picture. When the Lehman and Madoff cases became public, special surveys among MCs were conducted.

Working group on valuation

Due to the difficult valuation of certain fund investments, a working group was appointed in collaboration with the external auditors and the Liechtenstein Investment Fund Association to provide assistance in the valuation of problematic assets.

Project on investment advice/asset management

The goal of the project is to define terms of reference for investment advisors and asset managers of funds that is correct in terms of supervision law, clear, and in line with actual practice.

Intensification of contacts with the Liechtenstein Investment Fund Association

In 2008, the already good contacts between the

Liechtenstein Investment Fund Association and the FMA were intensified. The meetings generally took place on a monthly basis. Through this close cooperation, the FMA tries to recognize problems early on and take timely measures.

Intensification of contacts with IUA auditors

Again in 2008, an IUA auditor workshop was held. Representatives of the external auditors were invited to participate in an exchange of experiences with FMA representatives. The workshop served as an occasion to clarify ambiguities and to discuss anonymized cases. The FMA discussed the focus areas of the next audit with the participants of the workshop and answered questions in writing that arose during the event. The thoroughly positive feedback by the participating auditors strengthened the FMA's intention to continue this event on a yearly basis.

Intensification of contacts with management companies

As in previous years, contacts with management companies were again enhanced in 2008. For instance, several management talks took place.

Outlook for 2009

Expansion of supervision / on-site inspections

IUA supervision will be further expanded in 2009. This can be done by having FMA staff members accompany external auditors during their audits or by having FMA staff members carry out systematic on-site inspections with a specific focus at the headoffice of the MC.

Five IUA initiatives relating to funds

The IUA is due to be partially revised. In this connection, five initiatives have been formulated.

1. In the IUO, the definition of qualified investor will be expanded and provisions included permitting the delegation of asset management to the custodian bank in the case of investment undertakings for other values and real estate.
2. Implementation of Directive 2007 / 16 / EC.
3. The guidance for license applications will be made more practical and updated. Consultations are already underway.
4. Project on investment advice / asset management. See section on operational focus areas for 2008.
5. The goal of the "time to market" project is to accelerate the licensing procedure. For this purpose, the FMA has constituted a working group together with financial intermediaries. With the help of an electronic audit template, the procedure will be optimized in terms of process for both sides.

Liechtenstein Investment Fund Think Tank (LIFT)

LIFT, established in 2005, is composed of representatives of LIFA, the Liechtenstein Bankers Association, and the FMA. LIFT serves as an exchange platform for the fund center and contributes substantially to all important projects.

Securities lending / borrowing

Securities lending will be one of several focus areas in supervision during the coming year; in particular, the opportunities and risks for investment undertakings will be reassessed from a supervisory perspective.

UCITS IV

UCITS IV is a complete revision of Directive 1985 / 611 / EEC (UCITS III). Essentially, it contains five improvements:

1. Provisions concerning introduction of the EU passport for management companies
2. Improvement of the notification procedure for UCITS funds

3. Provisions on the pooling of funds (master-feeder structures)
4. Provisions on national and international fund mergers
5. Creation of key investor information (KII), which will replace the simplified prospectus for IUs

Asset management companies

Liechtenstein asset management center

On 1 January 2006, the Asset Management Act (AMA) entered into force, which implements Directive 2004/39/EC (MiFID). After having created the legal foundations for the asset management location in 2005 and 2007 and a focus on the processing of new licenses in 2006 and 2007, the focus in 2008 was on consolidation. The number of applications and of licenses declined, so that the FMA could focus on implementation and supervision.

At the end of 2007, 89 asset management companies (AMCs) had been licensed by the FMA in Liechtenstein; by the end of 2008, there were 102. The licensed AMCs currently employ more than 362 people and have 12,888 client relationships, 10,373 of which are asset management mandates. The assets under management of the AMCs are approximately CHF 18.96 billion, of which approximately CHF 14.60 billion is invested with Liechtenstein banks.

Licenses

In 2008, a total of 15 licenses for AMCs were granted. This increased the total number of licensed AMCs to 103. Currently, 13 applications are still pending at the FMA. In 2008, 6 requests were withdrawn and 2 licenses expired.

Additionally, 29 changes to existing licenses were applied for or notified:

Changes to shareholders:	3
Changes to governing bodies:	19
Changes of business name:	1
Changes of external auditor:	6

Sixteen licensed AMCs used the possibility of cross-border provision of services within the EEA. The FMA issued a total of 33 notifications to 10 different supervisory authorities and hence countries.

The FMA was confronted with the following situations relating to licensing:

– One AMC began operations before receiving a license. Criminal charges were filed against the company.
– In one other case, the members of the general management did not have the proper professional qualifications. Pursuant to a clarifying discussion, the persons in question were exchanged during the licensing procedure.
– In a third case, an AMC complained because of an FMA fee decree that was allegedly too high. The FMA Complaints Commission rejected the complaint and confirmed the FMA's decree.

Supervision of AMCs

Regular AMA audits

In 2008, the FMA received a total of 75 AMA audit reports. Furthermore, former trust companies that are now licensed as AMCs submitted 22 DDA final inspection reports.

The selective audit in 2008 covered the following points:

– Review of the business plans submitted for the licensing procedure

- Compliance with reporting requirements
- Verification of appropriate domestic place of business
- DDA compliance

The most frequent deficiencies noted in the 2008 audit reports were:
- Client information and client profiles not yet MiFID compliant
- No written contracts for client relationships
- Foreign-language client contracts do not correspond to contracts in German
- Changes subject to authorization were not notified to the FMA
- Entries/deletions in the commercial register no longer correspond to the companies
- Back-up data were stored in the same business premises
- Hardcopies of archived data were not stored in locked cabinets
- Noncompliance with minimum equity capital

Reporting
As already noted in the previous year, reporting by AMCs was again not optimal in the current reporting period. Implementation of the processes by older AMCs is now good, but newly licensed AMCs often have start-up difficulties. In this area, the FMA will continue to play an active coaching role to establish a functioning and meaningful reporting system.

Prudential measures
The following five examples show how different fact patterns lead to different prudential measures:
In one case, failure to maintain the necessary minimum equity capital was observed, which was caused by a loan granted to the shareholders immediately upon formation. The fact pattern was discussed with the company in question, and the procedure was suspended once the company regained the required equity capital, with the threat of sanctions should another violation occur.

Another case also involved failure to maintain equity capital. In this case, the external auditor notified the FMA immediately after identifying the situation, in order to find a solution together with the FMA. Since the company in question held a large securities portfolio hit by major losses in value, its equity capital fell accordingly. In this specific case, however, large shareholder loans also existed, thanks to which a capital measure and a debt waiver were carried out allowing the legally required own funds to be restored. Due to the proactive and cooperative collaboration between the asset management company, the auditors, and the FMA, sanctions were not necessary.

In one case, the external auditor noted that an asset management company had taken over the client base of an unlicensed company. However, the clients were generally still taken care of by the company from which the clients had been transferred. In consultation with the FMA, the auditor demanded immediate restoration of a lawful state of affairs, which was then immediately brought about by the asset management company. In this case, the FMA plans to carry out a follow-up inspection of the measures in the form of an accompanied regular audit in consultation with the asset management company.

In the case of another company, the auditor criticized that the actual business activities took place abroad. The company currently only manages one investment fund, however. The FMA contacted the management. The company is trying to accelerate business activities in Liechtenstein. The FMA will again review the company's situation at a later time.

On the basis of various client complaints concerning an asset management company primarily offering fund savings plans in Germany, the FMA carried out an on-site inspection. The goal of this on-site inspection was to verify compliance with the legislative provisions concerning organizational requirements and delegation of activities. The investigation showed that the requirements are minimally met. Because of the strong growth of this company, however, improvements should be undertaken, so that the FMA will continue to attentively observe the development of this company.

Sanctions / referrals

In 2008, Securities Supervision decreed 3 fines due to violations of the transitional provisions in the Professional Trustees Act; the decisions are not yet final.

In one case, two criminal charges were filed with the Office of the Public Prosecutor. The violations concerning unauthorized provision of asset management activities and falsification of documents.

Combating abuse

One company had to change its business name, since the name indicated asset management activities that were not actually offered.

In another procedure, a company was investigated which carried out activities at its registered office on behalf of a foreign sister company. This made it difficult to assign the various activities to the different companies. In collaboration with the foreign supervisory authority, action was taken against both companies; the foreign company was forcibly placed under the authority of a trustee, while criminal charges were filed with the Office of the Public Prosecutor against the Liechtenstein company and its governing bodies.

In another procedure, a company had multiple staff changes and was suspected of providing asset management activities for individual clients and collective investments. Despite inquiries and on-site inspections, the suspicion could not be eliminated entirely. Investigations are still pending.

Operational focus areas in 2008

Separation of AMA / Professional Trustees Act

The implementation of MiFID in the AMA no longer allows trust companies to offer services in the segments of investment advice and asset management. Accordingly, trust companies had to modify their business purpose and/or their business name by 1 January 2008. It turned out that not all trust companies notified the FMA in a timely manner. Moreover, some of the information received contained problematic statements of purpose. This led the supervisory authority to define five threads of action to achieve uniform statements of purpose:

1. Compilation of the business names and business purposes allowable under the AMA
2. Determination of permissible company purposes
3. Review of the activities of trust companies
4. Selective audits of AMCs
5. Ongoing antiabuse measures

2009 will again focus on implementation of these threads of action.

Definition of appropriate domestic place of business

AMCs outsourcing so many activities that they resemble a mailbox company or shell company are a problem in terms of supervision law as well as for the national economy. In some cases, these shell companies escape proper material supervision, since their registered office is abroad or they do not engage in operational business domestically. For this reason, the FMA launched a project in 2008 with the purpose of defining the criteria for determining an appropriate domestic place of business. In this connection, both the Association of Independent Asset Managers in Liechtenstein and the audit companies of the AMCs were consulted. Results are expected in 2009.

Data security

In 2008, audit companies had to carry out data security audits of all AMCs, which results in considerable work for all parties involved. The reports had to be submitted by the end of 2009. The goal of sensitizing the financial center was clearly achieved. The special audit by the FMA also conveys a clear, positive snapshot of data security among AMCs.

Financial market crisis

Due to the financial market crisis, an enhanced reporting system was set up for selected AMCs to obtain an up-to-date and representative picture. Upon disclosure of the Lehman Brothers and Madoff cases, special surveys were carried out among AMCs.

The information received indicates that the amount of assets under management has declined due to the market situation, which in turn leads to lower levels of income. Because of client uncertainty, some assets were withdrawn. A higher number of client contacts was observed. By and large, however, the total volume of assets under management remained constant, thanks to the inflow of new assets.

AMCs agree that client acquisition will become more difficult in the future. There are no new exposures to risky products, and liquidity in custody accounts has increased.

Intensification of contacts with AMCs

Since the second half of 2008, monthly meetings between the board of the Association of Independent Asset Managers in Liechtenstein and FMA representatives have taken place. This opportunity has been used to discuss various topics and answer current questions.

Intensification of contacts with AMC auditors

To feel the pulse of the AMCs, the FMA organized two auditor workshops in 2008, which met with a very positive response. This platform serves to establish contacts and exchange information. Questions and concerns can be communicated and answered directly during the discussions.

Outlook for 2009

Separation of AMA / Professional Trustees Act

The goal is to implement and conclude the five threads of action (see above) in 2009.

Expansion of supervision / on-site inspections

In 2009, supervision of AMCs will also be expanded by way of management meetings. Where it makes sense to do so, selective on-site inspections will take place.

Investor Compensation Scheme

MiFID requires investment firms to comply with the provisions of the Investor Compensation Directive. This also applies to AMCs. Since AMCs in Liechtenstein are at no time borrowers of their clients and are not allowed to hold client assets, the AMA does not include provisions for an Investor Compensation Scheme (ICS). Against the backdrop of the financial crisis, a revision of the Investor Compensation Directive is being discussed at the European level. In this connection, the need to implement an ICS in Liechtenstein may arise. For this reason, preparatory work is being carried out with the Association of Independent Asset Managers in Liechtenstein (VuVL).

Securities sales prospectuses

Approvals

After entry into force of the Securities Prospectus Act (SPA) on 1 September 2007, approval activity for securities prospectuses was modest throughout 2008.

A total of 3 applications were approved under the SPA. These were 2 securities prospectuses for closed-end Liechtenstein investment undertakings and 1 stock issue.

The FMA also dealt with 10 cases of structured products whose base prospectuses were approved in another EU country and then notified in Liechtenstein. In all these cases, the issuer or the provider of the structured products merely had to submit the final terms to the FMA and publish a notification in a Liechtenstein daily newspaper. The FMA did not actually have to approve the prospectus. This approach allows issuers to perform issues on short notice and offer their structured products publicly.

Additionally, the FMA received various other notifications, including for stock issues by foreign banks which, in the course of capital measures, had to issue new shares, as well as for base prospectuses of issuers who then did not perform a public offer of structured products.

Various questions concerning the SPA were also answered by the FMA. A frequent content of these questions was whether a prospectus obligation exists or not. In many cases, the review was negative and no prospectus obligation arose. However, these questions repeatedly also touched on various other areas of law, so that questions of delimitation and other legal questions had to be answered.

Combating abuse

In the reporting year, no cases of abuse had to be dealt with by the FMA.

Operational focus areas in 2008

Since the SPA applies to the preparation, approval, and distribution of the prospectus of a closed-end Liechtenstein investment undertaking, 2 cases gave rise to coordinated treatment of the license applications both under the SPA and under the IUA.

Outlook for 2009

The Securities Supervision Section, which is responsible for supervision of the SPA, will prepare more guidance for this purpose in 2009 and provide financial service providers with legal certainty concerning the implementation, interpretation, and application of the EU regulation. Experience with the SPA has shown that issues have not increased much even with the SPA. Issues of structured products decreased heavily in the second half of 2008 due to the financial crisis.

1.3 Insurance Supervision

Insurance undertakings

Liechtenstein insurance center

At the end of 2008, a total of 42 (previous year: 37) insurance undertakings were domiciled in Liechtenstein (23 life, 14 non-life, and 5 reinsurance undertakings). 12 undertakings operated in own-insurance (so-called captives, i.e. insurance undertakings that exclusively reinsure risks within their own corporate group), 7 of which as direct insurers and 5 as reinsurers.

Table 6: Development of the number of insurance undertakings by sector, 2000 to 2008

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

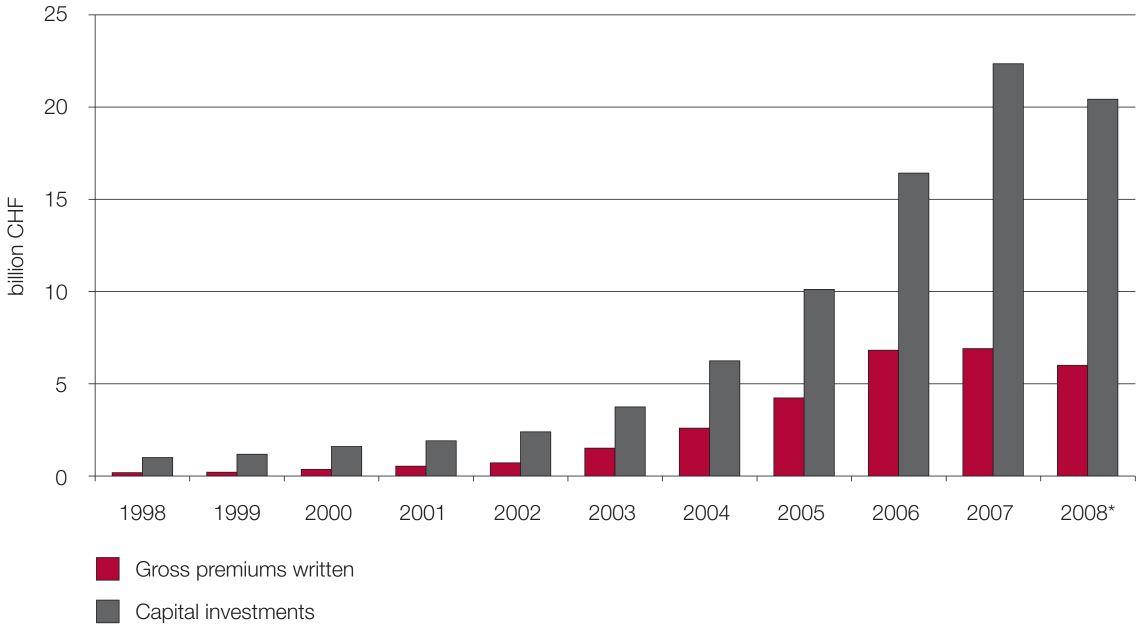
The direct insurance undertakings operated almost exclusively by virtue of free movement of services within the European Economic Area and Switzerland. As the home state supervisory authority, the FMA supervised the entire business of these insurance undertakings.

