ANNUAL REPORT 2016

FMA

Financial Market Authority
Liechtenstein

THEMATIC PAGES

IMPORTANCE OF THE FINANCIAL CENTRE 15

FINTECH 24

LICENCES FOR FINANCIAL SERVICE PROVIDERS 40

INTERNSHIPS AT THE FMA 78

Beech tree, Fagus sylvaticus

More than 100 years old. Triesen, Hasaböchel. There are 8 to 11 species of this deciduous tree. Fossils show that beech trees have been around since the Tertiary, which began 65 million years ago.

4 FOCUS

6 FOREWORD

ANNUAL REPORT 2016

10 SUPERVISION

46 REGULATION

56 EXTERNAL RELATIONS

64 ENTERPRISE

72 TEAM

FINANCIAL STATEMENT 2016

83 OVERVIEW

84 BALANCE SHEET

85 INCOME STATEMENT

86 NOTES ON THE FINANCIAL STATEMENT

89 ATTESTATION OF THE AUDIT OFFICE

from 68 to 275

New supervisory system for insurers

The new Insurance Supervision Act entered into force on 1 January 2016. The new risk-based supervisory system protects the claims of insured persons and strengthens financial stability. The complex legislation grew from 68 to 275 articles and is supplemented by further, extensive European rules. It provides the FMA with qualitative and quantitative tools so that it can assess the overall solvency of an insurance undertaking.

Leadership change on the Board of Directors

In August 2016, Dr. Urs Philipp Roth-Cuony announced that he would retire as Chairman of the Board of Directors upon conclusion of his term. He had assumed chairmanship of the FMA at the beginning of 2012 and led the organization for five years. The Government elected Vice Chairman Prof. Dr. Roland Müller as the new Chairman of the Board of Directors effective 1 January 2017.

2012 to 2016

FinTech: Opportunity for Liechtenstein

two hundred

New financial technologies are an opportunity for Liechtenstein. The FMA, together with the fintech.li association and under the auspices of the Government, held the Liechtenstein FinTech Conference in Schaan at the end of September 2016. The focus of the conference was on regulatory aspects of new financial technologies and innovative business models. Nearly 200 people took part.

Full integration with the European Supervisory Authorities

3

In October 2016, the FMA Liechtenstein gained full membership of the three European Supervisory Authorities, the EBA, ESMA, and EIOPA. Before that, the FMA merely had observer status. The path to full membership required incorporation of the EU regulations on the European Supervisory Authorities into the EEA Agreement. Full integration strengthens the FMA's position as an equivalent and recognized supervisory authority.

The FMA as resolution authority

Financial stability, client protection

In November 2016, the Liechtenstein Parliament adopted the Recovery and Resolution Act (Sanierungs- und Abwicklungsgesetz, SAG). The SAG creates a uniform framework for efficient and effective crisis management at banks and investment firms. The function of resolution authority has been assigned to the FMA. With this function, the FMA assumes additional responsibilities for safeguarding financial stability and protecting clients.

Getting to know other perspectives

22

The FMA offers students and graduates the opportunity to work as interns. In 2016, 22 interns worked at the FMA and gained valuable practical experience – either during their holidays for shorter internships, or as regular interns for six to 12 months. Apart from the great diversity of interesting responsibilities, the international aspect of the FMA's work also attracts strong interest.

Practical, fascinating, multifaceted

Digitalization entails far-reaching changes for the financial industry. During the reporting year, the FMA dealt intensively with digital transformation. On the one hand, the FMA supervises a financial sector that relies increasingly on digitalization; on the other hand, the FMA is becoming increasingly digital itself. We believe digitalization is a means for further strengthening the efficiency and effectiveness of the FMA.

New financial technologies also entail new risks. For the Liechtenstein financial centre, however, they mainly represent an opportunity. The FMA's approach is to use regulation and design it in such a way that established financial service providers and new companies are able to realize innovative business models.

The FMA also notes a trend toward internationalization. Foreign investors have invested in Liechtenstein companies, and international groups have founded subsidiaries in Liechtenstein. Conversely, Liechtenstein companies are expanding their presence abroad. These developments are a sign of the growing attractiveness and strength of the financial centre.

But this should not obscure the fact that financial market players are operating in an environment characterized by high regulatory pressure and demanding market conditions. The FMA notes that, in the search for higher returns, higher risks have been accepted, contributing to a rise in supervision cases. The focus of supervision thus targets the risk management and governance of financial intermediaries.

Extensive regulations, new financial technologies, specialized business models of new market participants, and internationalization of the financial centre have increased the complexity of supervision work and expanded the FMA's portfolio of responsibilities. Maintaining personnel resources for the long term is thus a key strategic goal of the FMA. The FMA must have sufficient qualified personnel at its disposal so that it can fulfil its responsibilities and create high added value for the Liechtenstein financial centre.

In August 2016, Dr. Urs Philipp Roth-Cuony announced that he would retire as Chairman of the Board of Directors upon conclusion of his term at the end of 2016. For five years, Urs Philipp Roth-Cuony was a prudent and astute leader of the FMA, further strengthening the FMA's national and international recognition as an effective and credible supervisory authority.

Work at the FMA is fascinating. The responsibilities are multifaceted and the context international. In 2016, 22 students and graduates worked as interns at the FMA. We want to maintain this valuable experience for the young generation.

Prof. Dr. Roland Müller
Chairman of the Board of Directors

Mario Gassner
Chief Executive Officer

ANNUAL
REPORT
2016

ANNUAL REPORT 2016

SUPER-VISION

International economy and financial markets

Rise in supervision cases due to regulatory and economic environment

Consolidation and internationalization of the financial centre

Increasing responsibilities and growing complexity in supervision

Financial technologies: The changing financial industry

Solvency II: Strengthening the protection of insured persons and financial stability

Supervision of markets

Quality of audits

Organizational demands on asset management companies

Panama Papers: Examination of leads

Macroprudential supervision

Licences

Ongoing supervision

Due diligence supervision

Combating abuse

International administrative assistance

Enforcement

Outlook

Laws supervised and enforced by the FMA

Extensive regulations, new financial technologies, specialized business models of new market participants, and internationalization of the financial centre are increasing the complexity of supervision work. Solvency II, a new supervision system in the insurance sector, entered into effect at the beginning of 2016. It strengthens financial stability and the protection of insured persons. The high regulatory demands and the challenging economic environment have led to a greater willingness to take risks and a rise in supervision cases. The FMA intervenes specifically where the risks are considered to be too high, and it is focusing more strongly on risk management and governance. Eight years after the global financial crisis, the global economic and financial environment is still being impacted by the aftereffects. Political risks, low interest rates, and a comparatively low growth potential may favour an increase in risks to financial stability.

International economy and financial markets

As part of its macroprudential supervision, the FMA follows and analyses the development of the international economy and the financial markets, identifies systemic risks, and initiates measures to mitigate those risks. The analyses form an important corpus of data for supervising the financial institutions in the Liechtenstein financial centre and their many international links.

Eight years after the global financial crisis, the world economic and financial environment is still being impacted by the aftereffects. The debt ratio of governments, private households, and non-financial companies have risen to new historic records, from 200% of gross domestic product (GDP) worldwide in 2002 to 225% in 2015.[1] Two thirds consist of liabilities in the private sector, which may entail far-reaching risks if they reach excessive levels. World trade growth is extremely weak, both relative to its own historic development and compared with economic growth. Investment activities are restrained in many developed national economies, while productivity growth is generally lower than before the financial crisis.[2]

In the second half of 2016, growth prospects brightened somewhat. In the United States, economic growth has accelerated a bit, after low growth at the beginning of the year. In the European economy, growth in the first three quarters was moderate in light of geopolitical and political uncertainties that prevented stronger growth.[3] In Japan, economic growth accelerated in the third quarter, driven by net exports and fixed asset investment. Growth in numerous emerging markets is limited, especially in commodity-exporting economies. The International Monetary Fund expects world economic growth of 3.1% in 2016 and 3.4% in 2017.[4]

1 *IMF (2016): Fiscal Monitor: Debt, use it wisely, October.*
2 *OECD (2016): OECD Economic Outlook, November.*
3 *European Commission (2016): European Economic Forecast – Autumn 2016, Institutional Paper 038, November.*
4 *IMF (2016): World Economic Outlook, October.*

Political risks have developed into one of the greatest threats to the world economy, reflecting the gap between voters and elected or unelected politicians and officials.[1] In Europe, 2017 is an election year in France, Germany, and the Netherlands, which may result in increased political and economic uncertainty.

The Swiss economic area recovered in 2016 after the Swiss franc shock of the previous year. The economic dynamic of the Swiss national economy is supported by foreign trade, especially the growth in chemical and pharmaceutical exports, even though the impact of the strong franc can still be felt and the prospects of the export economy are heterogeneous overall. Private consumption lagged slightly behind expectations in 2016. Various leading economic indicators are signalling an acceleration of growth in Switzerland. According to the Office of Statistics, the Liechtenstein economy is also on track for growth. Direct exports of goods have largely recovered, a survey shows that the general situation of industry and manufacturing continues to be deemed satisfactory in the third quarter, and projected construction costs have recently risen significantly.

On the financial markets, global equity prices measured by the MSCI World Index grew by 5.3% in 2016, after losing 2.7% of their value in the previous year. The interest rates on 10-year German federal bonds fell by 30 basis points since the beginning of the year, while the interest rates on 10-year US government bonds rose by 20 basis points. The 10-year interest rate for Swiss federal bonds at the end of 2016 was nearly 10 basis points below the level of the previous year. Since mid-2016, international market interest rates have risen from their historic record lows, also as a consequence of the US presidential election in November. Republican nominee Donald Trump's statements during the campaign that he would cut corporate taxes and massively increase government infrastructure spending boosted financial markets after his election. Financial stocks rose especially strongly. The long-term impact of the election outcome on the world economy is difficult to assess at this time; it remains to be seen in particular to what extent President Trump, as announced in the election campaign, will implement a radically protectionist economic policy that might trigger an international trade war and plunge the world economy into recession.

Monetary expansion continued in 2016, even though the outlook in different countries is steadily diverging. The US Federal Reserve has terminated its asset purchase programme, and in December, it increased key rates for the second time in a year. In contrast, the European Central Bank, the Bank of Japan, and the Bank of England have expanded their asset purchase programmes. The central banks have meanwhile developed into significant owners of securities. In September 2016, for instance, the Bank of Japan held nearly 40% of all outstanding Japanese government bonds. If its announcements that it will continue to buy bonds turn out to be true, it will hold about 60% of all outstanding Japanese government bonds by March 2019.[2]

Low interest rates and a comparatively low growth potential can favour an increase in risks to financial stability. The longer the low interest rate level persists, the greater will be the share of low-interest capital investments on financial institutions' balance sheets. A search for yield triggered by low interest rates can also entail that investors systematically underestimate risks and that risk premiums are distorted downward

1 *IIF (2016): Political Risk in an Age of Disruption, September.*
2 *OECD (2016): OECD Economic Outlook, November.*

accordingly. But it is also true that risks resulting from an increase in the interest rate level can rise not least of all for banks and life insurers.[1] For banks, net interest income can fall if longer-term fixed-interest agreements have been concluded with borrowers and the banks' costs of refinancing increase. For life insurers, the value of capital investments would decline over the course of a period of interest rate increases, which would likely overcompensate rising income from newly invested money at first. Recessions triggered by financial crises regularly cause high economic and social costs.[2] As the experiences during and since the global financial crisis show, economic growth typically declines dramatically and recovers only very slowly, unemployment rises and stays at a high level for a long time, and private and public debt increases.

Rise in supervision cases due to regulatory and economic environment

The FMA was confronted with a rise in supervision cases during the reporting year. The reasons could largely be found in the regulatory and economic environment. Financial market players have been exposed to a difficult market environment since the global financial crisis, with low market interest rates and yields as well as a massive wave of regulation. Processing supervision cases tied up substantial personnel resources.

After the global financial crisis, the various sectors of the financial centre – which already were governed by extensive and detailed regulation – were subjected to even more extensive and detailed regulation for the purpose of safeguarding financial stability and the protection of clients. On the one hand, the large quantity of new and complex rules in itself has already increased the probability of violations. On the other hand, especially small and medium-sized financial institutions are under heavy demands to comply with the high regulatory requirements, especially capital adequacy rules for banks and solvency rules for insurance undertakings. The new Insurance Supervision Act entered into force at the beginning of 2016. The new quantitative requirements on capital are based on the risks actually entered into by the insurance undertaking. The FMA carried out several procedures in relation to capital adequacy.

Implementation of and compliance with the new rules is causing high costs and tying up considerable resources for financial intermediaries. At the same time, financial market players are operating in an economic environment with extremely low interest rates, low yields, and low growth rates. In this environment, the FMA notes that in their search for higher returns, market participants are increasingly taking on higher risks in existing and new areas of business.

The willingness to accept higher risks is understandable. But the FMA believes it is crucial to keep risk appetite under control and for the company to practice adequate risk management and governance. Expertise in the area of the market being developed is also necessary. Some market participants are increasingly active in countries with elevated danger of corruption or of political and economic instability.

1 *Deutsche Bundesbank (2016): Financial Stability Review, November.*
2 *Luc Laeven and Fabian Valencia (2012): Systematic Banking Crises Database: An Update, IMF Working Paper 12/163.*

The FMA intervenes specifically where the risks are considered to be too high, and it is focusing more strongly on risk management and governance.

Several supervision cases pursued by the FMA in the reporting year arose from criminal offences. In such cases, the FMA is responsible for the aspects governed by supervisory law, with the goal of protecting clients. Where suspicion of behaviour relevant to criminal law arises, the FMA files charges with the Office of the Public Prosecutor.

Consolidation and internationalization of the financial centre

Since the global financial crisis, the financial sector has been undergoing continuous transformation. This is mainly driven by three developments. Firstly, the regulatory requirements are restricting the leeway of financial intermediaries; secondly, the revenue of market participants is under pressure in a difficult market environment; and thirdly, technological developments are making efficiency gains and new business models possible. This would tend to lead to the expectation of significant consolidation in the financial sector, in the form of mergers, acquisitions, and market exits.

This has not happened to the expected extent in the Liechtenstein financial centre. The number of financial intermediaries has been stable in most sectors even after the global financial crisis – even though especially for small and medium-sized enterprises, which make up most of the financial intermediaries in Liechtenstein – the consolidation pressure was considered to be especially high.

The transformation also affects the financial centre in another way: There has been a significant increase in internationalization. In 2016, the FMA approved several takeovers of and holdings in Liechtenstein financial intermediaries by foreign investors. Further applications are pending. In non-life insurance, globally active insurance groups have also established subsidiaries in Liechtenstein. The interest of foreign investors is a sign of the attractiveness of the Liechtenstein financial centre in the internationally competitive marketplace. The presence of international investors also offers opportunities for further growth.

> *"We supervise efficiently, consistently, and effectively. In that way, we protect the clients of the financial centre and contribute to its good reputation and credibility."*
>
> *Core Principles of the FMA*

Conversely, Liechtenstein companies have strengthened their presence abroad. The focus is often on Eastern European and Asian markets. This development can clearly be seen in the client assets under management. While the assets under management at banks in Liechtenstein, without their foreign group companies, rose by about 10% between 2008 and 2015, the assets under management at foreign group companies nearly doubled.

Thanks to its international integration and recognition as an equivalent authority, the FMA is well-prepared for these developments. The relations of the FMA with foreign supervisory authorities at the bilateral

Financial sector: Great importance for the national economy

The Liechtenstein financial sector is strongly diversified and internationally linked. After industry and manufacturing, it is the largest sector of the Liechtenstein national economy and thus of exceptional importance. 9% of all persons employed in Liechtenstein work in the financial sector. Including lawyers, tax advisors, and auditors, who often work in the fiduciary field, the share increases to 16% (about 6000 people).

Gross value added by economic sector
In 2014, the Liechtenstein financial sector generated gross value added of CHF 1.489 billion. This means that every fourth franc of value added in Liechtenstein is generated in the financial sector.

Corporate income tax by economic sector
The financial sector is very important for the fiscal revenue of Liechtenstein. Through taxation of corporate income immediately connected to the economic activity of financial institutions, the State and the municipalities generated estimated tax revenue of CHF 125 million in 2014.[1]

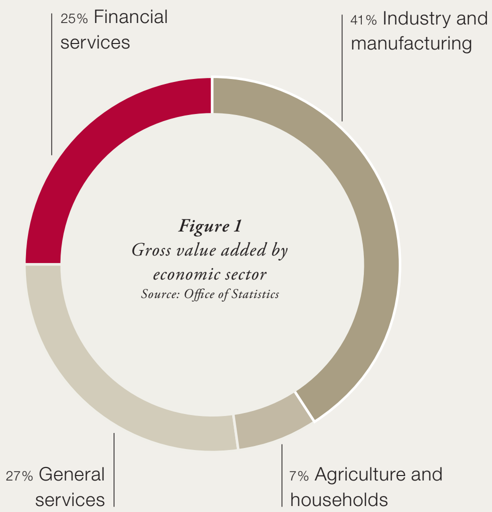


Figure 1
Gross value added by economic sector
Source: Office of Statistics

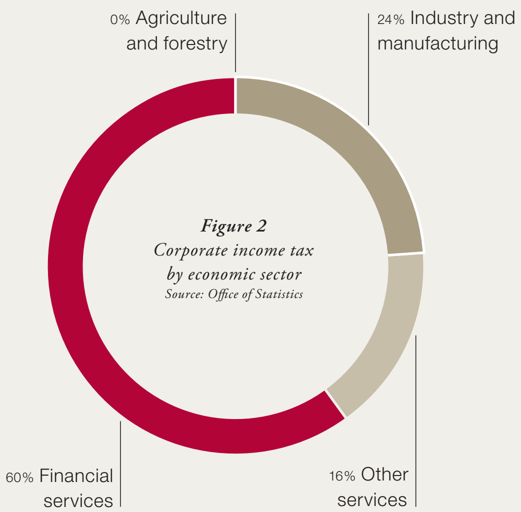


Figure 2
Corporate income tax by economic sector
Source: Office of Statistics

1 *The Office of Statistics reports the entire tax revenue of the State and the municipalities in the accounting year. The corporate income tax, however, is indicated by tax year. The assumption here is that the tax year corresponds to the accounting year.*

level are also becoming increasingly important, such as when considering applications by foreign investors. Shareholders must meet high demands in the interest of ensuring sound and prudent management of a financial institution. The FMA pays special attention to legal and reputation risks arising from the business activities of financial intermediaries abroad.

