ANNUAL REPORT 2017

FMA

Financial Market Authority
Liechtenstein

THEMATIC PAGES

Christening pillow with lace
White christening pillow with extended part that folds to form a nest. The edge and outside are decorated with fine lace.

The FMA presents itself

With a new, innovative presentation of itself as an employer, the FMA provides insight into the extraordinarily varied and exciting working and living environment of the FMA team. The main actors in the presentation are the employees themselves. They say what makes working at the FMA especially attractive and why they are dedicated to promoting a strong and trustworthy financial centre.

varied, exciting, international

Tightened rules

On 1 September 2017, tighter anti-money-laundering rules entered into force. Risk-based supervision of compliance with due diligence requirements is a main focus of the FMA. The supervisory resources must therefore be deployed in a targeted manner and in accordance with the specific risk of the person subject to due diligence. The FMA has developed a tailored risk assessment system for this purpose.

risk-based

101

Liechtenstein as a FinTech location

Liechtenstein is an innovation-friendly country and is also in demand as a FinTech location. In 2017, the FMA processed 101 enquiries regarding FinTech. Business models included virtual currencies, initial coin offerings, crypto funds, InsurTech, digital e-money, and payment services solutions. As the supervisory authority for the protection of clients and trust in the financial market, the FMA deals not only with opportunities but also with the risks of technology-based business models.

Learning for work and life

1 + 1 = 3

One and one is sometimes more than two. For instance when apprentices not only learn their professional trade as part of the FMA team, but also learn for life. The FMA offers two training positions for commercial apprentices. The apprentices are employed with the Liechtenstein National Administration and experience a variety of positions in government offices and public authorities during their training.

Resolution authority takes up its work

financial stability, protection of clients

The resolution authority, which is integrated into the FMA's organisation, took up its work at the beginning of 2017. It is part of the legal framework for efficient and effective crisis management at banks and investment firms. One of the tasks of the resolution authority is to draw up the resolution plans. With its work, the resolution authority contributes to the stability of the Liechtenstein financial centre and to the protection of clients.

Casinos open for business

Two casinos opened for business in Liechtenstein in 2017. The FMA is responsible for supervision under due diligence law. The due diligence requirements that a casino must comply with and whose compliance is checked by the FMA serve to prevent and combat money laundering. A casino's due diligence requirements include, for example, identification of players and monitoring of gaming operations.

"place your bets"

In 2017, the global economy gained considerable momentum. The brighter economic outlook boosted the global financial markets, and several equity indices rushed from one historic high to the next. At the same time, however, financial market risks and geopolitical tensions have increased. The global economic upturn is thus exposed to considerable risks.

In recent years, Liechtenstein has established a balanced system to ensure financial stability. With the Recovery and Resolution Act, a uniform mechanism for efficient and effective crisis management at banks and investment firms entered into force at the beginning of 2017. Part of this legal framework is the resolution authority, which is integrated into the FMA's organisation and has taken up its work. The FMA is now also represented on the European Systemic Risk Board (ESRB). This has further strengthened our international integration and enhanced our macroprudential supervision.

Digitalisation is a major challenge for the FMA. The FMA has handled numerous enquiries from FinTech companies. Established financial service providers are also increasingly investing in new financial technologies. The FMA pursues the approach of making business models possible in the field of new financial technologies in accordance with regulatory requirements and within the guideposts of client protection, trust in the financial market, and financial stability. As digitalisation progresses, the FMA is increasingly focusing on cyber risks and operational IT risks of financial intermediaries. Due to the high potential for damage, the topic will increasingly occupy the FMA.

The use of information technologies has also become indispensable in supervisory activities. With the comprehensive regulations in the financial sector, complexity has increased and the data volumes that must be exchanged, processed, and analysed between financial intermediaries and the FMA has risen rapidly. During the reporting year, several IT applications were developed and introduced to automate and support supervisory activities – e.g. for due diligence supervision, which will be risk-based starting in 2018. Suitable IT resources are the basis for this digital transformation. The Board of Directors adopted a revised IT strategy in the reporting year.

Securing personnel resources is also a key success factor for the FMA. During the reporting year, personnel marketing was strengthened in particular. The core element is a new presentation of the FMA as an employer that highlights the FMA's high level of attractiveness and offers insights into the varied and exciting working and living environment of the FMA team.

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

Mario Gassner
Chief Executive Officer

Linen nightgown
Short-sleeve nightgown with widened cut, no buttons, and the neckline with crocheted lace insert.

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SUPER-VISION

Global economic upswing – rising financial market risks

Financial technologies: Drivers of innovation and change

Internationalisation of the financial centre and supervision

Implementation of market supervision

Solvency II: New supervisory system in year 2

Strengthened supervision of pension schemes

Due diligence supervision of casinos

Macroprudential supervision
Licences
Ongoing supervision
Due diligence supervision
International administrative assistance
Enforcement

RESOLUTION

Resolution authority takes up its work

Outlook

Laws supervised and enforced by the FMA

2017 saw a global economic upswing. At the same time, however, the risks on the financial markets increased. The focus of supervision is thus on ensuring financial stability. The resolution authority took up its work at the beginning of 2017. It is integrated into the FMA and part of the legal framework for efficient and effective crisis management at banks and investment firms. As an innovation-friendly country, Liechtenstein is in demand as a location for FinTech companies. As the supervisory authority for the protection of clients and trust in the financial market, the FMA also deals with the risks of the new financial technologies. The use of information technologies has also become a key success factor for efficient and effective supervision.

Global economic upswing – rising financial market risks

2017 saw a broad economic upswing in both developed and emerging economies. After the weak phase in the previous year, the economic environment in the United States and the Eurozone brightened considerably, and global growth rose to its highest level since 2011. This synchronous recovery was especially apparent in the strong momentum of international trading activities. Global trade in goods recovered noticeably over the last year and a half.

Over the course of the year, the positive external environment had an increasingly positive impact on economic development in the Swiss franc zone. Switzerland recorded rising quarterly growth rates over the course of the year and is thus likely to have finally overcome the franc shock of early 2015. Against the backdrop of stronger external demand and the recently weaker Swiss franc, leading indicators continue to signal stable growth. Also in Liechtenstein, the available data points to an improvement in the economic outlook. According to VAT data, the sales revenues of the 25 major companies rose quite significantly in the first months of the year, and employment also increased over the previous year.

The global convergence of growth was juxtaposed with an increasing divergence of monetary policies on both sides of the Atlantic. While the European Central Bank continued its expansionary monetary policy by announcing that it would extend its bond purchase programme at least until September 2018, the US Federal Reserve raised interest rates three times during the year, increasing the key rate to 1.25 – 1.50 % in December. The Bank of England also raised its key rate by a quarter of a percentage point to 0.50 % in November against the backdrop of rising inflation due to the depreciation of the pound. By contrast, the Bank of Japan and the Swiss National Bank (SNB) continued their expansionary monetary policy.

Despite the broad economic recovery in the major economic areas, price and inflationary pressures remained relatively low. The sluggish rise in inflation is particularly surprising because the unemployment rate in the US has for quite some time been below the natural level estimated by the Federal Reserve. This is possibly due in part to other capacities in the labour market that do not appear in the unemployment rate, given that the labour force participation rate typically also rises again when the economy recovers. However, there are also many indications that the Phillips curve has flattened in recent years. This means that the correlation between the unemployment rate and the (change in the) inflation rate has weakened significantly. This development makes it considerably more difficult for central banks to bring an end to the current low interest rate environment.

ANALYSES OF THE ECONOMIC AND FINANCIAL MARKET DEVELOPMENT

In accordance with its mandate, the FMA ensures financial market stability in Liechtenstein. As part of macroprudential supervision, the FMA therefore analyses the international economy and developments on the financial markets in order to identify systemic risks and counteract them with appropriate measures and instruments. The analyses form an integral part of the supervision of the various sectors of the financial centre. The FMA publishes the National Economic Monitor every quarter. The National Economic Monitor analyses international economic and financial market developments and assesses systemic risks.

Although the Federal Reserve already took initial steps to normalise interest rates and the ECB continued its expansionary monetary policy, the strong economic recovery in Europe led to significant gains for the euro against the US dollar. While the rise in key interest rates in the United States had already been expected and therefore did not lead to any major movements on the markets, the European single currency appreciated against the backdrop of the improved economic outlook, which implies higher inflation rates and thus higher interest rate expectations, not only against the US dollar but also against other currencies such as the Swiss franc. The SNB pointed out that the depreciation of the Swiss franc over the course of the year had significantly reduced its overvaluation, but that the franc's valuation remained high. This view is essentially confirmed by the development of the real exchange rate, which recently signalled only a slight overvaluation of the Swiss franc.

The positive economic development combined with continuingly favourable financing conditions led to a sharp rise in prices on the global equity markets, some of which reached record levels. At the same time, however, the risks on the financial markets have increased significantly. The long period of low interest rates has pushed up valuations on the equity and bond markets, and real estate has also gained significantly in value in recent years thanks to low interest rates. At the same time, the favourable financing conditions have also led to a further increase in debt in many countries – in both the private and public sectors. Nevertheless, risk premiums have fallen to historically low levels, and both observed and implied volatility are likely as low as they have ever been. In the past, similar constellations – combined with high valuations on the equity markets, as are currently being observed today – were often signs of significant price corrections on the global financial markets.

The signs of a high willingness to take risk have increased further in recent months. The hunt for returns has reduced risk premiums, but not the risk of highly speculative financial investments. An abrupt rise in interest rates could quickly reverse this currently positive interaction. Possible triggers for such a scenario could be, for instance, a faster than expected contraction of monetary policy, an increase in risk or time premiums over historical averages, or increased geopolitical tensions. Against this backdrop, the global economic upswing remains exposed to considerable risks.

Financial technologies: Drivers of innovation and change

The financial industry is undergoing a transformation: Firstly, the business of traditional financial service providers is changing, and secondly, tech companies are entering the financial sector with digital products. This trend grew even stronger during the reporting year compared with the previous year. As an internal competence centre for new financial technologies, the Regulatory Laboratory processed a total of 101 enquiries relating to FinTech in 2017 (+ 274 % year-on-year). Over 100 meetings were held with interested companies from the FinTech environment. The surge of this trend is mainly due to the strong increase in interest in virtual currencies.

Five of the projects dealt with in the reporting year have since developed into companies operating in Liechtenstein. Another seven projects were at an advanced stage at the end of 2017. The total number of companies operating in Liechtenstein that can be attributed to FinTech is about two dozen. Three of these have been licensed by the FMA. The remaining companies do not require a licence. Depending on their business model, however, the FMA closely monitors their activities. About one third of the current projects originated in Liechtenstein itself, while other projects originated primarily in Switzerland or the surrounding countries of Europe. But the Regulatory Laboratory has even received enquiries from the United States, Dubai, and Japan. This shows that the Liechtenstein financial centre is perceived also internationally as an interesting location for the FinTech sector.

VIRTUAL CURRENCIES

Virtual currencies are not legal tender. They exist exclusively online. Depending on their design, they can be used by anyone or only within a closed system. Cryptocurrencies are a special case of virtual currencies. They are based on decentralised networks and cryptographic methods.

Most enquiries concerned business models in connection with virtual currencies, especially initial coin offerings (ICOs). Due to the great need for information in this regard, a fact sheet was published on the FMA's website, providing interested start-ups and investors with initial information and containing indications of opportunities and risks. Other business models include funds investing in virtual currencies, app-based insurance brokerage (InsurTech), and digital e-money and payment services solutions. The FMA also offers comprehensive information on these topics on its website. During the reporting year, the FinTech section of the FMA website was greatly expanded.

INITIAL COIN OFFERINGS

Initial coin offerings, or ICOs, are a type of crowdfunding based on virtual currencies to finance projects or start-ups at an early stage. Coins or tokens are sold against virtual currencies such as bitcoin or ether. Depending on the project and its design, the tokens can represent shares in a company or rights of use for a product. Most ICOs follow a similar pattern: The project is first presented in a "white paper". The white paper also describes how the issued tokens can be used. Investors can buy tokens by way of a smart contract. Upon completion of the funded project, the investor can sell the purchased tokens or exchange them for the services described. ICOs are an innovative form of financing, but they also entail risks: Due to the early development phase in which investments are made, investors are at considerable risk of suffering high losses or even a total loss of their investments.

The legal questions dealt with by the FMA in regard to new financial technologies can be very complex. The regulatory environment is not yet tailored to FinTech business models. However, initial adjustments have already been made with regard to the application of certain anti-money-laundering provisions. In addition, the Liechtenstein Parliament passed an amendment to the Banking Act in October 2017 which lowers the entry barriers for innovative companies.

At the same time, there is competition in Europe for attracting FinTech companies. Straightforward and fast 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 the competition among locations. It turns out that FinTech companies themselves are often very regulation-friendly. The licence by the FMA is seen as a mark of quality.