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 non-life insurance. All of the reinsurance undertakings are captives.

In 2008, Liechtenstein insurance undertakings maintained a total of 4 branches in member states of the European Economic Area, 2 branches in Switzerland, and 1 branch in Singapore. The branches in the EEA are in Italy (Milan), Germany (Cologne), the United Kingdom (London), and Luxembourg. In total, 25 Swiss insurance undertakings and 1 insurance undertaking domiciled in a member state of the EEA maintained branches in Liechtenstein.

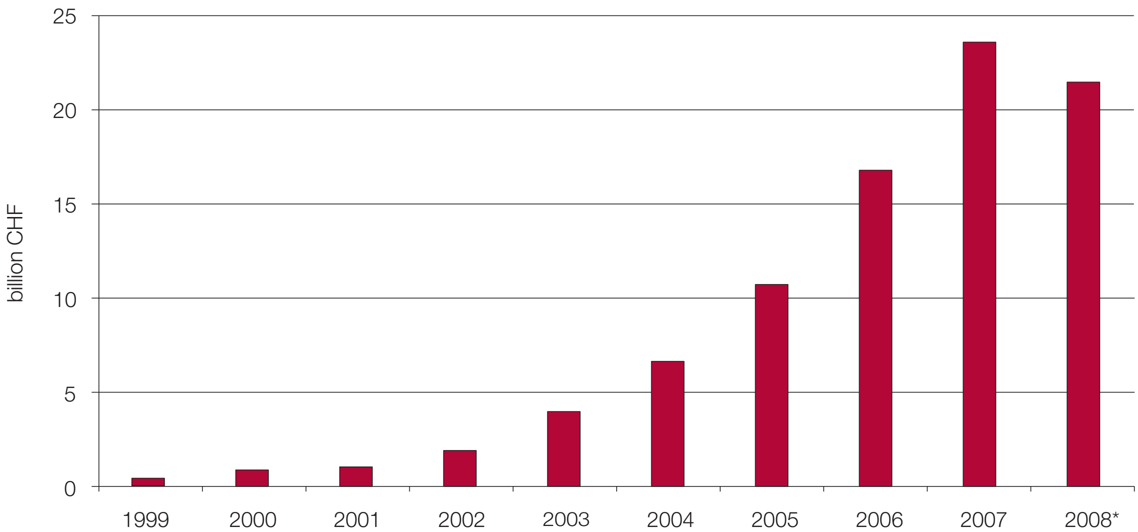
As part of the quarterly reporting, the insurance undertakings were called upon to provide figures on the 2008 business year, including information on the 2009 budget. The interim figures for the first time indicated a slight decline in the insurance market. Premium income for insurance undertakings was about CHF 5.99 billion in 2008, compared with CHF 6.90 billion in 2007, which corresponds to a decrease of about 13 %. While smaller companies recorded an increase in premiums, some larger insurance companies had lower premium income than in the previous business year. Of the premiums received, approximately CHF 5.61 billion (94 %) were generated by life insurers, approximately. CHF 323.0 million (5 %) by non-life insurers, and approximately. CHF 49.7 million (1 %) by reinsurers. The undertakings were very optimistic with regard to the 2009 business year and forecast total gross premiums of about CHF 8.5 billion. The capital invested on behalf of clients in connection with fund-linked or unit-linked insurance policies was CHF 18.7 billion in 2008. The balance sheet total of all insurance undertakings domiciled in Liechtenstein was about CHF 21.6 billion in 2008, compared with CHF 23.6 billion in 2007. This corresponds to a decrease of about 8 %.

Figure 12: Development of gross premiums written and capital investments, 1998 to 2008 (in CHF billion)



* interim figures

Figure 13: Development of balance sheet total, 1999 to 2008 (in CHF billion)



* interim figures

Among life insurers, 8 companies (previous year: 15) expect a positive result for 2008. Among non-life and reinsurers, 12 companies had a positive result (previous year: 15). The solvency margin is covered with sufficient own funds in the case of all insurers; additional clarifications must be undertaken at one company, however. The total equity capital of all the companies rose by 1 % from about CHF 762.3 million at the end of 2007 to CHF 767.3 million at the end of 2008. The number of persons employed by insurance undertakings rose from 311 in 2007 to 463 in 2008. This represents an increase of 49 %.

Licenses

Grants / withdrawals of licenses

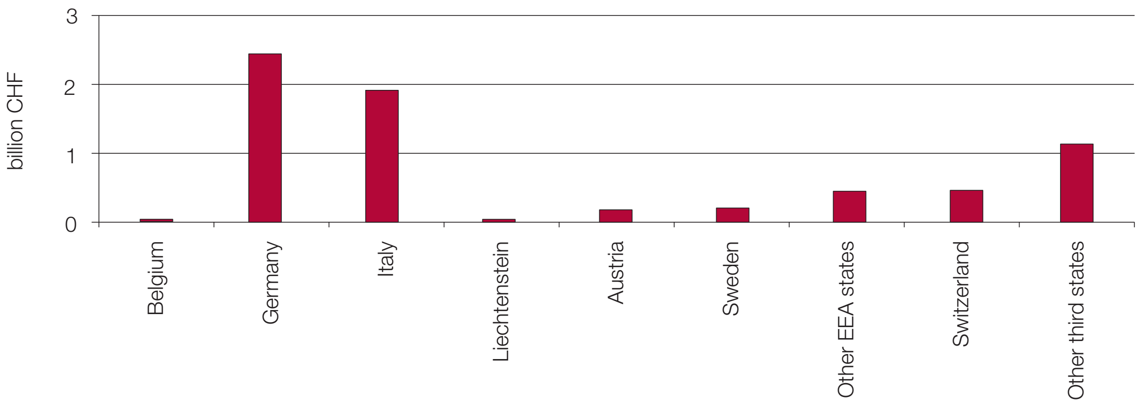
In 2008, the FMA granted a total of 4 life insurance undertakings and 1 non-life insurance undertaking the license to take up business activities under the Insurance Supervision Act (ISA). In total, the number of insurance undertakings domiciled in Liechtenstein rose to 42 (previous year: 37). One captive was undergoing liquidation at the end of 2008.

The FMA is also responsible for recognizing external auditors in accordance with the ISA. In 2008, no new licenses were issued.

Cross-border movement of services

Insurance undertakings domiciled in Liechtenstein or with licenses issued by the FMA may offer direct insurance in another EEA member state by way of a branch 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 14: Cross-border business of Liechtenstein insurance undertakings, broken down by country (based on gross premiums written) in 2007 (in CHF billion)



By the end of 2008, 344 (previous year: 271) 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. In practice, however, these undertakings have hardly become active.

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 2007, the total gross premiums written in Switzerland of Liechtenstein insurance undertakings amounted to CHF 94.7 million in non-life insurance and CHF 317.4 million in life insurance. Liechtenstein non-life and life insurance undertakings operated primarily by virtue of free movement of services in Switzerland in 2007. Conversely, Swiss insurance undertakings received total gross premiums amounting to approximately CHF 158 million in non-life insurance and about CHF 154 million in life insurance in Liechtenstein in 2007 (free movement of services and freedom of establishment).

Auditing

Regular ISA audits

The FMA called upon the insurance undertakings to submit their reports for the 2007 business year by 30 April 2008.

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 result can be summarized as follows:

- The majority of insurance undertakings submitted the documentation on time.
- Overall, the submitted reporting materials for the 2007 business year were complete and plausible. In some 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, which had not complied with the accounting rules, the audit reports contained one reservation.
- Two undertakings had negative equity (equity capital lower than share capital). This was remedied by the end of 2008, however.
- One undertaking carried out insurance business in an unlicensed class of insurance.

The audit was concluded by the FMA at the end of July 2008.

Regular DDA audits

According to article 3, paragraph 1(d), and article 4 DDA, life insurance undertakings are subject to the personal and material scope of the DDA. In the reporting year, regular due diligence audits were conducted for 15 insurance undertakings. Three life insurance undertakings were founded in the 3rd quarter of 2007 and only began operational activities in 2008, so that no regular due diligence audit has been conducted so far of these undertakings.

In comparison with the previous year, the qualifications in the audit reports decreased. In the case of one life insurance undertaking, the external auditor noted several qualifications of formal, material, and especially organizational nature. On these grounds, an on-site inspection of the undertaking was conducted. By way of a decree, the undertaking was ordered to restore a lawful state of affairs and to take appropriate organizational measures.

According to the external auditors’ reports on the due diligence inspections in the reporting year, one life insurance undertaking submitted a notification to the FIU pursuant to article 16, paragraph 1 DDA.

Regular on-site inspections and management meetings

In 2008, the FMA carried out regular on-site inspections of 2 life insurance undertakings and 1 non-life insurance undertaking.

The audit areas of the on-site inspections are, 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, products, due diligence audit (in the case of life insurance undertakings), processes and internal control system, accounting, controlling and reporting, technical foundations.

Additionally, management meetings were held in the reporting year for the first time with two life insurance undertakings and two non-life insurance undertakings. These meetings are normally also held at the company, but are less extensive than on-site inspections. The main topics are an evaluation of the current situation, the adequacy of own funds, and planned activities concerning new products and markets.

Supervision practice

As part of ongoing supervision, the FMA had to carry out 2 extraordinary on-site inspections, with a focus on due diligence and compliance with licensing conditions.

In one of the two cases, a decree was issued demanding that the insurance undertaking restore a lawful state of affairs. Additionally, a fee for the decree in the amount of CHF 5,000 and a fee for the additional inspection work in the amount of CHF 20,000 were charged. The decree entered into effect and was not appealed.

Combating abuse

The FMA was notified that a life insurance undertaking in an EEA country is offering a non-life insurance rate as a supplement to a life insurance. The undertaking is not authorized for non-life insurance. The case is currently under review.

The FMA as a complaints body

Thirty-four complaints were lodged in the reporting year. The majority of the complaints concerned misleading advice by the insurance intermediaries involved and the calculation of surrender values.

Compulsory building insurance

As of 31 December 2007, a total of 17 insurance undertakings were offering compulsory building insurance in Liechtenstein. Of these insurance undertakings, 5 are domiciled in an EEA member state (including Liechtenstein) and 12 in Switzerland.

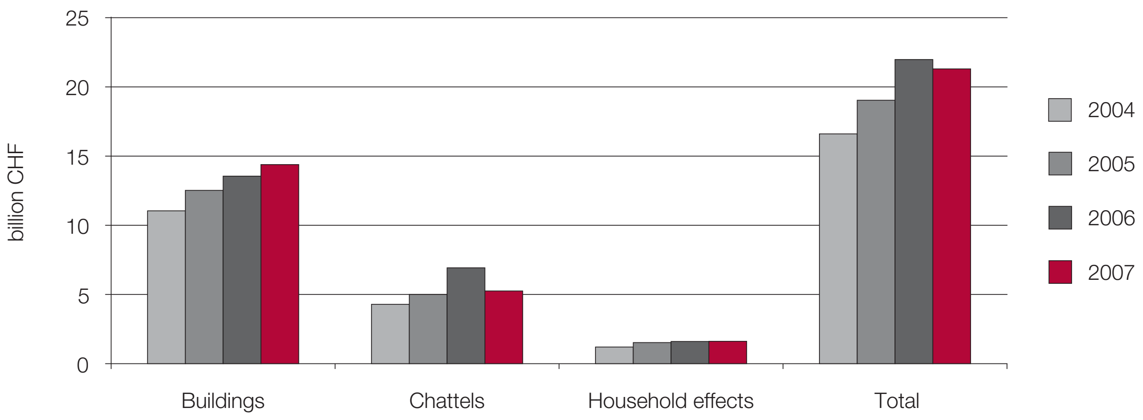
The fire insurance sum of all buildings located in Liechtenstein serves as a basis for calculating the contribution of the building insurers operating in Liechtenstein to fire protection and the prevention of damages arising from natural hazards for purposes of article 13 of the Building Insurance Act.

The fire insurance sum of Liechtenstein buildings as of 31 December 2007 was about CHF 14.38 billion (2006: CHF 13.52 billion) for buildings, CHF 1.62 billion (2006: CHF 1.61 billion) for household effects, and about CHF 5.23 billion (2006: CHF 6.73 billion) for all other chattels. In total, the fire insurance sum in 2007 amounted to CHF 21.23 billion (2006: CHF 21.86 billion).

Operational focus areas in 2008

In 2008, a Risk Assessment System for insurances was developed, and the instrument of management meetings was introduced. Insurance undertakings are now called upon to submit a report each quarter. This allows the FMA to improve ongoing supervision. As a consequence of the financial crisis, monitoring has been intensified.

Figure 15: Fire insurance sum for building insurance, 2004 to 2007 (in CHF billion)



Premium income for fire insurance in 2007 was CHF 8.7 million (2006: CHF 8.1 million). In total, premiums in the amount of CHF 16.8 million were received for compulsory building insurance in 2007. Payments for claims were CHF 1.6 million (CHF 1.1 million for fire damage and CHF 0.5 billion for natural hazard damage).

Outlook for 2009

The main operational focus areas will be:

– Implementation of risk-based supervision.
– Introduction of the Risk Assessment System developed in 2008, including implementation of the Risk Radar.
– Intensification of on-site inspections and management meetings.

After the adoption of the Solvency II framework directive by the EU Parliament, the FMA will begin its implementation. Additionally, a sectoral agreement with the Insurance Association will be prepared pursuant to entry into force of the new Due Diligence Act.

Insurance intermediaries

Licenses

Granting and withdrawal of licenses

At the end of 2008, a total of 64 (previous year: 35) licensed and registered insurance intermediaries were supervised by the FMA, including 54 (29) legal persons, 4 (3) sole proprietorships, and 6 (3) natural persons. Of the 64 (35) registered insurance intermediaries, 50 (25) are insurance brokers and 14 (10) insurance agents.

In the reporting year, a total of 29 insurance intermediaries were newly licensed and registered (25 legal persons, 1 sole proprietorship, 3 natural persons). One holder of a license suspended activities as an insurance intermediary.

Cross-border provision of services

Insurance intermediaries domiciled in Liechtenstein or with an FMA license can carry out cross-border activities in all member states of the EEA by virtue of free movement of services or freedom of establishment. Pursuant to the Direct Insurance Agreement between Liechtenstein and Switzerland, the same also applies in relation to Switzerland.

Most cross-border activities by virtue of freedom of movement of services were carried out in Germany (39 % of all insurance intermediaries), followed by Switzerland (35 %) and Austria (26 %). So far, no insurance intermediary has become active by virtue of freedom of establishment.

Supervision

Reporting

For the first time, insurance intermediaries were called upon to submit reporting for the 2007 business year by 31 March 2008.

The goal of the reporting is to verify whether the licensing conditions are met by the insurance intermediaries on a permanent basis. Additionally, reporting should provide a current overview of business activities as well as verify compliance with the Due Diligence Act.

Due to some start-up difficulties, the reporting could be completed in August 2008 – with 8 exceptions – with the following results.