Increasing responsibilities and growing complexity in supervision

The scope and volume of legal provisions governing the financial market have increased strongly. In the insurance sector, for instance, the new Insurance Supervision Act (Versicherungsaufsichtsgesetz, VersAG) that entered into force at the beginning of 2016 grew from 68 to 275 articles. The VersAG is supplemented by a likewise more extensive ordinance. In addition, numerous and detailed delegated regulations and implementing regulations of the European Commission as well as guidelines and recommendations of the European Insurance and Occupational Pensions Authority (EIOPA) must also be complied with.

Apart from the purely quantitative scope of the regulatory framework and the resulting supervisory duties, the degree of complexity in supervision has also grown significantly. For instance, assessing the solvency of an insurance undertaking in accordance with the risks actually entered into under Solvency II requires substantial actuarial expertise.

The complexity and scope of supervisory activities are also increasing in the supervision of banks, funds, asset management companies, auditors, and professional trustees. The FMA supervises a diversified financial centre whose sectors are being regulated more comprehensively than ever before.

In doing so, the FMA is facing the same complexity as other competent supervisory authorities. But it does not benefit from economies of scale that arise when an authority supervises a large number of financial intermediaries in a given sector and when the basic workload for supervising a sector is distributed across a large number of participants.

The complexity is also driven by new financial technologies. New technologies make business models possible that are difficult to capture in regulatory terms and that entail new risks. The FMA must ensure that the protection of clients is safeguarded, that trust in the financial market is preserved, and that the stability of the financial system is not endangered.

New market participants have established themselves in Liechtenstein. In non-life insurance, for instance, international insurance groups have founded companies in Liechtenstein or relocated here. These undertakings are active worldwide, often in specialized niches. To exercise supervision effectively, the FMA must be able to understand the business models and the risks, and it must be able to take part in global group supervision. The latter requires intensive exchanges with the competent supervisory authorities of the countries in which the groups in question are operating.

Finally, the internationalization of the financial centre also results in higher complexity and a greater workload. The positive developments on the financial centre have a price, but that price is justified by the high added value for the financial centre and the country.

In light of these developments, steady efficiency and effectiveness gains, training of personnel, securing of personnel resources, and a high level of digital maturity on the basis of an IT strategy guided by digitalization are some of the key strategic objectives of the FMA.

Financial technologies: The changing financial industry

Financial technologies drive innovation and change in the financial industry. On the one hand, they change the business of classic financial service providers. On the other hand, companies from the technology sector enter the financial services market with digital products. This also has an impact on the FMA as a supervisory authority. In the reporting year, the FMA created the Regulatory Laboratory, an internal FinTech competence team.

THE REGULATORY LABORATORY

The FinTech Regulatory Laboratory is the FMA's internal competence team for new financial technologies. The responsibilities of the team include accompanying start-ups and established financial service providers on topics concerning the new financial technologies. Working at the interface between regulation and the market, the team is a contact point for established financial service providers and for companies in FinTech. This dialogue is crucial so that innovations can be realized and the demands of regulation and supervision can be met. The Regulatory Laboratory is also responsible for the processing and internal coordination of enquiries. The Regulatory Laboratory works together with the Government and provides impulses for regulatory adjustments. The Regulatory Laboratory is well-connected with professional circles and experts in Liechtenstein and Europe.

In 2016, the Regulatory Laboratory dealt with and accompanied 17 projects. In three cases, the companies involved are meanwhile operating in Liechtenstein. Another four projects were at an advanced stage at the end of 2016. There are 12 companies operating in Liechtenstein that can be considered FinTech. About one third of the current projects came about in Liechtenstein itself, while the other projects mainly originated in Switzerland or surrounding Europe. The business models are wide-ranging: Six projects aim to provide payment or e-money services. Other lines of business include crowdfunding and crowdinvesting, blockchain and virtual currencies, insurance services (InsurTech), and provision of financial information. The Regulatory Laboratory held about 50 meetings during the reporting year with interested companies working in the FinTech field.

Many of the legal questions the FMA deals with regarding new financial technologies are very complex. The regulatory environment is not yet tailored to FinTech business models. At the same time, locations in Europe are competing over FinTech companies. Uncomplicated and quick access to the regulator and a high level of FinTech competence on the part of the authorities are factors with which Liechtenstein can position itself in this competition among locations. FinTech companies have often proven to be very friendly to regulation themselves. An FMA licence is seen as a sign of quality.

E-MONEY AND PAYMENT SERVICES

Payment services include a wide spectrum of funds transfer services (i.e. the transfer of money from A to B) and other associated services (e.g. direct debit or the issuing of debit cards). E-money services, in contrast, refer to a special type of payment service involving e-money. E-money is a sum of money that has been digitized. The purpose of e-money is primarily to implement the payment function of cash in electronic form. A traditional form of e-money, for instance, is the amount loaded onto a prepaid card. Because certain risks are involved in payment services, the issuing of e-money, and the operation of infrastructure for these purposes (e.g. relating to money laundering or IT security), services of that kind can be provided only by institutions that meet the legal requirements and have an FMA licence, namely e-money institutions and payment service providers.

In addition to enquiries, the Regulatory Laboratory is also concerned with long-term developments in FinTech. The FMA expects that the value chain in finance will be broken open by new technologies in future. This will lead to a fragmentation of the financial industry and a greater diversity of products and services. Cooperation arrangements and outsourcing will become more important and will change quickly and dynamically. The new financial technologies are also leading to a transfer of risk toward the client. New technologies make business models possible that can only be captured partially in regulatory terms and that entail new risks. As the supervisory authority, the FMA is observing these developments carefully and makes sure that protection of clients is safeguarded, that trust in the financial market is preserved, and that the stability of the financial system is not endangered.

At the end of September, the FMA, together with the fintech.li association, held the Liechtenstein FinTech Conference in Schaan. The focus of the conference was on regulatory aspects of new financial technologies. The FMA introduced the regulatory developments at the level of the European Union, presented case studies from the FMA's Regulatory Laboratory, illuminated regulatory questions relating to cooperation and outsourcing in the FinTech ecosystem, and discussed the regulation of blockchain technology in particular.

American sweetgum, Liquidambar styraciflua
20 years old. Triesen, Hasaböchel. Liquidambar means liquid amber. The wood is reminiscent of walnut wood with a fragrant scent and is cherished by cabinetmakers. The tree's branches are often used as divining rods.

Solvency II: Strengthening the protection of insured persons and financial stability

After two years of preparatory work, the comprehensively revised Insurance Supervision Act (VersAG) entered into force at the beginning of 2016. Liechtenstein has thus transposed the EU Solvency II Directive, including Omnibus II, into national law. The old, static, rule-based system has been replaced with a risk-based, principle-driven approach. This new systematic supervisory framework entails far-reaching changes to the FMA's supervisory processes and instruments.

The supervisory system makes a wide range of qualitative and quantitative tools available to the national supervisory authorities in order to adequately assess the overall solvency of an insurance undertaking. Solvency refers to the own funds resources of an insurer, i.e. free, unencumbered assets. The own funds serve to cover all risks of the insurance business and to safeguard the claims of insured persons.

Apart from protecting insured persons, the risk-based supervisory approach also strengthens financial stability. As insurance undertakings focus more strongly on risk management and as they introduce central key functions and detailed reporting, supervisors are better able to anticipate risks and take supervisory measures already on a preventive basis. This reduces the probability that insurance undertakings will become dangerously distressed and increases the stability of the financial centre.

While the old Insurance Supervision Act had 68 articles, the new law has 275. Added to this are several thousand pages of delegated regulations and implementing regulations of the European Commission (Level 2 measures) as well as guidelines of the European Insurance and Occupational Pensions Authority (EIOPA) (Level 3 measures).

SUPERVISORY SYSTEM BASED ON THREE PILLARS

Capital requirements: *The quantitative capital requirements are based on the risks actually entered into by the insurance undertaking.*
Governance: *Requirements on the organization of an insurance undertaking, especially governance. Strict qualitative requirements govern the key persons of the insurance undertaking as well as the outsourcing of activities.*
Disclosure and transparency requirements: *Disclosure and reporting requirements of an insurance undertaking vis-à-vis the public and the supervisory authority. The new reporting system includes qualitative and quantitative information and also increases reporting obligations during the year.*

The new supervisory system constitutes a paradigm shift for the risk culture of insurance undertakings. They are called upon to clearly identify their risks and to take account of them prospectively in their corporate governance. The transition to a risk-based and principle-driven system also requires considerable effort, however: New processes have to be established, new offices (key functions) created, and numerous internal guidelines developed. The extensive reporting requirements and the more complex calculation of capital requirements also result in a greater workload.

For the FMA, Solvency II means a comprehensive new orientation of supervision. The transition from a rule-based to a principle-based system makes supervision more complex and requires more expertise and experience. The reporting requirements for insurance undertakings have increased considerably, and the analysis of the submitted documentation means a substantially greater workload for the FMA. In this context, it is crucial that the insurance undertakings and the FMA follow clear processes and that they further increase their efficiency and effectiveness. For this purpose, the concept of risk-based supervision is being steadily expanded. Areas with higher risk are to be allocated more resources than areas with lower risk. Insurance undertakings with lower risk are to benefit from simplifications, while the essential requirements under Solvency II must be met by all insurance undertakings.

With the entry into force of the new Insurance Supervision Act, the new regime has been implemented in the FMA's supervision work. Existing supervisory instruments have been further developed and adapted in light of initial practical experiences. On the basis of EIOPA's work, an internal supervisory handbook has been developed. To guide risk-based supervision work, a special IT solution was created that facilitates the ongoing assessment and observation of the risk profile of every insurance undertaking. The relevant ICS processes have been adapted and refined, and the public instructions and communications that proved themselves already under Solvency I are being updated and expanded on an ongoing basis.

Supervision of markets

The financial markets are among the most heavily regulated areas of the economy. The purpose of regulation is to protect investors, safeguard systemic stability, and ensure the smooth functioning of the financial markets. The financial crisis of 2007/08 uncovered sensitive gaps in the regulatory framework, leading the global and European regulators to adopt significantly tighter requirements. In November 2008, the G20 member countries agreed that no market, no market player, and no product should be able to operate outside the regulated sphere anymore.

Apart from individual players such as banks and insurers, the financial markets themselves are also subject to more comprehensive regulation. The term "market regulation" covers all regulations that refer in the broadest sense to trading in financial instruments. These regulations are intended to correct the financial systems, re-order the supervisory framework, and ensure the transparency and stability of the financial markets. Market participants who have not previously been regulated are now placed under supervision, and the requirements governing the trade in financial instruments are made subject to regulation.

Although Liechtenstein does not currently have a regulated market (exchange) as defined by European regulation, numerous companies and market participants in Liechtenstein are affected by the scope of application of market regulation. The supervisory division responsible for markets covers the legal areas of EMIR, CSD, MAD II, CRA II/III, short selling, disclosure, and the market-related aspects of MiFID II/MiFIR. Many of these regulatory frameworks give rise to extensive new requirements for financial intermediaries.

Trust in the markets, control of systemic risks, and investor protection are to be strengthened through rules of conduct and also through comprehensive new reporting, notification, and supervision requirements on the part of financial intermediaries and national supervisory authorities. This not only affects transactions carried out on exchanges in the European Economic Area or a third country, but also off-market (over-the-counter, OTC) transactions.

INFORMATION ON MARKET TOPICS

The FMA provides up-to-date information on its website about market regulations.

Market regulations have now also placed intermediary categories such as central securities depositories, credit rating agencies, data provision services, and central counterparties for derivatives trading under supervision. In addition to institution-specific supervision, the FMA is required to meet the new reporting, notification, and supervision requirements and to develop a data-based supervisory approach for that purpose. The FMA plays a key role in relation to reporting and notification requirements and constitutes an important interface between financial intermediaries and the European Securities and Markets Authority (ESMA). The reporting and notification requirements will generate several million transaction reports every year. The FMA is implementing the necessary IT systems for that purpose. The market-relevant EU legislation had not yet been incorporated into the EEA Agreement by the end of 2016 and was thus not yet applicable in Liechtenstein.

In addition to creating pre-trade and post-trade transparency, the detection and prevention of market abuse as well as product monitoring and enforcement of rules of conduct are considered goals of market regulation. The supervision requirements can thus be divided into the key topic areas of market transparency, market abuse, and product monitoring. The FMA will validate and evaluate the data reported by the financial market participants and the data provided by ESMA accordingly. To safeguard the integrity of the financial markets and to strengthen investor trust in these markets, the focus of supervision will increasingly be on monitoring disclosure obligations in addition to insider trading and market manipulation.

Through its work, the FMA ensures that the European requirements relating to market regulation and supervision are complied with, thus safeguarding access to the European single market.

Quality of audits

Auditors carry out required audits at companies. On the basis of the criteria set out in laws, ordinances, and other regulations, auditors assess the compliance of the presented subjects of the audit, such as financial information. The goal is to increase trust of the public and of clients in the company.

In a certain sense, auditors thus play the role of an administrator of the law. The demands on the integrity of the auditors are accordingly high. Because of their expertise, the FMA also involves auditors in the supervision of financial intermediaries. Involving auditors in this way requires that they are specially qualified and that they have a close conceptual relationship with the FMA in its capacity as the competent supervisory authority and as the competent body for external quality assurance of audits.

To achieve the primary goal of increasing trust in company reporting, the audit performance must be of the highest quality. The qualitative demands are set out in specific regulations such as audit standards, FMA guidelines, and FMA communications, fulfilment of which is monitored by the FMA. In this context, the FMA is responsible for carrying out quality controls of auditors.

The quality controls carried out by the FMA cover the quality assurance system of the auditors and auditing companies as well as verification of compliance with internal rules and with audit standards.

The quality controls carried out by the FMA in 2016 extended to statutory audit mandates as well as regulatory audits under special legislation. The deficits identified were essentially related to documentation and in one case failure to comply with audit standards.

Another aspect of external quality assurance consists in the audit meetings and workshops regularly conducted by the FMA.

In a certain sense, auditors play the role of an administrator of the law. The demands on the integrity of the auditors are accordingly high.

Organizational demands on asset management companies

Operating as a financial service provider requires a licence issued by the FMA. The licence serves to protect clients by ensuring that financial intermediaries meet their obligations vis-à-vis investors, clients, and creditors. The licensing conditions include organizational requirements that the financial service provider must fulfil.

The organizational demands on asset management companies are set out in the Asset Management Act (Vermögensverwaltungsgesetz, VVG) and the associated ordinance, and they are further specified in FMA Communication 2013/8. The organizational demands on asset management companies include rules governing their registered office and head office, the composition of governing bodies, as well as compliance and risk management.

After a three-year transitional period, all asset management companies had to have created the control functions of compliance, risk management, and internal audit by 1 January 2016 and to have met the minimum requirements relating to the composition of the general management. These requirements are key for safeguarding corporate governance.

The FMA audited implementation in the first half of 2016. In 12 cases, deficiencies were found. In a few exceptional cases, the control functions had not been established or did not meet the requirements. The FMA called upon the intermediaries to bring about a lawful state of affairs. With regard to the composition of the general management, the FMA ordered an increase in resources, subject to the principle of proportionality.

FinTech – disruptive changes?

The term "FinTech" refers to modern and innovative technologies in the field of financial services. It is made up of "financial" and (information) "technology". FinTechs are companies that use technology-based systems to offer client-oriented financial services. The possibilities are enormous. Here are three examples from the FinTech world.

Robo-advice

Because of the low interest rates, Anja would like to invest some of her savings in more lucrative equity and bond markets. She doesn't have the time or expertise to do this herself. Traditional investment advice is too expensive for her. An acquaintance has therefore recommended that Anja consult a website. She starts up her computer and pulls up the site.

It doesn't take long to enter the requested information about her risk capacity and investment horizon. Now Anja only has to transfer the desired amount of money to the custody account. Using the information she provided, the website calculates a risk profile, proposes suitable investment strategies, and automatically invests the amount in the chosen strategy. The investments are updated continuously, so that the portfolio still corresponds to the chosen strategy even as the prices of the various asset classes fluctuate. Anja can lean back and relax – or at any time simply use an app to adjust her strategy to changing needs. Thanks to the high degree of automation, she benefits from low administrative and custodian costs, so that she can invest even smaller amounts of money profitably.

Micro-insurance

Maria is at the top of the slope on her skis. Visibility is poor and the slope is icy. She decides to supplement her accident insurance with additional services. Maria launches the app of an online insurer on her smartphone and looks at the offers for supplementary insurance for her upcoming downhill run.

Because she's turned on her GPS, the app knows where Maria is located and is able to offer a tailored insurance solution. With a keystroke, Maria buys the appropriate insurance policy and is able to enjoy the demanding downhill run with the right kind of risk coverage.

Mobile payment

Stefan wants to go out to eat. Because there are no ATMs nearby to withdraw cash, he prefers cashless payment and has installed an app for that purpose on his smartphone. This allows him to use his phone as an electronic wallet and pay with it.

Stefan uses the app at the restaurant. To pay, he can register a credit card or connect the app directly to his bank account, which is used to process payments. In addition to paying at the restaurant – or in a shop – Stefan can also exchange money with friends who also use the app. Stefan, who regularly owes his friends money because he never has cash on hand for their traditional pizza after football practice, can now pay them immediately by transferring money with a few clicks on his smartphone.

Panama Papers: Examination of leads

At the beginning of April 2016, the International Consortium of Investigative Journalists (ICIJ) published confidential documents of the Panamanian offshore service provider Mossack Fonseca, referred to as the "Panama Papers". Although the consortium noted that owning an offshore company was not illegal, the documents were intended to provide evidence of strategies for avoiding taxes, tax and money laundering offences, and violations of UN sanctions by clients of Mossack Fonseca.

In terms of the massive international reporting on the Panama Papers, the references to Liechtenstein professional trustees and trust companies were very limited. The FMA took the individual leads as an occasion to carry out necessary clarifications with a focus on any violations of the Due Diligence Act (Sorgfaltspflichtgesetz, SPG). This is the customary procedure when there are indications of misconduct by a financial intermediary. In one case, an on-site inspection was carried out. The clarifications and the on-site inspection did not indicate any significant violations of due diligence law or other laws.

The FMA also conducted a survey in the fiduciary and banking sector on the magnitude of business relations with the Mossack Fonseca group and the associated risks. The survey showed that a small number maintained business relations with the Mossack Fonseca group, but that they were subject to risk-based monitoring and control. Moreover, information was exchanged among Liechtenstein authorities on an ongoing basis.

In recent years, Liechtenstein has steadily improved its defensive measures to combat money laundering and received good marks in the last assessment by the International Monetary Fund and MONEYVAL. As a member of the European Economic Area, Liechtenstein consistently implements the strict anti-money-laundering standards of the European Union into national law.