Apart from enquiries, the Regulatory Laboratory also deals with long-term developments in the FinTech sector. New business models and specialised providers are leading to a fragmentation of the financial industry as well as a greater variety of products and services. Cooperation and outsourcing are gaining importance and will change rapidly and dynamically. New technologies make business models possible that can be only partially captured by regulation and that entail new risks. As the supervisory authority, the FMA closely monitors these developments and ensures that client protection is guaranteed, trust in the financial market is maintained, and the stability of the financial system is not jeopardised.

Internationalisation of the financial centre and supervision

The FMA supervises a financial centre with a strong international orientation. Cooperation with foreign partner authorities is therefore naturally at a high level. With the further internationalisation of the financial centre, this intensified even more during the reporting year.

In the banking sector, more than half of all institutions in Liechtenstein either made takeovers abroad, strengthened their foreign presence, or sold their own shares to foreign investors over the past two years. The Asian region in particular has gained importance for the Liechtenstein financial centre. This has various effects on supervision: Firstly, the FMA reviews applications by foreign investors planning to acquire qualifying holdings in a Liechtenstein institution. In the interest of ensuring sound and prudent management of a financial institution, shareholders must meet high standards. Secondly, the FMA conducts supervisory audits of planned acquisitions by Liechtenstein institutions abroad. Thirdly, as part of its supervision of banking groups, the FMA organises or participates in supervisory colleges. Group supervision supplements supervision of individual undertakings. All activities involve close cooperation with the foreign supervisory authorities concerned.

Further internationalisation can also be observed in the insurance sector, which will continue beyond 2017. After two globally operating insurance groups founded subsidiaries in Liechtenstein in the non-life insurance sector in 2016, the FMA issued a licence for non-life insurance to another subsidiary of a foreign insurance group in May 2017. The importance of non-life insurance relative to life insurance has thus increased further in the Liechtenstein financial centre. At the end of 2017, premium income from non-life insurance was slightly higher than premium income from life insurance for the first time. For the FMA, the structural change in the insurance sector is associated with greater complexity in supervision. Non-life insurance operates internationally and in specialised niches such as the insurance of industrial and financial services companies. For effective supervision, the FMA must be able to understand and assess the specific business models and risks. The FMA also participates in the supervisory colleges of global group supervision. Apart from this, international InsurTech companies wishing to establish insurance undertakings are also increasingly focusing on the Liechtenstein financial centre.

Implementation of market supervision

In addition to individual players such as banks and insurers, the financial markets as such are also being regulated more comprehensively. The term “market regulation” covers all rules relating in the broadest sense to trading in financial instruments. These market rules must be observed by all market players engaged in activities covered by market regulation.

In 2016, the Board of Directors decided to consolidate the market topics within the Securities and Markets Division effective the beginning of 2017. 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 the coordination of this cross-cutting topic among the FMA's supervisory divisions. The supervisory divisions remain responsible in particular for licensing and changes to licences, ongoing supervision at the level of each institution, as well as enforcement, even where market topics are concerned. The FMA's organisational rules precisely define the allocation of tasks and the enforcement powers of the individual supervisory divisions.

During the reporting year, organisational questions were resolved and work was accomplished on the development of software solutions relating to MiFID II/MiFIR as well as on implementation of the corresponding supervisory processes. The revised EU Markets in Financial Instruments Directive (MiFID II) and the accompanying regulation (Markets in Financial Instruments Regulation, MiFIR) as well as the necessary legislative amendments in Liechtenstein entered into force on 3 January 2018.

INFORMATION ON MARKET TOPICS

The FMA makes current information on market regulation available on its website. Further explanations on market topics are provided in the Annual Report 2016 (p. 22 et seq.).

The new set of rules contains extensive requirements for market players to report to the FMA. The focus was on the implementation of the interfaces to the individual intermediaries and the European Securities and Markets Authority (ESMA) necessary for the reporting of transaction data under Article 26 MiFIR. The technical specifications were published in an FMA instruction. The intermediaries were thus able to find out about the technical requirements at an early stage and test their data transfer. The goal of this test phase was to familiarise the intermediaries with the new reporting requirements and to ensure a smooth transition to the live environment in January 2018.

During an international test phase, the FMA checked its own system and the correct encryption of data. The decryption of incoming data as well as the matching and validation of data according to ESMA specifications were also tested. Through the FMA, Liechtenstein was one of the first countries in Europe to ensure error-free data transfer.

We supervise efficiently, consistently, and effectively.

Core Principles of the FMA

In addition to hosting various information events, the FMA also held numerous discussions with affected intermediaries in order to familiarise them with the new rules and their effects. Cooperation with the business associations was also intensive.

In addition to MiFID II/MiFIR, market supervision also covers the rules relating to EMIR, central securities depositories, market abuse, CRA II/III, short selling, and disclosure. Some of these areas of law are still undergoing the EEA incorporation procedure. Depending on the progress of the respective incorporation procedures and the applicability of the rules in the national legal system, these will increasingly be a focus of supervision in 2018.

Solvency II: New supervisory system in year 2

Solvency II is a modern, strictly principle-based supervisory regime which, in addition to a risk-based calculation of the solvency capital requirement, demands a forward-looking assessment of each company's overall solvency needs and individual risks by way of an Own Risk and Solvency Assessment (ORSA). The supervisory regime defines the capital requirements for each individual insurance undertaking so that the undertaking can meet its obligations to clients even if extraordinary events occur.

Solvency II entered into force on 1 January 2016. This marked the beginning of a new era for insurance undertakings and insurance supervision in the context of a consistent and convergent European regulatory framework. In Liechtenstein, Solvency II was implemented as part of the complete revision of the Insurance Supervision Act (Versicherungsaufsichtsgesetz, VersAG) and the associated ordinance. In addition, the implementing regulations adopted by the European Commission are directly applicable in Liechtenstein.

Since then, insurance undertakings have had to comply with comprehensive risk-oriented capital requirements. Business, market, and credit risks have become key elements of supervision. The increased requirements resulting from the three-pillar structure of Solvency II (capital requirements, governance and risk management, as well as reporting and disclosure requirements) posed major challenges, especially for smaller insurance undertakings.

In May 2017, as part of insurance undertakings' reporting on the 2016 fiscal year, the public received its first insight into the comprehensive figures and data of the insurance undertakings as well as their solvency situation. With the help of the documents and templates to be submitted to the supervisory authority (Solvency II Annual Reporting, ORSA Report, Regular Supervisory Report) and the associated reports of the responsible external auditors, the FMA was able to obtain a comprehensive picture of the individual insurance undertakings in accordance with Solvency II. Through the additional publication of the Solvency and Financial Condition Report (SFCR), the insurance undertakings made key data on existing own funds, capital requirements, existing risks, and the general development of business available to the broader public.

In view of the extensive reporting, an electronically supported reporting system was established within the FMA, allowing financial intermediaries to make their documents available to the FMA in a secure manner. The major advantage of a comprehensive automated reporting platform can be seen especially with regard to the XBRL templates that must subsequently be forwarded to EIOPA for European consolidation.

The introduction of Solvency II also required a fundamental revision and new orientation of prudential supervision and auditing of insurance undertakings. This includes a clear commitment to risk-based supervision, the ongoing development of relevant expertise, the ongoing exchange between the competent European supervisory authorities and the FMA as well as the key functions of the individual insurance undertakings, and, finally, consistent enforcement in the event of identified violations.

The FMA has developed a new type of supervisory tool (Impact & Risk Assessment System, IRAS) for supervision under Solvency II, taking into account the EIOPA requirements for the supervisory review process. The IRAS serves to determine and document the most important risk indicators from the comprehensive data material and to derive a classification of insurance undertakings into different risk categories. The IRAS makes a modern instrument available to the FMA with which the risk-based supervision of insurance undertakings is implemented as part of short-, medium-, and long-term supervisory planning. The characteristics of the risk indicators can be used directly to derive the priorities of supervision for each undertaking. It is crucial that this tool is directly integrated into ongoing supervisory activities and that any new findings lead to a review of the risk indicators and thus to an immediate adjustment and updating of the company's risk assessment.

Strengthened supervision of pension schemes

Liechtenstein pension schemes are subject to supervision by the FMA. As part of its supervisory activities, the FMA requires the institutions to submit their regulations, the annual report together with the report on the past fiscal year, the reports of the external auditors, and other statistical information and key figures. The Occupational Pensions Act (Gesetz über die betriebliche Personalvorsorge, BPVG) now contains provisions on transparency in accounting and reporting and on the disclosure requirements for legal transactions with closely associated persons.

The data submitted serves the supervisory audit on the one hand, and on the other hand it additionally increases the transparency of occupational pension provision through publication in aggregated form. Particularly relevant to supervisory activities are the new regulations to strengthen the organisation (governance) of pension schemes.

Long-sleeve day shirt
Day shirt with underarm closure and cutwork.
Embroidered "H" monogram on the front.

The requirements and responsibilities of the board of trustees and other governing bodies are defined in detail in the law and ordinance. In this way and thanks to monitoring by the FMA, confidence in the second pillar of the Liechtenstein pension system is strengthened.

FACTS AND FIGURES ON THE 2ND PILLAR

On 9 November 2017, the FMA published "Occupational Pension Provision in Liechtenstein". The FMA provides annual information on developments in the second pillar of the Liechtenstein pension system. The pension schemes again generated higher returns, and the average funding ratio improved. The low interest rate level is proving very challenging for pension schemes. In this environment, it is difficult for pension schemes to generate the necessary returns on investment to finance occupational pension benefits.

Due diligence supervision of casinos

The FMA is responsible for the due diligence supervision of casinos. The due diligence requirements of casinos serve to prevent and combat money laundering. As part of the licensing procedure, the FMA is responsible for reviewing the due diligence concept, in which the potential casino operator must explain its measures to ensure compliance with its obligations arising from due diligence legislation. All other preconditions for the granting of licences are the responsibility of the Office of Economic Affairs.

During the reporting year, two casinos submitted their applications to the Office of Economic Affairs. The FMA reviewed the due diligence concepts of the casinos. The review processes were completed at the beginning of August following improvements to the concepts. The casinos commenced operations in August 2017 and October 2017, respectively, following the granting of licences by the Office of Economic Affairs.

A casino also applied for a supplemental licence to operate gaming in dual currencies, namely in Swiss francs and in euros. The FMA reviewed in this regard whether the provisions and thresholds under due diligence law applicable to the identification and monitoring of players also apply to gaming operations in euros.

At one casino, the FMA and Office of Economic Affairs checked the camera surveillance system on site. Casinos have to maintain such a system in order to monitor the processes especially in the lobby and cash areas, in rooms with movements of money or other assets, and in rooms with the electronic accounting and control system as well as jackpot controllers. With the monitors used by the casino's surveillance officers in the monitoring room, transactions at the cash desks, withdrawals from table games and slot machines, as well as the counting of money, chips, and tokens could be monitored either as a live feed or as a random sample of previous days and checked for compliance with the due diligence requirements. Compliance with the relevant documentation obligations was also reviewed. The same audit will be carried out at the second casino as well.

The FMA informed the casinos about the changed situation under due diligence law pursuant to implementation of the 4th EU Anti-Money Laundering Directive as of 1 September 2017, with special consideration of the amended provisions relevant to casinos. The FMA also informed the casinos of their newly established obligation to participate in the electronic reporting system as well as the FMA's practice with regard to specific due diligence requirements. Due to the changed legal situation, the casinos must adjust their due diligence concepts by the end of January 2018. The due diligence concepts of the casinos will accordingly be reviewed again after that date.

Macroprudential supervision

Financial market stability is an important prerequisite for securing lending in a national economy and thus for enabling sustainable growth of the real economy. In addition, the financial sector in Liechtenstein is of disproportionate national economic importance, given the financial sector's very high share of gross domestic product compared with other countries.

Ensuring financial market stability is defined by law as part of the FMA's mandate. One insight from the global financial crisis is the need to supplement microprudential supervision, which aims at the stability of individual financial institutions, with a macroprudential perspective. Macroprudential supervision should contribute to the stability of the financial system, inter alia by reducing the accumulation of systemic risks and strengthening the resilience of the financial system. It therefore aims to reduce the probability and impact of financial crises, given that such crises have led to high costs in the past – also for the real economy.

During the reporting year, macroprudential supervision regularly prepared reports on international economic and financial market developments and discussed these with both the Executive Board and the supervisory divisions. Different systemic risks were pointed out. These include the impact of the low interest rate environment, which leads to distortions in the financial markets, contributes to higher debt and places high demands on banks, insurance undertakings, and pension schemes in particular. In this context, a detailed analysis of the background to the low-interest environment was also prepared and published on the FMA's website.

WHY ARE INTEREST RATES SO LOW?

The publication Spotlight on the National Economy 1/2017 deals with the background to the historically low interest rate environment. Its conclusion: Although interest rates can be expected to rise again in the coming years as the economy recovers, relatively high returns on safe securities such as in the 1980s and 1990s can no longer be expected due to longer-term structural factors.