- Because reporting was carried out for the first time, most reports were not submitted on time. The bulk of the reports was incomplete or contradictory.
- Five insurance intermediaries did not have any business activities in 2007.
- Seven insurance intermediaries provided cross-border services, even though they had not notified the FMA in advance (5 of these insurance intermediaries provided services in Switzerland).
- One insurance intermediary changed its business name without notifying this in advance to the FMA.

Regular on-site inspections

For the first time, 3 on-site inspections were carried out in 2008. Audit areas were: permanent compliance with licensing conditions, organization, electronic and physical filing systems, and compliance with legislative provisions.

Within the context of reporting and the on-site inspections, the FMA had to order 4 measures by way of decree in the 2008 reporting year to restore a lawful state of affairs.

In 2 cases, a lawful state of affairs was achieved – 2 cases are not yet concluded, since the measures were only ordered the end of 2008.

In the reporting year, the FMA also approached various business associations. These included car dealers, architects, and engineers. The goal was to clarify whether any of these should be subject to the Insurance Mediation Act. The business sectors in question were informed that a license under the Insurance Mediation Act is necessary if insurance mediation is provided.

Combating abuse

In 59 cases, the FMA verified whether persons or companies are engaging in or have engaged in insurance mediation without a license. In most cases, the review was conducted on the basis of statements of purpose on commercial licenses or in the Public Registry. Thirty-seven cases were concluded in the reporting year without any further measures, 22 cases are still pending.

The FMA as a complaints body

According to article 24 of the Insurance Mediation Act, the FMA receives 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.

Operational focus areas in 2008

In the reporting year, the operational focus was on carrying out reporting and the first on-site inspections. Another focus was the conclusion and thus the definite application of the revised Direct Insurance Agreement, which had already been applied provisionally since 2007.

At the end of 2008, the first Insurance Intermediary Forum (basic and continuing education session for insurance intermediaries) was prepared in cooperation with the Liechtenstein Insurance brokers association and the Hochschule Liechtenstein. It will take place in spring 2009.

Outlook for 2009

Operational focus areas for 2009 will include qualitative improvement of reporting, implementation of risk-based supervision, intensification of on-site inspections, and continuing education of insurance intermediaries.

Pursuant to entry into force of the new Due Diligence Act, a sectoral agreement is planned.

1.4 Pension Funds Supervision

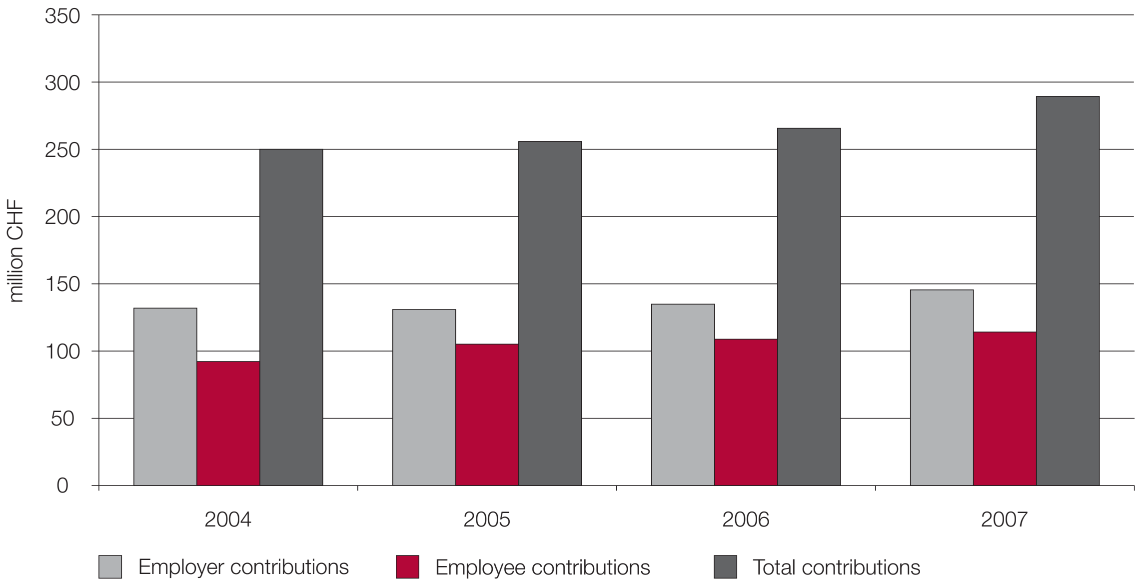
Pension schemes

Liechtenstein pension schemes center

The Liechtenstein pension schemes center (occupational pension plans, so-called Pillar 2) was home to a total of 34 (previous year: 36) pension schemes at the end of 2008. These include 9 collective foundations, and 24 company pension schemes, and the pension insurance for state employees, which also became subject to FMA supervision in 2009. Four pension schemes use only defined benefits, while most prefer defined benefits for old-age savings and defined benefits for risk insurance. In the case of 6 collective foundations, a Swiss life insurance undertaking serves as the founder company.

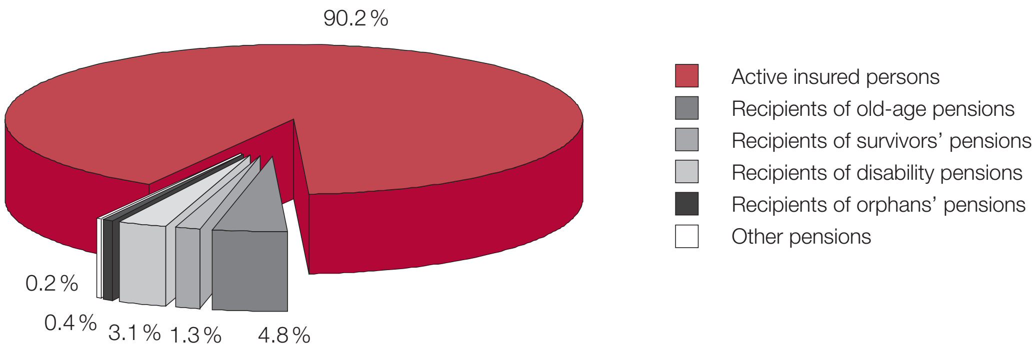
In 2007 (the final data for 2008 will only be available in summer 2009), the contributions of employees amounted to CHF 113.9 million and the contributions of employers to CHF 146.2 million, for a total of CHF 288.6 million (including special and supplemental contributions as well as deposits in employer contribution reserves).

Figure 16: Development of contributions, 2004 to 2007 (in CHF million)



The number of insured persons was 34,138 as of 31 December 2007. Of which 18,903 insured persons (55 %) belong to collective foundations, 11,546 (34 %) to company pension schemes, and 3,689 (11 %) to the pension insurance for state employees. The figure shows the breakdown of these insured persons by pension recipients and active insured persons.

Figure 17: Breakdown of insured persons by category



The self-administered financial investment of all pension schemes (not transferred to insurance undertakings) totaled CHF 3.03 billion (previous year: CHF 2.87 billion) on 31 December 2007. The foreign-currency share of these financial investments amounted to approximately 31.2 %. The weighted average performance of the collective foundations and company pension schemes was 2.1 % in 2007, the performance of the pension scheme for state employees was 0.4 %.

Figure 18: Breakdown of financial investments by investment category, 2007

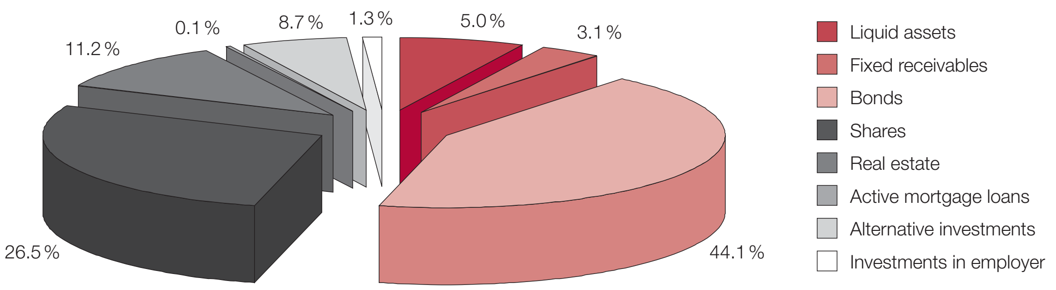
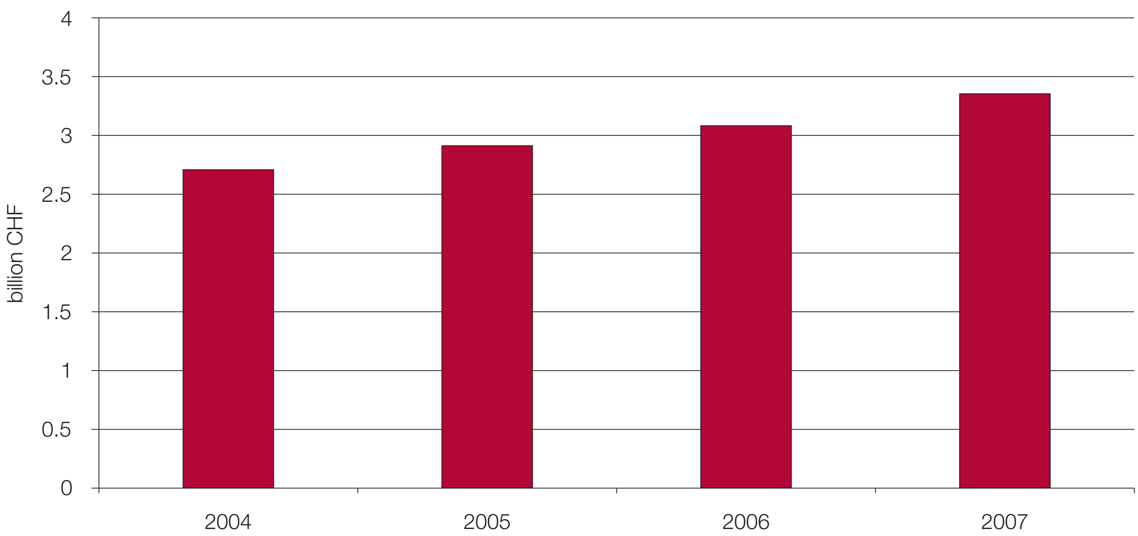


Figure 19: Development of pension capital, 2004 to 2007 (in CHF billion)



Pension capital and technical provisions amounted to CHF 3.34 billion (previous year: CHF 3.07 billion) as of 31 December 2007. Of this amount, CHF 0.92 billion belonged to the pension capital of collective foundations, CHF 1.86 billion to the pension capital of company pension schemes, and CHF 0.56 billion to the pension capital of the pension insurance for state employees. The balance sheet total was CHF 3.63 billion for 2007 (previous year: CHF 3.45 billion).

The funding ratio (net assets in % of pension capital plus technical provisions) amounted to more than 100 % for all collective foundations and company pension schemes in 2007, with one exception (98.1 %). The interest rates applicable to the pension capital fluctuated between 1.0 % and 5.0 % in 2007.

Last year, semi-annual reporting was introduced for pension schemes. With the help of this information, the developments of pension schemes can be observed and any problems of individual foundations recognized in a timely manner. The evaluations from the second half year (as of 31 December 2008) showed that, due to the tense situation on the financial markets, pension schemes also suffered in the 2008 business year. In 2008, 57 % of active pension schemes reported a funding ratio of less than 100 %. Accordingly, the fluctuation reserve used as a buffer for poor investment years has been used up by almost all pension schemes. The situation was also made worse by the fact that the pension scheme only had to begin building up a fluctuation reserve upon revision of the OPA effective January 2006. The return on investments by almost all pension schemes was negative. Nevertheless, most pension schemes intend to stick to their investment strategy for now. The interest rates for pension capital will be adjusted to the current situation in 2009.

Taking-up and termination of business operations

In the 2008 reporting year, no new pension schemes were established or placed under FMA supervision. Two collective foundations previously subject to the OPA are now subject to the Pension Funds Act, and 1 collective foundation was liquidated. On 31 December 2008, 1 collective foundation of a Swiss life insurance company and 2 company pension schemes were undergoing liquidation due to voluntary closure of business.

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 32a of the Occupational Pensions Ordinance). Accordingly, the FMA called upon all pension schemes operating in 2007 to submit reports on the 2007 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 3 (previous year: 5) company pension schemes, the audit reports contained reservations and, in one case, a qualification. These concerned: claim against the bankrupt founder company (which was remedied by the end of November 2007, however), violations of the investment limitation guidelines, and noncompliance with requirements set out in article 7, paragraph 2 OPA (delivery of contribution). These qualifications did not constitute serious problems, however.

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 in the rules and regulations. The result of the audit round for the 2007 business year can be summarized as follows:

- In most cases, the reports were submitted on time.
- The submitted reporting materials on the 2007 business year were, in most causes, 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 no pension scheme had an insufficient funding ratio, one pension scheme had an insufficient funding ratio (98.1 %) in the 2007 reporting year. It was called upon to take appropriate measures.

The FMA concluded the audit round for the 2007 business year in August 2008.

Regular on-site inspections and management meetings

In 2008, 1 on-site inspection of a collective foundation was carried out. The focus of the audit was on the organization / administration, general management, financial investment, financing, and the current situation of the foundation in question. Additionally for the first time, 2 management meetings were held with 1 collective foundation, and 2 management meetings were held with 1 company pension scheme. These management meetings are less extensive than on-site inspections. The main topics are an evaluation of the current situation, the adequacy of own funds, and planned activities concerning new products and markets.

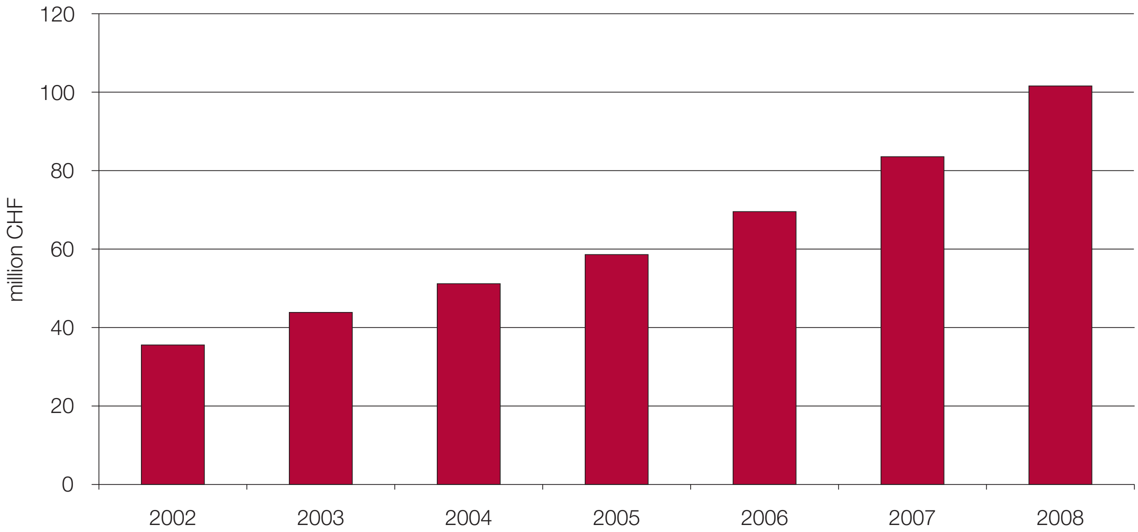
Vested benefits accounts

The use of vested benefits (asset balance of the employee upon leaving the pension scheme) is not at the free disposal of the employee. It must continue to be used for pension provision and is transferred to the pension scheme of the new employer. If this cannot be done, the vested benefits must be paid into a premium-free 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 must report statistical data on these accounts to the FMA pursuant to article 30, paragraph 6 OPA.