Macroprudential supervision

Macroprudential supervision identifies systemic risks at an early stage and initiates measures to mitigate them. It complements traditional, microprudential supervision. While the latter focuses on individual financial intermediaries and assumes that the financial system is stable when each and every financial intermediary is solvent, macroprudential supervision looks at the stability of the entire financial system.

During the reporting year, macroprudential supervision repeatedly drew attention to systemic risks that may arise from the persistently low interest rate level, especially for insurers and pension schemes, but also for the banking sector. Macroprudential supervision specifically investigated risks in the European and Italian banking systems and the possible impact on the Liechtenstein financial centre. Macroprudential supervision also examined the risks in the Liechtenstein real estate and mortgage market and the measures taken to mitigate these risks. Finally, the impact on Liechtenstein of the decision by British voters to leave the European Union was analysed.

As part of its observation of the development of the international economy and the financial markets, the FMA published four reports on national economic development in the form of a National Economic Monitor. These reports comment on national economic trends in the Eurozone, Switzerland, and Liechtenstein.

Licences

The provision of financial services requires a licence issued by the FMA Liechtenstein. The licensing requirement creates barriers to entering the market. These barriers serve to protect clients by ensuring a high quality of market participants and legitimate business. The licence is thus a sign of quality and a preventive control instrument of financial market supervision. The FMA issues licences, reviews and approves changes, monitors permanent compliance with the licensing conditions, and withdraws licences where necessary.

In September 2016, the AIFM Directive was incorporated into the EEA Agreement. Since the beginning of October, Liechtenstein alternative investment fund managers (AIFMs) and alternative investment funds (AIFs) have thus been in possession of an EU passport, which is necessary for the cross-border management and distribution of alternative investment funds throughout Europe. At the same time, the old Investment Undertakings Act (Investmentunternehmensgesetz, IUG) of 2005 lapsed and the new Investment Undertakings Act (IUG 2015) entered into force. This triggered a one-year transitional period during which all investment undertakings under the IUG 2005 had to be converted into either AIFs, undertakings for collective investment in transferable securities (UCITS), or investment undertakings under the IUG 2015. If the conversion period expires without being used, the investment undertaking will be terminated effective 1 October 2017.

The number of professional trustee licences grew from 115 at the end of 2015 to 139 at the end of 2016. The increase is due to the elimination of dormant professional trustee licences effective 1 January 2017. The deadline for activating them expired on 31 December 2016. By the end of 2016, the FMA had received 37 activation applications and three declarations of renunciation. A total of 79 dormant professional trustee licences expired due to non-activation.

The FMA is responsible for reviewing and approving prospectuses and supplements for the public offer of securities or their authorization for trading on a regulated market. The FMA reviews the securities prospectuses for completeness, coherence, and comprehensibility. The number of approved prospectuses more than doubled to 11 over the previous year. This increase is due to the new Liechtenstein and foreign issuers, including professional securitization companies from Luxembourg that have their prospectuses approved by the FMA. In the case of certain securities such as debentures, the issuer may choose between the home state and another EEA state.

Category	2015	2016	Licences issued in 2016	Market exits in 2016
Banking Division				
Banks	16	15	0	1
Investment firms	1	1	0	0
Payment institutions	0	0	0	0
Liechtenstein Postal Service	1	1	0	0
Audit offices under the Banking Act	5	5	0	0
E-money institutions	2	2	0	0
Securities Division				
Asset management companies	117	116	8	9
IUG				
Active management companies (MCs)	15	12	0	3
Domestic investment funds	290	265	16	41
Foreign investment funds	160	129	1	32
Auditing companies	9	10	1	0
UCITSG				
Active management companies (MCs)	13	12	1	2
UCITS	208	203	13	18
AIFMG				
Large AIFMs	12	13	2	1
Small AIFMs	0	0	0	0
Administrators	0	0	0	0
Risk managers	1	1	0	0
Marketing contractors	0	0	0	0
AIFs	12	22	13	3
Insurance and Pension Funds Division				
Insurance undertakings	41	39	1	3
Audit offices under the VersAG	12	11	0	1
Insurance intermediaries	69	68	3	4
Pension schemes	23	22	0	1
Audit offices under the BPVG	15	14	0	1
Pension insurance experts under the BPVG	16	17	1	0
Pension funds	5	5	0	0
Other Financial Intermediaries Division				
Professional trustees	115	139*	2	2
Trust companies	263	257	9	15
Auditors	37	40	5	2
Auditors established in Liechtenstein	4	3	1	2
Auditing companies	28	28	2	2
Patent lawyers	7	7	0	0
Patent law firms	3	3	0	0
Persons with a licence under the 180a Act	226	218	2	10

Table 1 | *Financial market participants and products supervised by the FMA*

*Increase due to activation of dormant licences

Category	2015	2016
Banking Division		
Free movement of services of EEA banks	218	229
Free movement of services of EEA investment firms	1,865	1,952
Free movement of services of EEA payment institutions	252	273
Free movement of services of e-money institutions	58	89
Free movement of services of EEA-regulated markets	16	16
Branches of EEA investment firms	2	2
Insurance and Pension Funds Division		
Free movement of services of EEA and Swiss insurers	355	355
Branches of Swiss insurers	10	10
Branches of EEA insurers	4	3
Securities Division		
Free movement of services of EEA investment undertakings	118	116
Free movement of services of EEA management companies	13	14
Other Financial Intermediaries Division		
Auditors engaged in free movement of services	40	39
Auditing companies engaged in free movement of services	18	18

Table 2
Financial market participants supervised by the FMA under the free movement of services

Category	Number of changes	Main changes
Banks	59	– Change of BD/GM – Change to business regulations – Change of qualifying holding – Change to articles – Change of internal audit
Asset management companies	71	– Change of BD/GM – Change of qualifying holding – Change to articles – Change to capital – Change of auditing company – Change of name
Active companies authorized under the IUG, UCITSG, AIFMG	30	– Change of BD/GM – Change of qualifying holding – Change to articles – Change to capital – Change of auditing company
IUs for other values	19	– Mergers – Change of name – New unit classes
IUs for qualifying investors	56	– Conversions – Change of name – Change to prospectus
UCITS	182	– Mergers – Conversions – Change of name – New units classes – New subfunds – Change-over to UCITS V
AIFs	23	– Conversions – Change of name – New subfunds
Insurance undertakings	163	– Change of BD/GM – Outsourcing of functions – Appointment of key functions – Change of qualifying holding – Change to articles – Change of internal audit – Change of responsible actuary – Change of reinsurance
Professional trustees	37	– Activations
Trust companies	46	– Change of BD/GM – Change of person actually managing the company – Change of insurance – Change of business name – Change of qualifying holding – Change from full to restricted licence
Auditor	1	– Change of GM

Table 3
Changes to licences

Silver birch, Betula pendula
40 years old. Balzers, St. Catherine's Fountain. Its slim, elegant growth, its white bark, and its delicate green make it a symbol of the spring. The birch was the first tree species in Liechtenstein after the ice age.

Ongoing supervision

The goal of ongoing supervision of the individual supervised financial intermediaries is to ensure permanent compliance with the licensing conditions, especially the financial resources of market participants. Part of ongoing supervision is also verification of compliance with due diligence obligations to combat money laundering and terrorist financing. Supervision of the fiduciary sector includes verification of licensing conditions, fulfilment of due diligence obligations, monitoring of reporting and approval obligations, and prosecution of violations.

After publication of the FMA's Cross-Border Communication 2015/3, the management of risks in the provision of services abroad (cross-border risks) was systematically verified. In financial centres active in cross-border business, risks associated with the provision of services for persons abroad are among the most significant risks for individual financial intermediaries and for the entire financial sector. The FMA expects cross-border risks to be included in the comprehensive internal risk management of companies.

With the increasing internationalization of the Liechtenstein financial centre, consolidated supervision has become even more important. Financial intermediaries with registered offices in Liechtenstein and subsidiaries or branches abroad are subject to consolidated supervision (or group supervision) by the FMA. Supervisory colleges – a cooperation forum for the relevant supervisory authorities – are an important instrument of consolidated supervision. The FMA arranged three supervisory colleges in banking and participated in 16 supervisory colleges in banking and insurance in total.

During the reporting year, new and more comprehensive legislation in the individual sectors of the financial market required far-reaching adjustments and reconceptualizations of supervisory processes, including in the area of market regulation. On the other hand, the newly implemented supervisory processes in insurance (due to Solvency II) and in banking (due to the CRD IV package) had to prove themselves in practice. The consistently strong increase in requested data volumes and the higher complexity are being met with customized IT applications.

On-site inspections

On-site inspections are an important and effective supervisory instrument for the FMA. On-site inspections are carried out at the premises of the supervised financial intermediary and serve to verify compliance with supervisory requirements. On-site inspections are carried out by the FMA itself or are accompanied by the FMA. In 2016, the FMA carried out 11 regular inspections itself, and in one case it accompanied the inspection by an audit office. In four supervision cases, four extraordinary inspections were also conducted, three of which by the FMA itself. As part of due diligence supervision, 54 inspections were carried out or accompanied by the FMA. 349 inspections were carried out by auditors or auditing companies on behalf of the FMA (see due diligence supervision).

Auditing

As part of its auditing activities, the FMA evaluates the audit reports submitted by the auditors. In the case of deficiencies, the FMA arranges the necessary measures such as the demand to bring about a lawful state of affairs, on-site inspections, or management meetings, or it penalizes the financial intermediary in accordance with the legal provisions.

In the reporting year, the FMA's Audit Guideline applied for the first time to all financial intermediaries subject to ongoing supervision.

The Audit Guideline governs the audit standards to be complied with in the audits and reports of the audit office or auditors authorized under special legislation, and it serves to ensure the high quality and uniform administration of audits. The uniform and detailed requirements governing audits make a significant contribution to the convergence of supervisory practice and implementation of risk-based supervision.

Reporting

Under special legislation, financial intermediaries are required to provide the FMA with the data necessary to evaluate the company and its risks. The new regulations are imposing substantial changes on the individual sectors of the financial market.

During the reporting year, the FMA expanded the e-service portal to include a component that allows XBRL reporting data (eXtensible Business Reporting Language) of the banks (COREP) and insurance undertakings (Solvency II) to be read in, validated, and evaluated in line with the workflow. The IT project was offered for tender in an open EEA/WTO procedure in 2015. The system meets the requirements

Category	Audit reports	Deficiencies	Deficiencies mainly concern
Banks	18	32	– Credit risks/concentration risks – Investment services and ancillary services – Reporting
Investment firms	1	1	– Own funds/risk distribution requirements
E-money institutions	2	0	
Asset management companies	117	87	– Organizational requirements – Company recordkeeping and storage requirements
Asset management companies	16	13	– Proper annual report – Code of conduct – Organizational requirements
Funds	504	102	– Active violation of investment guidelines – Failure to maintain minimum net assets – NAV calculation/accounting
Insurance undertakings	39	20	– Inadequate risk management – Reimbursement of deposits – Impossibility of verifying recoverability of capital investments – Insufficient number of members of board of directors
Pension schemes	23	3	
Pension funds	5	1	

***Table 4** | Review of audit reports*

of the European Supervisory Authorities in regard to the exchange of reporting data. The e-service portal, which the financial intermediaries use to efficiently and securely enter reporting data online, was already introduced in mid-2015. The platform is steadily being expanded and optimized.

The future market regulations will give rise to extensive reporting obligations for Liechtenstein market players. During the reporting year, the FMA made preparations to be able to fulfil the reporting and notification requirements in accordance with European standards. The FMA is the central interface between the market players and the European Securities and Markets Authority (ESMA).

Category	Reports
Banks	1,049
Investment firms	36
Payment institutions	0
E-money institutions	16
Asset management companies	585
Management companies	80
Funds	1,332
Insurance undertakings	468
Insurance intermediaries	11
Pension schemes	141
Pension funds	30
TOTAL	**3,748**

Table 5
Reporting

Reporting is the main source of information for the FMA. On the basis of reports, the FMA verifies compliance with the regulatory requirements and follows the business development of the supervised financial intermediaries nearly in real time. The exercise of risk-based supervision by the FMA relies on accurate data in order to identify risks in the financial system in a timely manner. The gathered data and information thus serve as early warning indicators for the stability of the individual financial intermediaries and for the entire financial system.

Management meetings

Regular management meetings take place between the general management and board of directors of the supervised companies and representatives of the FMA. Extraordinary management meetings are also held as the occasion arises.

Occupational pensions: Applications for cash payouts/Verification of association

Apart from supervising pension schemes, the FMA is also responsible for processing cash payout applications in accordance with the Occupational Pensions Act (Gesetz über die betriebliche Personalvorsorge, BPVG). In the reporting year, the FMA made a positive decision on 104 applications and a negative decision on 44 applications. The main reasons for positive cash payout decisions were leaving the Liechtenstein/Switzerland economic area and the assumption of self-employed work by the applicant. The FMA is also responsible for verifying that employers with employees subject to the insurance requirement join a pension scheme. In the reporting year, the Old Age and Survivors' Insurance Authority (AHV) and the pension schemes reported 29 cases in which contributions were not made. Four cases resulted in reporting of the facts to the Office of the Public Prosecutor.

Due diligence supervision

The FMA regularly carries out inspections on compliance with the provisions of the Law on Professional Due Diligence to Combat Money Laundering, Organized Crime, and Terrorist Financing (Due Diligence Act, Sorgfaltspflichtgesetz, SPG) or has such inspections carried out by auditors or auditing companies. The inspections encompass both formal and substantive inspections of the plausibility of the due diligence obligations performed. Where there are indications of misconduct, the FMA also carries out clarifications and, where necessary, on-site inspections. The FMA prosecutes violations and takes the appropriate measures.

Each year, banks, e-money institutions, and payment service providers are inspected with regard to compliance with their obligations under the SPG. These inspections are generally carried out by external auditors. The FMA accompanies about one third of these audits. During the reporting year, the focus was on the content and updating of the business profile as well as on the quality of transaction clarifications.

An audit is conducted each year for every company engaged in life insurance. Life insurance intermediaries are audited every three years. The focus of last year's inspections was on individual risk management. Deficiencies were primarily related to the deficient fulfilment of documentation obligations and insufficient plausibility checks of the information in the business profiles.

As a rule, asset management companies are subject to simplified due diligence obligations under the SPG, compliance with which is audited every year. Fund management companies are exempt from the scope of application of the SPG, unless they maintain the unit account register themselves. In that case, an audit is likewise performed every year. The focus of the audits was on correct performance of transaction monitoring, dossier management, and ongoing training of the employees entrusted with due diligence tasks.

Professional trustees, lawyers, auditors, and persons under the 180a Act are generally audited every three years for compliance with due diligence obligations. In the 2016 audit round, the focus was again on

Division	Number of meetings	Thematic focus
Banking Division	17	– Business model – Economic development – Risk management – Supervision feedback
Securities Division	22	– Organization – Business development – Succession planning – Own funds
Insurance and Pension Funds Division	4*	– Business development
Other Financial Intermediaries Division	14	– Due diligence

Table 6
Management meetings

*Higher number of extraordinary management meetings due to supervision cases.

individual risk management. This includes defining individual criteria for the purpose of identification and intensified monitoring of business relationships and transactions with higher risks. The auditors and auditing companies mandated to perform the audit audited 221 financial intermediaries and 862 business relationships. 182 deficiencies were found in total. These mainly concerned defects in the identification and verification of the identity of the contracting party and beneficial owners, the business profiles, and internal instructions.

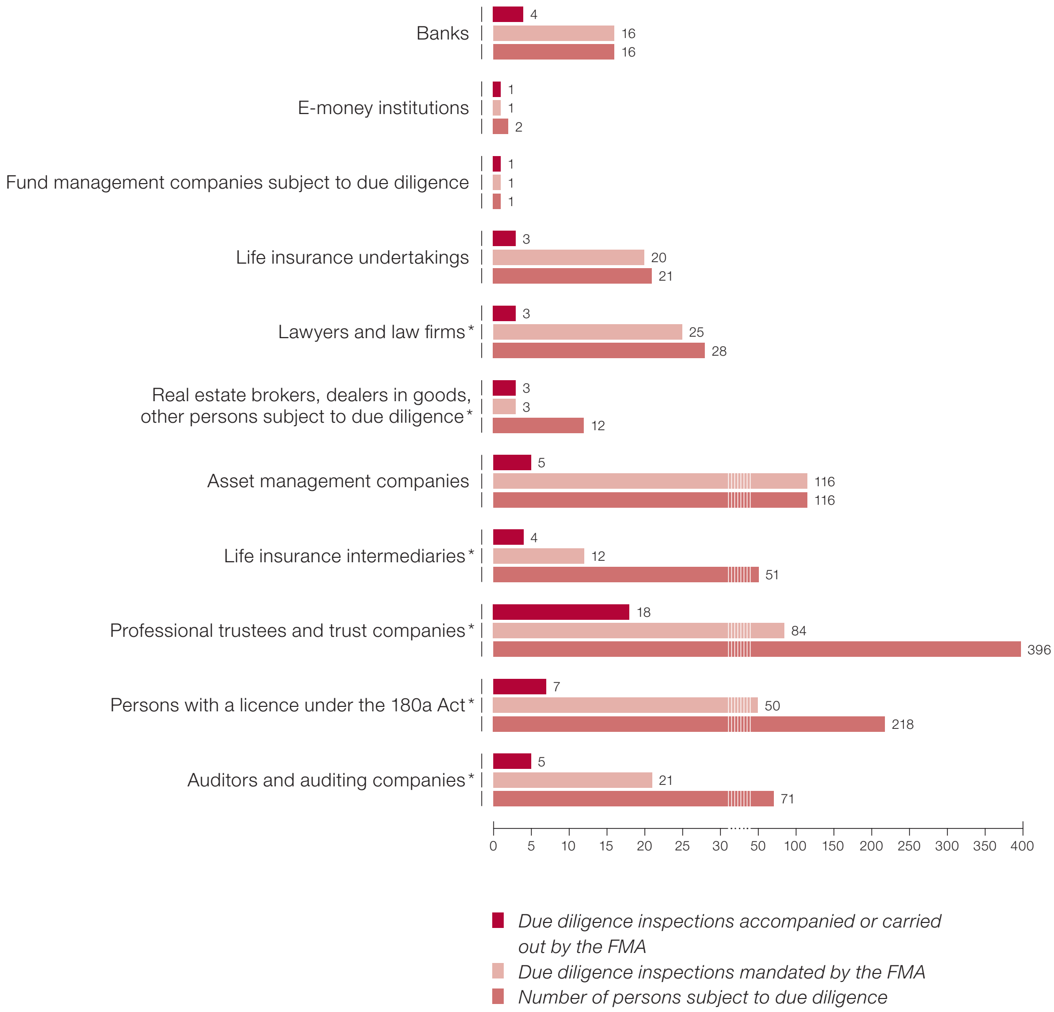


Figure 3
Due diligence inspections

*audit every 3 years on behalf of the FMA

Common hazel, Corylus avellana
40 years old. Triesen, Hasaböchel. The common hazel belongs to the birch family. During the Mesolithic (7000 – 6000 BCE), the common hazel was the dominant tree in Middle Europe.