Other topics of macroprudential supervision included the high valuations on the global equity markets, the extremely low risk premiums as a consequence of the international hunt for returns, and the impact of these global financial market developments on the financial sector in Liechtenstein. At the national level, particular attention was drawn to the high level of private sector debt compared with other countries, the disproportionate size of the banking sector relative to economic output, and the risks in the Liechtenstein real estate and mortgage market.

In addition, macroprudential oversight focused on preparing various international meetings and also participated in several of them. As part of cooperation with other central banks, meetings were held in Zurich and Frankfurt with representatives of the Swiss National Bank (SNB) and the European Central Bank (ECB).

The licence is a mark of quality and a preventive control instrument of financial market supervision.

Licences

The provision of financial services requires a licence from the FMA Liechtenstein. The licensing requirement creates barriers to entering the market. These barriers serve to ensure the high quality of market participants and the legitimacy of the business in the interests of client protection. The licence is therefore a mark of quality and a preventive control instrument of financial market supervision. The FMA issues licences, reviews and approves changes, monitors ongoing compliance with the licensing conditions and, if necessary, withdraws licences.

The Investment Undertakings Act of 2005 (Investmentunternehmensgesetz, IUG 2005) expired with the incorporation of the AIFM Directive into the EEA Agreement on 1 October 2016. At the same time, the new IUG 2015 entered into force. Existing management companies may continue to operate until and including 31 March 2018. Up to that date, they may have the investment undertakings they manage under the IUG 2005 (IUs) certified as IUs under the IUG 2015, have them authorised or licensed as alternative investment funds (AIFs) under the AIFM Act (AIFMG), or have them converted into undertakings for collective investment in transferable securities (UCITS) under the UCITS Act (UCITSG). Otherwise, the IUs must be liquidated after expiry of the deadline. Of the originally 265 IUs, 142 applications for conversion to another fund category had been submitted by the end of 2017.

White long-sleeve blouson
Long-sleeve, white blouse with buttons in the front and bordered with lace.

Financial market participants and products supervised by the FMA	2016	2017	Licences issued in 2017	Market exits in 2017
Banking Division				
Banks	15	15	0	0
Investment firms	1	1	0	0
Payment institutions	0	0	0	0
Liechtenstein Postal Service	1	1	0	0
External auditors under the Banking Act	5	5	0	0
E-money institutions	2	3	1	0
Securities and Markets Division				
Asset management companies	116	109	3	10
IUG				
Active management companies (MCs)	12	11	0	1
Domestic investment funds 2005	265	143	0	122
Domestic investment funds 2015	0	5	5	0
Foreign investment funds (AIF and UCITS)	129	291	180	18
Audit firms (only under IUG)	10	10	0	0
Audit firms (only under IUG 2015)	0	3	3	0
UCITSG				
Active management companies (MCs)	12	12	0	0
UCITS	203	221	33	15
Audit firms	9	10	1	0
AIFMG				
Large AIFMs	13	13	1	1
Small AIFMs	0	0	0	0
Administrators	0	0	0	0
Risk managers	1	1	0	0
Selling agents	0	2	2	0
AIFs	22	111	95	6
Audit firms	9	10	1	0

Table 1a
Financial market participants and products supervised by the FMA

Financial market participants and products supervised by the FMA	2016	2017	Licences issued in 2017	Market exits in 2017
Insurance and Pension Funds Division				
Insurance undertakings	39	38	1	2
External auditors under the VersAG	12	10	1	3
Insurance intermediaries	68	64	4	8
Pension schemes	22	21	0	1
External auditors under the BPVG	15	15	0	0
Pension insurance experts under the BPVG	17	17	0	0
Pension funds	5	5	0	0
Other Financial Intermediaries Division				
Professional trustees	139	146	12	5
Trust companies	257	250	5	12
Auditors	40	45	6	1
Auditors established in Liechtenstein	3	4	1	0
Audit firms	28	28	0	0
Patent lawyers	7	7	0	0
Patent law firms	3	3	0	0
Persons with a licence under the 180a Act	218	215	13	16
Casinos	0	2	2	0

Table 1b
Financial market participants and products supervised by the FMA

Financial market participants supervised by the FMA under the free movement of services	2016	2017
Banking Division		
Free movement of services of EEA banks	229	241
Free movement of services of EEA investment firms	1,952	2,067
Free movement of services of EEA payment institutions	273	313
Free movement of services of e-money institutions	89	141
Free movement of services of EEA-regulated markets	16	16
Branches of EEA investment firms	2	1
Insurance and Pension Funds Division		
Free movement of services of EEA and Swiss insurers	355	364
Branches of Swiss insurers	10	10
Branches of EEA insurers	3	3
Securities and Markets Division		
Free movement of services of EEA investment undertakings	116	280
Free movement of services of EEA management companies	14	19
Other Financial Intermediaries Division		
Auditors engaged in free movement of services	39	38
Audit firms 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	72	– Changes to general management – Changes to board of directors – Changes to business regulations – Changes to articles of association – Changes to qualifying holdings
External auditors under the Banking Act	5	– Newly licensed senior auditors – Removal of senior auditors
Asset management companies	79	– Changes to general management – Changes to board of directors – Changes to qualifying holdings – Change of audit firm
Active management companies authorised under the IUG, UCITSG, AIFMG	19	– Changes to general management – Changes to board of directors – Changes to document templates – Changes to articles of association – Changes to business plan
IUs for other values	4	– Conversion of IU 2005 to AIF/UCITS or IU 2015
IUs for qualified investors	23	– Conversion of IU 2005 to AIF/UCITS or IU 2015
IUs for a community of interests	3	– Conversion of IU 2005 to AIF/UCITS or IU 2015 – Change to prospectus
UCITS	220	– Conversion of IU 2005 to AIF/UCITS or IU 2015 – Change-over to UCITS V – Mergers – New unit classes – New subfunds – Change of name – Change of asset manager
AIFs	113	– Conversion of IU 2005 to AIF/UCITS or IU 2015 – Mergers – New subfunds
Insurance undertakings	83	– Changes to BD/GM – Outsourcing of functions – Appointment/change of key functions – Changes to qualifying holdings – Change of reinsurance
Professional trustees	10	– Activations
Trust companies	50	– Changes to BD/GM – Change of person actually managing the company – Change of insurance – Changes to qualifying holdings – Change from full to restricted licence
Persons with a licence under the 180a Act	2	– Conversion to dormant status
Audit firms	3	– Change of general manager – Change of business name

Table 3
Changes to licences

In the reporting year, the FMA processed 101 enquiries relating to new financial technologies. One of the issues examined in each case was whether the envisaged activity or business model required a licence from the FMA and, if applicable, which licence. Where there is a licensing requirement, meeting the licensing conditions has proven to be a considerable challenge for several FinTech companies. Modern, highly digitalised, highly networked business models that are largely detached from traditional infrastructures are difficult to reconcile with the regulatory framework guided by the principles of client protection and effective supervision. The FMA endeavours to support FinTech companies as far as possible in meeting these challenges.

The FMA is responsible for reviewing and approving prospectuses and supplements for the public offer of securities or their authorisation for trading on a regulated market. The FMA reviews the securities prospectuses for completeness, coherence, and comprehensibility. The number of approved prospectuses was 12. Of these, five prospectuses were submitted by foreign issuers, including professional securitisation companies from Luxembourg. In the case of certain securities such as debentures, the issuer may choose between the home country and another EEA country.

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.

With the further internationalisation of the Liechtenstein financial centre, consolidated supervision has become even more important. The FMA has organised three supervisory colleges in the banking sector and was involved in 17 supervisory colleges in the banking and insurance sectors. Financial intermediaries with registered offices in Liechtenstein and subsidiaries or branches abroad are subject to consolidated supervision (or group supervision) by the FMA.

With the digitalisation in the financial sector and new financial technologies, operational IT risks and cyber risks have increasingly moved into the focus of the supervisory authorities. The European Supervisory Authorities consider these risks to pose a high potential threat to the European financial system. Cyber risks are the threats to the confidentiality, integrity, and availability of information in virtual space from cyber attacks, while operational IT risks include the confidentiality, integrity, and availability of information in general and also consider the human factor in addition to the technical component. The IT security of financial intermediaries is reviewed regularly. In addition, the FMA conducted a survey on cyber security in the reporting year. Based on the results, measures will be defined in 2018. Relevant for the

FMA are also the specifications of the European Supervisory Authorities as well as global standard setters that are increasingly working on this topic.

The FMA is the competent quality assurance body for supervisory and statutory audits performed by auditors. The first quality assurance reviews were carried out in 2013. 2017 was thus the fifth year of the first cycle of external quality assurance reviews.

A review cycle lasts six years, within which period an auditor must undergo at least one quality assurance review. Up to and including 2017, 75 % of the licensed statutory auditors and audit firms that fall into the first review cycle and conduct statutory audits in Liechtenstein underwent a quality assurance review. The quality assurance review carried out in 2017 revealed minor deficiencies in the design of the internal quality assurance system and in the

Category	Audit reports	Deficiencies	Deficiencies mainly concern
Banks	15	47	– Compliance with due diligence – Governance
Investment firms	1	0	
E-money institutions	2	2	– Outsourcing – Compliance with due diligence
Asset management companies	116	80	– Organisational requirements – Recordkeeping and storage requirements – Code of conduct – Board of directors and shareholders
(Fund) management companies	16	9	– Organisational requirements – Recordkeeping and storage requirements – Code of conduct
Funds	490	58	– Risk control – NAV calculation/accounting – Failure to maintain minimum net assets – Active violation of investment guidelines
Insurance undertakings	38	32	– Organisational requirements, especially pursuant to Solvency II – Various accounting rules (e.g. pension obligations) and reconciliation of the PGR balance sheet with the Solvency II balance sheet – Going concern
Insurance intermediaries	69	0	
Pension schemes	22	0	
Pension funds	5	0	

Table 4
Auditing

execution of mandates. In particular, these defects concerned the documentation of the internal quality assurance system as well as the processes for accepting and continuing statutory audit mandates as well as implementation of internal follow-up processes.

On-the-spot inspections/inspections

An on-the-spot inspection is an audit activity within the framework of ongoing supervision and enforcement by the FMA on the premises of the financial intermediary. On-the-spot inspections are used to check compliance with supervisory requirements and to identify violations. In 2017, the FMA carried out 12 on-the-spot inspections. In addition, the FMA accompanied 14 audits by mandated auditors. In four cases, the FMA mandated an auditor to conduct a special on-the-spot investigation (for inspections in due diligence supervision, see the chapter on due diligence supervision).

Auditing

As part of its auditing activities, the FMA evaluates the audit reports submitted by the auditors. On behalf of the FMA, auditors perform a risk-based audit of compliance with the regulatory requirements by the financial intermediaries. Where deficiencies arise, the FMA takes the necessary measures or sanctions the financial intermediary in accordance with the legal requirements. The audits are based on the FMA's Audit Guideline. The Audit Guideline governs the audit standards to be observed in the audits and reports of the external auditors authorised 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. On the basis of the reports, the FMA verifies compliance with regulatory requirements and follows the business development of the supervised financial intermediaries in a timely manner.

Category	Reports
Banks	1,358
Investment firms	52
E-money institutions	20
Asset management companies	464
Management companies	71
Funds	1,401
Insurance undertakings	418
Insurance intermediaries	69
Pension schemes	66
Pension funds	15
TOTAL	**3,934**

Table 5
Reporting

The reporting system has undergone extensive changes due to new regulations in several sectors of the financial market, such as in the banking sector due to the Capital Requirements Directive, in the insurance sector due to the new Solvency II supervisory system, and in the area of due diligence due to implementation of the 4th EU Anti-Money Laundering Directive. The number and scope of reports has risen strongly in general.

Further extensive reporting obligations also arise for Liechtenstein market players as a result of market regulations. In the reporting year, the FMA made preparations to meet the reporting and notification requirements in accordance with the European standard. The FMA is the central interface between market players and the European Securities and Markets Authority (ESMA).

Efficient and secure data exchange between the supervised financial intermediaries and the FMA is handled via the e-Service Portal. The portal was expanded during the reporting year in accordance with the notification requirements under the new regulations.

Management meetings

FMA representatives hold management meetings with members of the general management and board of directors of supervised entities. The main topics in the reporting year were business strategy, business development, risk assessment, and regulatory developments. 57 management meetings were held.

Occupational pensions: Applications for cash payouts/Verification of association

In addition to the possibility of applying directly to the pension scheme for a cash payout of any vested pension benefits, cash payout applications for credit balances already deposited in a blocked vested benefits account can be filed with the FMA. In the reporting year, the FMA approved 99 applications and denied 62. The main reasons for positive cash payout decisions were permanent departure from the Liechtenstein/Switzerland economic area and the assumption of self-employed work by the applicant. Since the revised Occupational Pensions Act entered into force on 1 January 2017, cash payouts on grounds of disability are no longer provided for.

The FMA is also responsible for verifying employers' association with a pension scheme and compliance with their obligation to pay contributions for employees insured in Liechtenstein. In the reporting year, the Old Age and Survivors' Insurance Authority (AHV) and the pension schemes reported 221 cases in which the employers had failed to join a pension scheme or to contribute in full. In 13 cases, the reports led to a criminal complaint due to neglect of legal obligations relating to the payment of contributions or the obligation to join a pension scheme.