In the 2008 reporting year, 3 banks maintained vested benefits accounts. As of 31 December 2008, a total of 5,029 (2007: 3,697) such accounts existed, with managed capital of CHF 135.4 million (2007: CHF 111.5 million). The average amount of the vested benefits was CHF 26,914 (2007: CHF 30,166), and the average duration of the account was 1,575 days (2007: 1,586). In total, 1,946 new blocked accounts were opened (2007: 1,089) and 614 were closed (2007: 428). The applicable interest rate was between 1.5 % and 2.0 %.

Figure 20: Banks with vested benefits accounts: Total capital managed, 2002 to 2008 (in CHF million)



Verification of association

Pursuant to FMA Guideline 2008/1, inspections of proper association with a pension scheme were carried out for the first time by the Old-Age and Survivors' Insurance Authority (AHV). As part of these inspections, the AHV determined whether all employers registered with the AHV were properly associated with a pension scheme. The FMA is responsible for reassociation inspections. If a pension scheme notifies the FMA that an association agreement with an employer has been terminated, the FMA reviews whether that employer still employs persons subject to the insurance requirement and has thus joined a new pension scheme.

In 2008, the FMA carried out 81 (previous year: 74) such association inspections. In 3 cases, the FMA ordered the compulsory association of an employer with a collective foundation. In 2 of these cases, criminal charges were also filed with the Office of the Public Prosecutor.

Cash payout of vested benefits

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/she receives a full disability pension, and the disability risk is not already additionally insured by a vested benefits 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 2008, the FMA dealt with a total of 191 (previous year: 97) applications, pursuant to which the cash payout was approved in 76 (previous year: 71) cases and not approved in 53 (previous year: 26) cases.

The applications broken down by the various cash payout reasons were as follows: 72 applications due to assumption of self-employment (of which rejected: 24), 80 applications due to departure from the Liechtenstein/Swiss economic area (rejected: 18), 2 applications because the vested benefits amounted to less than one annual contribution of the insured party (rejected: 9), 8 applications due to receipt of a full disability pension (rejected: 0). Broken down by the nationality of the applicant, the figures are as follows: 29 applicants were Liechtenstein citizens, 82 Austrians, 11 Swiss, 24 Germans, 17 Spaniards, 6 from other EEA states, and the remaining 5 from states outside the EEA and Switzerland.

In total, the FMA decided on vested benefits in the amount of CHF 6.57 million (previous year: CHF 5.48 million). The decisions by the FMA may be appealed to the FMA Complaints Commission. Three cases were appealed in 2008. Two appeals were rejected, while no decision has been made yet on the third.

Combating abuse

The FMA is responsible for receiving complaints within the scope of supervision of pension schemes. In 2008, 5 (previous year: 5) complaints were filed. In 1 case, compliance by the employer with the compulsory coverage provisions under the OPA was reviewed, and in 4 other cases, the correct implementation of the OPA by a pension scheme was reviewed, especially specification of the disability pension by the pension scheme. The pension schemes were asked to comment in each case. In 4 cases, an agreement was reached, while 1 complaint was still pending as of 31 December 2008.

According to article 7, paragraph 5 OPA, the pension scheme must notify the supervisory authority within three months if the employer is in default on a contribution payment. The FMA then demands that the employer make the payment and threatens to file charges if the payment is not paid. As a consequence of such contributions in default, a total of 9 (previous year: 8) cases arose in which, pursuant to article 25, paragraph 1 OPA, the situation was referred to the Office of the Public Prosecutor. Five of these 10 criminal complaints were concluded by 31 December 2008, 4 had been referred by the Office of the Public Prosecutor to the Court of Justice, and 1 case was still pending with the Office of the Public Prosecutor.

Operational focus areas in 2008

In 2008, semi-annual reporting was introduced. The purpose of this reporting is to gain a current overview of the financial situation, inflows (contributions), the development of the assets, and solvency, and to make general ongoing supervision possible. Additionally, a Risk Assessment System for pension schemes was developed. A further focus area involved the introduction of management meetings.

Outlook for 2009

As of 1 January 2009, pension insurance for state employees was made subject to supervision by the FMA, pursuant to the Law on Pension Insurance for State Employees. This supervision will be built up in 2009. Other topics include implementation of risk-based supervision, introduction of the Risk Assessment System developed in 2008, and implementation of a Risk Radar. On-site inspections will be expanded, and management meetings will be continued.

Pension funds

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 governs institutions that offer occupational retirement provision in Liechtenstein or from Liechtenstein and may operate cross-border within the European area. Unlike pension schemes operating under the Occupational Pensions Act, pension funds are not only engaged in compulsory insurance.

Due to its existing infrastructure and know-how relating to occupational retirement provision and its flexible framework legislation, Liechtenstein is a location offering a good starting point for the formation of pan-European pension funds. The pan-European activity of pension funds within the EEA is made more difficult by tax obstacles, however, as well as the social and labor law provisions in the various host countries.

Licensing of business activities

So far, 4 pension funds have been granted a business license. Two were pension schemes which had been subject to the OPA prior to entry into force of the PFA but now fall within the scope of the PFA.

Cross-border movement of services

Pension funds licensed in Liechtenstein may also be sponsored by undertakings domiciled in another contracting party to the EEA 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 Liechtenstein pension fund is currently engaged in cross-border activities in Germany. The other Liechtenstein pension funds are currently primarily active in third countries outside the EEA.

Review of 2008 and outlook for 2009

In the second half year, semi-annual reporting was introduced in addition to the still simplified annual reporting. With the help of this information, the developments of pension schemes can be observed and any problems of individual foundations recognized in a timely manner. These reports will be further expanded in 2009, and pension funds will be included in workshops as part of the consultation process to determine the expanded requirements.

1.5 Other Financial Service Providers Supervision

Other Financial Service Providers (OFSP) Supervision faced an enormous workload in 2008. A contributing factor were the extraordinary events in the Liechtenstein financial center (tax affair). The consequences included additional workload in the supervision of due diligence. Since, independently of these developments, the OFSP division has grown steadily over the past few years, the existing organization of the division was no longer sufficient to fulfill all responsibilities in quantitative and qualitative respects. For this reason, a need-oriented reorganization of the division and an increase of resources for the provision of services in accordance with its legislative mandate were urgently necessary. The OFSP division was restructured effective 1 December 2008 and subdivided into two sections, Legal and Supervision. The goal of the restructuring and the staff expansion is a service-oriented and effective supervision as well as enhancement of expertise through specialization of the staff members.

The core responsibilities of the Legal section primarily include regulatory projects such as implementation of the 3rd Money Laundering Directive for supervision as well as specialized legal topics. The responsibilities of the Supervision section cover licensing as well as supervision of financial intermediaries in this area by way of regular and extraordinary DDA inspections.

Admission to examinations – Licenses/professional licensing

Admission to examinations

In 2008, a total of 37 people submitted applications for admission to the various professional examinations and aptitude tests. In all cases, the applicant was admitted to the examination. Three applications were withdrawn.

Twenty-five of the total of 33 candidates (76 %) passed their examination. One candidate withdrew during the examination due to illness. In the previous year, 22 out of 33 (66 %) passed.

The following table provides an overview of the admissions to examinations and the examination results in 2007 and 2008, as well as the change according to professional group.

Table 7: Admissions to examinations and results

Professional group	Examinations 2007			Examinations 2008			+/–		
	Adm.*	Rej.*	Passed*	Adm.	Rej.	Passed	Adm.	Rej.	Passed
Lawyers	15 [1)]	0	11	17 [3), 5)]	0	11	+2	0	0
Professional trustees	11	1	7	14 [4)]	0	12	+3	–1	+5
Patent attorneys	0	0	0	0	0	0	0	0	0
Auditors	7 [2)]	0	4	6 [4)]	0	2	–1	0	–2
Total	**33**	**1**	**22**	**37**	**0**	**25**	**+4**	**–1**	**+3**

* Admitted, rejected, passed
1) Of which 4 aptitude tests
2) Of which 3 aptitude tests
3) Of which 1 aptitude test
4) Of which 1 withdrawal
5) Of which 1 withdrawal (due to illness)

Licenses / professional licensing

In 2008, the OFSP division granted 80 licenses allowing natural or legal persons to engage in one of the liberal professions participating in the financial market. In 35 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, 34 licenses were cancelled.

Lawyers

The total number of persons with a license under the Lawyers Act was 327 as of 31 December 2008. Since 2003, the number of lawyers (working as natural persons) and registrable lawyers has increased, a trend that continued in the reporting year. In comparison with the previous year, the number of resident EEA lawyers and trainee lawyers increased somewhat again.

Figure 21: Development of the number of persons entered in accordance with the lists pursuant to the Lawyers Act

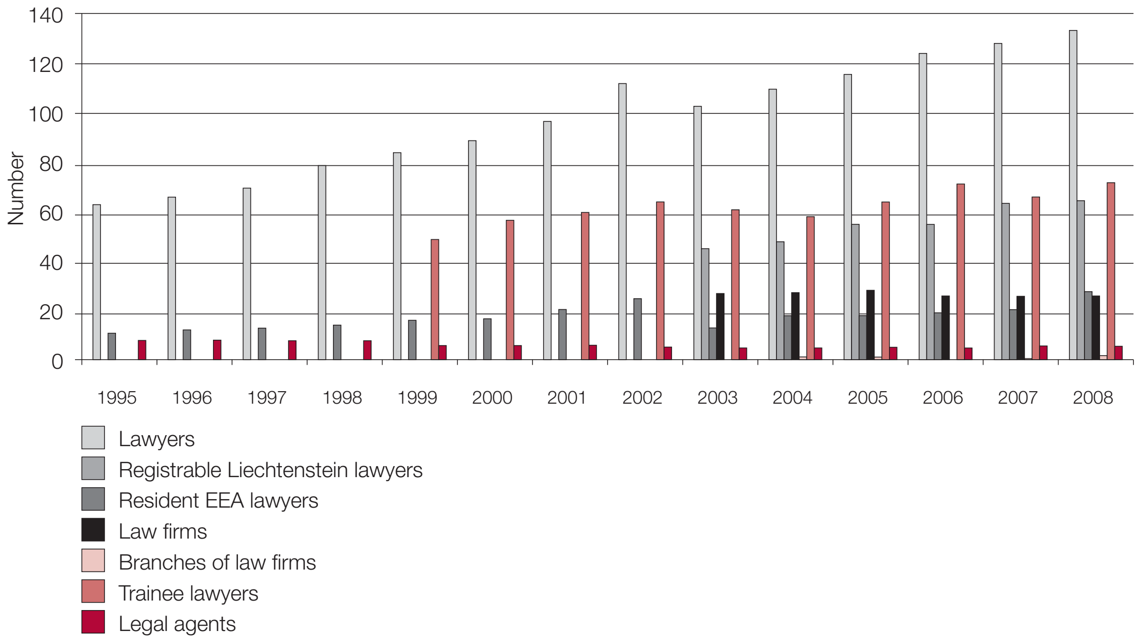


Table 8: Licenses under the Lawyers Act

Licences	2006	2007	2008
Grants	31	29	53
Amendments	20	16	12
Rejections	–	–	1
Withdrawals	–	–	–
Deletions	17	24	18

Professional trustees

Compared with the previous year, the number of licensed trust companies remained constant in 2008. The number of professional trustees (working as natural persons), restricted professional trustees, and restricted trust companies remained approximately constant. The total number of persons with licenses under the PTA was 392 as of 31 December 2008. Amendments to licenses occurred primarily as a consequence of various changes of general managers of trust companies and changes to business names.

Figure 22: Development of the number of persons licensed under the Professional Trustees Act

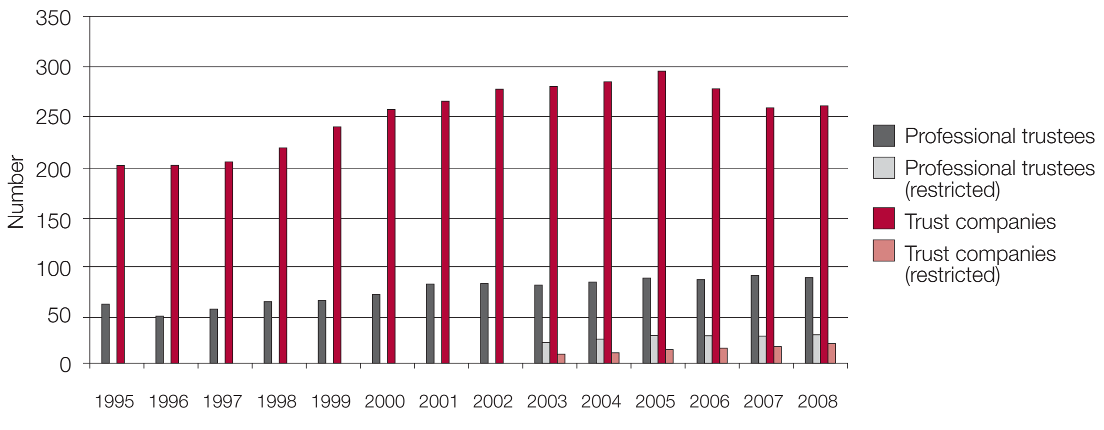


Table 9: Licences under the Professional Trustees Act

Licenses	2006	2007	2008
Grants	31	29	19
Amendments	20	16	21
Rejections	–	–	1
Withdrawals	–	–	–
Deletions	17	24	10

Patent attorneys

The number of natural persons licensed under the PAA remained constant in 2008. 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 2008.

Figure 23: Development of the number of persons licensed under the Patent Attorneys Act

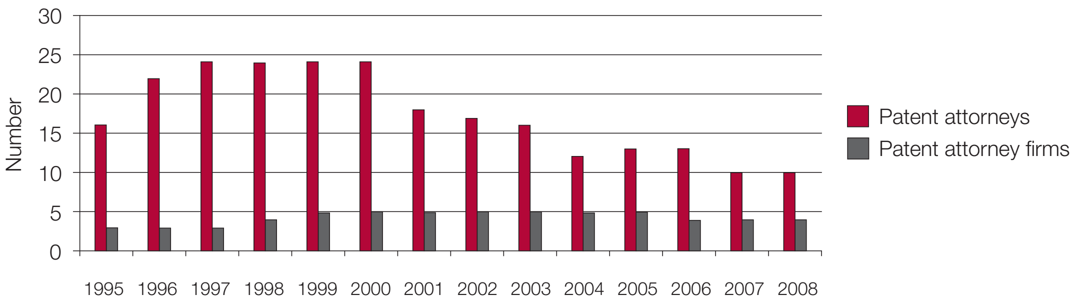


Table 10: Licenses under the Patent Attorneys Act

Licenses	2006	2007	2008
Grants	–	–	–
Amendments	–	1	–
Rejections	–	–	–
Withdrawals	–	–	–
Deletions	1	3	–

Auditors and auditing companies

With respect to Liechtenstein auditors, the number of persons licensed under the AACA did not change during the reporting year. With respect to auditing companies, a slight increase (plus 2) was observed. The number of auditing companies engaged in free movement of services, however, stayed the same compared with the previous year. The number of auditors engaged in free movement of services rose by 1. The total number of persons with a license under the AACA was 75 as of 31 December 2008.