Combating abuse

The provision of financial services requires a licence. The services enumerated in the relevant laws may accordingly not be offered and provided as a business activity without the appropriate authorization. The FMA combats abuses through its own observation of the market and examination of external leads. In cases of abuse, it takes the appropriate measures such as calling upon the financial intermediary to bring about a lawful state of affairs or filing criminal charges.

The FMA published five warning notices in cases where a website was being used to try to deliberately deceive investors. The deceptions especially involved purporting to carry out asset management activities licensed by the FMA or using company names that were practically identical to real companies (clone companies). By taking on the identity of a real company, clone companies try to attract money, potentially leading to a total loss of an investor's supposed investment.

On its website, the FMA also warned of contracts for difference, binary options, and other speculative products. The FMA noted that speculative products are increasingly being advertised on the mass market using aggressive practices and online platforms and are being sold to private investors without investment advice. The FMA urgently recommends against making investments in these products without advice and risk disclosure.

In October 2016, the FMA published a notice regarding the offer of a Liechtenstein company to exchange investments in subordinated loans into shares of the company. The FMA had reason to believe that clients might be injured. As part of the protection of clients and reputation, the FMA also examines companies that are not subject to FMA supervision. In this case, the company decided to leave Liechtenstein after several audits and measures carried out by the FMA.

In April 2016, the FMA provided an option on its website for whistleblowers to notify the FMA of actual or possible violations of laws falling within the FMA's scope of responsibility. The FMA has thus implemented a requirement of European financial market regulation. The reports may be filed with the FMA anonymously or with disclosure of the filer's identity. As of the end of December 2016, no reports had been received using the channels made available by the website. But the FMA has always received reports from the side of the market, clients, or other sources that are reviewed accordingly and that are used to combat abuses.

International administrative assistance

The FMA renders international administrative assistance to foreign authorities relating to prudential supervision and securities supervision. In doing so, it contributes to the investigation and uncovering of international cases of market abuse and thus to the protection of clients. In 2016, administrative assistance was requested from the FMA in 45 cases. The number of requests is high compared with other countries. During the reporting year, a total of 34 requests for administrative assistance by foreign authorities were answered.

In 2016, most requests received by the FMA concerned suspicion of insider trading or market manipulation. The most extensive cases were brought to the FMA by the US Securities and Exchange Commission. Most of the cases had already seen requests in previous years. This is due to the fact that over the course of the proceedings, new leads become available that trigger additional requests to the FMA. In one case, the volume of documents to be reviewed amounted to about 10,000 pages.

In the case of two requests for administrative assistance, the FMA concluded that the requests constituted unlawful fishing for information. Because the foreign authorities did not answer questions to the FMA's satisfaction and also because the formal conditions for a request were not fully met, both proceedings were suspended, and the facts were reported to the International Organization of Securities Commissions (IOSCO).

During the reporting year, the FMA also spent more time on domestic administrative assistance. In pending court proceedings, the Liechtenstein Court of Justice and Office of the Public Prosecutor requested that the FMA obtain information from foreign supervisory authorities. The FMA transmitted five requests for international administrative assistance to foreign supervisory authorities in 2016.

New administrative assistance provisions in the Financial Market Authority Act (Finanzmarktaufsichtsgesetz, FMAG) entered into force on 11 December 2015. These provisions must be applied to all requests received after that date. Accordingly, the year 2016 was characterized by intensive implementation work to ensure smoothly functioning administrative assistance in all cases.

The significant changes to the process concern the duration of the period during which the request for administrative assistance must be kept secret (prohibition of disclosure) as well as the involvement of the Administrative Court. Additionally, information owners are now given the possibility of submitting a statement on the request to the FMA, together with

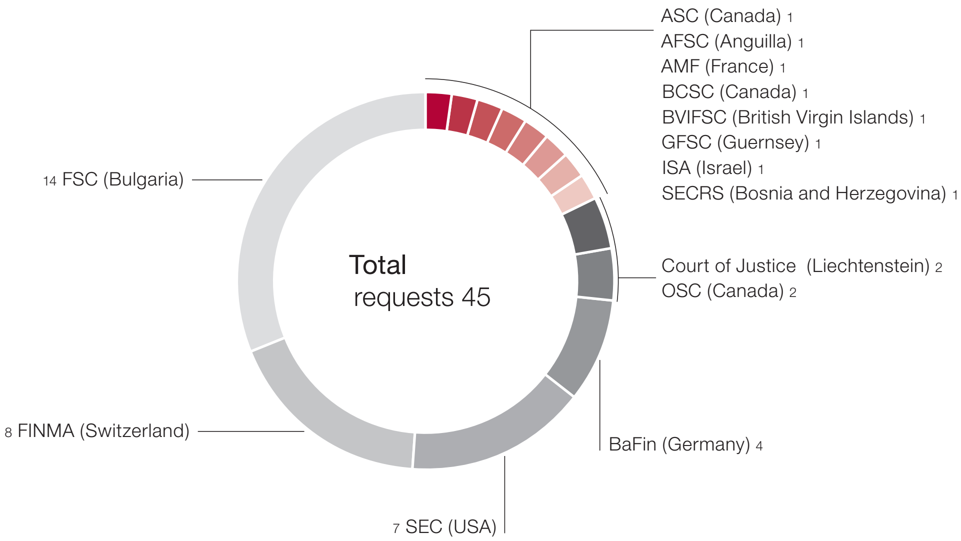


Figure 4
Requests for international administrative assistance, by authority

Licences for financial service providers: Sign of quality and security

Goal of supervision work

The goal of the FMA's supervision work is to safeguard the stability of the financial centre and the protection of clients, as well as to prevent and consistently combat abuse. Supervision is effective and efficient, risk-based, and in line with international standards. Supervision strengthens the reputation and credibility of the financial centre and trust in it.

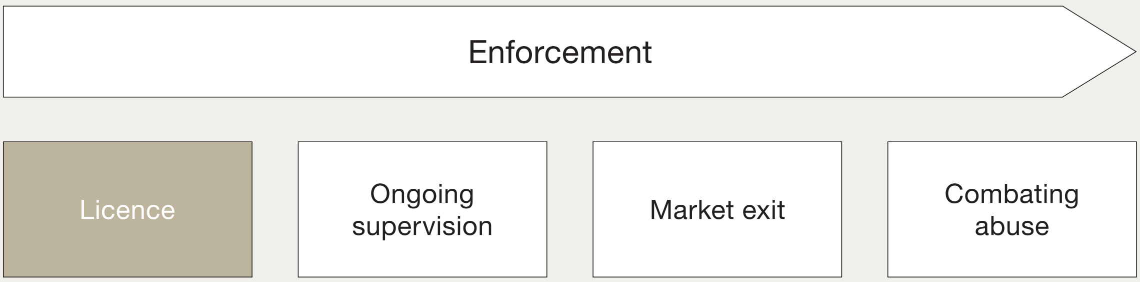


Figure 6
System of microprudential supervision at the level of financial intermediaries

The provision of financial services requires a licence issued by the FMA Liechtenstein. The licensing requirement creates barriers to entering the market. These barriers serve to protect clients by ensuring a high quality of market participants and legitimate business, and by keeping those away who are unable to meet the legal requirements. The licence is thus a sign of quality and a preventive control instrument of financial market supervision. The FMA issues licences, monitors permanent compliance with the licensing conditions, and withdraws licences where necessary.

To initiate the grant of a licence, the financial intermediary must present the necessary documents and prove that the requirements are met. For instance, the requirements include that the registered office of the company is in Liechtenstein, that the persons entrusted with administration have the proper qualifications and are able to guarantee sound and proper business operation, and that the company has sufficient capital at its disposal. As needed, the FMA supports the applicant with preliminary consultations as well as with instructions and forms. The licensing conditions for the different categories of intermediaries are defined in the individual special laws and are guided by international requirements.

Macro- and microprudential supervision

The FMA engages in macro- and microprudential supervision. Macroprudential supervision identifies risks in the financial system, assesses them, and takes measures to mitigate them. Macroprudential supervision complements traditional, microprudential supervision. While the latter focuses on individual financial intermediaries and assumes that the financial system is stable when each and every financial intermediary is solvent, macroprudential supervision looks at the stability of the entire financial system. Microprudential supervision covers the issuing of licences, ongoing supervision, market exits, combating abuse, and enforcement at the level of financial intermediaries.

the requested documentation, and to have that statement appraised in the subsequent proceedings. The new procedure is significantly more elaborate and ties up significantly more resources.

Investment fraud	5
Insider trading	7
Market manipulation	24
Investigations of the Court of Justice or the Office of the Public Prosecutor	2
Activity without a licence	6
Other	1

Figure 5
Reasons for administrative assistance requests

Enforcement

Enforcement is an umbrella term for all the activities in which the FMA follows leads to determine violations of supervisory law. If there in fact has been a violation, the FMA orders the measures necessary as part of enforcement to restore a lawful state of affairs. To do so, it issues an appealable decree and monitors its implementation.

The regulatory requirements and the economic environment led to a rise in supervision cases during the reporting year. As of 30 September 2016, there were 82 pending proceedings. The proceedings were conducted in areas including own funds (bank), solvency (insurer), cluster risk, banking secrecy, risk management, transaction business, shareholder requirements, shareholder guarantees, delegation (asset management company), licensing conditions, sound and proper business operation, preparation of the annual financial statement, due diligence obligations, and reporting obligations.

In 2016, the FMA filed 18 criminal charges with the Office of the Public Prosecutor. If the FMA gains knowledge of a suspicion of a criminal offence subject to ex officio prosecution that concerns its legal scope of activity, it is required to file charges. Criminal charges have been filed in suspected cases involving violations relating to money laundering, insider trading, market abuse, and activities as a financial service provider without the requisite licence. Seven charges involved breaches by employers of the Occupational Pensions Act (Gesetz über die betriebliche Personalvorsorge, BPVG), especially violations of the reporting obligation and the obligation to make contributions to the pension scheme.

In asset management, enforcement focused primarily on organizational requirements. After a transitional period of more than two years, the three control functions of compliance, risk management, and internal audit had to be implemented. Moreover, the general management had to be composed in such a way that its members met the requirements set out by law and ordinance. In most cases, this led to corrective measures taken by the asset management companies. In some cases, the companies decided that they did not want to comply with the requirements and hence renounced their licences.

In its decree dated 25 November 2016, the FMA withdrew the licence of Gable Insurance AG as an insurance undertaking. On 7 September 2016 the FMA prohibited Gable Insurance AG from concluding new insurance contracts, and on 10 October 2016 it appointed a special administrator to assess the financial situation and to protect the interests of policyholders. After the Court of Justice was informed by the special administrator that the company was overindebted and that the shareholders of the company were failing to increase capital, the Court of Justice initiated bankruptcy proceedings against Gable Insurance AG on 17 November 2016. Under the Insurance Supervision Act (VersAG), an insurance undertaking's licence is withdrawn if bankruptcy proceedings are initiated. The FMA immediately informed the public on its website of the individual steps and measures taken.

To strengthen integration, a coordination group on enforcement was established in the reporting year. Representatives of all supervisory divisions are represented in the coordination group. The coordination group deals with enforcement proceedings and questions of procedural law, and it informs the superordinate bodies.

Outlook

Safeguarding financial stability and client protection are key objectives of the FMA. In light of the economic and political risks at the European and global level as well as the difficult economic and regulatory environment in which financial market participants continue to operate, supervision must focus on these two goals. Special attention must be paid to the risks arising from the provision of cross-border financial services and the higher willingness of market participants to take risks.

After the tightening of capital requirements and governance provisions by the new Banking Act (Bankengesetz, BankG) (CRD IV package) at the beginning of 2016, the Recovery and Resolution Act (Sanierungs- und Abwicklungsgesetz; SAG) entered into force at the beginning of 2017. Both sets of legislation address the too-big-to-fail problem and aim to strengthen financial stability. The SAG assigns the function of resolution authority to the FMA. For every bank and every investment firm, the FMA must prepare resolution plans and keep them updated.

It is especially challenging for the FMA to implement the numerous regulatory projects on the supervision side. The extensive and complex regulations require the establishment and implementation of appropriate supervision concepts. Of special importance is the support of supervisory processes using information technology. Market regulations will generate an even greater supervision workload in the future. Effective the beginning of 2017, responsibility for market topics has been consolidated within the renamed Securities and Markets Division.

In autumn 2017, amendments to the Due Diligence Act (Sorgfaltspflichtgesetz, SPG) will tighten the rules to combat money laundering and terrorist financing. Introduction of risk-based due diligence supervision will have a significant impact on the FMA's work in practice. Based on the international requirements, the sanctioning powers of the FMA will also be expanded considerably.

The first FinTech companies have established themselves in Liechtenstein. Alongside the opportunities offered by the new financial technologies, the FMA must also deal with the risks of the resulting business models. In future, the aim is for the FMA to be able to adjust the minimum capital of banks and investment firms to the risk profile of the company in question or of its business model, in order to lower the barriers to entry for FinTech companies.

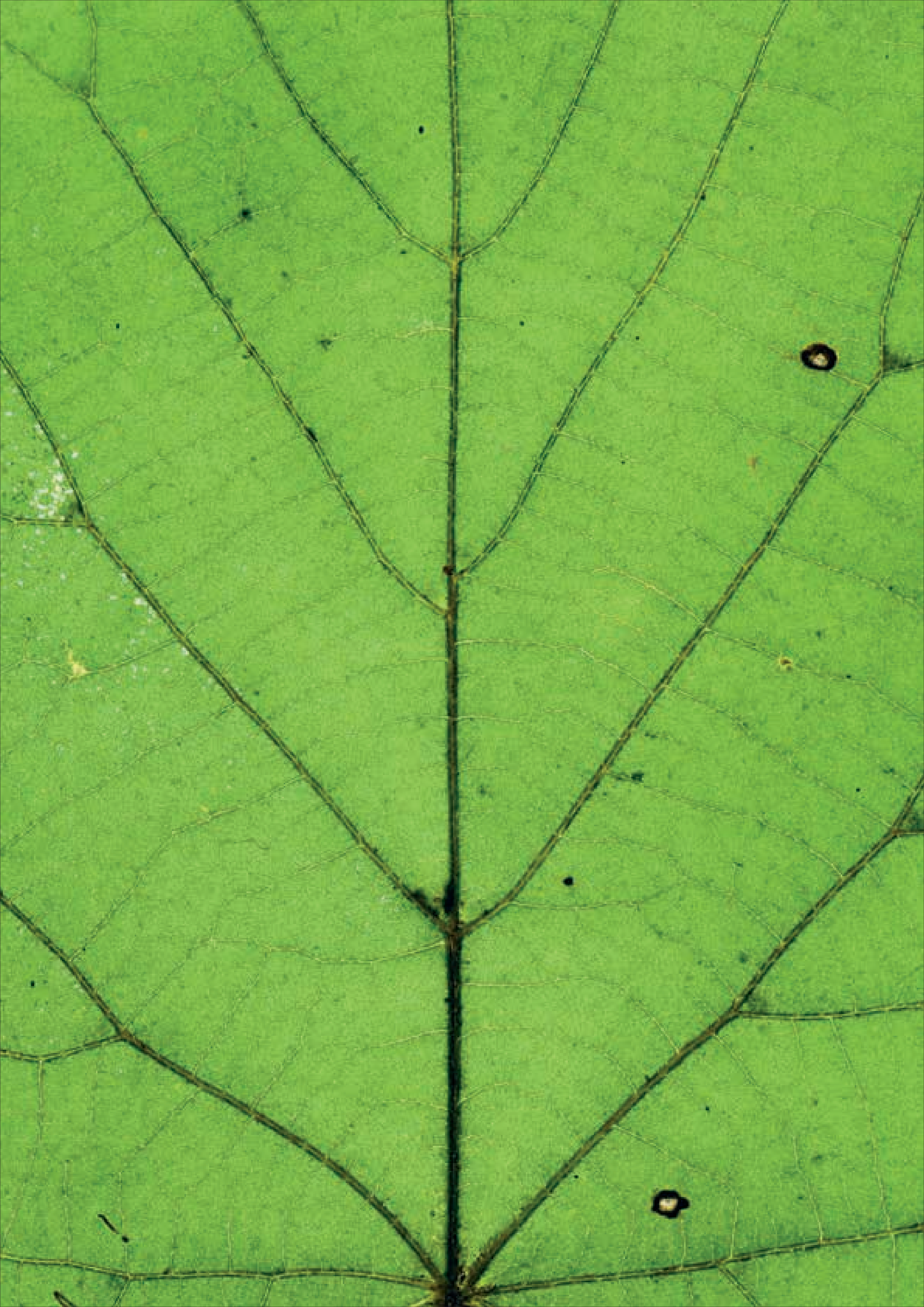
Laws supervised and enforced by the FMA

As of 31 December 2016, the FMA is responsible for supervising and enforcing the following laws and the associated implementing ordinances.

1 Law on Banks and Investment Firms (Banking Act; BankG)
2 E-Money Act (EGG)
3 Law on the Liechtensteinische Landesbank
4 Payment Services Act (ZDG)
5 Law on Settlement Finality in Payment and Securities Settlement Systems (Settlement Finality Act)
6 Law on the Disclosure of Information concerning the Issuers of Securities (Disclosure Act; OffG)
7 Securities Prospectus Act (WPPG)
8 Alternative Investment Fund Managers Act (AIFMG)
9 Investment Undertakings Act (IUG)
10 Law on the Liechtenstein Postal Service (Postal Act)
11 Professional Trustees Act (TrHG)
12 Auditors and Auditing Companies Act (WPRG)
13 Patent Lawyers Act (PAG)
14 Law on the Supervision of Persons under Article 180a of the Law on Persons and Companies (180a Act)
15 Law on the Supervision of Insurance Undertakings (Insurance Supervision Act; VersAG)
16 Law on Professional Due Diligence (SPG)
17 Occupational Pensions Act (BPVG)
18 Law on Insurance Protection of Buildings against Fire Damage and Damage from Natural Hazards (Building Insurance Act)
19 Asset Management Act (VVG)
20 Insurance Mediation Act (VersVermG)
21 Law on the Supervision of Institutions for Occupational Retirement Provision (Pension Funds Act; PFG)
22 Law against Market Abuse in the Trading of Financial Instruments (Market Abuse Act; MG)
23 Law on Takeover Bids (Takeover Act; ÜbG)
24 Law on the Supplementary Supervision of Undertakings of a Financial Conglomerate (Financial Conglomerates Act; FKG)
25 Law on Occupational Pensions of the State (State Pensions Act; SBPVG)
26 Law on Certain Undertakings for Collective Investment in Transferable Securities (UCITSG)
27 Law on the Recovery and Resolution of Banks and Investment Firms (Recovery and Resolution Act; SAG)[1]

1 from 1 January 2017

Large-leaved linden, Tilia platyphyllos
20 years old. Triesen, Hasaböchel. The large-leaved lime is native to Middle and Southern Europe, but it is relatively rare in the wild. The young linden leaves are popular in cooking, and the linden blossom has long been used successfully as a natural remedy.