Short-sleeve traditional costume/dirndl blouson
Short blouse with pleated shoulders.
Neckline and arm cuffs with crocheted lace borders.

Due diligence supervision

The FMA carries out regular inspections on compliance with the provisions of the Law on Professional Due Diligence to Combat Money Laundering, Organised Crime, and Terrorist Financing (Due Diligence Act; Sorgfaltspflichtgesetz, SPG) or has such inspections carried out by auditors or audit firms. The audits include both formal and substantive inspections of the plausibility of the due diligence performed. Where there are indications of misconduct, the FMA also carries out clarifications and, if necessary, extraordinary on-the-spot inspections. The FMA pursues violations and takes the appropriate measures.

Each year, banks, investment firms, e-money institutions, and payment service providers are audited with regard to compliance with their obligations under the SPG. These inspections are generally carried out by external auditors. The FMA accompanied three of these on-the-spot inspections. A total of 498 business relationships were audited. Five violations and 51 deficiencies were identified. 59 % of the deficiencies concerned insufficient level of detail of the profiles or the lack of meaningful documentation on transactions. In the reporting year, the FMA also carried out two extraordinary inspections in connection with judicial investigations. Cooperation between the FMA and the FMA Austria in the area of due diligence inspections was further intensified in the reporting year. The FMA was again able to accompany the audit of a financial institution in Austria.

An audit is conducted each year for every company engaged in life insurance. Life insurance intermediaries have so far been audited every three years. The focus of the inspections was on individual risk management. A total of 487 business relationships were examined at life insurance undertakings. Deficiencies arose primarily from inadequate or incorrect documentation with regard to the verification of the identity of the beneficial owner and the contracting party (approx. 8.5 % of the samples) and from shortcomings relating to the depth of information in the business profiles (approx. 2 % of the samples). A total of 47 business relationships with life insurance intermediaries were audited. Deficiencies primarily concerned inadequate internal organisation and incomplete fulfilment of the documentation requirements (approx. 7 % each of the samples).

Asset management companies were in general subject to simplified due diligence obligations during the reporting period. Compliance with these obligations has so far been audited annually at the asset management companies. Fund management companies were exempt from the scope of application of the SPG in the reporting period, unless they maintained the unit account register themselves. In that case, the audit was also carried out annually.

Among the 112 asset management companies and 16 management companies AIFMs, there were deficiencies in the case of two management companies and 15 asset management companies. These deficiencies related to the training of due diligence officers (2 of 31 deficiencies) and mistakes or ambiguities relating to the recordkeeping and storage of client data or information (13 of 31 deficiencies). Several recommendations were also made relating to organisational requirements (16 of 31 deficiencies).

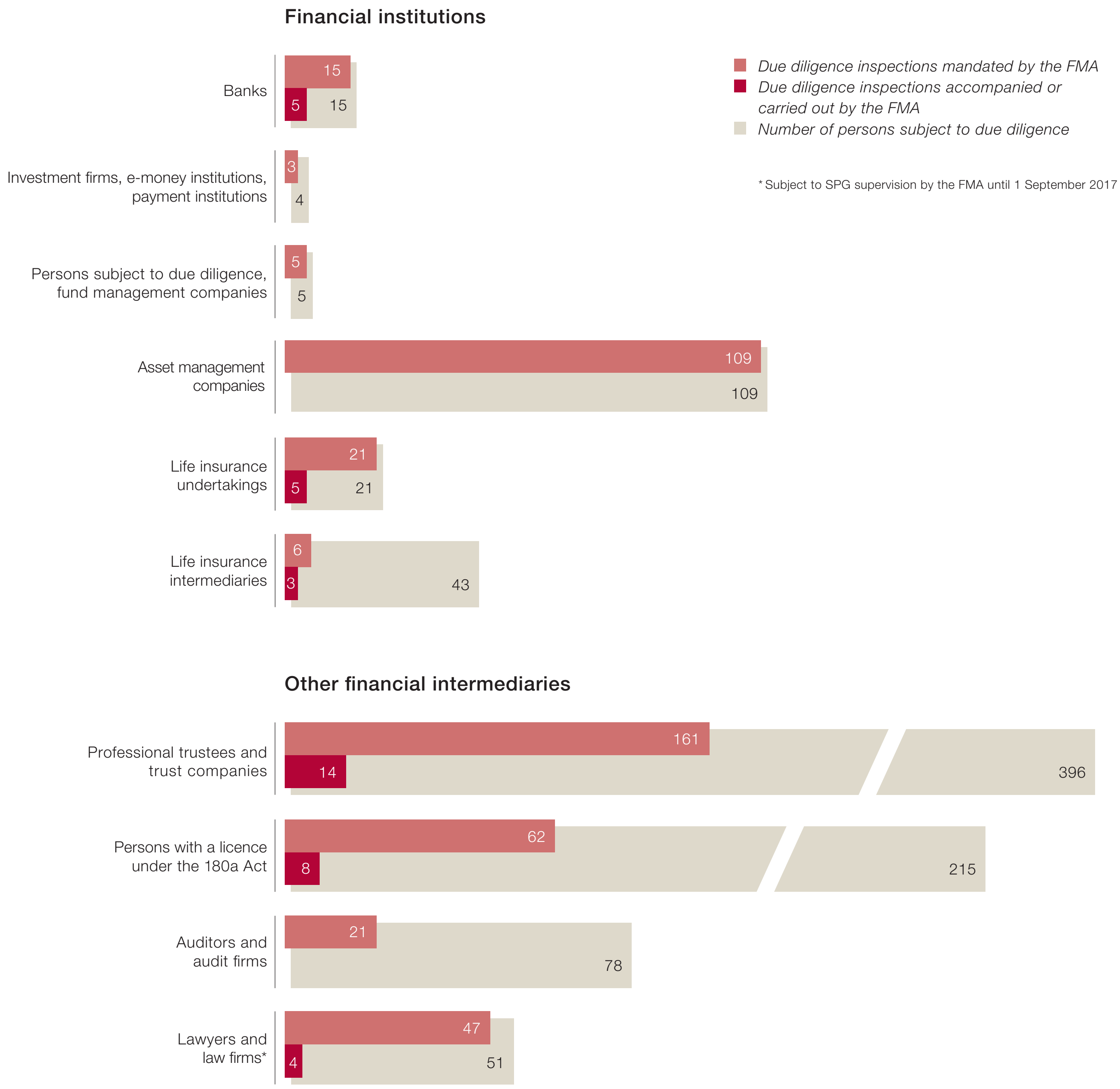

Figure 1
Due diligence inspections

All intermediaries subject to due diligence under the supervision of the Other Financial Intermediaries Division – including, in particular, professional trustees and persons with a licence under the 180a Act – are in general inspected every three years to ensure that their due diligence obligations are met. In 2017, auditors and audit firms examined a total of 280 financial intermediaries and 1,198 business relationships on behalf of the FMA. There were a total of 260 deficiencies during the 2017 audit round. Numerous deficiencies were due to the fact that the business profiles could be improved (approx. 4.5 % of the samples). Furthermore, shortcomings were also found in the obligation to identify the contracting party and the beneficial owner (approx. 6 % of the samples). The deficiencies related in particular to cases in which not all legally required details concerning the identity were documented. In addition, the new definition of beneficial owners required adjustments to the due diligence files. Here again, several mistakes were found in the implementation of the new legal requirements.

International administrative assistance

The FMA provides international administrative assistance to foreign authorities relating to prudential supervision and securities supervision. Through administrative assistance, the FMA contributes substantially to the investigation and uncovering of international cases of market abuse and thus to the protection of clients. The international significance of the provision of international administrative assistance is great, and it is of fundamental importance to the financial centre.

Investment fraud	4
Insider trading	4
Market manipulation	5
Good standing	12
Activity without a licence	2
Other	4
Referral request	4

Figure 2
Reasons for administrative assistance requests

In 2017, the FMA was requested in 35 cases to provide administrative assistance relating to securities. So far, the record was in 2016 with 53 requests. The number of requests is high by international standards. In one case, the requesting authority withdrew its request for information for lack of initial suspicion.

In 42 cases during the reporting year, the prohibition of disclosure of the foreign request to the information holder was lifted, and the 85 persons concerned were informed accordingly about the FMA's execution of the request for administrative assistance. This number is juxtaposed with five requests for inspection of files which, however, did not give rise to any proceedings.

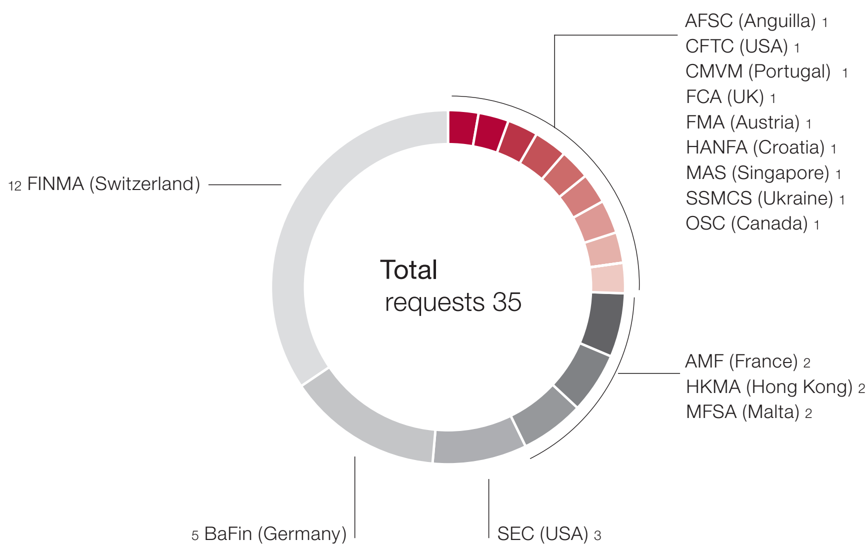

Figure 3
Requests for international administrative assistance, by authority

In total, the information holders submitted more than 4,000 pages to the FMA, which were subsequently reviewed by the FMA. Following this examination, the FMA submits an application to the president of the Administrative Court for transmission of the compiled documents. In 2017, the relevant documents were transmitted to the requesting authority in 30 cases, taking into account the comments of the Administrative Court in its ruling.

In the reporting year, the FMA considered a request for administrative assistance regarding suspected market manipulation in several penny stocks. The information holder in Liechtenstein resisted the transmission of documents. The decisions of the FMA to surrender the requested information were contested by the information holder before the highest courts, and an application for constitutional review was filed with the Constitutional Court. By the end of the reporting year, the highest courts had not yet considered the complaint. The Constitutional Court ordered an injunction prohibiting the FMA from transmitting the obtained information to the requesting authority until a final decision on the matter is issued.

Enforcement

The umbrella term "enforcement" covers the objective of the supervisory authority defined in Article 4 of the FMA Act (FMAG) to combat abuses. Enforcement captures all activities for which the FMA determines whether an infringement has actually occurred on the basis of indications of infringements of supervisory law. If an infringement has occurred, the FMA orders the enforcement measures and sanctions necessary to restore a lawful state of affairs by way of contestable decrees, and it monitors their implementation.

As of 31 December 2017, the FMA was carrying out 18 administrative proceedings and 10 administrative criminal proceedings. Administrative proceedings are proceedings for the enforcement of financial market rules governed by public law. Administrative criminal proceedings are proceedings carried out by the FMA to sanction violations of (supplementary) criminal law provisions set out in financial market legislation. As of the end of 2017, preliminary investigations were underway in 25 cases. Over the course of 2017, 62 proceedings and preliminary investigations were completed.

The proceedings and preliminary investigations were carried out in particular in the areas of own funds, breaches of banking secrecy (banks), solvency requirements (insurers), activities without a licence, risk management, shareholder guarantees, delegation (asset management companies), licensing conditions, preparation of the annual financial statement, and breach of due diligence obligations, reporting obligations, or fiduciary duties.

In some instances, the high and in part new regulatory requirements combined with the challenging economic conditions resulted in supervision cases. Several cases concerned supervisory investigations based on suspected and proven fraudulent acts in companies.

FMA PRACTICE: INFORMATION ON SUPERVISORY ACTIVITIES

The FMA published its FMA Practice on 6 September 2017. The publication serves to provide in-depth information on the supervisory practice of the FMA. It provides information in anonymised form on the FMA's decisions and decrees, the decisions of the FMA Complaints Commission, and the rulings of the Administrative Court in connection with financial market supervision in 2016. FMA Practice aims to enhance legal certainty and transparency with regard to the supervision of the Liechtenstein financial market as practiced by the FMA.

In 2017, the FMA filed 26 criminal charges with the Office of the Public Prosecutor. If the FMA becomes aware of the suspicion of a criminal offence to be prosecuted ex officio relating to its legal sphere of action, it is required to report it. Criminal charges have been brought, for instance, for misdemeanours under the Due Diligence Act, insider trading, market manipulation, and the unlawful performance of activities requiring a licence. 13 cases concerned misdemeanours by employers against the Occupational Pensions Act, in particular failure to comply with obligations such as the payment of contributions or the obligation to join a pension scheme.