Figure 24: Development of persons licensed under the Auditors and Auditing Companies Act

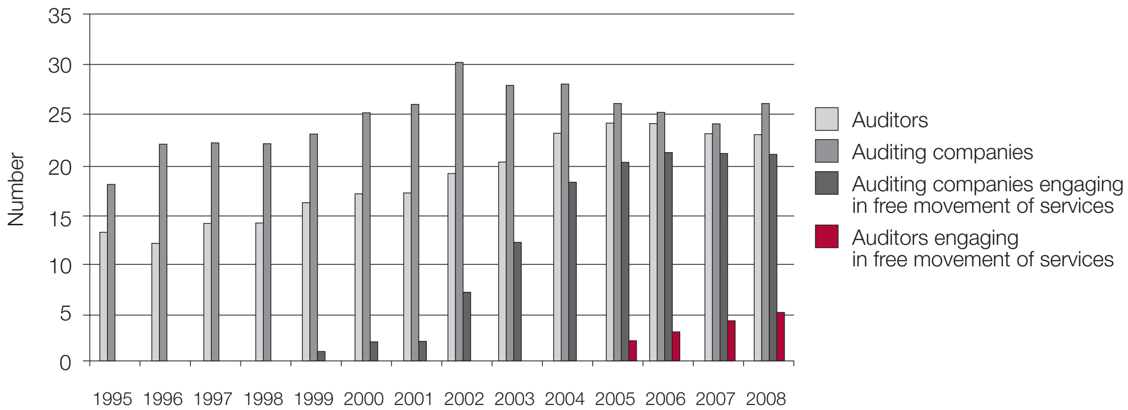


Table 11: Licenses under the Auditors and Auditing Companies Act

Licenses	2006	2007	2008
Grants	2	6	8
Amendments	3	1	2
Rejections	–	–	3
Withdrawals	–	1	–
Deletions	2	3	6

DDA supervision

In 2008, the OFSP division accompanied a greater number of regular due diligence audits in 2008 and carried out a greater number of extraordinary due diligence audits itself. Nine accompanied inspections took place.

The goal of this direct exchange with persons subject to due diligence and with due diligence auditors is to enhance quality and improve consistency in the practice-oriented application of Liechtenstein due diligence law by all parties involved.

Table 12: OFSPs subject to due diligence as of 31 December 2007

OFSPs subject to due diligence as of 31 December	2005	2006	2007
Lawyers	134	143	148
Legal agents	5	5	5
Professional trustees	421	403	389
Auditors	72	73	73
Persons with a certification under art. 180a PGR	461	495	505
Exchange offices	1	2	2
Real estate brokers	16	18	18
Dealers in high-value goods	17	37	38
Other persons subject to due diligence	21	28	28
Total	**1,148**	**1,204**	**1,206**

Regular due diligence inspections

The sample chosen by the OFSP division in 2008 included approximately 507 natural and legal persons (2007: 333). The strong increase in inspections was due to the general size of the audit sample in 2008 and was not due to an increase in the number of persons subject to due diligence.

In the further selection procedure, the OFSP 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, whether such transactions had been carried out in the audit year 2007. This was true of 332 natural and legal persons.

These 332 identified OFSPs were then consolidated into 89 groups, each of which was assigned an auditor or auditing company. In April 2008, 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. Except for 3 audit reports, all audit reports were received by the OFSP division by the end of 2008 and were evaluated. 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 2008 and 31 December 2008. If this was the case, the OFSP division generally carried out the regular due diligence audit itself, on the basis of the annual report of the OFSP in question. In 2008, the OFSP division conducted 56 such inspections of dealers in high-value goods and real estate brokers.

During the evaluation of all the audit reports, the most deficiencies were found in regard to compliance with or implementation of due diligence obligations in the areas of "identification of contracting party", "profiles of the business relationship", and "transaction records".

Many of the audit reports contained recommendations by the due diligence auditor to remedy the abovementioned weaknesses. In total, 248 qualifications were noted. The qualifications were remedied during the inspections or within the imposed deadline. In some cases, additional follow-up inspections were carried out.

Extraordinary due diligence audits

The OFSP division carried out a total of 9 extraordinary inspections. Four inspections concerned due diligence deficiencies regarding client relationships. Doubts had arisen concerning the guarantee of sound and proper business conduct and activities. Because of circumstances appearing to endanger the reputation of the Liechtenstein financial center, the OFSP division audited whether 3 financial intermediaries fully complied with their due diligence obligations.

The suspicion that a person with an authorization pursuant to article 180a PGR was carrying out activities requiring a license as a professional trustee resulted in a further inspection.

Since 1 professional trustee was suspected of engaging in asset management activities without a license, he was also inspected on an extraordinary basis.

Supervision practice

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

In December 2008, 1 report was submitted to the FIU on suspicion of penny stock fraud. At the same time, the situation was explained to the Court of Justice. In 1 case, the FMA filed charges with the Office of the Public Prosecutor.

FMA Communications

The Financial Action Task Force (FATF) provided information twice on the deficiencies in combating money laundering and terrorist financing in Uzbekistan, Iran, Pakistan, Turkmenistan, São Tomé and Principe, and the northern part of Cyprus. The FMA consequently called upon all persons subject to due diligence to take account of the FATF's findings on these countries pursuant to the DDA. The FMA sent out a similar notice pursuant to information from MONEYVAL concerning Azerbaijan.

Combating abuse

A higher number of cases of abuse were observed on the Internet in 2008. Companies unlawfully used false designations, company names were misused, and unauthorized activities were carried out. In general, more cases with international connections were observed.

To prevent violations of company names and statements of purpose, the OFSP division strengthened cooperation with the competent authorities. Entries in the Public Registry and applications for commercial licenses were subject to a stricter evaluation. The deficiencies criticized by the OFSP division were quickly remedied by the persons concerned.

Review of 2008

In 2008, Liechtenstein introduced the profession of "salaried lawyer" in analogy to the provisions in the neighboring countries of Switzerland and Austria as well as Germany. The Liechtenstein Chamber of Lawyers was included in the discussions leading up to this change.

In addition to the already existing forms of lawyer, two additional forms now exist as of 2008:

– Independent lawyer as an individual or as part of a partnership (as before)
– Salaried lawyer with the status of a partner in a legal person (as before)
– Salaried lawyer working for a legal person (possibly with the additional function of general manager and/or member of the board of directors) (new as of 2008)
– Salaried lawyer working for a natural person or other lawyer (new as of 2008)

The disclosure of the theft of client data at the beginning of the year put the focus on the topic of data security, both on the financial market and in supervision. Other financial service providers were able to submit to a voluntary review of their data security and receive advice on potential improvements. For this purpose, the FMA prepared external auditors in a special workshop.

Outlook for 2009

In 2009, practical implementation of the "Risk-based Supervision" concept, especially in conjunction with implementation of the 3rd Money Laundering Directive, will be the focus of activities. In this connection, dialogue with the professional organizations and the financial intermediaries will be further strengthened.

Implementation of the 3rd Money Laundering Directive will entail numerous changes, such as the introduction of sectoral agreements, the organization of information events on the amended due diligence obligations, the registration and briefing of persons newly subject to due diligence, and also adjustments to the sample audit report for carrying out due diligence audits.

In this connection, the FMA Web site will be enhanced as a communication platform to provide the financial center with information in a useful format on national and international developments in a timely manner as well as with FAQs and other interpretation aids, guidance, etc.

REGULATION

2.1 Banking and Securities Supervision

The Government mandates the FMA to develop certain proposals for laws and ordinances that fall within the Government's responsibility, primarily regarding implementation of EU law. This section discusses these projects as well as other FMA regulatory projects including FMA Communications. Only the most important regulatory projects are discussed.

Completed regulatory projects

Partial revision of Market Abuse Act

The volume of worldwide trade in financial instruments has steadily increased. Modern means of communication allow rapid trading, and worldwide networks make complex transactions possible even on short notice. Especially in order to secure public trust in the financial instruments and market integrity of the Liechtenstein financial center, the Market Abuse Act (MAA) governs the investigation and suppression of market abuse such as insider dealing or market manipulation. So far, the MAA focused on market instruments listed on a regulated market in the European Economic Area (EEA). This was changed with entry into force of the partial revision of the MAA on 26 August 2008.

Pursuant to this expansion of the scope of the MAA, market abuse can now also be combated with respect to financial instruments not listed on a regulated market, but rather "only" on a supervised market. The term "supervised markets" covers regulated markets as well as partially regulated markets or markets supervised by government-recognized authorities.

This change affects administrative assistance in particular. Due to the expanded scope of the MAA, the FMA is now able to obtain and also grant administrative assistance in all important cases of internationally investigated market abuse. This possibility for the FMA not only serves to combat market abuse, however, but also represents a basic condition for international recognition of the Liechtenstein financial center.

The partial revision of the MAA is also another step toward fulfillment of the IOSCO standard. IOSCO membership is of the utmost importance for the international recognition of financial intermediaries, the supervisory authority, and the Liechtenstein financial center.

Total revision of the Disclosure Act and Disclosure Ordinance

The goal of the total revision of the Disclosure Act was to implement the transparency requirements of European law relating to investment services into Liechtenstein law. The Transparency Directive to be transposed as well as its implementing directive envisage an improvement of the quality and quantity of the information provided by issuers to investors. Issuers are required to regularly comply with their information and disclosure obligations. A new obligation has been created for the general management to publish semi-annual as well as interim reports. A differentiated publication requirement exists, ranging from active notification of investors to passive "making available" of information. With respect to information obligations, a distinction is also made between periodic and case-related obligations.

In a change to existing law, the revised Disclosure Act also introduces new threshold values for significant holdings. When these thresholds are reached or crossed in either direction, shareholders are required to notify the issuer and the FMA.

The revised Disclosure Act entered into force on 1 January 2009.

Partial revision of Investment Undertakings Act

The markets for investment undertakings are subject to various legal, economic, and competitive developments. This is not without consequences for the Liechtenstein fund center. Stricter national rules have led to competitive disadvantages for Liechtenstein investment undertakings relative to developments in the EEA. This fact formed the basis for the partial revision of the Investment Undertakings Act (IUA), which entered into force on 29 December 2008.

The revision covered three areas:

- Investment undertakings that are not investment undertakings for securities may now delegate investment decisions to their custodian bank.
- At the legislative level, a basis has been created for transposing article 11 of the UCITS implementing directive into the IUO (Investment Undertakings Ordinance). This article allows funds with the currently very popular 130/30 investment strategies to be floated.
- Due to lack of practicality, the old deadline of six months after receipt of the license for achieving minimum net assets has been eliminated. The deadline and the beginning of the period will now be fixed at the ordinance level, taking account of the fact that other countries with strong financial centers offer far more generous deadlines.

Pending regulatory projects

Creation of Payment Services Act and Ordinance (Directive 2007 / 64 / EC)

The reason for the creation of the Payment Services Act (PSA) and the Payment Services Ordinance (PSO) is the obligation arising from the EEA Agreement to implement EU directives. This obligation also applies to Directive 2007 / 64 / EC on payment services in the internal market.

The directive establishes comprehensively harmonized, simple, and efficient rules governing payment services within the EEA. It governs the rights and duties of both payment service users as well as payment service providers. Payment institutions are classified as new financial intermediaries.

Consultations on the Government proposal were concluded the end of 2008. The PSA and PSO should enter into force on 1 November 2009.

Partial revision of the Banking Act, Banking Ordinance, AMA, AMO, IUA, and IUO (Directive 2007 / 44 / EC)

The amendments to the abovementioned enactments are pursuant to implementation of Directive 2007 / 44 / EC which, upon incorporation into the EEA Agreement, harmonizes prudential assessment of acquisitions and increases of holdings in the financial sector throughout the EEA, i.e. the prudential approach to qualified holdings.

As part of this harmonization, both formal (audit procedure) and material (audit criteria) aspects of prudential assessment are set out.

For purposes of implementation, the rules contained in the directive regarding individual insurance intermediaries was separated out. These rules will be included in the ISA and the ISO, together with implementation of the Reinsurance Directive.

The Government Report and Application for this revision (No. 161 / 2008) was considered by Parliament in December 2008.

Partial revision of the IUA and the IUO

The IUA and the IUO contain interpretative latitude for the definition of securities. The partial revision aims to eliminate these ambiguities and create new basic terminology. The goal is for Liechtenstein to eliminate uncertainties arising from community (EEA) law.

Completed FMA regulations

In connection with implementation of MiFID, guidance was issued in three areas, covering the notification, recording, and publication of transactions with financial instruments.

Pending FMA regulations

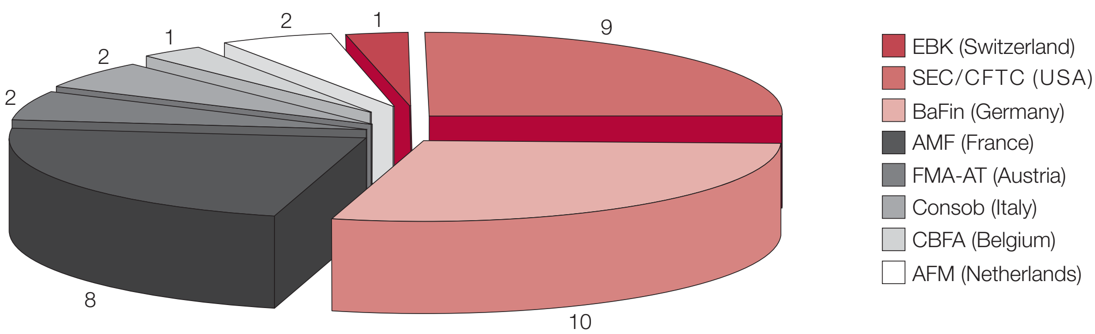
Creation of risk reporting

Risk management for purposes of this report covers the definition of appropriate risk strategies and the establishment of risk management and risk control processes. These strategies and processes seek to ensure that sufficient internal capital is available to cover all significant risks. The risk report constitutes the basis for audit activities by external auditors and Banking Supervision.

Statistics on administrative practice relating to MAA and Banking Act

The year 2008 saw an enormous increase (75 % more than the previous year) of requests for administrative assistance submitted to the FMA by foreign supervisory authorities. This increase certainly also contributed significantly to the amendment of the MAA (see above), given that about a third of the requests for administrative assistance received concern financial instruments listed on a market that was "only" supervised, not regulated.

Figure 25: Authorities request administrative assistance relating to market abuse, 2008 (number of requests)



2.2 Insurance Supervision

Completed regulatory projects

Implementation of 5th EU Motor Insurance Directive

The 5th EU Motor Insurance Directive 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. Insurance protection for pedestrians, cyclists, and other nonmotorized users of the road has been improved, and settlement of claims has been accelerated. The directive also simplifies insurance changes for policyholders as well as access to compulsory insurance coverage in the case of cross-border fact patterns. Implementation into national law required revision of the Road Traffic Act, the Traffic Insurance Ordinance, and the Insurance Supervision Ordinance. The amendments entered into force on 1 February 2009.

Pending regulatory projects

Implementation of EU Reinsurance Directive

Implementation of the Reinsurance Directive into Liechtenstein law (ISA, ISO) is scheduled to be complete in the third quarter of 2009. Pursuant to the directive, the principle of authorization and solvency supervision by the home country authority will be expanded to include reinsurance undertakings.

The directive governs licensing conditions and contains extensive provisions on capital adequacy, solvency margins, and technical provisions for reinsurance undertakings. The revision will also be used to codify other points that have arisen in supervision practice. In particular, the obligation to appoint an actuary will be introduced for non-life insurance undertakings, as well as a stronger risk management obligation for insurance undertakings. Further specification of the FMA's responsibilities and powers to seize measures is another modification that will be included as part of implementation of the Reinsurance Directive.

Solvency II

Under the new system of Solvency II, insurers and reinsurers will be required to take account of all types of risk and to manage such risks more effectively. They will have the choice of calculating their solvency capital requirements using either the European Standard Formula or an internal model.

The goal of Solvency II is to improve consumer protection, modernize supervision, strengthen integration of the markets, and improve the international competitiveness of European insurers. The EU framework directive on Solvency II is expected to be adopted by the EU in 2009. The implementation work begun by the FMA in 2008 will be continued in 2009.

2.3 Other Financial Service Providers Supervision

Completed regulatory projects

Abolition of residency requirement

Liechtenstein law previously required Liechtenstein residency for persons applying to take the lawyer, patent attorney, auditor, or professional trustee examinations. These provisions constituted a limitation of free movement of persons and freedom of establishment, thus contradicting the EEA Agreement.

Against this backdrop, the requirement of Liechtenstein residency for participation in the professional examinations was eliminated in the relevant ordinances. The amendments entered into force on 4 February 2008.