ANNUAL REPORT 2016

REGULA-TION

Shift of regulatory work toward technical standards

Financial stability: The FMA assumes the function of a resolution authority

European System of Financial Supervision incorporated into EEA Agreement

Tightening of rules to combat money laundering and terrorist financing

Revision of occupational pension provision and strengthened supervision

Casinos: FMA responsible for due diligence supervision

Creation of a new Auditors Act

Introduction of automatic exchange of information

Outlook

Now that fundamental regulatory projects have been implemented in the various sectors of the financial centre, the focus is shifting toward the numerous regulatory and implementing technical standards of the European Union. This means the regulatory pressure remains high. With the Recovery and Resolution Act, a uniform framework has been created for efficient and effective crisis management at banks and investment firms. The function of resolution authority has been assigned to the FMA. With the incorporation of the EU regulations on the European Supervisory Authorities into the EEA Agreement, an important step has been taken toward securing equal access of Liechtenstein financial market players to the EU single market.

Shift of regulatory work toward technical standards

The year 2016 was marked by extensive regulatory work. Most of this work involved transposing EU financial market legislation into national law due to Liechtenstein's membership in the EEA.

Key projects included implementation of the Bank Recovery and Resolution Directive (BRRD), the 4th EU Anti-Money Laundering Directive, the Market Abuse Directive and Regulation, and further implementation of the MiFID II Directive. The BRRD was transposed in Liechtenstein as part of the Recovery and Resolution Act (Sanierungs- und Abwicklungsgesetz, SAG).

The number of basic European acts left to be implemented is declining, because key European regulatory projects have been transposed into national law in recent years and the sectors of the financial centre have been placed under comprehensive regulation. But the focus is now shifting toward regulatory and implementing technical standards. These Level 2 acts in the form of delegated regulations and implementing regulations are issued by the European Commission at the proposal of the competent European Supervisory Authority and supplement the basic acts (Level 1) such as the BRRD.

The purpose of the Level 2 measures is to ensure coherent harmonization and the conditions of application of EU financial market regulation. Their implementation entails substantial work for financial intermediaries and the FMA. They contain far-reaching obligations, processes, and other requirements of a technical nature, compliance with which is necessary to preserve EEA market access for Liechtenstein's financial intermediaries. In the year 2016 alone, more than 100 Level 2 acts were issued in the field of EU financial market regulation.

Financial stability: The FMA assumes the function of a resolution authority

After the revised Banking Act, including higher capital requirements for banks, was introduced in 2015, the Recovery and Resolution Act (Sanierungs- und Abwicklungsgesetz; SAG) entered into force at the beginning of 2017. Both sets of legislation address the too-big-to-fail problem and aim to strengthen financial stability. The SAG serves to implement the EU Directive establishing a framework for recovery and resolution of credit institutions and investment firms (Bank Recovery and Resolution Directive, BRRD). The SAG creates a uniform framework for efficient and effective crisis management at banks and investment firms.

The BRRD obliges EEA Member States to create a national resolution authority for banks and to endow it with certain powers. Liechtenstein lawmakers assigned this responsibility to the FMA. The integration of the resolution authority into the organizational structure of the FMA takes account of the requirements governing its operational independence and avoidance of conflicts of interest. The authority began its work on 1 January 2017. The powers of the Court of Justice relating to bankruptcy have thus been transferred to the resolution authority.

SPECIAL INSOLVENCY LAW FOR BANKS

As creditors and for payment transactions, banks play an indispensible role for the economy. The failure of one or more banks can cause significant damage to a national economy. During the global financial crisis, numerous banks had to be bailed out with substantial public funds. And if a bank becomes insolvent, it is hardly possible anymore for it to continue business or any of its systemically important functions in light of its business model. For that reason, legal frameworks have been created for banks to prevent their insolvency or, in the event of insolvency after all, to establish an efficient resolution procedure. The goal is to protect the national economy, clients, and the public sector. Banks operate in Liechtenstein that are very large relative to the Liechtenstein national economy and thus of national systemic importance.

One of the responsibilities of the resolution authority is to prepare resolution plans. These must be immediately available in a crisis in order to avert it or at least in order to respond quickly to it. A resolution plan must be prepared and regularly updated for each bank. The resolution authority is authorized – taking into account the resolution objectives – to apply the resolution instruments and exercise the resolution powers.

The objectives of resolution include securing the continuity of critical functions of a bank, avoiding the use of public funds, protecting the money and assets of clients, ensuring the stability of the financial system, and sustaining national payment transactions. Depending on the specific case, resolution instruments may include sale of the company, establishment of a bridge institution, separation of assets, and the bail-in instrument. One of the principles of resolution is that in addition to shareholders, creditors must also bear the losses (bail-in), so that governmental bail-outs can be avoided.

In its function as the resolution authority, the FMA thus is assuming additional responsibility to safeguard financial stability, protect clients, and implement and comply with recognized international standards.

European System of Financial Supervision incorporated into EEA Agreement

On 30 September 2016, the EEA Joint Committee decided to incorporate the first package of EU legislation relating to the European Supervisory Authorities (ESAs).

By incorporating the EU regulations governing the ESAs into the EEA Agreement, the longstanding blockade of the incorporation of EU financial market legislation into the EEA Agreement was overcome, and the reduction of the pent-up work could begin. With incorporation of the legislation, the FMA gained the status of full member of the ESAs. Until then, it was merely an observer.

The institutional framework of the EEA rests on two pillars. The EU and its institutions form one pillar, while the EEA/EFTA States of Liechtenstein, Iceland, and Norway constitute the second. The European System of Financial Supervision is now being mirrored in the second pillar. Because of this two-pillar structure, the power to issue binding measures vis-à-vis the national supervisory authorities of the EEA/EFTA States and vis-à-vis the financial intermediaries domiciled in the EEA/EFTA States is vested in the EFTA Surveillance Authority. Using the powers assigned to it, the EFTA Surveillance Authority can intervene directly with the national supervisory authorities of the EEA/EFTA States and, in certain cases such as extreme crisis situations, even with the financial intermediaries domiciled in an EEA/EFTA State.

The power to issue measures of a non-binding nature, both vis-à-vis the national supervisory authorities and financial intermediaries of the EU and vis-à-vis the EEA/EFTA States, remains with the European Supervisory Authorities.

The first incorporation package also included the Alternative Investment Fund Managers Directive (AIFMD). Since the beginning of October, Liechtenstein alternative investment fund managers (AIFMs) and alternative investment funds (AIFs) have thus been in possession of an EU passport, which is necessary for the cross-border management and distribution of alternative investment funds throughout Europe. The European single market encompasses 28 EU States and the EEA/EFTA States of Liechtenstein, Norway, and Iceland.

Tightening of rules to combat money laundering and terrorist financing

In a first reading in December 2016, the Liechtenstein Parliament considered amending the Due Diligence Act and other laws. With these amendments, Liechtenstein is adjusting its national legislation to combat money laundering and terrorist financing to the international developments and standards, especially the 4th EU Anti-Money Laundering Directive. The goal is to reduce the risk that the Liechtenstein financial centre can be misused for purposes of money laundering and terrorist financing, and to continue to ensure access of financial institutions to the international financial markets. The draft law also addresses criticisms by the International Monetary Fund (IMF) and MONEYVAL in their recent assessment of Liechtenstein's system to combat money laundering and terrorist financing.

With the dramatic increases in terrorist threats in Europe as well as the disclosures from the Panama Papers, combating money laundering and terrorist financing has a high priority on political agendas. Liechtenstein's defensive measures must therefore be adjusted to the tighter international standards and consistently implemented in practice, also on grounds of reputation. The legislative amendments are to enter into force on 1 September 2017. During the reporting year, the FMA participated as a member of the Government's expert group in the development of the legislative proposal.

All countries are now obliged to carry out a national risk assessment of their individual risks relating to money laundering and terrorist financing. Liechtenstein began this work already in spring 2016 with the close involvement of the private sector. Because of all of the sector-specific analyses, this project generated a considerable workload for the FMA, other authorities, and the financial market participants.

With implementation of the new international requirements, the already familiar risk-based approach used to combat money laundering and terrorist financing is being further specified. The leeway for simplified due diligence is being limited considerably. For instance, it will no longer be possible in future to obtain a full waiver of due diligence obligations even if the risks are minor.

Introduction of risk-based due diligence supervision will have a major impact on the FMA's work. Implementation of this supervision concept represents a huge challenge in practice. Consequently, the use of resources and the emphasis of inspections will have to focus on the areas and institutions with higher risks.

As already was the case in other financial market laws, the 4th EU Money Laundering Directive requires the establishment of a whistleblower system at the FMA to receive reports of actual or potential violations of the law. Based on the international requirements, the FMA's sanctioning powers will also be expanded significantly, including powers delegated to the FMA from the Court of Justice. In future, there will be clear rules governing the publication of final, legally binding decisions.

Revision of occupational pension provision and strengthened supervision

In May 2016, Parliament adopted the revision of the Occupational Pensions Act (Gesetz über die betriebliche Personalvorsorge, BPVG). The revised law enters into effect together with the revised ordinance on the BPVG in two steps on 1 January 2017 and 1 January 2018.

With this reform, occupational pension provision – as the second pillar of the Liechtenstein provision system – is being adjusted to demographic changes, the transformation of life and work habits, and the changed economic environment, giving it a sustainable and modern basis. For that purpose, a bundle of measures has been put together that increases old-age savings and provides better security both for employees with low income and for part-time workers. Specifically, the entry threshold for the

Wych elm, Ulmus glabra
20 years old. Triesen, Röfiwald. The wych elm can be found scattered among ravine forests and shady slope forests up to an altitude of 1300 metres.

insurance obligation is being reduced to CHF 13,920, the exempt amount of CHF 13,920 deductible from the annual salary eliminated, the minimum old-age credits for every individual employee increased to 8%, and the beginning of the savings process moved forward to the 1st of January after the employee's 19th birthday.

Another focus of the revision was on strengthening the transparency and governance of pension schemes. Rules governing the personal integrity and professional qualification of those responsible for pension schemes are now included, as well as rules governing the legal transactions of the pension schemes with related persons in order to prevent possible conflicts of interest. Clear rules, as have already proven to be effective in other sectors, are thus being introduced for occupational pensions as well. The goal is to increase the security of pension schemes and thus strengthen the trust of employees in the second pillar.

Supervision of pension schemes is being intensified. This increases trust in occupational pension provision.

As before, the revised BPVG is conceived as a liberal framework law. The pension schemes and the employers with their employees as social partners continue to design occupational pension provisions themselves, within the legal framework, and may go beyond it on a voluntary basis. The FMA prepared this legislative proposal on behalf of the Government and accompanied the revision through the various phases of the legislative process.

FACTS AND FIGURES

The FMA publishes a report on the second pillar each year. At the end of 2016, the FMA supervised 23 pension schemes. The total assets of pension schemes at the end of 2015 amounted to CHF 5.8 billion. They insured 40,173 people at the end of 2015. Benefits paid out to insured persons in 2015 amounted to CHF 174 million. The largest share of benefits were retirement pensions at 44%, followed by lump-sum benefits upon retirement at 32%, while disability pensions made up 9% of all benefits paid out. At the end of 2016, the average weighted funding ratio of Liechtenstein pension schemes was estimated at 104.3%.

Pension schemes are supervised by the FMA. The FMA especially monitors business operations and reviews annual reporting. With the revision of the Occupational Pensions Act (BPVG), supervision of pension schemes is being strengthened. The FMA consistently adjusts its existing supervisory processes to the new legal requirements to ensure that the extensive transparency and governance provisions in particular are complied with.

Casinos: FMA responsible for due diligence supervision

The amended Gambling Act (Geldspielgesetz, GSG) entered into force on 1 October 2016. Casinos require a licence issued by the Office of Economic Affairs to perform their activities. The first licence applications for casinos are expected in 2017. The Government has extended the moratorium on online gambling until the end of 2019.

The FMA is responsible for due diligence supervision of casinos and providers of online gambling games. As part of the licensing procedure, the FMA reviews the due diligence concept, in which the potential casino operator must present its measures to ensure compliance with its obligations resulting from due diligence legislation.

As part of ongoing supervision, the FMA verifies compliance with the special provisions of the Casino Ordinance (Spielbankenverordnung, SPBV) for combating money laundering, organized crime, and terrorist financing. This includes in particular identification and related documentation obligations, transaction monitoring if the relevant thresholds are exceeded as well as application of stronger due diligence obligations, internal organization and continuing training relating to due diligence law, and finally the obligation to maintain a register of non-negotiable cheques and chip deposit accounts and the special provisions governing guest accounts. The provisions of the Due Diligence Ordinance (Sorgfaltspflichtverordnung, SPV) apply on a subsidiary basis. The required supervisory processes were established during the reporting year.

Creation of a new Auditors Act

The consultation period for the draft Auditors Act (Wirtschaftsprüfergesetz, WPG) ended on 21 October 2016. The creation of the Auditors Act represents a comprehensive revision of the existing Auditors and Auditing Companies Act (Gesetz über Wirtschaftsprüfer und Revisionsgesellschaften, WPRG) and serves as the national transposition of the EU Statutory Audit Directive. In its function as an expert, the FMA participated in the preparation of the draft.

The primary aim of the legislative revision is to align the qualitative demands on statutory audits with international practice and to harmonize the requirements governing statutory audits. This serves to make the demands on statutory auditors clearer and more predictable and to ensure greater independence and impartiality of auditors in the performance of their responsibilities. Beyond this, the goal is to enhance the credibility of audited annual reports and thus the reliability of the audit performance of statutory auditors.

In terms of content and structure, the draft law was aligned with the comprehensively revised Professional Trustees Act (Treuhändergesetz, TrHG). The existing provisions of the Auditors and Auditing Companies Act were restructured in line with the Professional Trustees Act, and important core elements of the Professional Trustees Act were transposed into the draft law, such as the provisions on trustworthiness, compliance with licensing conditions and the monitoring thereof, the licensing procedure, and termination of the licence. In that way, the Auditors Act leads to an expansion of the FMA's prudential supervision of auditors and auditing companies.

Introduction of automatic exchange of information

In the wake of the financial and debt crisis, the worldwide fight against tax evasion has become an important and broadly pursued concern of the international community. As part of its financial centre strategy, Liechtenstein committed itself early on to the new OECD standard on transparency and exchange of information for tax purposes, or automatic exchange of information (AEOI). As an early adopter of the standard, Liechtenstein will for the first time in 2017 exchange data about financial accounts with the countries of the European Union for tax purposes. Relevant for this purpose is the financial information of the 2016 tax year. In a second step, Liechtenstein is implementing AEOI with 32 other partner countries.

Under AEOI, the financial institutions provide their national tax authorities with information about their clients whose tax domicile is in the respective AEOI partner country as well as about their financial accounts. The tax authority then exchanges this data with the tax authorities of the partner countries. The data allows the tax authorities to verify their taxpayers' compliance with their tax obligations.

The primary responsibility for implementation of AEOI lies with the Fiscal Authority. But AEOI also has consequences within the FMA's scope of responsibilities. For instance, implementation of AEOI entails operational risks for financial intermediaries. These risks include failure to transmit the complete required data due to the complexity of the regulations and technical systems. Risk management must take this into account adequately and provide measures to mitigate the risks.

It should also be emphasized that when identifying the persons to be reported, the financial institutions may also rely on the information that must be obtained under the provisions of the Due Diligence Act (SPG) to prevent money laundering and terrorist financing. Due to the new international requirements governing identification of beneficial owners, numerous questions of interpretation have arisen on the part of financial institutions, for which the FMA is the competent authority (see FMA Communication 2015/7). The FMA is responsible for compliance with the SPG. SPG compliance is monitored primarily through on-site inspections. In this way, the FMA indirectly contributes on an ongoing basis to ensuring adequate data quality for AEOI.

Outlook

Legislative transposition of European financial market regulations and the supervisory implementation thereof will be a considerable challenge for the FMA due to the volume and complexity. Despite the shift in focus to regulatory and implementing technical standards, numerous far-reaching regulatory projects at the level of basic law still have to be implemented, such as the Deposit Guarantee Schemes Directive, the Insurance Distribution Directive, the Payment Services Directive, the 4th EU Anti-Money Laundering Directive, MiFID II, and the market abuse package. In addition, there are numerous guidelines and recommendations at the level of the European Supervisory Authorities (ESAs).

With the incorporation of the EU regulations on the ESAs into the EEA Agreement in 2016, further EU financial market legislation can now be incorporated step by step into the EEA Agreement as well. With a view to the homogeneity of financial market regulation in the EEA and access to the single market, this is of the utmost importance. At the same time, Liechtenstein incurs obligations in regard to macroprudential supervision.

The financial market regulations that have already been implemented as well as those that still have to be implemented contain additional areas of responsibility for the FMA, increased reporting obligations for financial intermediaries, the requirement to establish whistleblower systems, and sanction regimes. The intensity of supervision is thus being increased in general. Additionally, the European Commission has already presented draft proposals to amend the CRD IV package and the BRRD, thus laying the cornerstone for adjusting these two major regulatory foundations that have only recently been implemented.

European regulators are also dealing increasingly with the question of regulating new financial technologies. Through its integration with the ESAs, the FMA is involved in this work and is pursuing the developments with the goal of positioning Liechtenstein as a FinTech location with attractive regulatory conditions and access to the European single market.

European regulators are also dealing increasingly with the question of regulating new financial technologies. The FMA is following this work closely.

ANNUAL REPORT 2016

EXTERNAL RELA-TIONS

The FMA is a full member of the European Supervisory Authorities

Work meetings in the US, Hong Kong, and Singapore

FMA and Jersey FSC sign memorandum of understanding

National external relations

Bilateral cooperation

European cooperation

Global cooperation

Outlook

With the incorporation of the EU regulations on the European Supervisory Authorities into the EEA Agreement, the FMA has achieved the status of a full member of the EBA, ESMA, and EIOPA. This full integration strengthens the position of the FMA as an equivalent and recognized supervisory authority and is important for ensuring access to the European single market. The FMA and the Jersey Financial Services Commission (FSC) have concluded a memorandum of understanding. With this MoU, the two authorities are strengthening their bilateral cooperation.