In 2017, the FMA received four indications of alleged violations of the law via the whistleblowing section on the FMA's website. In one case there was suspicion of money laundering, in a second case of the establishment of a pyramid scheme, in a third of unlawful profit repatriation, and in a fourth of unlawful performance of activities requiring a licence. In two cases, a report was submitted to the Financial Intelligence Unit, and in one case supervisory proceedings were initiated. The latter case was concluded with an adjustment of the website of the suspected person.

The FMA combats abuses through its own observation of the market and examination of external leads.

In 2017, the FMA published four warning notices on its website. In two cases, the FMA warned against companies that claimed on their website to be subject to the supervision of the FMA Liechtenstein. The FMA pointed out that the companies were not authorised to offer financial services requiring a licence. In one case, the warning message was deleted after the website had been modified. In another warning notice, the FMA strongly advised against making investments via a specific website. The operators purported to operate an investment fund in Liechtenstein using the name of a company that actually existed in Liechtenstein. By creating the appearance of a regulated investment fund, an attempt was made to accept investor assets, which could result in a total loss of the investors' supposed investments. In another case, the FMA warned against companies purporting on their websites and social media to offer banking and investment services from Liechtenstein.

Resolution authority takes up its work

The Liechtenstein resolution authority officially took up its work on 1 January 2017. It was created with the implementation of the EU Directive on the Recovery and Resolution of Credit Institutions and Investment Firms (BRRD) into national law (Recovery and Resolution Act; Sanierungs- und Abwicklungsgesetz, SAG) and has been endowed with extensive powers. The BRRD and the SAG address the "too big to fail" problem and thus contribute to the stability of the Liechtenstein financial centre.

The SAG designates the FMA as the resolution authority. The resolution authority forms a separate organisational unit within the organisational structure of the FMA. It is operationally independent of the other organisational units of the FMA. This prevents conflicts of interest between the FMA's resolution activity and supervisory activity. The resolution authority is organised in the form of a section and reports directly to the Executive Board as a Resolution Board. The representative of the Banking Division has no voting rights on the Resolution Board.

One of the tasks of the resolution authority is to draw up the resolution plans. It is authorised to use resolution instruments and to exercise resolution powers, taking into account the resolution objectives. In the context of a banking crisis, resolution objectives include ensuring the continuity of critical functions, avoiding significant negative impacts on financial stability, protecting public assets, and protecting bank clients' assets. In order to achieve these objectives, the resolution authority is authorised to use far-reaching resolution instruments. In addition to the sale of a company, the creation of a bridge bank, and the separation of assets, the "bail-in" instrument may also be used. In a bail-in, the lenders of a bank or investment firm bear part of the institution's losses. This aims to prevent the need for public assets to rescue a bank ("bail-out"). The creation of a resolution financing mechanism to be endowed by Liechtenstein banks is intended to contribute to the costs of resolution.

During the reporting year, the resolution authority was also engaged in additional foundational work. In addition to prioritising the resolution plans to be drawn up, an initial exchange with the international partner resolution authorities already took place. The resolution authority will cooperate with these partner authorities especially within the framework of the resolution colleges for internationally operating banks. In the reporting year, a first group resolution plan was drawn up for the Liechtenstein subsidiary of an internationally operating banking group in cooperation with the Liechtenstein resolution authority. Moreover, the resolution authority is actively represented in the respective bodies of the European Banking Authority (EBA).

Because EEA incorporation of the corresponding delegated regulation is still pending, the regulation governing the advance contributions of Liechtenstein banks to the resolution financing arrangement has been implemented in Liechtenstein national law on a provisional basis. The Liechtenstein resolution financing arrangement is managed by the Establishment for the Financing of Financial Market Stabilisation Measures, which was also set up in 2017. This institution is an independent establishment under public law.

Because the topic of resolution is relatively new, a detailed exchange was conducted with the affected Liechtenstein market participants as well as with the Deposit Guarantee and Investor Compensation Foundation PCC (EAS). Several information events were held for this purpose. Finally, the topic was also addressed during the annual bank auditors' workshop.

Outlook

The global economic upswing is accompanied by rising risks on the financial markets. The FMA counters these risks with forward-looking supervision at the level of individual institutions and at the macroprudential level with the aim of ensuring financial stability and client protection. The FMA pays special attention to risks arising from cross-border business, the internationalisation of the ownership structure of Liechtenstein financial service providers, and the increasing activities abroad. Operational IT risks and cyber risks affecting financial intermediaries have also increasingly come into the focus of the supervisory authorities. The FMA will derive appropriate measures on the basis of the survey of financial intermediaries on information security carried out in the reporting year as well as the discussions and requirements of the European Supervisory Authorities. Risks arising from new financial technologies and digital business models must also be specially addressed.

In macroprudential supervision, full membership of the European Systemic Risk Board (ESRB) contributes to implementation of the ESRB's initial recommendations. These recommendations include the formal creation of a national macroprudential authority, which will in future take responsibility for the application of various macroprudential instruments.

Since 1 September 2017, stricter rules to combat money laundering and terrorist financing have been in force with the amendment to the Due Diligence Act (SPG). Risk-based supervision is of particular relevance to the FMA in verifying compliance with the due diligence provisions. Under risk-based supervision, supervision resources are deployed in a targeted manner and in accordance with the respective risk of the person subject to due diligence. Risk-based supervision will be applied in part in the 2018 audit round and for all financial intermediaries subject to due diligence starting in 2019.

In 2017, extensive data of insurance undertakings was analysed and evaluated on the basis of Solvency II. In view of the high requirements for the solvency of an insurance undertaking and the challenging economic environment for the insurance sector, the supervisory system of the FMA must be refined and further developed on the basis of empirical values in the interest of client protection and safeguarding stability.

MiFID II/MiFIR will produce large amounts of data for market supervision to evaluate. The analysis and monitoring activity of the submitted reports of transaction data will be supported by an IT application. The FMA expects about 10 million transaction reports per year. In 2018, the FMA will also finalise the MiFID II/MiFIR audit programme for auditors. The new audit programme will be applied for the first time for the supervisory audit in the 2018 fiscal year.

The resolution authority will mainly be concerned with drawing up the resolution plans for Liechtenstein banks. The contribution to the resolution financing mechanism will be collected for the first time in the 2018 fiscal year. In addition, the Bank Recovery and Resolution Directive (BRRD), which has already been implemented in Liechtenstein, has meanwhile been amended by the European legislative power. The resolution authority and the responsible ministry will undertake to implement these amendments.

Laws supervised and enforced by the FMA

As of 31 December 2017, the FMA is responsible for supervising and enforcing the following laws, including the associated implementing ordinances and European Level II measures.

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 Act on the Supervision of Insurance Undertakings (Insurance Supervision Act; VersAG)
16 Law on Professional Due Diligence for the Prevention of Money Laundering, Organised Crime and Financing of Terrorism (Due Diligence Act; 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 implementing Regulation (EU) No 236/2012 on short selling and certain aspects of credit default swaps (EEA Short Selling Regulation Implementing Act, EWR-LVDG)
28 Law implementing Regulation (EU) No 648/2012 on OTC derivatives, central counterparties and trade repositories (EMIR Implementation Act; EMIR-DG)
29 Law implementing Regulation (EU) No 1286/2014 on key information documents for packaged retail and insurance-based investment products (PRIIP Implementation Act; PRIIP-DG)[1]
30 Law on the Recovery and Resolution of Banks and Investment Firms (Recovery and Resolution Act; SAG)
31 Law implementing Regulation (EC) No 1060/2009 on credit rating agencies (CRA Implementing Act; CRA-DG)

1 *from January 2018*

ANNUAL REPORT 2017

REGULATION

Harmonisation of regulation and supervisory activities

MiFID II / MiFIR: Strengthening client protection and transparency in trading in financial instruments

Strengthening anti-money-laundering and risk-based supervision

Banking Act: Lower entry barriers for innovative companies

PRIIPs: Key information documents for certain investment products

Payment Services Act: Promotion of innovations in payment transactions

Insurance Distribution Act: Strengthening client protection

Deposit protection: Protection for depositors

Creation of a new Auditors Act

Pension Funds Act: Further harmonisation of the internal market

Outlook

Regulations of the FMA Liechtenstein

In 2017, important European financial market rules such as MiFID II/MiFIR and the 4th EU Anti-Money Laundering Directive were implemented in Liechtenstein. Client protection and transparency are being enhanced in the trading of financial instruments. With the amendment of due diligence law, the rules for combating money laundering have been tightened, and risk-based due diligence supervision has been introduced. The focus of regulation is shifting further to the numerous technical regulatory and implementing standards of the European Union. At the same time, there is a tendency in the EU to revise and clarify basic acts in light of practical experience.

Harmonisation of regulation and supervisory activities

Liechtenstein's financial market regulation is largely shaped by the country's membership in the EEA. The key rules relating to banking supervision, insurance supervision, securities and market supervision, and the bank resolution regime as well as the fight against money laundering are based on the applicable European regulations.

The trend of a shift in regulatory activity toward technical regulatory and implementing standards – i.e. Level 2 acts in the form of delegated legal and implementing acts of the European Commission – continued during the reporting year. Some of these legal acts are very extensive. Even just the implementing regulation that lays down technical standards for the implementation of supervisory reporting by banks comprises more than 1,800 printed pages.

The Level 2 acts are supplemented by guidelines and recommendations of the European Supervisory Authorities addressed to the national supervisory authorities. These guidelines and recommendations aim to establish coherent, efficient, and effective supervisory practices within the European Economic Area (EEA). The aim is to ensure a uniform and coherent application of EU law. While these guidelines and recommendations, some of which are very comprehensive, are not legally binding, they have a de facto binding effect due to the corresponding obligation to report to the European Supervisory Authorities.

In addition to harmonising regulation, the aim is thus also to harmonise supervisory activities in the EEA to the greatest possible extent. As a relatively small authority, the FMA is particularly challenged in this context. With regard to the basic acts of the European Union (Level 1), there is a tendency to further clarify or revise them on the basis of practical experience gained so far.

MiFID II/MiFIR: Strengthening client protection and transparency in trading in financial instruments

On 3 January 2018, the revised EU Markets in Financial Instruments Directive (MiFID II) and the accompanying regulation (Markets in Financial Instruments Regulation, MiFIR) as well as the necessary legislative amendments entered into force in Liechtenstein. This ensured simultaneous application of this important set of rules with the European Union.

During the reporting year, this necessitated intensive continuation of the legislative implementation work that had already begun in the previous year. The focus was on comprehensively revising the Banking Act, the Asset Management Act, the associated ordinances, and several other special laws. The legislative amendments were discussed and adopted by the Liechtenstein Parliament at its meetings in May and November. The necessary amendments at the ordinance level were adopted by the Government in December.

At the beginning of 2014, the FMA was mandated by the Government with the implementation and overall project management of MiFID II/MiFIR. A steering committee was set up to ensure implementation in line with the market. The steering committee included the public authorities concerned as well as the affected business associations. It met twice in 2017. At the expert level, the FMA organised a working group meeting on the report and application to the Government as well as a workshop on the draft ordinances. The market participants concerned were regularly informed about specific aspects of MiFID II/MiFIR at technical events hosted by the FMA or the University of Liechtenstein.

Jointly, MiFID II and MiFIR constitute the legal framework for the requirements imposed on investment firms, market operators, data provision services, and third country firms providing investment services or activities in the EEA.

FINANCIAL CENTRE IN ENGLISH

A selection of Liechtenstein legal acts is published by the Government at www.regierung.li/law. This facilitates access to the Liechtenstein legal system for English-speaking clients, advisors, and investors and further increases the attractiveness of the financial centre and business location. The FMA Liechtenstein also offers extensive information in English on its website, www.fma-li.li/en. With the increasing internationalisation of the financial centre, these offerings are being further expanded. The FMA is happy to provide quick assistance to English-speaking clients.

The primary objectives of MiFID II/MiFIR are investor protection and transparency in trading in financial instruments. In comparison to MiFID I, far-reaching changes have been introduced for this purpose. The scope of application has been extended both in terms of financial instruments and market players. MiFID II introduces a product approval process to protect investors. This process aims to ensure that products are designed to meet the needs of the target market and the relevant client class.

In addition, there is an obligation to assess the suitability and appropriateness of the product in the provision of investment services to individual clients. Numerous regulations aim to avoid conflicts of interest and to ensure that advice is as objective as possible.

This is accompanied by additional transparency obligations with regard to incentive mechanisms, remuneration structures, and the costs of financial products and services. In order to increase the transparency and efficiency of the financial markets, new comprehensive requirements are being placed on trading and market infrastructures. The reporting obligations provided for in MiFIR are intended to increase pre-trade and post-trade transparency and ensure effective market monitoring.