Implementation of Professional Qualifications Directive

The purpose of implementation of the EU Professional Qualifications Directive 2005 / 36 / EC into national law is in particular the automatic recognition of professional qualifications among EEA countries. Under the new rule, a person wanting to move to Liechtenstein and offer services here must provide evidence of professional qualifications corresponding at least to the level of education immediately below the Liechtenstein level.

The changes concerned the Professional Qualifications Act (PQA) as well as the profession-specific laws (Lawyers Act, Professional Trustees Act, Patent Attorneys Act) and their ordinances. The amendments entered into force on 1 August 2008.

Pending regulatory projects

Implementation of Statutory Audit Directive

The goal of implementing the EU Statutory Audit Directive 2006 / 43 / EC is to improve the reliability of annual financial statements of undertakings by defining international quality standards. After implementation of the directive, the FMA will play the role of quality assurance office. This means that the FMA will conduct quality assurance audits. Another responsibility will be to maintain a public register. The consultation procedure is scheduled for 2009.

Implementation of 3rd EU Money Laundering Directive

On 1 March 2009, the new Due Diligence Act (DDA) and the new Due Diligence Ordinance (DDO) will enter into force. Both enactments will be totally revised as part of implementation of the 3rd EU Money Laundering Directive 2005 / 60 / EC. In the course of the total revision, other directives will be implemented into national law in addition to the 3rd EU Money Laundering Directive: The PEP Directive 2006 / 70 / EC, Regulation (EC) No. 1781 / 2006, and the recommendations by the International Monetary Fund from its last assessment of Liechtenstein in 2007. The 3rd EU Money Laundering Directive is based on the revised 40+9 Recommendations of the Financial Action Task Force (FATF) from 2003.

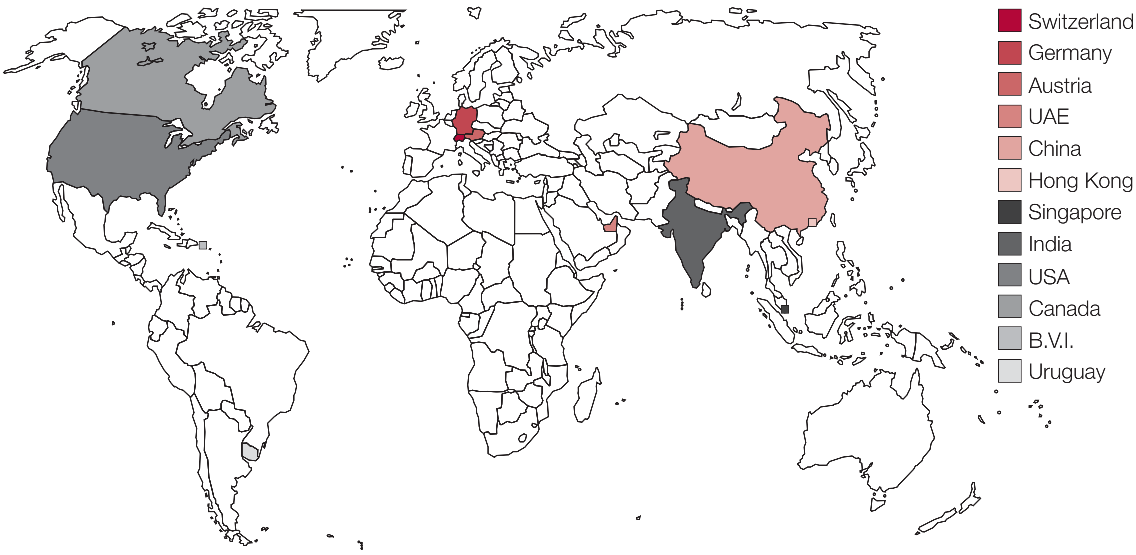
Implementation of the 3rd EU Money Laundering Directive will in particular expand the scope beyond pure financial transactions, in order to avert the danger of money laundering and terrorist financing spreading to nonregulated areas. Due diligence will also be aligned more strongly than before with a risk-based approach. This will also entail amendments to FMA Guidelines and FMA Communications as well as the enactment of new FMA Communications. In addition, the FMA will work together with the professional organizations concerned to develop sectoral agreements which will be used by persons subject to due diligence as specification and interpretation aids.

Implementation of Services Directive

The goal of the EU Services Directive 2006 / 123 / EC is to eliminate the legal and administrative obstacles to the provision of services in the EU and the EEA, in order to create a true internal market for services. From the perspective of the FMA, the directive affects the liberal professions in particular. Clarifications so far have shown that the FMA will probably not have to engage in modification of the specialized legislation for the financial industry.

EXTERNAL RELATIONS

Figure 26: World map with FMA bilateral contacts



3.1 National external relations

The FMA continued to maintain close contact with its national stakeholders in 2008. Cooperation with financial intermediaries and the stakeholder organizations in the first half of 2008 was shaped in particular by the events relating to the theft of data from Liechtenstein financial intermediaries. In the second half of 2008, the focus was on the financial crisis.

In this connection, a working group was appointed consisting of representatives of the Government, various offices of the National Administration, and the FMA, which dealt with the consequences of the financial crisis (crisis monitoring) and the development of emergency plans (crisis management). Also in the Lehman Brothers and Madoff cases, the FMA was in close contact with financial intermediaries and stakeholder organizations, facilitating a real-time analysis of the impact on the Liechtenstein financial center.

3.2 International external relations

The FMA engaged in numerous efforts again in 2008 to open up and ensure continuing access to foreign markets for Liechtenstein financial intermediaries.

The FMA also attached great importance to further improvement of consolidated supervision. This proved to be valuable especially against the backdrop of the current financial crisis. The FMA maintained close contact with its partner authorities in Switzerland and Austria in order to gain a real-time picture of the parent institutions and subsidiaries in these countries. This contact resulted in intensive exchange of experiences. The various authorities presented each other with their supervision instruments used for crisis monitoring and management.

Global cooperation

IMF final reports

At a media conference in June 2008, the FMA presented the final report of the International Monetary Fund (IMF) on its spring 2007 assessment of the Liechtenstein financial center and the FMA Liechtenstein. The IMF's praise of the establishment and work of the FMA was extremely positive. The IMF also praised the high rate of implementation of the recommendations from the 2002 IMF assessment. In comparison with the 2002 assessment, Liechtenstein was classified in the highest category according to all criteria in the field of banking supervision. In the field of securities supervision, 6 criteria needed to be fulfilled. Four were classified in the highest category and 2 in the second-highest category.

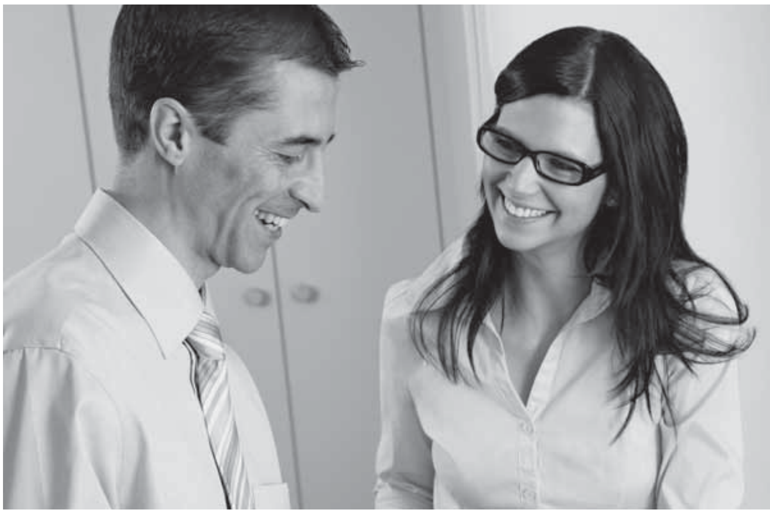
Since the IMF assessment in spring 2007, the FMA already achieved further progress in the following areas with respect to both regulation and supervision of the financial sector:

- Appointment of additional specialized staff
- Increased number of on-site inspections
- Transition to risk-based supervision in all financial areas
- Cross-sectoral introduction of a Risk Assessment System (RAS)

The recommendations of the IMF already published in March on intensifying prevention and prosecution of money laundering were also taken up.

Moneyval Progress Report 2008

The Moneyval committee of the Council of Europe on the evaluation of national anti-money-laundering measures and the financing of terrorism published the report of its third evaluation round of Liechtenstein in March 2008. The report analyzes the implementation of international and European



norms in the fight against money laundering and terrorist financing and assesses compliance with the 40+9 Recommendations of the Financial Action Task Force (FATF). It also contains a recommended plan of action for improving systems to combat money laundering and terrorist financing in Liechtenstein.

The report was prepared by the International Monetary Fund (IMF) as part of a cooperation agreement between the IMF and Moneyval.

The recommendations contained in the report met with a positive response. Nearly all recommendations were taken into account as part of implementation of the 3rd EU Money Laundering Directive. For this reason, the FMA was already able to report in December 2008 on the progress achieved in the course of DDA revision, as part of the progress-reporting procedure envisaged by Moneyval.

Dialogue with IOSCO

In 2008, the FMA continued its efforts to become a member of IOSCO, the International Organization of Securities Commissions. IOSCO plays the leading roll in the establishment of international standards in the field of securities supervision. IOSCO membership is therefore essential for the recognition of Liechtenstein financial intermediaries abroad. IOSCO membership is increasingly considered a precondition for access to foreign securities markets.

The conditions for IOSCO membership now include signature of the IOSCO Multilateral Memorandum of Understanding (MMoU). For the first time, this agreement establishes an international standard for cooperation and worldwide information exchange among securities supervision authorities. This MMoU must be signed by all IOSCO members. The supervisory authorities must first undergo a detailed review to determine the extent to which they are able to cooperate in accordance with the MMoU's provisions.

International Association of Insurance Supervisors (IAIS)

Liechtenstein is a member of the International Association of Insurance Supervisors. Liechtenstein takes part in its annual meetings. The main responsibilities of the IAIS are cooperation for the purpose of ensuring efficient supervision of insurance undertakings as well as mutual support for ensuring economically healthy insurance markets. The focus of work in the reporting year, due to the financial crisis, was in particular information exchange and coordination among supervisory authorities as well as the continuing development of international supervisory standards.

International Organisation of Pension Supervisors (IOPS)

IOPS is the international umbrella organization of supervisory authorities for institutions for occupational retirement provision. The goals of IOPS include the elaboration of international standards, the promotion of international cooperation, and the establishment of a worldwide forum for the exchange of information concerning supervision of institutions for occupational retirement provision. The FMA Liechtenstein took part in the annual meeting for the first time in the reporting year.

European cooperation

Within the framework of Liechtenstein's EEA membership, FMA representatives participated in the following EU bodies in 2009:

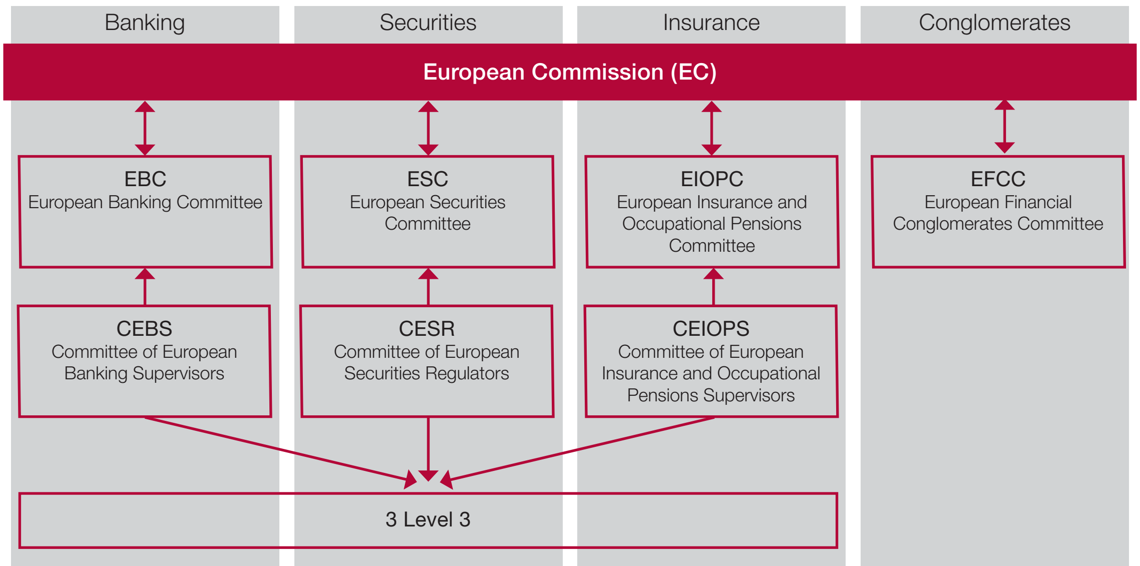
Level 2 (see Figure 27)
- European Securities Committee (ESC)
- European Insurance and Occupational Pensions Committee (EIOPC)

Level 3 (see Figure 27)
- Committee of European Banking Supervisors (CEBS)
- Committee of European Insurance and Occupational Pension Supervisors (CEIOPS)

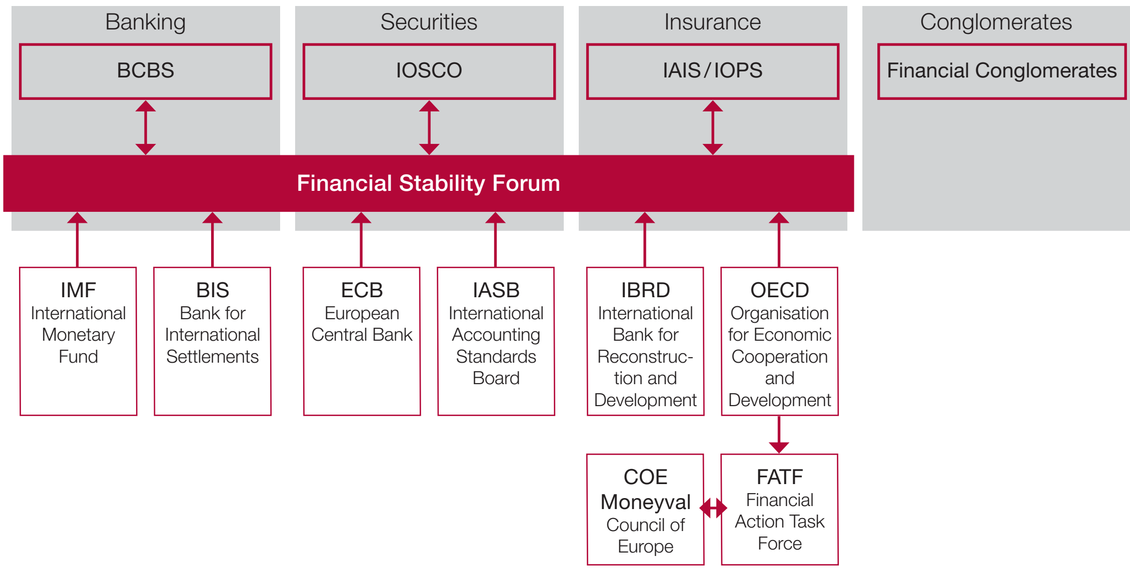
At the EFTA level, the FMA took part in meetings of the Working Group on Financial Services (WGFS) and the EFTA Board of Auditors (EBOA).

Figure 27: International supervisory and regulatory bodies

Europe



Global



CEBS

The Committee of European Banking Supervisors (CEBS) is composed of representatives of the competent supervisory authorities and the central banks acting as supervisory authorities. As an EEA member, Liechtenstein has observer status on this committee. CEBS advises the European Commission in the preparation of draft implementing provisions for European directives and contributes to a consistent implementation of European Community directives and to an improvement and harmonization of supervisory practices within the European Community. CEBS also elaborates joint recommendations on questions of application and interpretation of directives. Additionally, CEBS offers supervisory authorities a platform for exchanging information relevant to supervision law. The committee also consults market participants.