The FMA is a full member of the European Supervisory Authorities

In October, the FMA Liechtenstein achieved full membership of the European Banking Authority (EBA) headquartered in London, the European Insurance and Occupational Pensions Authority (EIOPA) headquartered in Frankfurt, and the European Securities and Markets Authority (ESMA) headquartered in Paris.

Until then, the FMA had only observer status in the three supervisory authorities. The incorporation of the EU regulations on the European Supervisory Authorities (ESAs) into the EEA Agreement cleared the path for full membership. The regulations were part of the first package of EU legislation that the EEA Joint Committee had decided at the end of September 2016 to incorporate into the EEA Agreement.

Full integration into the ESAs strengthens the position of the FMA as an equivalent and recognized supervisory authority at the European and global level. It is important for ensuring the access of Liechtenstein financial market participants to foreign markets. The FMA now has the same rights and duties as the national supervisory authorities of the European Union. Because Liechtenstein is not an EU member, however, the FMA does not have the right to vote in ESA bodies.

The FMA sits on each of the boards of supervisors and is actively represented in the committees and working groups relevant to the Liechtenstein financial centre. In addition to the rights arising from its membership, such as participation in all meetings and the right to be heard on all topics, as well as access to the data and expertise of the authorities, the FMA also incurs obligations. Apart from the extensive and periodic reporting of financial market data and incident-related information obligations, these also include participating in regular peer reviews. With this control instrument, uniform implementation and application of EU/EEA law by the national supervisory authorities is verified.

Work meetings in the US, Hong Kong, and Singapore

During the reporting year, the Chairman of the Board of Directors and the CEO held work meetings in countries of significance to the Liechtenstein financial centre. By cultivating relationships and through exchanges at a high level, the goal is to promote knowledge about the Liechtenstein financial centre among important decision-makers and to strengthen trust in the financial centre. This representation of interests is possible only thanks to the FMA's bilateral contacts that have been built up over many years of work and to the excellent network and services of Liechtenstein's embassies and honorary consulates.

In June 2016, the FMA held talks in Washington with the US Securities and Exchange Commission (SEC), the US Federal Reserve (Fed), the Federal Deposit Insurance Corporation (FDIC), and the Inter-American Development Bank (IADB). Meetings also took place with the staffers of members of the Financial Services Committee of the US House of Representatives, and a reception was held at the Liechtenstein embassy in Washington.

The Asian market is a growth market with increasing importance to Liechtenstein's financial intermediaries.

In September 2016, talks were held in Hong Kong and Singapore. The Asian market is a growth market with increasing importance to Liechtenstein's financial intermediaries. So far, however, only few Liechtenstein players are active on the Asian markets. Especially in Hong Kong and China, there are high barriers to market access. Through the talks with the national supervisory authorities, essential questions relating to the supervision of financial intermediaries engaged in cross-border services were addressed.

In its meetings with the Hong Kong Monetary Authority (HKMA), the Securities and Futures Commission (SFC), and the Monetary Authority of Singapore (MAS), the FMA strengthened its bilateral relations with the foreign partner authorities. The programme also included other meetings with the Hong Kong Financial Secretary, the honorary consul of Liechtenstein in Hong Kong, and representatives of the National University of Singapore as well as Liechtenstein financial intermediaries.

FMA and Jersey FSC sign memorandum of understanding

On 11 August 2016, the FMA Liechtenstein and the Jersey Financial Services Commission (FSC) signed a memorandum of understanding (MoU). With this MoU, the two authorities are strengthening their bilateral cooperation. The MoU establishes a basis for consultation, cooperation, and coordination between the FMA and the FSC, reaffirming the good relationship between the two partners.

By signing the MoU, the FMA and the FSC have also responded to a general recommendation of the International Monetary Fund (IMF) for increased conclusion of cooperation agreements. The FSC is responsible for the regulation and supervision of the financial sector of Jersey. With an area of 120 km² (Liechtenstein: 160 km²), Jersey is the largest island in the English Channel and has about 103,000 inhabitants.

English oak, Quercus robur
More than 100 years old. Mauren, Birka. Also referred to as pedunculate oak. This majestic tree can be found throughout almost all of Europe. The English oak grows to be up to 1000 years old. Its bark is also used for medicinal products.

National external relations

The FMA engages in regular exchange with the Government, Parliament, the authorities, and the professional and industry associations. These exchanges were especially intensive during the reporting year because of the high number of regulatory projects.

One of the major concerns of the FMA is to transfer knowledge in the areas of regulation and supervision. For that purpose, the FMA engages in close cooperation with the University of Liechtenstein. FMA specialists have appeared as speakers in various specialist events at the university or have served as lecturers in the university's courses of study. The FMA is heavily involved in the Compliance Officer Certificate Programme. The FMA also promotes appearances by its specialists at events beyond the university. The FMA attaches great importance to the transfer of expertise to market participants. For that purpose, it makes use of the platforms of the professional and industry associations, the authorities, and other institutions, or it organizes its own workshops and specialist events for market participants.

In cooperation with the fintech.li association and under the auspices of the Government, the FMA organized the FinTech Conference 2016. It took place at the end of September in Schaan with nearly 200 participants.

Bilateral cooperation

The relations between the FMA and the foreign supervisory authorities have intensified. One reason is the trend toward internationalization of the Liechtenstein financial centre. On the one hand, investors especially from beyond Europe have been investing in Liechtenstein companies, and on the other hand, Liechtenstein intermediaries are strengthening their presence abroad. Additionally, higher formal requirements in group supervision have led to more intensive cooperation with foreign supervisory authorities as well as to supervision cases, in which cooperation with the competent national supervisory authorities was necessary because of the business activities of Liechtenstein financial intermediaries abroad.

In November 2016, the heads of the supervisory authorities of Germany, Austria, Switzerland, and Liechtenstein met in Vaduz to discuss developments in financial market supervision. This traditional meeting of the national financial market authorities of the German-speaking countries is held each year in one of the four countries. Focus areas were how to approach FinTech business models and digitalization in the financial services sector. The FMA also took part in the meeting of the statutory audit supervisory authorities of the German-speaking countries. European developments on statutory audit regulation and the impact on national supervision were discussed. Because of the close ties between the Liechtenstein and Swiss financial centres, regular exchanges also took place with the Swiss Financial Market Supervisory Authority (FINMA).

European cooperation

Now that key regulatory projects in the banking, insurance, and securities sector have entered into force, the focus of the European Supervisory Authorities (ESAs) is increasingly shifting to monitoring of supervisory implementation on the part of the national supervisory authorities. The ESAs are responsible for ensuring that the rules governing financial market supervision are implemented and applied consistently throughout Europe. The goal is to ensure uniform supervisory practice.

One of the most important instruments for this purpose is the peer review. The ESAs use questionnaires or on-site inspections to exercise supervision of the authorities' personnel resources and IT systems. During the reporting year, some of the peer reviews were conducted on reporting by banks, the approval process for securities prospectuses, MiFID requirements governing the compliance function, and MiFID best execution. A peer review on the supervision of key functions in insurance undertakings had not been concluded by the end of the reporting year.

The FMA participates actively in the committees and working groups relevant to the Liechtenstein financial centre, including in the newly created steering committees (Insurance Policy Committee, Risk and Financial Stability Committee) at EIOPA and the Market Data Standing Committee of ESMA for the fulfilment of reporting requirements relating to market supervision.

As an ESA subcommittee, the Subcommittee on Anti-Money Laundering (AMLC) is entrusted with the prevention of money laundering and terrorist financing. As part of the implementation of the 4th Anti-Money Laundering Directive, the AMLC published a guideline on risk-based supervision in November 2016. The guideline defines the uniform principles for requirements governing risk-based supervision. The AMLC also prepared a guideline on risk factors. Its purpose is to provide persons subject to due diligence with relevant factors allowing them to assess their business relationships in regard to the risk of money laundering. Based on that risk assessment, simplified or enhanced due diligence must be applied. The FMA is actively represented on this subcommittee.

The FMA participated in the plenary meetings of the European Audit Inspection Group (EAIG) as a member. As part of the entry into effect of the EU statutory audit rules in October 2016, the EAIG was replaced by the newly created Committee of European Audit Oversight Bodies (CEAOB). The CEAOB serves as an advisory committee of the European Union. The FMA is actively involved in its programme of work and participates as an observer in its plenary meetings. The key tasks of the CEAOB are to improve quality in the performance of statutory audits and to create a uniform supervisory standard throughout Europe for the performance of inspections.

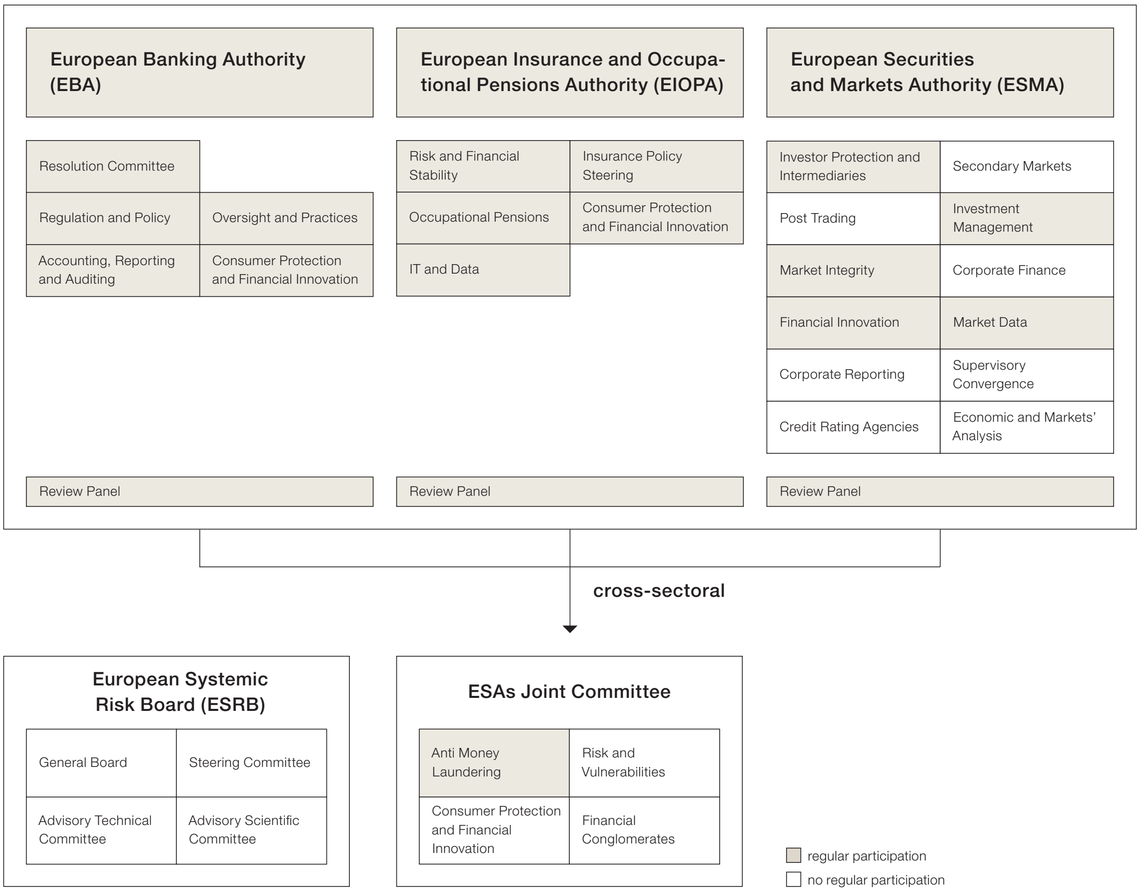


Figure 7
Cooperation within European Supervisory Authorities

Global cooperation

Liechtenstein is a member of MONEYVAL, the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism. For the past four years, an employee of the FMA has been working as a technical expert for that committee. In his capacity as an expert, he served during the reporting year as a reviewer of the evaluation report for the Isle of Man, which is also relevant to Liechtenstein. This report was discussed and adopted in the December plenary. During this first discussion of an evaluation report of a financial centre under the new standard, it became clear that the bar for compliance with the international standards has been set high.

In its capacity as an audit supervisory authority, the FMA represents Liechtenstein in the International Forum of Independent Audit Regulators (IFIAR). The purpose of this forum is to share expertise on statutory audits among members, the global network auditing companies, and international standard-setters. The FMA will join the multilateral memorandum of understanding (MMoU) among IFIAR members. The MMoU is scheduled to be signed in April 2017.

> ***"We ensure that we are recognized as a competent and reliable supervisory authority in Liechtenstein and abroad."***
> *Core principles of the FMA*

Joining the MMoU strengthens cooperation among audit supervisory authorities at the global level. The focus of the MMoU is on transfer of expertise and the sustainable practice of cross-border supervision that relies on international custom. As part of the Smaller Regulators Task Force (SRTF) – a working group to promote smaller and newer audit supervisory authorities – the FMA is actively involved in the work of IFIAR.

The FMA is a member of the International Association of Insurance Supervisors (IAIS). An FMA expert sat on the subcommittee of the Financial Stability Committee (FSC) and served as vice chair of the Macroprudential Surveillance and Insurance Working Group (MPSWG).

Outlook

With its full membership of the European Supervisory Authorities, the FMA has further strengthened its European integration. This enhances the important work in the committees and working groups relevant to Liechtenstein.

Given the great importance attached to combating money laundering and terrorist financing at the European and global level, the active participation of the FMA in MONEYVAL, the Council of Europe's expert committee, is of special significance. Two employees of the FMA are additionally involved in the country assessments as an expert and as an assessor. Effective defensive measures that meet the international standards are crucial for the good reputation of the financial centre.

Because of the trend toward internationalization of the Liechtenstein financial centre, bilateral relations with foreign supervisory authorities are gaining further importance. The high degree of the FMA's integration at the European and global level offer good preconditions for this cooperation.

In 2017, several working meetings in countries important to Liechtenstein are planned. By cultivating relationships and through exchanges at a high level, the goal is to promote knowledge about the Liechtenstein financial centre among important decision-makers and to strengthen trust in the financial centre.

ANNUAL REPORT 2016

ENTER-PRISE

Leadership change on the Board of Directors

Digital transformation of the FMA

Organizational structure

Corporate governance

FMA funding

Outlook

Organizational chart

Governing bodies

Digitalization brings far-reaching changes for supervisory authorities. The FMA sees digitalization as an instrument for further developing itself as an authority, for designing enterprise processes as efficiently and effectively as possible, and for ensuring effective risk-based supervision. By bundling the market topics relating to securities and markets and by integrating the resolution authority, preparations were made during the reporting year for the organizational adjustments that came into effect at the beginning of 2017.

Leadership change on the Board of Directors

In August 2016, Dr. Urs Philipp Roth-Cuony announced that he would retire as Chairman of the Board of Directors upon conclusion of his term at the end of 2016. He had assumed chairmanship of the FMA at the beginning of 2012. Before representatives of the media, he said that the FMA is a well-established supervisory authority that is recognized at the national and international level as a credible and effective supervisory authority. According to Roth-Cuony, the FMA can rely on broad public support in Liechtenstein. This support is based on the conviction that a strong supervisory authority is in the best interest of the country and the financial centre.

The digital transformation of the financial sector, new financial technologies, the internationalization of the financial centre, the increase in complexity, and the growing portfolio of responsibilities in financial market supervision represent great challenges for the FMA, the Chairman of the Board said. These could only be mastered with sufficient qualified personnel. Securing personnel resources must therefore be a key strategic goal for the Board of Directors.

In November 2016, the Government elected Vice Chairman Prof. Dr. Roland Müller as the new Chairman of the Board of Directors effective the beginning of 2017. His term of office runs through the end of 2019, with the option of re-election until the end of 2021. Roland Müller, of Staad, Switzerland, had served as Vice Chairman since the beginning of 2010. As part of the reorganization of the FMA in 2010, he contributed substantially to the new orientation and successful positioning of the FMA. Roland Müller is a specialist in corporate governance and risk management, especially in public administration. As a lawyer and lecturer, his appointments include the University of St. Gallen, the University of Bern, and the University of Liechtenstein.

On 1 January 2016, Jürg Meier, Eschen, began his term as a Member of the Board of Directors. The Government had elected him to the Board of Directors in December 2015. His term of office is five years. He succeeded Bernard Lampert. Jürg Meier has more than 20 years of professional experience in private banking and asset management. He runs an asset management company in Liechtenstein.

With the election of Vice Chairman Prof. Dr. Roland Müller as the new Chairman of the Board of Directors, a vacancy had to be filled on the Board of Directors. In November 2016, the Government elected Michèle Borgeaud, of Altendorf, Switzerland, as a Member of the Board of Directors effective the beginning of 2017. In December, the Board of the Directors of the FMA appointed her as Vice Chair. Michèle Borgeaud has great experience in banking, and she held leadership positions in several divisions of a major Swiss bank. She also worked as a consultant for an international consulting company in Paris as well as for the European Bank for Reconstruction and Development (EBRD) in London. Michèle Borgeaud is the founder and owner of a coaching and consulting company in Switzerland.

Digital transformation of the FMA

The Board of Directors and Executive Board discussed digital transformation at a Strategy Day. The FMA is affected by digitalization in two ways: Firstly, the companies supervised by the FMA are changing, as are their business models. The FMA is supervising an increasingly digital financial sector, in which new risks arise. For that purpose, the FMA has to get to know and understand the digital financial service providers, their business models, and the associated risks. Secondly, the FMA itself is also embracing digitalization, for instance in the timely processing and targeted evaluation of large data volumes of financial intermediaries in risk-based supervision, or in the automation of supervisory processes.

The FMA attaches great strategic importance to this transformation. It sees digitalization as an instrument for further developing itself as an authority and for designing enterprise processes as efficiently and effectively as possible. For the FMA, the use of digital technologies is an appropriate and necessary instrument to strengthen the effectiveness of supervision and to meet the increasing demands on supervision in an international context with a reasonable amount of effort.

The Board of Directors adopted a comprehensive IT strategy in 2010. Since then, it has been implemented and further developed step by step, and it represents a suitable foundation for digital transformation. The evaluation of the FMA's digital maturity carried out during the reporting year largely gave the FMA good marks. But progressive digitalization requires further measures such as consistently having the IT strategy be guided by digitalization, along with the associated investments in IT solutions. The human factor is also crucial: Employees must have digital skills and competence and receive appropriate training. Beyond that, an enterprise culture has to be created that supports digitalization and the associated changes in approaches to work.