MiFID II/MiFIR have far-reaching impacts on financial intermediaries in Liechtenstein. The increased requirements for investor protection and transparency require comprehensive adjustments to business models, marketing structures, and trading activities of the undertakings concerned. This increases operational complexity and costs.

MiFID II/MiFIR also pose new challenges for the FMA as the competent national supervisory authority. The comprehensive new legal requirements are supplemented by extensive and detailed technical regulatory standards as well as ESMA recommendations and guidelines, which additionally increases the supervisory workload.

Strengthening anti-money-laundering and risk-based supervision

As part of implementation of the 4th EU Anti-Money Laundering Directive and the EU Funds Transfer Regulation, both the Due Diligence Act (SPG) including other special laws as well as the associated Due Diligence Ordinance (SPV) were amended. The Liechtenstein Parliament passed the amendments to the laws in May 2017, and the Government adopted the amendment to the Due Diligence Ordinance in August 2017. Subject to certain transitional provisions, the amendments entered into force on 1 September 2017.

Apart from the EU requirements mentioned above, the revision of due diligence law also addressed the still open points of criticism voiced by the International Monetary Fund (IMF) and MONEYVAL in the latest assessment of Liechtenstein's system for combating money laundering and terrorist financing.

In terms of content, the topics of simplified and enhanced due diligence, risk-based SPG supervision, politically exposed persons, national risk analysis, as well as supervisory measures and sanctions in particular have undergone significant changes. Moreover, a new whistleblower system for reporting violations of the law has also been introduced in the area of due diligence based on international specifications.

The 4th EU Anti-Money Laundering Directive also provides for the introduction of centralised registers containing information on the beneficial owners of legal entities. Implementation of these registers was originally planned as part of the above-mentioned legislative revisions. The project was ultimately separated out of the implementation package.

With the implementation of the EU specifications, the FMA issued the first revised FMA publications already in autumn 2017.

Implementation of the regulatory package continues the strengthening of the Liechtenstein money laundering prevention system and ensures that it complies with the applicable European and international regulations.

Implementation of risk-based SPG supervision

At the same time as implementation of the 4th EU Anti-Money Laundering Directive, work began on the implementation of risk-based SPG supervision. Implementation was a key focus of the revision of due diligence law completed in September 2017. Consequently, resources are to be deployed in a targeted manner within the framework of supervision and in accordance with the respective risk of the person subject to due diligence.

The specific design of risk-based SPG supervision is based on the detailed requirements of the EU Directive and the associated guidelines of the European Supervisory Authorities. Furthermore, the criticism of the IMF and MONEYVAL regarding the Liechtenstein SPG supervisory system, as expressed in the last country assessment, was also addressed. This criticism was countered especially with a legislative inclusion of the minimum requirements for risk-based SPG supervision in the Due Diligence Act and Ordinance, the creation of a specific electronic reporting system, and the development of a risk assessment tool (RAS).

In addition to the development of the RAS, a specific electronic SPG reporting system was introduced for risk assessment in the course of implementing risk-based SPG supervision. The new reporting system was integrated into the existing e-Service Portal of the FMA and facilitates the electronic transmission of data and information defined in the SPV. This ensures that the FMA has access to all relevant information on the particular national and international risks in connection with the clients, products, and services of the person subject to due diligence.

The risks of the individual persons subject to due diligence are assessed on the basis of the factors to be reported. In addition to the reporting data, the data and information already available – in particular from previous inspection rounds – are also used to assess the risks.

With regard to the frequency and intensity of due diligence inspections, the supervisory authority is guided by the risk profile of the person subject to due diligence and the risks of money laundering and terrorist financing in the market.

With the latest SPG revision, funds themselves will in future be subject to due diligence. Asset management companies are also subject to full due diligence.

Fund management companies/AIFMs engaging in individual portfolio management are subject to due diligence with regard to those individual portfolio management mandates.

In light of various detailed questions on electronic reporting and, in particular, on the individual reporting factors, the FMA published FMA Communication 2017/3 at the end of November. The SPG reporting system will be used for the first time in 2018.

As a result of various transitional provisions, the RAS and the associated risk-based design of audit mandates and consequently also of the inspections will apply to some financial intermediaries in the 2018 audit round and to all financial intermediaries subject to due diligence starting in 2019.

Banking Act: Lower entry barriers for innovative companies

In October 2017, the Liechtenstein Parliament passed amendments to the Banking Act and the Financial Market Authority Act. The amendments entered into force on 1 January 2018. In justified cases, the FMA may adjust the minimum capital of banks and investment firms according to their respective risk profile from CHF 10 million down to CHF 1 million for banks and from CHF 730,000 down to CHF 125,000 for investment firms. The aim is to lower the entry barriers for innovative companies and to enhance the attractiveness of the Liechtenstein financial centre. The new capital requirements are being implemented within the European regulatory framework. With the increased appearance of FinTech companies as providers of banking services, a trend toward specialisation has been observed. As a result, more and more companies will be active that only offer a certain subset of banking services, combined with an individual risk profile. With these legislative changes, the Financial Market Authority as the authorisation and supervision authority can better take this development into account.

PRIIPs: Key information documents for certain investment products

The PRIIP Implementation Act entered into force on 1 January 2018. With this law, the EU Regulation on key information documents for packaged retail and insurance-based products (PRIIPs) was implemented in Liechtenstein in a timely manner. The Regulation strengthens the information and transparency obligations and duties of conduct in the distribution of such products by laying down uniform rules for the format and content of a key information document (KID). The introduction of a standardised KID for almost all products available for retail investors is intended to ensure the comprehensibility and consumer-friendliness of the product information. In addition, the aim is to ensure comprehensive comparability of different investment products for the entire EEA and to create a uniform level of investor protection.

The scope of the Regulation covers PRIIP manufacturers (fund managers, insurance undertakings, banks, and investment firms) and persons who advise on or sell PRIIPs. When distributing a PRIIP, it must be ensured that the KID is handed over to the retail investor in a timely manner so that the retail investor can take the information received into account when making an investment decision. The FMA is responsible for monitoring the PRIIP market and obtains the necessary information from the PRIIP manufacturers to that effect.

Payment Services Act: Promotion of innovations in payment transactions

The EU Payment Services Directive (PSD 2) creates a uniform legal framework for payment service providers in the EU internal market and thus a level playing field. Its objectives are to promote innovations in electronic payment methods and transactions and to increase efficiency and security.

In particular, the PSD 2 contains new information and liability provisions designed to ensure greater protection for customers. Strict conditions for customer authentication are prescribed, and the scope of the previous exceptions is limited. The PSD 2 also sets out a definition of two new financial intermediaries, namely the payment initiation service provider and the account information service provider.

The FMA was mandated by the government to draft the implementation act. For this purpose, the FMA is drafting a new Payment Services Act to replace the existing law. In 2017, the FMA formulated the consultation report, which was adopted by the Government for consultation on 4 September 2017. Subsequently, the FMA prepared the report and application for legislative consideration.

The new Payment Services Act entails additional responsibilities for the FMA. For instance, more detailed rules on licensing are provided, which means that existing licensing processes for payment institutions have to be revised. In addition, two new financial intermediaries will be added, for which new licensing and registration processes as well as ongoing supervision will have to be implemented.

Insurance Distribution Act: Strengthening customer protection

In December 2017, the Liechtenstein Parliament passed the Insurance Distribution Act (Versicherungsvertriebsgesetz, VersVertG). With this law, Liechtenstein has transposed the EU Insurance Distribution Directive (IDD) into national law. The VersVertG and the Insurance Distribution Ordinance are expected to enter into force on 1 October 2018.

The FMA had been mandated by the Government with the implementation and overall management of the regulatory project. The business associations affected by the draft law were closely involved in the regulatory project. In cooperation with the FMA, the University of Liechtenstein held the 1st Liechtenstein Insurance Law Forum on 3 October 2017, focusing on insurance distribution.

The stricter requirements for insurance mediation and insurance advice are reflected in comprehensive new rules that apply not only to insurance intermediaries (agents, brokers) but also to insurance undertakings that engage in direct insurance distribution. First of all, the information obligations of distributors, including insurance undertakings where applicable, vis-à-vis their customers are greatly expanded. Furthermore, the new law enhances the requirements on specialist knowledge and advice and greatly expands the rules of conduct for distribution. The aim of these increased obligations is to protect customers.

Additional requirements are placed on distribution, particularly in connection with insurance investment products. Distributors are subject to extended information requirements as well as special duties

Hood cloth made of linen
Linen bag sewn together like a hood. At the lower end with sewn-on fabric ribbons.

regarding the assessment of the suitability and appropriateness of insurance investment products. Special documentation requirements and product approval procedures are intended to contribute to improved quality in distribution and advice.

In line with the stricter standards of conduct, transparency, and expertise of insurance distributors, the requirements for supervision by the FMA are also increasing. In addition to the regulatory implementation of the IDD into national law, supervisory implementation already began in 2017. The FMA developed an online solution with which applications for licences as insurance intermediaries can be submitted online to the FMA.

Deposit protection: Protection for depositors

The EU Deposit Guarantee Schemes Directive (DGSD) creates a uniform level of protection for depositors in the European Economic Area. Liechtenstein's transposition of the Directive through the Deposit Guarantee and Investor Compensation Act (Einlagensicherungs- und Anlegerentschädigungsgesetz, EAG) will extensively change the existing deposit guarantee scheme in Liechtenstein starting in 2019.

In particular, all eligible deposits up to CHF 100,000 will be protected by the deposit guarantee scheme. Other major changes introduced by the EAG are the gradual changeover from a purely ex-post financed deposit scheme to a system in which the financial resources for a compensation case are raised ex ante by the banks, as well as the strong reduction in the payment delay in the case of a deposit guarantee case.

The EAG expands the tasks, rights, and duties of the FMA. In particular, the FMA is responsible for ongoing monitoring of the Deposit Guarantee and Investor Compensation Foundation PCC (EAS), which will operate the statutory protection scheme. Pursuant to its Government mandate, the FMA worked on the consultation proposal for the EAG and on amendments to other relevant laws during the reporting year.

Creation of a new Auditors Act

In September 2017, the Liechtenstein Parliament considered in a first reading the Government proposal to create an Auditors Act (Wirtschaftsprüfergesetz, WPG) as well as amendments to further laws. With the creation of the WPG, the existing Auditors and Auditing Companies Act (Gesetz über Wirtschaftsprüfer und Revisionsgesellschaften, WPRG) will undergo a complete revision. At the same time, the legislative changes transpose the EU Audit Directive into domestic law and provide for domestic execution of the EU Audit Regulation.

The main objectives of the regulatory project are to adjust the qualitative requirements for statutory audits to international practice and to harmonise the rules on the conduct of statutory audits. The content and structure of the proposed legislation has also been aligned with the Professional Trustees Act. Essential core elements such as the provisions on trustworthiness and compliance with the licensing conditions, including the monitoring thereof, have been taken over from that act.

Overall, the WPG strengthens the FMA's prudential supervision of auditors and audit firms. Moreover, the requirements placed on statutory auditors are made clearer and more predictable, and greater independence and impartiality of the auditors in the performance of their duties is to be ensured. The credibility of audited annual reports and thus the reliability of the auditors' performance is to be increased. The WPG will be considered in a second reading of the Liechtenstein Parliament in the first half of 2018 and is expected to enter into force in mid-2018.

Within the working group appointed by the Government, the FMA made a significant contribution to the preparation of the draft law. In its function as an expert and in coordination with the competent ministries, the FMA was also significantly involved in the preparation of the report and application as well as the response to the questions raised in the first reading by Parliament. In addition, the FMA prepared the proposals for the implementing ordinances. Due to the WPG, the FMA will have to carry out comprehensive work to implement the new regulatory requirements in its processes and procedures.

The FMA stands for sustainable regulation.

Core Principles of the FMA

Pension Funds Act: Further harmonisation of the internal market

The current Pension Funds Act (Pensionsfondsgesetz, PFG) was implemented in 2006, transposing Directive 2003/41/EC into Liechtenstein law. With the creation of the PFG and the Pension Funds Ordinance, comprehensive supervision of pension funds in Liechtenstein was implemented for the first time. Since adoption of these provisions in 2006, however, the requirements on the activity and supervision of pension funds have increased. This circumstance throughout Europe was taken into account in the new EU Directive on the activities and supervision of institutions for occupational retirement provision (IORPs). The new directive generation results in a considerable and detailed expansion of the existing directive law, which also has recognisable effects on the revision of the PFG currently underway. Accordingly, transposition in Liechtenstein will take place within the framework of a complete revision of the PFG, for which the directive requires entry into force by 13 January 2019.

The new directive, which follows the principle of minimum harmonisation, aims firstly to facilitate the operation of occupational retirement provision in the single European internal market and secondly to promote the mobility of workers between Member States. In addition to these stimulating measures, however, a high degree of protection and security for members and beneficiaries of IORPs is to be guaranteed. Nevertheless, the directive does not affect issues of national social, labour, tax, or contract law, nor does it assess the adequacy of retirement provision in the Member States.