Due to the financial crisis, the focus of the CEBS's work was on information exchange and coordination of crisis management among the various supervisory authorities. Moreover, CEBS advised the Commission especially on the Capital Requirement Directive. In this connection, interpretation aids on capital adequacy requirements, large exposures, liquidity, and national discretions were developed.

CEIOPS

The activities of the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS) was also overshadowed by the financial crisis in 2008. A further focus of its work concerned Solvency II, the new supervisory and equity capital regime for this field. The activities of CEIOPS also included Pillar I / II / III (3-pillar system) as well as work relating to the Insurance Group Directive.

MoU on financial stability

In the reporting period, FMA Liechtenstein signed the Memorandum of Understanding (MoU) on cooperation within the EU on cross-border financial stability elaborated by the European Financial Committee (EFC). The goal of the MoU is to strengthen cooperation among EEA authorities involved in managing and solving a financial crisis. Specifically, this concerns the supervisory authorities, the central banks, and the finance ministries. The MoU requires all contracting parties to engage in cross-border cooperation with the competent authorities, both in times of crisis and in times of no crisis (crisis preparedness). The MoU aims to improve the management and overcoming of cross-border systemic financial crises. The goals formulated in the MoU were overtaken by events, however, as the financial crisis broke out. The creation of the structures envisaged to implement the MoU could in many cases not be completed.

Bilateral cooperation

Bilateral cooperation and information exchange with other European supervisory authorities was intensified, especially in connection with more in-depth monitoring by the FMA in the context of the financial crisis. Cooperation with foreign partner authorities is also an important precondition to gaining access to international markets for Liechtenstein financial intermediaries.

Bilateral cooperation

Bilateral MoUs

Both in the banking sector (MoU with Austria) and in the securities sector (MoU with China), new bilateral memoranda of understanding were concluded in 2008. The FMA has also begun negotiating an MoU with the Indian securities supervision authority. These agreements, which do not change the legislative framework for the FMA's supervisory activity, simplify and accelerate the FMA's practical supervisory activities in the case of cross-border fact patterns.

MoU with China

The FMA Liechtenstein is the 38th authority with which the China Securities Regulatory Commission (CSRC) has successfully concluded an MoU. This MoU contributes to a further improvement of cooperation and also creates the basic conditions for Liechtenstein financial intermediaries to obtain the status of Qualified Foreign Institutional Investor (QFII) in China. This status permits investments in the Chinese securities market.

MoU with Austria

In 2008, an MoU was concluded between the FMA Liechtenstein, the Austrian Federal Ministry of Finance, the Austrian Financial Market Authority, and the Austrian National Bank regarding cooperation in the field of banking supervision. Conclusion of this MoU seeks to ensure the best possible cooperation within the framework of legal provisions in the supervision of cross-border credit institutions. Cooperation includes the topics of licensing, ongoing supervision of cross-border institutions, and ongoing supervision of cross-border provision of services, as well as the requisite information exchange for these purposes.

MoU with India

Last year, the FMA began negotiating an MoU with the Securities and Exchange Board of India (SEBI). For this purpose, the FMA engaged in intensive contacts with the representatives of the Indian supervisory authority. The envisaged MoU will establish future cooperation between the SEBI and the FMA, thereby giving Liechtenstein financial intermediaries market access to the Indian securities market.

Cooperation with SNB and SFBC (now FINMA)

The FMA traditionally maintains close contacts with the Swiss National Bank and the Swiss Federal Banking Commission. The FMA's goal is to institutionalize these contacts with respect to consolidated supervision. Against the backdrop of the financial crisis, these efforts were further enhanced. As part of intensified crisis monitoring, the FMA was in regular contact with the staff members of FINMA (formerly SFBC) responsible for supervision of Liechtenstein parent institutions and subsidiaries. Moreover, experiences relating to the prudential measures taken in connection with the financial crisis were exchanged. At the invitation of the SFBC, the FMA Liechtenstein also presented the measures it has taken in the field of data security.

Cooperation with FOPI (now FINMA)

The FMA and the competent Swiss supervisory authority (Federal Office of Private Insurance, now FINMA) represent the two contracting parties of the Direct Insurance Agreement (Agreement between the Principality of Liechtenstein and the Swiss Confederation on Direct Insurance and In-

surance Mediation of 19 December 1996, LGBl. 1998 No. 29). The Joint Commission and its working group considered and further developed important supervisory issues in 2008 and discussed questions and problem cases in connection with cross-border activities.

Cooperation with OeNB and FMA Austria

This year, the FMA Liechtenstein had intensive contact with the Austrian FMA and the Austrian National Bank (OeNB). In addition to preparatory work for conclusion of the MoU (see above), the focus was primarily on cooperation within the context of intensified crisis monitoring. Here as well, the developments concerning the parent institutions of Liechtenstein banks were observed in detail.

Meeting with BCSC (British Columbia) and SEC (USA)

The context of this visit was to clarify accusations that market manipulation had been carried out via market participants. In this connection, trading via a Liechtenstein financial institution had been prohibited. At this meeting, the FMA explained to its foreign partners the prudential measures taken by the FMA in this connection as well as the legal framework applicable to information exchange. As a trust-building measure, these meetings constituted an important basis for further cooperation and continuing access of Liechtenstein investors to the markets in question.

Meeting with HKMA and MAS

Because of the presence of Liechtenstein financial intermediaries in Hong Kong and Singapore, the Hong Kong Monetary Authority (HKMA) and the Monetary Authority of Singapore (MAS) are among the most important partner authorities in the field of consolidated supervision. For this reason, the FMA endeavors to maintain good contacts with these authorities. As part of a working meeting, questions arising from consolidated supervision were discussed and other forms of cooperation were coordinated.

ENTERPRISE

The FMA has been operational since 1 January 2005. As is the case for every young company, work is necessary to consolidate and build up the organization so that the enterprise can adjust to its own growth and the steadily changing framework conditions and expectations as well as to ensure proper operations. Due to the extraordinary events in the reporting year, several measures to adjust and build up the organization had to be undertaken in 2008, earlier than originally planned.

The FMA has adjusted its structural organization and also further developed its infrastructure and various processes and tools as part of corporate development. Implementation of these measures took place against the backdrop of the strong tension between optimal management of growth, permanent assurance of the necessary security, and sustainable administration of costs.

4.1 Structural organization

Other Financial Service Providers Supervision (see Figure 29: FMA Organizational Chart) was reorganized into two sections, Supervision and Legal, in order to achieve efficiency and quality gains through clearer delineation of responsibilities and competences.

In Banking and Securities Supervision, international cooperation and representation of the FMA in international bodies was newly assigned to the International Affairs organizational unit.

4.2 Corporate development

Human resources management

The insufficient staffing levels already identified in the IMF assessment in 2007 were somewhat defused by the FMA in the reporting year thanks to successful staff recruitment. The strong staff growth brought the existing human resources management to the limits of its capacities, however. Accordingly, everyday workload increased substantially (numerous recruitments and new entries, care of existing staff members, processing of exits, clarification of various special questions regarding labor law, support of line supervisors, and advising of Board and General Management, etc.).

This necessitated a determination of the legal, organizational, and cultural foundations of the FMA's human resources management, a clear definition of responsibilities and competences, uniform and efficient processes, and the elaboration of appropriate aids for managers, staff members, and human resources administrators. Accordingly, existing human resources management – which was originally conceived for a staff of about 30 – was professionalized and adjusted to the FMA's growing size to be able to support all target groups properly and in a sustainable manner.

Specifically, integrated human resources management covers the following topics:

- Human resources planning
- Human resources marketing
- Recruitment
- Staff induction
- Staff development
- Staff motivation
- Exit management
- Human resources administration
- Controlling and reporting

Infrastructure

The strong increase in staff numbers led to bottlenecks in the available premises (office and meeting rooms). The FMA undertook massive efforts to sustain normal operations despite the suboptimal conditions. However, it soon became apparent that the headquarters at Heiligkreuz 8 would no longer be enough in the long term to offer all staff members adequate workspace and sufficient rooms for client meetings. In summer 2008, alternatives were therefore sought. After detailed review of various projects, the General Management and Board decided to move into new headquarters in autumn 2010. The Immagass building in Vaduz is still under construction and will be rented by the FMA.

IT

Adequate IT support is of the utmost importance in ensuring the client-oriented and risk-appropriate fulfillment of a supervisory authority's mandate. Also against the backdrop of the FMA's strong growth and the changing demands and needs, the existing systems were analyzed and the potential for optimization identified. The aspect of data security was subject to particular scrutiny. Implementation of appropriate measures is being planned and will be considered by the FMA in the coming years as well.

Accounting

Accounting is an important guidance tool for the Board and the General Management. A concerted further development of accounting was therefore undertaken in the reporting year, in order to better fulfill the needs of internal and external information recipients against the backdrop of the developments described above. The focus of the further development was on the budgeting process, controlling, and cash management.

Terms of reference

The rapid development and growth of the FMA also necessitated a review of the existing terms of reference. These govern the allocation of tasks, competences, and responsibilities of the Board, the General Management, and the heads of division and section. New terms of reference will be drafted in order to manage the FMA according to private-sector principles.

Reporting

Internal and external reporting will henceforth be reinforced and improved with the help of standardized documents and processes. The existing reporting system for the monthly and quarterly reports to the General Management and Board as well as external partners has been professionalized and supplemented with additional governance benchmarks and reporting content.

4.3 Finances

The financial statement for the 2008 business year includes expenses of CHF 16,442,305 and income of CHF 16,196,282. The year 2008 therefore ended with a deficit of CHF 246,024 (previous year: surplus of CHF 302,367), which will be covered by reserves. Material expenses amounted to CHF 7,832,362 (previous year: CHF 1,892,121), corresponding to 48 % of total expenses. This strong increase by CHF 5,940,241 is due to higher costs in the areas of expert opinions/fees, auditing companies and corporate development (anticipated one-off investments). Personnel expenses amounted to CHF 8,418,079 in the 2008 business year (previous year: CHF 5,996,775), rising by CHF 2,421,034. To cover the additional investments, Parliament approved a subsequent credit of CHF 6,652,000.

Balance sheet as of 31 December 2008 (in CHF)

Assets	2008	2007
Fixed assets		
Tangible assets		
IT equipment	103,225.26	22,385.72
Furnishings	283,185.37	248,273.80
Current assets		
Liquid assets		
Cash	255.35	603.20
Bank	5,920.80	32,139.70
Call money	1,738,000.00	2,190,000.00
Fixed-term deposits	1,000,000.00	–
Receivables		
Debtors	217,313.89	244,347.10
National Administration offset account	–	1,639,920.84
Accrued items		
Accounts paid in advance	3,787,591.90	45,755.00
– vis-à-vis Office of Financial Accounting	*3,500,000.00*	–
– other accounts paid in advance	*287,591.90*	*45,755.00*
Total Assets	**7,135,492.57**	**4,423,425.36**

Liabilities	2008	2007
Equity capital		
Endowment	2,000,000.00	2,000,000.00
Reserves as of 1 January	1,752,110.36	1,449,743.84
Dissolution of/allocation to reserves	– 246,023.87	302,366.52
Own funds	3,506,086.49	3,752,110.36
Provisions		
Provisions	50,000.00	180,000.00
Accounts payable		
Creditors	3,340,810.95	346,103.00
National Administration offset account	238,595.13	–
Deferred items		
Accounts received in advance	–	145,212.00
Total Liabilities	**7,135,492.57**	**4,423,425.36**

Income statement 1 January to 31 December 2008 (in CHF)

	Actual 2008	Budget 2008	Deviation	Previous year
Expenses				
Personnel expenses				
Wages	5,676,462.90	5,307,000.00	369,462.90	4,340,845.96
Social security contributions	897,639.85	920,000.00	–22,360.15	713,387.58
Secondments	367,258.90	–	367,258.90	–
Insurance (sickness daily allowances)	56,989.30	50,000.00	6,989.30	25,363.05
Insurance benefits (sickness daily allowances)	–29,677.20	–	–29,677.20	–125,165.75
Other personnel expenses	672,817.70	250,000.00	422,817.70	440,860.69
Basic and continuing training	140,037.80	200,000.00	–59,962.20	135,755.35
Board	636,549.73	500,000.00	136,549.73	465,727.66
Total personnel expenses	**8,418,078.98**	**7,227,000.00**	**1,191,078.98**	**5,996,774.54**
Material expenses				
Office expenses	126,689.80	130,000.00	–3,310.20	113,968.75
Travel expenses	274,604.46	220,000.00	54,604.46	246,609.15
Expert fees/opinions	2,514,337.25	250,000.00	2,264,337.25	541,416.90
Auditing companies	3,646,774.45	80,000.00	3,566,774.45	5,810.40
Premises	471,310.70	480,000.00	–8,689.30	482,842.20
IT costs	251,874.87	550,000.00	–298,125 .13	177,031.66
Public outreach	216,389.50	150,000.00	66,389.50	141,235.70
Events and representation	26,143.35	30,000.00	–3,856.65	45,013.40
Membership fees for associations/institutions	37,738.30	40,000.00	–2,261.70	22,067.55
Audit expenses	72,873.49	70,000.00	2,873.49	87,246.76
Other expenses	193,625.46	50,000.00	143,625.46	28,878.43
Total material expenses	**7,832,361.63**	**2,050,000.00**	**5,782,361.63**	**1,892,120.90**
Write-downs				
Depreciation on furnishings	158,409.23	160,000.00	–1,590.77	119,726.20
Depreciation on IT	33,455.61	45,000.00	–11,544.39	10,597.18
Write-downs on debtors	–	10,000.00	–10,000.00	–
Total write-downs	**191,864.84**	**215,000.00**	**–23,135.16**	**130,323.38**
Total Expenses	**16,442,305.45**	**9,492,000.00**	**6,950,305.45**	**8,019,218.82**
Annual surplus (allocated to reserves)	**–**	**–**	**–**	**302,366.52**
	16,442,305.45	**9,492,000.00**		**8,321,585.34**
Income				
Licensing fees	1,290,518.40	1,200,000.00	90,518.40	1,282,060.00
Supervision taxes	3,089,088.20	3,300,000.00	–210,911.80	2,584,822.10
Examination fees	32,000.00	20,000.00	12,000.00	25,100.00
Other fees	277,359.60	225,000.00	52,359.60	359,250.00
Other income	905,315.38	15,000.00	890,315.38	120,353.24
Total fees and taxes	**5,594,281.58**	**4,760,000.00**	**834,281.58**	**4,371,585.34**
State contribution	**10,602,000.00**	**3,950,000.00**	**6,652,000.00**	**3,950,000.00**
Total Income	**16,196,281.58**	**8,710,000.00**	**7,486,281.58**	**8,321,585.34**
Annual deficit (dissolution of reserves)	**246,023.87**	**782,000.00**	**–535,976.13**	**–**
	16,442,305.45	**9,492,000.00**		**8,321,585.34**

Notes on the 2008 financial statement

Financial accounting principles

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

Balancing and valuation methods

Tangible assets are valued at acquisition costs, reduced by depreciation. Depreciation is linear, based on the acquisition costs. The depreciation rate for IT equipment and furnishings is 20 % per annum (linear).

Receivables are calculated at par value, minus any required write-downs. No write-downs were necessary in the 2008 business year. Provisions are calculated to take sufficient account of all recognizable risks according to a reasonable commercial assessment.

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

Foreign exchange rates

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

Fire insurance values of tangible assets

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

Receivables

All receivables have a maturity of less than one year.