A special challenge of digitalization is dealing with the rapid increase in the volume of data that arises from far-reaching regulations and reporting obligations as well as the digital business models of financial intermediaries. The data received from financial intermediaries through reporting must be processed and evaluated in a targeted way with a view to enforcing supervision law. As the interface between the financial intermediary and the European Supervisory Authorities, the FMA must also ensure smooth exchange of reporting data. The increasing dependence on IT systems entails risks that the FMA has to take into account in its own risk management.

Using this platform, the financial intermediaries fulfil their reporting obligations efficiently and securely. During the reporting year, an IT solution was implemented to evaluate the reporting data and to transmit selected data to the European Supervisory Authorities. Another step in the direction of digitalization was the decision to digitize all incoming and outgoing documents as well as the daily archives. Accordingly, a scanning solution is being implemented that includes interfaces with systems such as the document management system. During the reporting year, work on an employee portal also commenced. The employee portal is intended to serve as a strategic instrument for international communication, to promote integration, and to support digital and mobile work. Finally, processing of incoming invoices was digitized in 2016.

With the adoption of the Recovery and Resolution Act (Sanierungs- und Abwicklungsgesetz, SAG) in autumn 2016, Liechtenstein lawmakers assigned the function of resolution authority for banks and investment firms to the FMA. To fulfil its responsibilities, the resolution authority must be operationally independent of the other organizational units of the FMA, and no conflicts of interest may arise between resolution activities and the other activities of the FMA. For this purpose, a separate Resolution Unit has been established that reports directly to the Executive Board in its capacity of Resolution Board, without a vote for the representative of the Banking Division, and whose staff does not belong to any of the four operational supervisory divisions of the FMA. The resolution authority began its work on 1 January 2017.

Organizational structure

The Board of Directors decided to bundle responsibility for market topics and, effective the beginning of 2017, to assign them to the Securities Division. The new name of the division is Securities and Markets Division. With respect to market topics, the Securities and Markets Division is responsible for regulation, implementation of supervisory processes, and basic supervision of market aspects, especially data validation, as well as coordination among the FMA's supervisory divisions. With this new organization, synergies are being utilized and the requirements of the European regulators in this growing area of responsibility are being met.

MORE THAN 1000 MEETINGS WITH CLIENTS

1073 meetings took place in the client zone in 2016. The FMA is an accessible and service-oriented authority. There was a strong increase in meetings between the FMA and providers of business models in the field of new financial technologies.

Corporate governance

"Declaration on compliance with the Recommendations on the Governance and Control of Public Enterprises in Liechtenstein"

The Board of Directors and the Executive Board of the FMA Liechtenstein jointly declare that the Recommendations on the Governance and Control of Public Enterprises in Liechtenstein, in the version of July 2012, have been complied with without exception.

Integrated risk management and control system

The work of a financial market supervisory authority entails numerous risks. Risk management and the internal control system (ICS) are therefore important instruments for quality assurance and for avoiding damage to reputation, cases of public liability, or organizational failure.

These instruments were further developed in a consistent manner in 2016. In particular, the issue of increasing digitalization of business models was incorporated into the existing system. In the context of the ICS, a uniform definition of the core processes of supervision was also established. This is intended to make use of synergies and further improve the internal standards. Another focus concerned the issues relating to the compliance management system (CMS). The FMA performed an internal audit of its CMS and undertook optimizations. Finally, the internal training programme was supplemented by foundational training on various corporate governance topics.

FMA funding

In autumn 2016, the Liechtenstein Parliament decided to amend the Financial Market Authority Act (Finanzmarktaufsichtsgesetz, FMAG). The state contribution to the FMA's funding for the period from 2017 to 2019 will continue to be at most CHF 5 million per year. Parliament is thus continuing the state contribution arrangement in force since 2014. Parliament adopted specific improvements for the competitiveness of the fund industry. For instance, several upper limits for supervisory taxes and fees were reduced. Finally, clerical and system errors of the financial model were remedied, and a few new fee elements were included. The amendments to the FMAG entered into force on 1 January 2017.

The work of a financial market supervisory authority entails numerous risks. The FMA therefore attaches great importance to risk management and the ICS.

Outlook

Since 1 January 2017, the FMA has been under the leadership of Prof Dr. Roland Müller, who previously served as Vice Chairman of the Board of Directors. The new Vice Chair of the Board of Directors since 1 January 2017 has been Michèle Borgeaud. With the continuing members Dr. Ivo Furrer, Dr. Michael Ritter, and Jürg Meier, this ensures a high degree of continuity in the strategic governing body of the FMA.

During the reporting year, the Board of Directors and the Executive Board dealt intensively with the digital transformation and defined areas of action at the cultural, strategic, and operational level. The resulting measures are being implemented successively in 2017 and the following years. The key success factor for the increasingly digital process of exchange within the FMA, with financial intermediaries, and with the European Supervisory Authorities is – apart from the digital knowledge and skill of employees – a high-performance IT infrastructure. The IT strategy is thus being guided consistently by the digitalization strategy.

Since 1 January 2017, the responsibility for market topics has been assigned to the Securities and Markets Division. Market regulations must be observed by all market participants performing an activity covered by market regulation. Because of this cross-cutting area of responsibility, the Securities and Markets Division plays an important coordinating function between the Banking Division, the Insurance and Pension Funds Division, and the Other Financial Intermediaries Division.

The newly created resolution authority, which was integrated into the FMA's organizational structure, began its work on 1 January 2017. For every bank and investment firm, a resolution plan according to European specifications must be prepared.

Organizational chart as of 31 December 2016

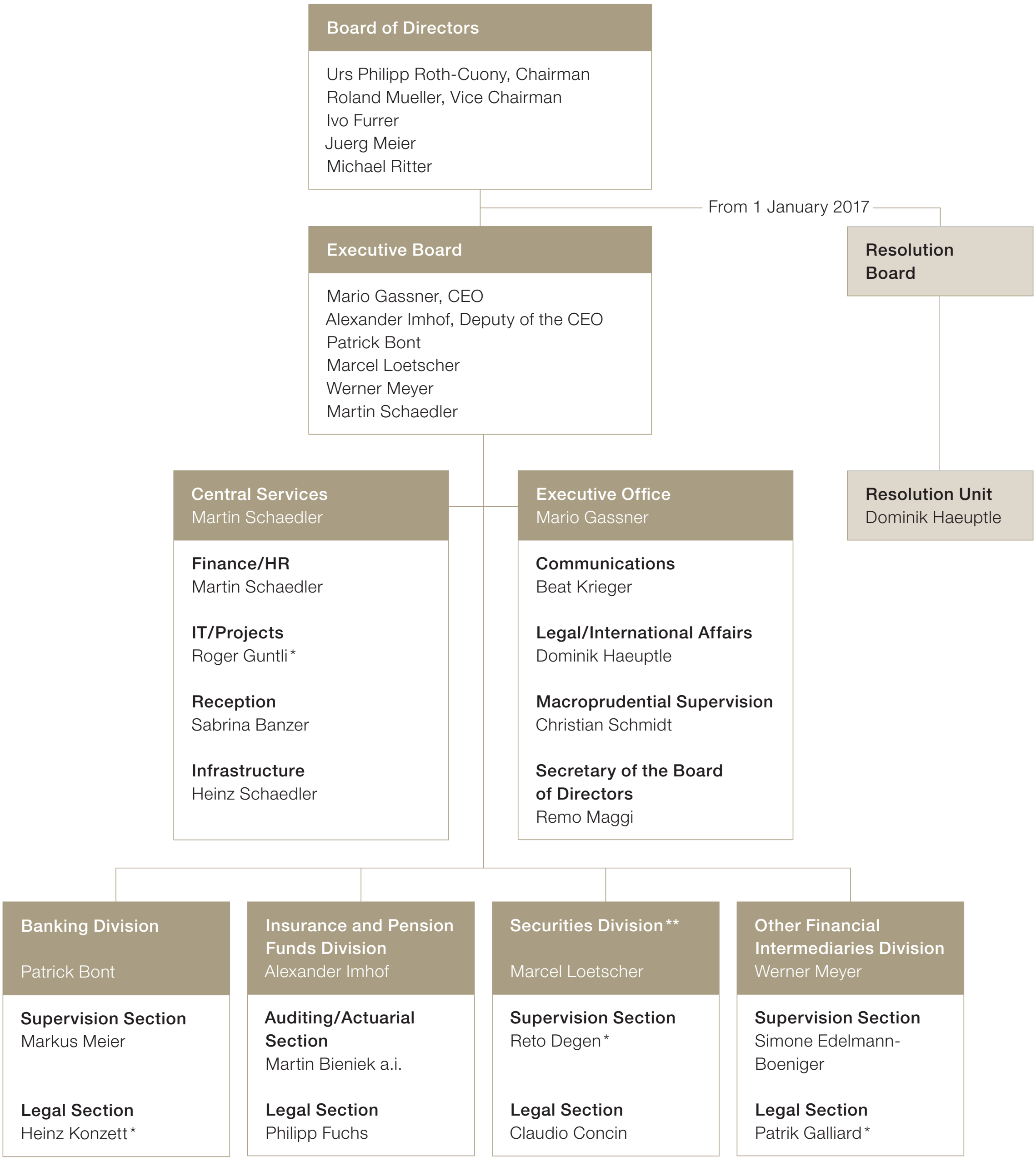


Figure 8
Organizational chart

*Deputy Head of Division or Staff Unit
** From 1 January 2017 Securities and Markets Division

Governing bodies of the FMA as of 31 December 2016

Pursuant to Article 6 of the FMAG, the governing bodies of the FMA are:

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

Board of Directors

Chairman
Dr. Urs Philipp Roth-Cuony, Zug,
elected from 2012 to 2016

Vice Chairman
Prof. Dr. Roland Müller, Staad,
elected from 2010 to 2014 and from 2015 to 2019*

Members
Dr. Ivo Furrer, Winterthur,
elected from July 2011 to June 2016 and
from July 2016 to June 2021
Jürg Meier, Eschen,
elected from 2016 to 2020
Dr. Michael Ritter, Eschen,
elected from 2010 to 2014 and from 2015 to 2019

Executive Board

Chief Executive Officer
Mario Gassner, Triesenberg

Deputy of the CEO and Head of Insurance and Pension Funds Division
Dr. Alexander Imhof, Schaan

Head of Banking Division
Patrick Bont, Niederteufen

Head of Securities Division
Dr. Marcel Lötscher, Baden

Head of Other Financial Intermediaries Division
Werner Meyer, Wettswil

Head of Central Services
Martin Schädler, Triesenberg

Audit Office

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

Figure 9
Governing bodies of the FMA

* On 15 November 2016, the Government elected Prof. Dr. Roland Müller as the new Chairman of the Board of Directors for the term from 1 January 2017 until the end of 2019, with the option of re-election until the end of 2021.

ANNUAL REPORT 2016

TEAM

Securing personnel resources

Implementing the personnel strategy

Development of the workforce

Changes and promotions

Educational background and nationalities

Outlook

In an environment shaped by strict regulations and the transformation of the financial centre, the responsibilities of the FMA are becoming more complex and require more effort. To master them successfully, the FMA must have sufficient qualified personnel. The FMA is implementing a personnel strategy to maintain and promote the attractiveness of the FMA as an employer and to ensure the further development of personnel policy.

Securing personnel resources

The supervision work of the FMA is becoming more complex and requires more effort. The reasons include far-reaching financial market regulations, new financial technologies, specialized business models of new market players, the trend toward internationalization of the financial centre, and new responsibilities assigned to the FMA by law. These developments should be seen as positive for the future of the financial centre. But for the FMA to keep up with the changes and contribute added value to the financial centre, it must have sufficient qualified personnel at its disposal.

The FMA has been successful in keeping its workforce stable over the past few years. The reason for this was the reorganization in 2010. The core elements were improvements in efficiency and effectiveness, such as through investments in the employees' skills and in information technologies. But to master additional tasks, a moderate expansion of the workforce was necessary.

After carefully reviewing needs, the Board of Directors approved four additional positions for the reporting year: in the Insurance and Pension Funds Division due to new market participants with highly specialized business models, in the Banking Division for regulatory projects, and also in the Banking Division for providing administrative assistance. One position was saved in Central Services. For the year 2017, the Board of Directors approved six additional positions: firstly to deal with new responsibilities in the supervision of banks, markets, and auditors, and to carry out the newly assigned function of a resolution authority. Secondly, the FMA is faced with new demands due to the tightening of standards to combat money laundering and terrorist financing. And finally, the FMA has been assigned the responsibility of due diligence supervision for casinos.

Implementing the personnel strategy

In 2015, the Board of Directors adopted a comprehensive personnel strategy to maintain and promote the attractiveness of the FMA as an employer and to ensure the further development of personnel policy.

A staff development model was introduced during the reporting year. The goal is to lead employees to where their individual talents lie. For that purpose, a regulated process is used to assess the potential of employees and to define appropriate development measures. The model includes various career profiles such as officer/assistant, specialist, project leader, or manager. Career and development prospects serve to ensure the efficient and effective use of personnel resources as well as to achieve long-term loyalty of employees to the FMA.

Another element of the personnel strategy is a variety of flexible working models. With the introduction of flexible working hours, employees now have the opportunity to work remotely from their home office. Another implementation measure introduced during the reporting year is the job rotation model. Employees have the opportunity to switch to a different job within the FMA for a specified period of time and to gain insight into a new area of responsibility. Job rotation promotes the interdisciplinary knowledge of employees and cooperation across divisions. A new training programme for current and new employees has also been introduced. The programme includes areas such as corporate governance and risk management, enterprise culture and communication, supervisory strategy and enforcement policy, as well as international strategy. A certificate is awarded upon completion of training.

Sharing knowledge among colleagues: In its training, the FMA relies heavily on internal transfer of expertise.

Development of the workforce

In 2016, the average workforce of the FMA was 83 employees (previous year: 82). As of 31 December 2016, the FMA employed 86 people (previous year: 77). The share of women was 42% (previous year: 39%). 15 employees worked part-time. 7 employees left the FMA during the reporting year (previous year: 8). 15 new employees joined the FMA (previous year: 3). In total, 80.9 full-time equivalent positions were filled at the end of 2016. The number of full-time equivalents authorized by the Board of Directors as of the end of 2016 was 82.7 (previous year: 78.7).

FMA TEAM WORKING ON BEHALF OF CANCER AID

In October 2016, FMA employees presented a cheque in the amount of CHF 2032 to the association Pink Ribbon Liechtenstein, which is active in breast cancer aid. The sum was generated from sales at a stand set up at the Vaduz flea and antique market as well as donations by the FMA team. FMA employees had collected valuable items in their homes that they no longer needed and made them available for sale at the stand.

The FMA offers students and graduates the opportunity to work as interns. As of the end of 2016, nine interns (6.1 full-time equivalents) were employed. The interns are generally in the legal or economic field, with a duration varying from six to 12 months. In addition, six holiday interns were employed for a duration of one to three months in various areas.

White mulberry, Morus alba
80 years old. Mauren, Röfeteile. These trees were planted between 1880 and the 1950s in Liechtenstein for silkworm breeding. The silk was used in the Liechtenstein textile industry.

The FMA also offers two apprenticeship positions for commercial trainees. The apprentices are employed with the Liechtenstein National Administration. Over the course of their training, they work for a variety of authorities and offices.

Finally, four people were offered a secondment at the FMA. A secondment is a temporary assignment of an individual working in business or the public sector whose work is closely connected to that of the FMA. The goal is to expand the exchange of experience with the financial sector, other supervisory authorities, and relevant international organizations. The secondees remain in the normal employ of the sending authorities or companies and are paid by them.

Changes and promotions

Werner Meyer joined the FMA on 1 August 2016 as a Member of the Executive Board and as Head of the Other Financial Intermediaries Division. The Executive Board was thus once again complete. On 1 February 2016, Markus Meier took over the Supervision Section of the Banking Division. Effective 1 April 2016, Claudio Concin was promoted to Head of the Legal Section of the Securities Division, after having headed the section on an interim basis. After the change in function of Harald Prater, Martin Bieniek took over as Head of the Auditing/Actuarial Section in the Insurance and Pension Funds Division ad interim effective 23 August 2016. Effective 1 January 2017, Philipp Fuchs was promoted to Deputy Head of the Insurance and Pension Funds Division, and Dominik Häuptle was appointed as Head of the new Resolution Unit of the resolution authority.

Educational background and nationalities

Because of its complex and specialized areas of responsibility, the FMA has a very high share of employees with an academic background. 53% of employees are lawyers, and 27% are specialists such as auditors, banking experts, economists, or actuaries. 20% of employees are officers or have a different educational background.

26% of employees are Liechtenstein citizens, 24% Swiss citizens, 35% Austrian citizens, and 15% German citizens. The FMA strives to employ as many Liechtenstein citizens as possible. During the reporting year, this share was increased from 22% to 26%.

Outlook

To deal with the increase in complexity and the FMA's growing portfolio of responsibilities, it is of the utmost strategic importance to the Board of Directors to secure personnel resources. As one measure, personnel marketing will be strengthened in 2017. The goal is to specifically target Liechtenstein specialists. The FMA is an attractive employer with a wide range of exciting areas of responsibility in an international environment. The FMA aims to communicate this attractiveness in a more targeted and proactive manner. In its recruitment of personnel, the FMA competes with financial service providers.

The opportunities afforded by the FMA for students and graduates to work as interns has met with a large demand. During the reporting year, 22 interns worked for the FMA. The FMA will continue to offer internships. Interns gather valuable experiences for their career paths, and the FMA is especially able to convey the FMA's attractiveness as an employer to Liechtenstein students and graduates as well. The FMA currently employs a considerable number of people who once were interns at the FMA.

The increasing complexity of supervision work and the associated further specialization of fields demands consistent development of the technical qualifications of employees. Apart from external training, the FMA attaches great importance to internal training and thus to its own transfer of expertise. As part of the digitalization strategy, digital competence is being promoted in particular. The goal is also to establish a culture that supports digitalization and the associated changes in approaches to work.

The FMA is an attractive employer with a wide range of exciting responsibilities in an international environment.

Getting to know other perspectives: Internships at the FMA

The FMA offers students and graduates the opportunity to gather practical experience during an internship. 22 interns worked at the FMA during the reporting year.

Bei der FMA hatte ich die Möglichkeit, auch ohne abgeschlossenes Studium schon erste Erfahrungen im Berufsleben zu sammeln.