For the year 2018, the European Commission has announced several changes to existing basic acts.

Outlook

Due to its scope and complexity, the transposition of European financial market rules and compliance with the guidelines and recommendations of the European Supervisory Authorities will continue to be a very demanding task for the FMA. In 2018, the transposition of the Payment Services Directive (PSD II), the Payment Accounts Directive, the Directive on the activities and supervision of institutions for occupational retirement provision (IORPs), and the Deposit Guarantee Schemes Directive will necessitate national legislative implementation of several important regulatory projects for the Liechtenstein financial centre.

The incorporation of EEA-relevant EU financial market acts into the EEA Agreement – in particular the reduction of the EEA incorporation backlog – represents a major challenge for both the financial intermediaries and the FMA. In cooperation with the other competent authorities, the FMA endeavours to ensure rapid incorporation. The reorganisation of the European System of Financial Supervision envisaged by the European Commission must also be closely accompanied in order to ensure that it is consistent with the institutional framework of the European Economic Area.

For the year 2018, the European Commission has announced several changes to existing basic acts (Level 1). For example, the European Market Infrastructure Regulation (EMIR), the Capital Requirements Regulation (CRR), and the Bank Recovery and Resolution Directive (BRRD) are to be amended. The regulation of new financial technologies also remains on the agenda of European lawmakers. The FMA accompanies the various regulatory trends, in particular within the framework of its participation in the European Supervisory Authorities and the relevant bodies of the European Free Trade Association (EFTA).

Regulations of the FMA Liechtenstein

The following overview shows the regulations issued, amended, or completely revised by the FMA in the reporting year.

Guidelines

FMA Guideline 2013/1 on the risk-based approach under due diligence law
Defines the practical implementation of the risk-based approach under due diligence law. Due to the extensive legal changes in due diligence law, the guideline was completely revised during the reporting year.

Communications

FMA Communication 2015/1: Electronic transactions (e-Services)
Governs the use of the FMA's e-Service Portal. The communication was adjusted several times during the reporting year.

FMA Communication 2017/7: Criteria for the assessment of knowledge and competence in investment advice and the provision of information
Further specifies the criteria under the ESMA guidelines for the assessment of knowledge and competence in relation to MiFID II.

FMA Communication 2017/6: ILAAP
Explains selected provisions of the bank-specific Internal Liquidity Adequacy Assessment Process (ILAAP).

FMA Communication 2017/3 on electronic reporting in accordance with due diligence law
Specifies the reporting factors under Article 37 SPV and further specifies the group of persons subject to the reporting requirements.

FMA Communication 2017/4: ICAAP
Explains selected provisions of the bank-specific Internal Capital Adequacy Assessment Process (ICAAP).

FMA Communication 2015/7:
Clarifies questions concerning the determination of the beneficial owners in accordance with the Due Diligence Act. It was adjusted several times during the reporting year.

FMA Communication 2015/4:
Defines the application of the applicable guidelines and recommendations issued by the European Banking Authority (EBA) for which the FMA has issued a "comply" notice. It was adjusted several times during the reporting year.

FMA Communication 2015/2: Complaint handling
Defines guidelines for handling complaints in securities trading and banking.

FMA Communication 2017/1 on interpretation of the term "traded on a trading venue"
Defines the term "traded on a trading venue".

FMA Communication 2012/2:
Further specifies the application of the guidelines issued by the European Securities and Markets Authority and was supplemented by several guidelines during the reporting year.

Instructions

FMA Instruction 2017/26:
Formation of an insurance undertaking

FMA Instruction 2017/24:
Implementing provisions relating to reportable transactions under MiFIR

FMA Instruction 2017/20:
Prudential assessment of qualifying holdings

FMA Instruction 2017/19:
Requirements for reporting transaction data

FMA Instruction 2017/18:
Professional qualification and personal integrity of members of bodies and persons performing functions

FMA Instruction 2017/17:
Dissolution and liquidation of an undertaking for collective investment in transferable securities (UCITS) under the UCITS Act (UCITSG)

FMA Instruction 2017/16:
Dissolution and liquidation of an investment undertaking (IU) under IUG 2015

FMA Instruction 2017/15:
Dissolution and liquidation of an alternative investment fund (AIF) under the AIFMG

FMA Instruction 2017/14:
Dissolution and liquidation of an investment undertaking under IUG 2005

FMA Instruction 2017/13:
Duty to report and approve articles of association and regulations

FMA Instruction 2017/11:
Debt requirements under CRR/CRD IV

FMA Instruction 2017/10:
Duties relating to capital adequacy requirements under the CRR

FMA Instruction 2017/9:
Disclosure requirements under CRR/CRD IV

FMA Instruction 2017/8:
Remuneration requirements under CRR/CRD IV

FMA Instruction 2017/7:
Liquidity requirements under CRR/CRD IV

FMA Instruction 2017/6:
Preparation of resolution plans

FMA Instruction 2017/5:
Conversion of an investment undertaking 2005 into an investment undertaking 2015, a UCITS, or an AIF

FMA Instruction 2017/4:
UCITS notification procedure

FMA Instruction 2017/3:
Establishment of a management company (UCITSG)

FMA Instruction 2017/2:
Establishment of an alternative investment fund manager (AIFM)

ANNUAL REPORT 2017

EXTERNAL RELA- TIONS

The FMA has further strengthened its international cooperation through representation and membership in supervisory bodies. The FMA is now also represented on the European Systemic Risk Board. The further internationalisation of the financial centre is connected to more intensive cooperation with foreign partner authorities in group supervision and in licensing procedures, especially in the Asian region. Due to its broad areas of responsibility, the FMA has a high level of specialist knowledge. FMA experts have passed on their knowledge at more than 60 specialist events.

FMA events for financial intermediaries

On 9 November 2017, the FMA held an information event on the new rules for asset management. About 160 people from the asset management industry accepted the invitation to the SAL cultural and event centre in Schaan. At the half-day specialist event, external experts and specialists of the FMA briefed the attendees on the comprehensive new rules governing asset management as part of MiFID II/MiFIR implementation. The far-reaching amendments to the Asset Management Act and other laws entered into force on 3 January 2018.

Regulation and digital technology was the topic of an event for the fiduciary sector and auditors. About 120 people attended the event on 16 November 2017 at the Municipal Hall in Triesen. External experts examined in particular tax compliance in connection with automatic exchange of information (AEOI) and the use of software to efficiently manage the extensive compliance requirements.

The FMA held various other events on regulatory topics in cooperation with the University of Liechtenstein. On 21 November 2017, the Europa Institute at the University of Zurich held a seminar on "Digitalisation of the financial industry – the regulation of new financial technologies in Europe". The FMA organised this event in cooperation with the Centre for Liechtenstein Law (ZLR) at the University of Zurich. The focus was on opportunities and risks arising from the digital transformation of the financial industry and how regulators and market participants are approaching them.

16 November 2017, Municipal Hall in Triesen.
The first guests have arrived

FMA specialists transfer their knowledge

As an integrated financial market supervisory authority, the FMA supervises market participants in the individual sectors of the financial centre and thus has a broad range of specialist knowledge at its disposal. The FMA strives to transfer this knowledge to students and the market and in this way to create added value. During the reporting year, a total of 26 FMA employees gave 61 presentations at 42 specialist events. Most of these events were organised by the University of Liechtenstein and the business associations.

Philipp Röser gives a presentation at the University of Liechtenstein on implementation of the 4th EU Anti-Money Laundering Directive in Liechtenstein.

The FMA maintains close cooperation with the University of Liechtenstein. Several events at the University of Liechtenstein have been held in cooperation with the FMA. The focus was on regulatory topics such as due diligence law, MiFID II/MiFIR, and banking regulation, followed by appearances relating to new financial technologies. Ten lectures were given abroad, namely at universities and universities of applied sciences in Austria and Switzerland.

The FMA also strives to pass on specialist knowledge to students and professionals as part of continuing education. For this purpose, the FMA mainly teaches as part of master's, bachelor's, diploma, and certificate programmes at the Institute for Finance at the University of Liechtenstein. 17 employees taught a total of 72 lessons. The FMA is especially involved in the Compliance Officer certificate programme.

USE OF THE FMA WEBSITE

In the reporting year, 74,261 users visited the FMA website. The website was visited about 150,000 times. Users from Liechtenstein account for about one third of the page views. The second-most views were registered from Switzerland (about 40,000), followed by Germany (about 13,000), Austria (about 11,000), the United Kingdom (about 7,000), and the United States (about 4,000). Most users access the website via a search engine (about 60 %) or directly (about 30 %). On average, a user stayed on the website for two minutes and 49 seconds, accessing 3.3 pages.

Linen shirt with lace
Long-sleeve linen shirt with lace borders.

Liechtenstein is a full member of the European Systemic Risk Board

At the end of September 2016, the Regulation on European Union macro-prudential oversight of the financial system and establishing a European Systemic Risk Board (ESRB) was incorporated into the EEA Agreement by decision of the EEA Joint Committee. Liechtenstein thus became a full member of the ESRB. Starting in mid-2017, the FMA now sends highest-level representatives to meetings of the General Board and the Advisory Technical Committee four times a year. In the reporting year, there was also an informal meeting of an FMA delegation with the leadership of the ESRB Secretariat in Frankfurt to coordinate cooperation with the ESRB. With the incorporation of the regulation into the EEA Agreement, the decisions, recommendations, and warnings of the ESRB must be implemented in Liechtenstein using a "comply-or-explain" procedure. Since 2011, the ESRB has already issued 13 recommendations. Implementation of these recommendations began during the reporting year.

Membership of the Committee of European Auditing Oversight Bodies

As the representative of an EEA contracting party, the FMA was invited by the European Commission to join the Committee of European Auditing Oversight Bodies (CEAOB). As a non-EU member, the FMA has observer status. The CEAOB is an expert committee of the European Commission in the field of statutory auditor supervision and was established in 2016 with the entry into force of the EU Audit Regulation.

The CEAOB is responsible for the exchange of expertise and information, advising the European Commission on audit oversight, assessing the public oversight systems of third countries, international cooperation between Member States and third countries, and examining international auditing standards with a view to their adoption at the EU level.

In addition to the plenary meetings in Brussels, the FMA is actively involved in the work of the Inspections sub-group. The purpose of the group is specialist exchange in connection with the performance of quality controls/inspections of auditors and the interaction with standard setters for international auditing and ethical standards.

FMA strengthens cooperation in the International Forum of Independent Audit Regulators

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 the members, with global network audit firms, and with international standard setters. With its signature in April 2017, the FMA joined the multilateral memorandum of understanding (MMoU) for cooperation among IFIAR members.

By joining the MMoU, the FMA has the opportunity to expand cross-border cooperation at the global level and to intensify international external relations, with the aim of deepening expertise, creating consistent cross-border supervision, and strengthening the Liechtenstein financial centre.

Work meetings in Berlin, Munich, and Frankfurt

During the reporting year, the Chairman of the Board of Directors and the CEO held work meetings in Berlin, Munich, and Frankfurt. The goal of these meetings is to promote knowledge about the Liechtenstein financial centre among important decision-makers and to strengthen trust in the financial centre. In arranging the meetings, the FMA relied on its own network as well as the networks of the Liechtenstein embassy in Berlin and the honorary consuls in Munich and Frankfurt.

In Berlin, meetings accompanied by H.S.H. Prince Stefan von und zu Liechtenstein were held with representatives of the Federal Ministry of Finance, CDU and SPD members of the Bundestag, and staffers of members of the Bundestag. Discussions focused on regulation and supervision of the financial markets. Questions on automatic exchange of information (AEOI) and anti-money-laundering were also discussed.

Talks were held in Munich and Frankfurt with representatives of public authorities and the business community. Financial stability and supervision were on the agenda at a meeting with the President of the Deutsche Bundesbank's Regional Office in Bavaria. A meeting was held in Frankfurt with representatives of the European Central Bank (ECB). The FMA showed how financial stability in Liechtenstein is ensured within the framework of the monetary union with Switzerland and integration into European financial market regulation.

Bilateral cooperation

The longstanding trend of greater cooperation by the FMA at the European and international level continued in 2017. This is due in part to the intensified activities of international standard setters, and in part to the cooperation of financial market supervisory authorities in group supervision set out by more and more regulations. With the growing significance of Asia for the Liechtenstein financial centre, the exchange with Asian partner authorities in licensing processes and group supervision in particular has intensified. Due to the close ties between the Liechtenstein and Swiss financial centres, a regular exchange also took place with the Swiss Financial Market Supervisory Authority (FINMA).

Furthermore, more demanding formal requirements in group supervision have led to more intensive cooperation with foreign supervisory authorities as well as supervision cases in which cooperation with the competent national supervisory authorities was necessitated by business activities of Liechtenstein financial intermediaries abroad.