Fixed assets

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

Table 13: Assets analysis

	Acquisition costs 1.1.08	Acquisitions	Divestitures	Acquisition costs 31.12.08	Balance 1.1.08	Acquisitions	Divestitures	Balance 31.12.08	Balance 1.1.08	Balance 31.12.08
Tangible assets	**Acquisition costs**				**Write-downs**				**Book value**	
IT equipments	52,983	114,295	0	167,278	30,597	33,456	0	64,053	22,386	103,225
Furnishings	598,631	193,321	0	791,952	350,357	158,409	0	508,766	248,274	283,185
Total	**651,614**	**370,616**	**0**	**959,230**	**380,954**	**191,865**	**0**	**572,819**	**270,660**	**386,411**

Provisions

As part of accounting under the Law on Persons and Companies (PGR), all provisions are reassessed each year, justified, and adjusted where necessary. In the 2005 business year, provisions in the amount of CHF 80,000 for litigation risks were established. Since this case has now been concluded and no further costs are expected for the FMA, these provisions are being dissolved and considered as other income.

Of the provisions established in the previous year, CHF 50,000 for litigation risk are being dissolved as reduced expenses. The other provisions in the amount of CHF 50,000 are being maintained for any future litigation risks.

Long-term liabilities

The premises at Heiligkreuz 8 are no longer sufficient as FMA headquarters in light of the existing staff size. Already today, all offices have multiple occupants. There are not enough meeting rooms or premises for client visits. It was therefore urgently necessary to find another suitable location for the Financial Market Authority that would have sufficient long-term space for all staff members and that would offer appropriate infrastructure for client visits.

The FMA will rent a new building in autumn 2010. An agreement has been signed between a general contractor and the FMA. The rental contract will be concluded for a duration of 20 years. The annual rent will be approx. CHF 1.8 million (including ancillary costs). This amount is an estimate and may change by the time of the move.

Until the new building is ready, the FMA will rent a second site in Vaduz. This measure ensures that sufficient premises for all staff members and client visits will be available in the interim. For this reason, the annual rental costs for the building at Heiligkreuz 8 (CHF 449,460) will be supplemented by additional rental costs for the second location in the amount of CHF 300,000.

Remuneration of the Board and Members of the General Management (article 1092, paragraph 9[a] PGR)

a) Board

Total remuneration for Members of the Board in the 2008 business year was CHF 636,550 (2007: CHF 465,728).
The Members of the Board were appointed by Parliament in its meetings of 15 September and 20 October 2004 for the 2005 – 2009 term.
It its decision RA 2004 / 2114 of 30 November 2004, the Government specified the remuneration:

- Annual fee of the Chairman
- Annual fee of the Deputy Chairman
- Annual fee of the other three Members
- Per diem for meetings
- Per diem for expenses

b) General Management

The gross remuneration for Members of the General Management in 2008 was CHF 1,003,397 (2007: CHF 895,593), without social security contributions.

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

The General Management is composed of the following Members:

- CEO
- Deputy CEO and Head of Banking and Securities Supervision
- Head of Insurance and Pension Funds Supervision (effective 1 July 2008, the CEO also serves as interim head)
- Head of Other Financial Service Providers Supervision

Dr. Stephan Ochsner, former CEO of the FMA, left the FMA on 30 April 2008. The Board appointed Mario Gassner as new CEO and Christian Reich as Deputy CEO. Since 1 July 2008, Mario Gassner has served both as CEO and as interim Head of Insurance and Pension Funds Supervision (IPFS). The position of permanent Head of IPFS is still vacant as of 31 December 2008.

Staff figures

As of 31 December 2008, the FMA had a total of 58 staff members. Of these staff members 43 had regular full-time contracts, 3 had part-time contracts, and 12 had fixed-term contracts. In total, the FMA had 44.8 full-time equivalents. In addition, it employed 3 trainees. In the previous year, the FMA had 33 staff members and 12 trainees. In order to manage the complex supervision cases and the extraordinary events in 2008, the FMA made use of secondments for the first time.

Attestation of the National Audit Office

FINANZKONTROLLE
FÜRSTENTUM LIECHTENSTEIN

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

the Financial Market Authority (FMA) Liechtenstein

As the audit office within the meaning of 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 (FMA) Liechtenstein for the business year ending 31 December 2008.

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, 27 March 2009

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

TEAM

5 Team

In spring 2008, additional positions were created to manage the high workload generated by additional supervisory responsibilities due to the financial crisis and again in autumn 2008 due to the numerous supervision cases and the international financial crisis. To bridge vacancies in the short term, staff from third-party companies were also temporarily employed.

Integration of the numerous new staff members represented a significant challenge for the FMA. In addition to careful and comprehensive training in the professional field of activity, the FMA also emphasizes events outside of everyday work for the purpose of strengthening team spirit.

With a view to the future, it is an important goal of the FMA to build up a stable staff makeup that is able in both quantitative and qualitative terms to fulfill the FMA's legislative mandate properly and efficiently.

As a consequence of the large workload, not all basic and continuing training sessions could be attended or organized.

Changes / promotions

Dr. Stephan Ochsner resigned as CEO effective the end of April 2008. Until the election of his successor, Mario Gassner served as interim CEO. Effective the end of June, the Board appointed Mario Gassner as new CEO and Christian Reich as Deputy CEO. Since 1 July 2008, Mario Gassner has served both as CEO and as interim head of Insurance and Pension Funds Supervision (IPFS). The position of permanent head of IPFS was still vacant as of 31 December 2008.

Effective 1 October 2008, the General Management appointed Thomas Bühlman as new head of the Banking Supervision Section. Since the beginning of October, Philipp Röser has been responsible for international affairs. In the Other Financial Service Providers Supervision division (OFSP), Elke Christine Schatz was appointed as head of the Supervision section and Patrik Galliard as head of the Legal section on 1 December 2008.

Staff makeup

About 70 % of the staff are jurists and economists. The staff also includes specialists such as auditors, actuaries, and banking experts; 20 % of staff members work as officers.

Staff figures

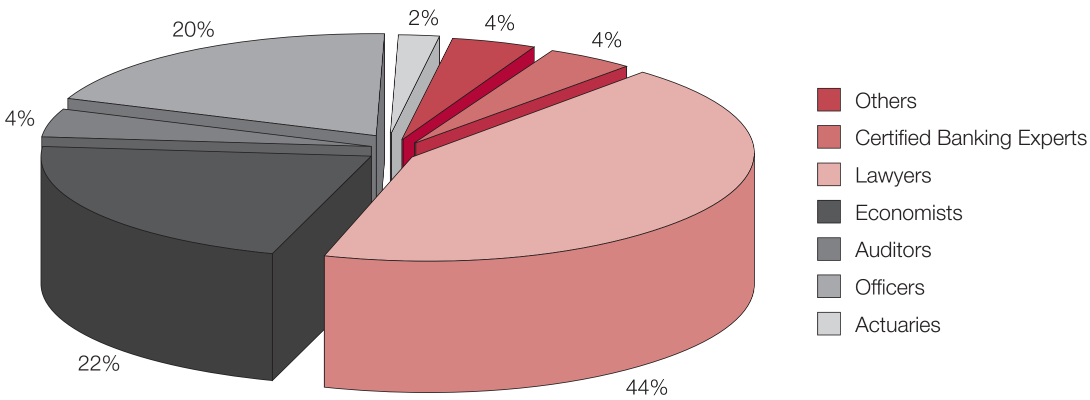
As of 31 December 2008, the FMA had a total staff of 58 (2007: 33). Of these 43 had regular contracts, 3 part-time contracts, and 12 fixed-term contracts. In total, the FMA has 44.8 full-time equivalents (2007: 28.8).

In 2008, 7 staff members left the FMA. Other than the position of head of Insurance and Pension Funds Supervision (IPFS), all vacant positions were successfully filled.

Table 14: Development of staff

	2005	2006	2007	2008
Full-time equivalents	26	29	28.8	44.8
Total staff	25	30	33	58
Permanent full-time positions	25	28	27	43
Permanent part-time positions	–	1	3	3
Fixed-term positions	–	1	3	12
Number of entries	3	13	12	32
Number of exits	3	8	9	7

Grafik 28: FMA skill portfolio



Annex

Table 15: Financial market participants under the supervision of the FMA as of 31 December 2008

	2004	2005	2006	2007	2008	Increase 07/08
Banks/Investment firms/Liechtenstein Postal Service						
Banks	16	16	16	16	15	– 1
Investment firms (from 1 November 2007)	–	–	–	0	0	0
Liechtenstein Postal Service	1	1	1	1	1	0
Audit offices pursuant to the Banking Act	9	9	9	10	8	– 2
Asset management companies						
Asset management companies (from 1 January 2006)	–	–	48	90	102	12
Investment undertakings						
Active management companies	–	–	28	27	28	1
of which fund management companies			19	20	21	1
of which investment companies			9	7	7	– 1
Domestic investment undertakings	141	166	208	303	363	60
of which segmented	42	45	48	59	72	8
with a total of segments (individual funds)	141	156	179	224	269	28
Foreign investment undertakings	208	239	[1] 137	136	112	– 24
of which segmented	52	56	13	18	22	1
with a total of segments (individual funds)	580	659	48	89	114	3
Audit offices pursuant to the IUA	9	10	10	10	10	0
Entitled to market units pursuant to the IUA (from 9/1/05)	–	–	6	8	11	3
Insurance undertakings						
Insurance companies domiciled in Liechtenstein	28	32	35	37	42	5
Audit offices pursuant to the ISA	10	10	10	9	9	0
Insurance intermediaries						
Insurance intermediaries (from 1 July 2006)	–	–	3	35	64	29
Pension schemes						
Pension schemes	40	41	39	36	34	– 2
Audit offices pursuant to the OPA	–	–	0	12	12	0
Pension insurance experts pursuant to the OPA	–	–	0	10	13	3
Pension funds						
Pension funds	–	–	0	2	4	2
Other financial service providers						
Professional trustees	82	86	84	88	85	– 3
Professional trustees with restricted license	23	27	27	27	28	1
Trust companies	284	295	277	257	260	3
Trust companies with restricted license	10	13	15	17	19	2
Auditors	23	24	24	23	23	0
Auditing companies	28	26	25	24	26	2
Lawyers	110	116	124	128	133	5
Registrable Liechtenstein lawyers	48	55	55	63	64	1
Resident European lawyers	18	18	19	20	27	7
Lawyer cooperatives	27	28	26	25	26	1
Branches of law firms	–	1	0	0	1	1
Trainee lawyers	58	64	71	65	71	6
Legal agents	5	5	5	5	5	0
Patent attorneys	12	13	13	10	10	0
Patent attorney firms	5	5	4	4	4	0
Persons with a certification under art.180a PGR	438	461	495	505	513	8
Exchange offices	1	1	2	2	0	– 2
Real estate brokers	*	16	18	18	21	3
Dealers in high-value goods and auctioneers	*	17	37	38	39	1
Casinos	*	0	0	0	0	0
Other persons subject to due diligence	*	21	27	28	30	2
Total	**1,634**	**1,816**	**1,898**	**2,089**	**2,214**	**125**

* 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 2008

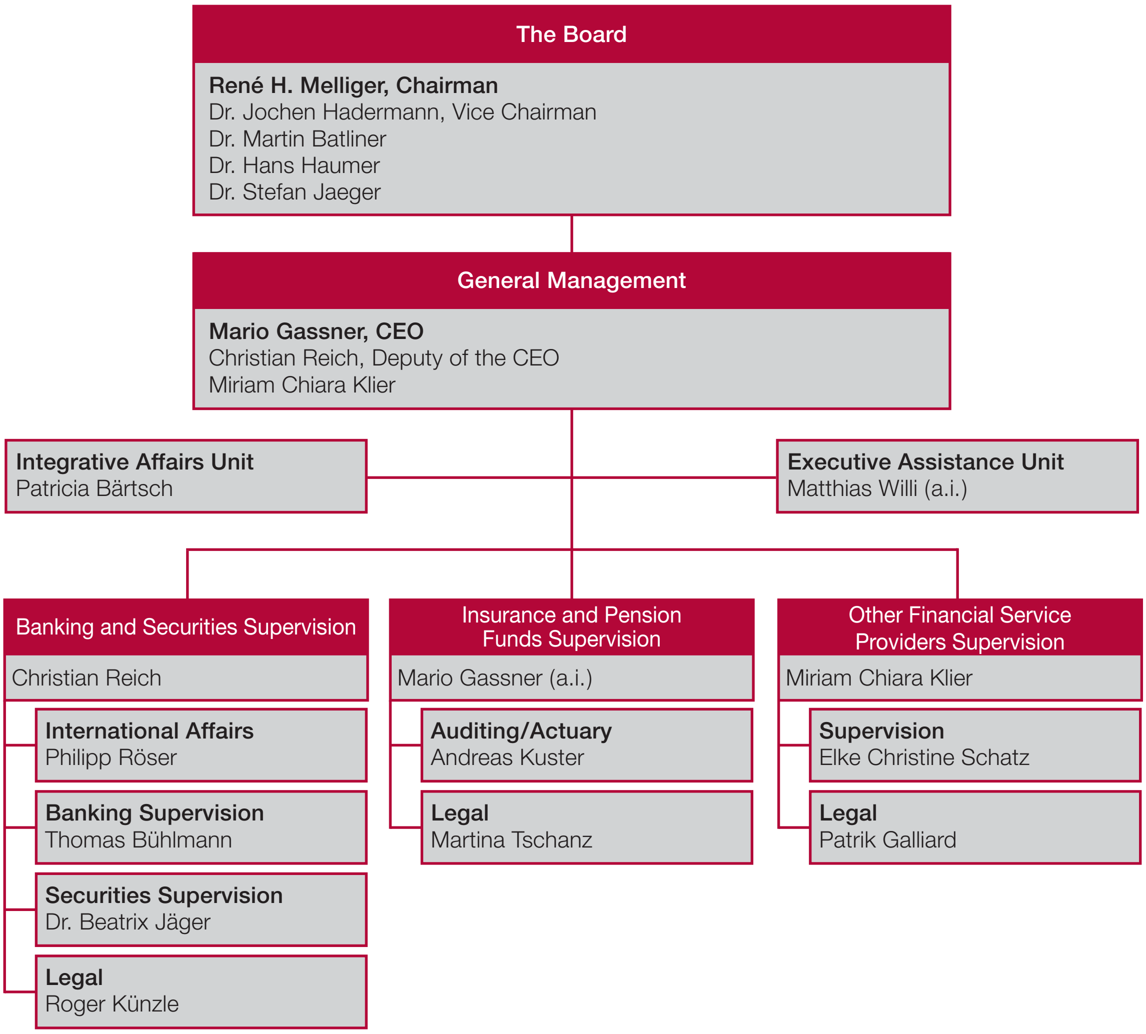
	2004	2005	2006	2007	2008	Increase 07/08
Banks / Investment firms						
Free movement of services of EEA banks	72	88	108	141	171	30
Free movement of services of EEA investment firms	653	737	840	1049	1624	575
Branches of EEA investment firms	0	1	1	1	1	0
Free movement of services of e-banking institutes	–	–	–	5	7	2
Free movement of services of multilateral trading systems (from 1 November 2007)	–	–	–	2	2	0
Insurance undertakings						
Free movement of services of EEA and Swiss undertakings	201	225	240	271	346 [2)]	75
Branches of Swiss undertakings	26	23	26	25	25	0
Branches of EEA undertakings	1	1	1	1	1	0
Management companies and investment undertakings						
Free movement of services of EEA management companies	–	–	1	3	4	1
Free movement of services of EEA investment undertakings	–	–	103	110	107	– 3
of which segmented	–	–	42	49	7	3
with a total of segments (individual funds)	–	–	694	773	79	20
Branches of EEA management companies	–	–	0	0	0	0
Other financial service providers						
Auditors engaging in free movement of services	–	2	3	5	5	0
Auditing companies engaging in free movement of services	18	20	21	21	21	0
Total	**971**	**1,097**	**1,344**	**1,634**	**2,314**	**680**

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).

Table 16: Laws subject to the supervision and execution of the FMA as of 31 December 2008

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)
24. Law on Occupational Pensions for state employees

Figure 29: Organizational structure of the Financial Market Authority (FMA) Liechtenstein



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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

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 Cooperation 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

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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