"I didn't know exactly what to expect, because I'd never worked in an office before. I was very positively surprised, and the experience confirmed my choice of studies. I had thought of business law as bring rather dull. But the internship presented the topic in a more exciting way, and now I'm enthusiastic about it. I appreciate that the internship at the FMA was easily compatible with my studies. Because my working hours were flexible, I always had enough time for class and to study for my exams."
Judith Hasler, *internship in the Supervision Section of the Securities Division*

Meine Erwartungen an das Praktikum bei der FMA wurden definitiv erfüllt. Mein Aufgabenbereich war sehr breit gefächert und abwechslungsreich.

"I was able to gather many new experiences and get to know new people. I highly recommend an internship at the FMA, because you gain insights into the working world and also become acquainted with the public sector. Teamwork and communication were excellent in our division, and the organization as a whole is structured clearly. I also enjoyed the interactions among colleagues."
Constantin Marxer, *holiday internship in the Legal Section of the Other Financial Intermediaries Division*

Ich habe mich für ein Praktikum bei der FMA beworben, da ich mich sehr für den Finanzplatz Liechtenstein interessiere.

"My responsibilities are very multifaceted and broad, and I am especially excited about the international aspect. An internship at the FMA is worthwhile because you get to know a different perspective, and because it connects theory with practice. I was never purely a student. I need the connection with practice and work in a good team."
Robin Eberle, *internship in the Legal/International Affairs group of the Executive Office*

FINANCIAL STATEMENT 2016

FINANCIAL STATEMENT 2016

Overview

Balance sheet

Income statement

Notes on the financial statement

Attestation of the Audit Office

Overview

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

In its meeting of 17 November 2015, the Government approved the detailed 2016 FMA budget with a state contribution of CHF 5,000,000 and expenses of CHF 20,830,000. The actual expenses for the 2016 fiscal year were CHF 21,029,291, CHF 199,291 (0.96%) lower than the approved budget.

Income without the state contribution amounted to CHF 17,747,184 and is thus CHF 1,247,184 (7.6%) higher than the budget. This surplus has several reasons. Income from licensing fees ended up CHF 276,665 (31.8%) higher than budgeted, mainly because more licences were issued than expected in the Securities Division and the Insurance and Pension Funds Division. Supervisory taxes were CHF 944,327 (6.3%) higher than budgeted. On the one hand, the market developed more positively than expected, and on the other hand, the Insurance and Pension Funds Division was for the first time able to draw up its accounts using the new legal basis, taking into account extraordinary expenses. Income from other fees was CHF 546,436, or CHF 38,564 (6.6%) below the budget of CHF 585,000.

Pursuant to article 30b FMAG, the FMA is required to set aside reserves each year, until the total reserves have reached 50% of the average regular expenses over the past three years according to the financial statement. Under this legal requirement, the reserves for the year 2016 could reach a maximum of CHF 9,924,072. Because the reserves on 1 January 2016 had already reached CHF 9,537,448, only CHF 386,624 could be assigned to the reserves effective 31 December 2016. The state contribution was adjusted accordingly. Instead of the budgeted CHF 5,000,000, the state contribution for 2016 was CHF 3,668,732. Total income including the state contribution was thus CHF 21,415,915. Deducting the total expenses of CHF 21,029,291, the accounts closed with an annual profit of CHF 386,624.

Personnel expenses in the 2016 fiscal year amounted to CHF 14,530,697 and were thus CHF 359,303 (2.4%) lower than budgeted.

At CHF 4,953,746, other operating expenses ended up CHF 453,746 (10.1%) higher than budgeted. The budget overrun is primarily due to expert fees/opinions. In one supervision case, higher expert costs had to be paid; additionally, external consulting firms had to be hired to implement the CRD IV project in the Banking Division.

Write-downs totalled CHF 1,544,848 and were thus CHF 104,848 (7.3%) higher than budgeted. The main reason was that due to the bankruptcy of a financial intermediary, the del credere had to be increased by CHF 221,650, which in turn had an impact on write-downs on debtors.

As already mentioned, the FMA had an annual profit of CHF 386,624 in the 2016 fiscal year. After allocation of the earnings to the reserves, the total reserves as of 31 December 2016 thus amounted to CHF 9,924,072. The legally defined maximum amount of reserves has thus been exhausted.

Balance sheet as of 31 December (in CHF)

Assets			2016		2015
Fixed assets					
Intangible assets	– Software		966,898.64		875,809.55
Tangible assets	– Operating equipment		593,397.80		766,540.65
	– IT equipment		65,272.40		29,095.04
	– Furnishings		122,281.44		142,675.85
Current assets					
Receivables	– Receivables from services		714,242.45		519,075.70
	– Del credere		–345,462.45		–195,424.65
	– Other receivables		0.00		1,070.28
Bank deposits and cash	– Bank		19,345,822.29		21,184,570.97
	– Cash		137.15		549.10
Accrued items			185,599.10		395,057.43
TOTAL ASSETS			**21,648,188.82**		**23,719,019.92**

Liabilities			2016		2015
Equity capital					
	– Endowment	2,000,000.00		2,000,000.00	
	– Reserves as of 1 January	9,537,448.19		9,382,102.94	
	– Annual profit	386,624.09		155,345.25	
		11,924,072.28	11,924,072.28	11,537,448.19	11,537,448.19
Provisions					
	– Other provisions		442,037.45		405,096.60
Accounts payable					
	– Accounts payable from deliveries and services		591,278.91		522,995.05
	– Accounts payable to the State of Liechtenstein		8,314,101.59		11,147,551.65
	– Other accounts payable		237,938.28		66,816.16
Deferred items			138,760.31		39,112.27
TOTAL LIABILITIES			**21,648,188.82**		**23,719,019.92**

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

Income	2016	Budget 2016	Budget dev.	2015
Licensing fees	1,146,665.36	870,000.00	276,665.36	1,241,089.53
Supervisory fees	15,944,327.06	15,000,000.00	944,327.06	15,459,886.52
Audit fees	47,781.60	40,000.00	7,781.60	49,317.65
Other fees	546,435.75	585,000.00	−38,564.25	690,050.00
Other operating income	61,973.85	5,000.00	56,973.85	111,034.00
Total income without state contribution	**17,747,183.62**	**16,500,000.00**	**1,247,183.62**	**17,551,377.70**
State contribution	3,668,731.79	5,000,000.00	−1,331,268.21	1,785,197.71
TOTAL INCOME	**21,415,915.41**	**21,500,000.00**	**−84,084.59**	**19,336,575.41**

Expenses	2016	Budget 2016	Budget dev.	2015
Personnel expenses				
Wages	11,250,812.90	11,560,000.00	−309,187.10	10,599,119.89
Social security contributions	1,962,463.05	2,043,000.00	−80,536.95	1,876,365.34
Insurance (sickness and accident daily allowances)	94,138.45	122,000.00	−27,861.55	101,940.59
Insurance benefits (sickness and accident daily allowances)	−60,435.30	−35,000.00	−25,435.30	−76,720.30
Other personnel expenses	336,767.85	235,000.00	101,767.85	275,988.04
Basic and continuing training	329,069.06	340,000.00	−10,930.94	300,431.10
Board of Directors	617,880.78	625,000.00	−7,119.22	592,174.24
Total personnel expenses	**14,530,696.79**	**14,890,000.00**	**−359,303.21**	**13,669,298.90**
Write-downs				
Depreciation on software/IT equipment	1,027,789.75	1,120,000.00	−92,210.25	1,022,031.75
Depreciation on furnishings	48,976.11	45,000.00	3,976.11	57,744.41
Depreciation on operating equipment	173,142.85	175,000.00	−1,857.15	173,142.85
Write-downs on debtors	294,939.72	100,000.00	194,939.72	68,087.81
Total write-downs	**1,544,848.43**	**1,440,000.00**	**104,848.43**	**1,321,006.82**
Other operating expenses				
Office expenses	187,816.24	200,000.00	−12,183.76	189,707.25
Travel expenses	415,380.68	500,000.00	−84,619.32	425,442.12
Expert fees/opinions	1,039,335.16	480,000.00	559,335.16	423,166.14
Audit companies	781,771.90	–	781,771.90	574,349.35
Reimbursements from audit companies	−763,033.90	–	−763,033.90	−574,349.35
Premises	1,959,257.84	1,950,000.00	9,257.84	1,955,462.54
Insurance	47,362.60	50,000.00	−2,637.40	48,863.20
IT costs	792,894.73	770,000.00	22,894.73	658,519.78
Public outreach	96,919.00	90,000.00	6,919.00	96,963.15
Events and representation	24,611.30	60,000.00	−35,388.70	55,945.26
Membership fees for associations/institutions	240,309.53	270,000.00	−29,690.47	194,854.19
Audit expenses	47,781.60	40,000.00	7,781.60	49,317.65
Other expenses	83,339.42	90,000.00	−6,660.58	92,683.16
Total other operating expenses	**4,953,746.10**	**4,500,000.00**	**453,746.10**	**4,190,924.44**
TOTAL EXPENSES	**21,029,291.32**	**20,830,000.00**	**199,291.32**	**19,181,230.16**
Annual profit (allocated to reserves)	**386,624.09**	**670,000.00**	**−283,375.91**	**155,345.25**
	21,415,915.41	**21,500,000.00**		**19,336,575.41**

Notes on the financial statement

Financial accounting principles

According to article 32 FMAG, the supplementary provisions for specific company forms set out in the Law on Persons and Companies (PGR) apply to the preparation of the annual report, including the financial statement. The FMA uses the provisions for large companies in this regard. These provisions demand essentially that the financial statement give a true and fair view of the asset, financial, and income situation.

Balancing and valuation methods

Tangible assets are valued at acquisition costs, reduced by depreciation. Depreciation is linear, based on the acquisition value. The depreciation guideline sets out the following durations of use:

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

Table 7 | Duration of use

Receivables are calculated at par value, minus any required value adjustments.

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

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

Foreign exchange rate

The FMA only invoices in CHF. Accounts payable in currencies other than CHF are accounted for at the mean spot exchange rate prevailing on the balance sheet date.

Receivables

All receivables have a maturity of less than one year.

Fixed assets in CHF

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

Tangible assets		Software	IT equipment	Furnishings	Operating equipment	Total
Acquisition costs	Balance 01.01.2016	4,004,891.45	424,926.04	803,319.60	1,731,428.55	**6,964,565.64**
	Acquisitions	1,075,277.85	79,778.35	28,581.70	0.00	**1,183,637.90**
	Divestitures	0.00	0.00	0.00	0.00	**0.00**
	Balance 31.12.2016	5,080,169.30	504,704.39	831,901.30	1,731,428.55	**8,148,203.54**
Depreciation	Balance 31.01.2016	3,129,081.90	395,831.00	660,643.75	964,887.90	**5,150,444.55**
	Acquisitions	984,188.76	43,600.99	48,976.11	173,142.85	**1,249,908.71**
	Divestitures	0.00	0.00	0.00	0.00	**0.00**
	Balance 31.12.2016	4,113,270.66	439,431.99	709,619.86	1,138,030.75	**6,400,353.26**
Book value	Balance 01.01.2016	875,809.55	29,095.04	142,675.85	766,540.65	**1,814,121.09**
	Balance 31.12.2016	966,898.64	65,272.40	122,281.44	593,397.80	**1,747,850.28**

Table 8 | Assets analysis

Provisions

As part of accounting under the Law on Persons and Companies (PGR), all provisions are reassessed each year, justified, and adjusted where necessary. Thee provisions include litigation risks in the amount of CHF 50,000 as well as accrued holiday entitlements as of 31 December 2016 in the amount of CHF 392,037.

Accounts payable

All accounts payable by the FMA have a maturity of less than one year.

Long-term liabilities

The FMA has a rental contract with the Liechtenstein Old Age and Survivors' Insurance Authority (AHV), concluded in December 2010, with a rental term of 20 years. Thee annual rent amounts to approximately CHF 1.8 million (including renter investments in security and ancillary costs).

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

a) Board of Directors

Remuneration for the Board of Directors of the FMA in the 2016 fiscal year, including social security contributions, was CHF 617,881. The Board of Directors was composed as follows in 2016:

Board of Directors	Government decision	Term of office
Dr. Urs Philipp Roth-Cuony (Chairman)	– RA 2011/2351-0314 of 27.09.2011	01.01.2012 – 31.12.2016
Prof. Dr. Roland Müller (Vice Chairman)	– LNR 2014-897 BNR 2014/841 REG 0660 of 01.07.2014	01.01.2015 – 31.12.2019
Dr. Ivo Furrer	– RA 2011/1264-0660 of 25.05.2011 – LNR 2016-653 BNR 2016/663 REG 7428 of 10.05.2016	01.07.2011 – 30.06.2016 01.07.2016 – 30.06.2021
Dr. Michael Ritter	– LNR 2014-897 BNR 2014/841 REG 0660 of 01.07.2014	01.01.2015 – 31.12.2019
Jürg Meier	– LNR 2015-1185 BNR 2015/1727 REG 7402 of 16.12.2015	01.01.2016 – 31.12.2020

Table 9
Board of Directors

In its decisions RA 2011/1264-0660 of 25 May 2011 and RA 2011/2351-0314 of 27 September 2011, the Government specified the following remuneration:

– Basic compensation for the Chairman
– Basic compensation for the Vice Chairman
– Basic compensation for other Members
– Flat-rate compensation per meeting day

b) Executive Board
The gross remuneration of the Members of the Executive Board in the 2016 fiscal year was CHF 1,771,009 without social security contributions.

The Members of the Executive Board are appointed by the Board of Directors. The Executive Board was composed of the following Members as of 31 December 2016:

– Mario Gassner, Chief Executive Officer
– Dr. Alexander Imhof, Deputy of the CEO and Head of Insurance and Pension Funds Division
– Dr. Marcel Lötscher, Head of Securities Division
– Patrick Bont, Head of Banking Division
– Werner Meyer, Head of Other Financial Intermediaries Division
– Martin Schädler, Head of Central Services

The Board of Directors appointed Werner Meyer as the new Head of the Other Financial Intermediaries Division effective 1 August 2016. Until that new appointment, the Other Financial Intermediaries Division was headed on an interim basis by Patrick Bont through 31 March 2016 and by Patrik Galliard from 1 April 2016.

Workforce

In 2016, the average workforce of the FMA was 83 employees (previous year: 82). As of 31 December 2016, the FMA employed 86 people (previous year: 77). The share of women was 42% (previous year: 39%). 15 employees worked part-time. 7 employees left the FMA during the reporting year (previous year: 8). 15 new employees joined the FMA (previous year: 3). In total, 80.9 full-time equivalent positions were filled at the end of 2016. The number of full-time equivalents authorized by the Board of Directors as of the end of 2016 was 82.7 (previous year: 78.7).

Attestation of the Audit Office

FINANZKONTROLLE
FÜRSTENTUM LIECHTENSTEIN

Bericht der Finanzkontrolle an die Regierung des Fürstentums Liechtenstein betreffend

Finanzmarktaufsicht (FMA) Liechtenstein

Als Revisionsstelle im Sinne von Art. 19 des Gesetzes über die Finanzmarktaufsicht (FMAG) haben wir die Buchführung und die Jahresrechnung (Bilanz, Erfolgsrechnung und Anhang) der Finanzmarktaufsicht (FMA) Liechtenstein für das am 31. Dezember 2016 abgeschlossene Geschäftsjahr geprüft.

Für die Jahresrechnung ist der Aufsichtsrat verantwortlich, während unsere Aufgabe darin besteht, diese zu prüfen und zu beurteilen.

Unsere Prüfung erfolgte nach den Grundsätzen des Berufsstandes, wonach eine Prüfung so zu planen und durchzuführen ist, dass wesentliche Fehlaussagen in der Jahresrechnung mit angemessener Sicherheit erkannt werden. Wir prüften die Posten und Angaben der Jahresrechnung mittels Analysen und Erhebungen auf der Basis von Stichproben. Ferner beurteilten wir die Anwendung der massgebenden Rechnungslegungsgrundsätze, die wesentlichen Bewertungsentscheide sowie die Darstellung der Jahresrechnung als Ganzes. Wir sind der Auffassung, dass unsere Prüfung eine ausreichende Grundlage für unser Urteil bildet.

Gemäss unserer Beurteilung vermittelt die Jahresrechnung ein den tatsächlichen Verhältnissen entsprechendes Bild der Vermögens-, Finanz- und Ertragslage in Übereinstimmung mit dem liechtensteinischen Gesetz. Ferner entsprechen die Buchführung und die Jahresrechnung dem liechtensteinischen Gesetz, dem Gesetz über die Finanzmarktaufsicht (FMAG) und den Statuten.

Der Jahresbericht steht im Einklang mit der Jahresrechnung.

Wir empfehlen, die vorliegende Jahresrechnung zu genehmigen.

FINANZKONTROLLE
des Fürstentums Liechtenstein

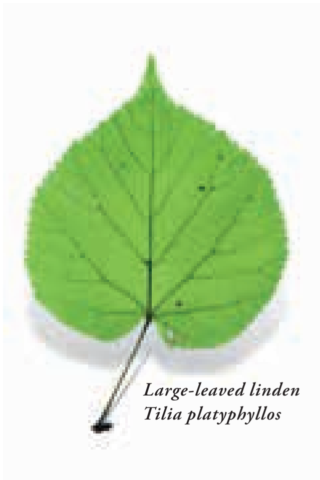
Cornelia Lang
Leiterin

Fredy Baschleben
Mandatsleiter

Vaduz, 3. März 2017

Beech tree
Fagus sylvaticus

American sweetgum
Liquidambar styraciflua



Large-leaved linden
Tilia platyphyllos

Domestic trees
A wide range of flora grows in the Principa-lity of Liechtenstein in the Rhine Valley, on its slopes, and in the Alps. We have chosen the largest representatives of that flora to illustrate the Annual Report. 28 deciduous tree species and 8 coniferous tree species grow in Liechtenstein. With an area of 6865 hectares, the Liechtenstein forest covers about 43% of the country's total territory. The FMA would like to thank the Office of the Environment (www.au.llv.li) and the National Museum (www.landesmuseum.li) for their generous support in the realization of this concept.

Silver birch
Betula pendula

Common hazel
Corylus avellana

Wych elm
Ulmus glabra

English oak
Quercus robur

White mulberry
Morus alba

Publisher and Editor
Financial Market Authority Liechtenstein
Landstrasse 109
P.O. Box 279
9490 Vaduz
Liechtenstein

Telephone +423 236 73 73
Fax +423 236 73 74

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

Concept and Design
Leone Ming Est., Intensive Brand, Schaan

Photography
Portrait: Roland Korner, Close up
Leaves: Sven D. Beham, Liechtenstein National Museum
In cooperation with Peter Niederklopfer, Office of the Environment/Natural History Collection.

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