In November 2017, the heads of the supervisory authorities of Germany, Austria, Switzerland and Liechtenstein met in Bern 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 regulatory developments concerning new financial technologies and the use of RegTech (regulatory technology) in supervision, as well as the protection of the financial market authorities and financial intermediaries from cyber risks. A meeting was also held with Federal Councillor Ueli Maurer, Head of the Department of Finance. The FMA also took part in the meeting of the statutory audit supervisory authorities of the German-speaking countries. European developments in statutory audit regulation and the impact on national supervision were discussed.

European cooperation

The FMA participates actively in the committees and working groups of the European Supervisory Authorities (ESAs) relevant to the Liechtenstein financial centre. Given the numerous issues arising in relation to innovative financial technologies and their regulation, the FMA also participates in the EBA's and ESMA's corresponding committees on innovations in the financial services sector. Full membership of the ESAs as of October 2016 has further strengthened the FMA's European integration and enhanced its participation in committees and working groups.

The ESAs are responsible for ensuring that the rules governing financial market supervision are implemented and applied consistently and equivalently throughout Europe (convergence). An important instrument for that purpose is the peer review, with which the ESAs examine the supervisory practice of the individual national supervisory authorities. In the reporting year, the FMA conducted five peer reviews.

1,150 MEETINGS WITH CLIENTS

In 2017, 1,150 meetings with external guests took place in the client zone. This is about 80 more meetings than in the previous year. The busiest month was November with 139 meetings, followed by March with 115 meetings. Even in the holiday month of July, the FMA hosted 91 guests. More than 100 meetings were held with interested companies in the FinTech sector. The FMA is an accessible and service-oriented authority.

In the Banking Division, a peer review in passporting was initiated at the end of 2017. A further peer review by the European Banking Authority (EBA) on the application conditions for the evaluation of other systemically important institutions was completed in 2017. This review did not give rise to any significant need for action. In the Insurance and Pension Funds Division, three peer reviews conducted by the European Insurance and Occupational Pensions Authority (EIOPA) were dealt with. Two peer reviews concerned the supervisory practices on governance requirements within the framework of the new insurance supervisory regime Solvency II. While the peer review on key functions will be concluded with a good result and without any necessary measures, the results of the second peer review on the supervisory practice in regard to the integrity of supervisory, administrative, and management bodies were still pending at the end of 2017. Also pending were the results of the peer review on supervisory practice in regard to application of prudent person rules to pension funds. Due to a lack of relevance

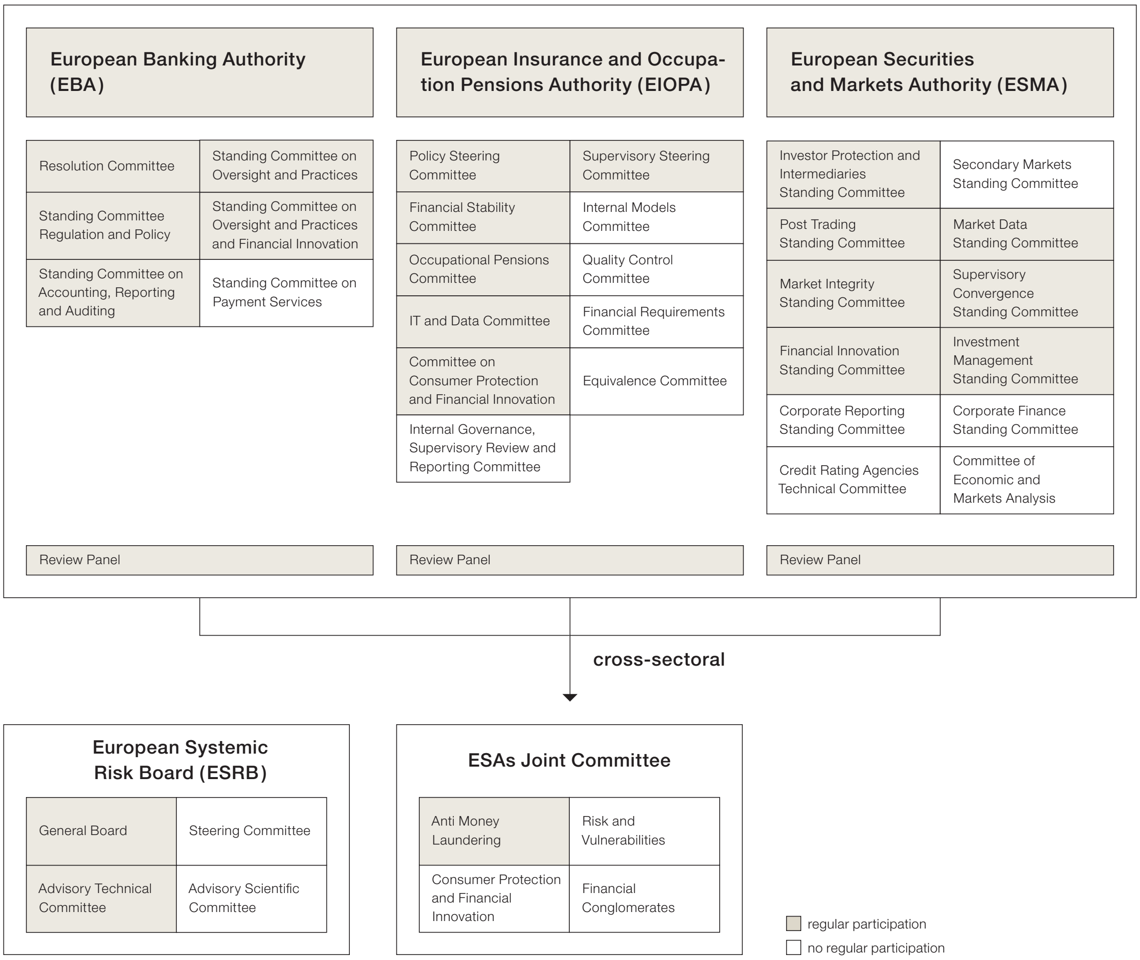

Figure 4
Cooperation within the European System of Financial Supervision

to Liechtenstein, the Securities and Markets Division was not a focus of the peer reviews conducted by the European Securities and Market Authority (ESMA). In the reporting year, the ESAs also sent 27 questionnaires to the FMA. One of the aims of these questionnaires is to examine supervisory practice. They also serve to gather information about new risks and trends, to harmonise supervisory practice, and to serve as a basis for regulation.

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. MONEYVAL is one of the eight FATF-style regional bodies (FSRBs) of the Financial Action Task Force (FATF). The regional bodies must fully implement the FATF standard and report regularly as associated members of the FATF.

Global cooperation

The FMA is a member of the most important global supervisory bodies, where it represents Liechtenstein interests. These bodies include the International Organization of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS), and the International Organisation of Pension Supervisors (IOPS). At IOSCO, the FMA is now represented in a consultation group that examines the topic of ICOs and the associated opportunities and risks from a global regulatory perspective. Liechtenstein is also a member of the International Forum of Independent Audit Regulators (IFIAR). In the reporting year, the FMA signed a memorandum of understanding on cooperation among IFIAR members.

We ensure that we are recognised as a competent and reliable supervisory authority in Liechtenstein and abroad.

Like the FATF, the regional bodies also carry out peer reviews of their member countries. During the reporting year, MONEYVAL considered and adopted the peer review reports on Slovenia, Andorra, and Ukraine. In addition, several reports were adopted to monitor members' progress in addressing the deficits identified during past assessments. Liechtenstein must present another of these progress reports in 2018. The foundations for this were created in particular by the most recent revision of the SPG and the SPV.

In the reporting year, the FMA participated in the annual meeting of the Enlarged Contact Group (ECG). The ECG is an association of securities supervisors at the global level. The authorities discuss specific supervisory issues in the fund sector.

Outlook

Given the large number of regulations to be implemented, cooperation with professional and industry associations will continue to be intensive. The FMA strives to support business associations and market players as far as possible by providing targeted and timely information.

The further internationalisation of the financial centre gives rise to more intensive cooperation with foreign partner authorities in group supervision and in licensing procedures, especially in the Asian region. The integration and recognition of the FMA at the European and global level provide very good conditions for this cooperation.

In September 2017, the European Commission published draft amendments to the regulation on the European Supervisory Authorities. The draft contains far-reaching changes in regard to the responsibilities and powers of the ESAs, their governance, and their financing. The European Commission's proposals will go through the legislative process. The FMA is closely monitoring developments due to their high importance for the financial centre and the FMA.

Several work meetings are planned in Germany, Hong Kong, and Singapore in 2018. By cultivating relationships and engaging in exchanges at a high level, the FMA aims to promote knowledge about the Liechtenstein financial centre among important decision-makers and to strengthen trust in the financial centre.

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ENTER-PRISE

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At the beginning of 2017, market topics were consolidated within the new Securities and Markets Division. At the same time, the resolution authority commenced its operational activities. The FMA faces particular challenges because of ongoing digitalisation: as an enterprise, in its exchanges with financial intermediaries, and due to new digital business models. A revision of the FMA's IT strategy is intended to support this transformation process.

Digital transformation

Ongoing digitalisation is bringing about profound changes for supervisory authorities. The FMA regards digitalisation as a tool for further developing itself as a public authority, for designing business processes as efficiently and effectively as possible, and for ensuring effective risk-based supervision.

Digitalisation challenges the FMA at three levels: firstly, at the internal level as an enterprise; secondly, at the level of communication with financial market participants and organisations such as the European Supervisory Authorities; and thirdly, at the level of digitalisation of financial market participants' business models. During the reporting year, measures were implemented at all three levels on the basis of the strategy developed in the previous year.

At the enterprise level, a new employee portal was developed and launched at the end of January 2018. As a strategic tool for internal communication, the portal takes into account changes relating to the increasing complexity of supervisory activities and the new personnel strategy, including mobile work methods and home office solutions. In addition to providing information, the platform serves to make the sharing of information more efficient. It is accordingly equipped with collaborative functions. Furthermore, a scanning solution that is connected to systems such as the document management system has been introduced as part of the digitalisation process. All incoming and outgoing documents as well as the daily archives are digitised.

With the aim of increasing efficiency, the FMA is working to provide comprehensive electronic support for its business processes. Based on the THOR software platform, several applications for automation and support of supervisory activities were introduced during the reporting year, such as an application for collecting and evaluating data as part of risk-based due diligence supervision. Extensive regulations and the resulting reporting requirements entail that the amount of data in supervision is increasing rapidly.

The development of interfaces between applications is also important for increasing efficiency. During the reporting year, such measures were developed in areas such as the invoicing of supervisory taxes, the verification process for incoming invoices, and human resources. The potential of digitalisation is also being used in personnel marketing. The use and maintenance of social media channels such as Instagram, LinkedIn, and XING are part of the FMA's new presentation of itself as an employer.

At the level of communication with financial market participants and organisations such as the European Supervisory Authorities, the FMA's e-Service Portal was further expanded. Financial intermediaries use this online platform to send their reporting data efficiently and securely to the FMA. By the end of the first quarter of 2018, all companies subject to due diligence must register on the platform. As the interface between the financial intermediaries and the European Supervisory Authorities (ESAs), the FMA must also ensure a smooth exchange of reporting data with the ESAs.

At the level of digitalisation of the business models of financial market participants, the FMA's Regulatory Laboratory dealt with numerous complex issues. The digital strategy of the FMA attaches great importance to the promotion of digital competence and a culture that supports the digital transformation.

Revision of the IT strategy

In November 2017, the Board of Directors approved revision of the IT strategy for the period up to 2022. The digital transformation of the FMA is to be made possible and supported by the use of suitable IT resources. The strategy sets out the guidelines for eight strategic fields of action, describes a picture of the future with the envisaged IT status of the FMA by 2022, and defines the requisite initiatives and investments.

The revision of the IT strategy will replace the IT strategy from 2010. That strategy has been implemented step by step in recent years. The FMA now has a modern IT infrastructure and a viable application basis for the future. Based on its service agreement, the FMA continues to use the IT infrastructure and IT services of the National Administration to the extent possible.

One field of action of the IT strategy is smart data: Through intelligent handling of data, processes are to be automated, risks are to be recognised faster and better, and corresponding actions are to be triggered. In this way, the FMA increases the efficiency and effectiveness of its supervisory activities. Another component of the strategy is the further development of client contact points. The supervised financial intermediaries should be able to communicate and exchange data with the FMA efficiently and without any media discontinuities. A further initiative is the additional process digitalisation and automation of business processes in order to achieve productivity increases. The IT strategy also addresses cybersecurity. As an enterprise, the FMA must be able to reliably protect its data and infrastructure against cyber risks.

Organisational structure

In 2016, the Board of Directors decided to bundle responsibility for market topics and, effective the beginning of 2017, to assign them to the Securities Division. At that time, the division was renamed the Securities and Markets Division. Market topics include all rules relating in the broadest sense to trading in financial instruments such as MiFID II/MiFIR, EMIR, and central securities depositories. The Securities and Markets Division is responsible for regulation, implementation of supervisory processes, and basic supervision of market aspects, in particular data validation and coordination among the supervisory divisions of the FMA. The new organisation will take advantage of synergies and meet the requirements of the European regulatory power in this growing area of responsibility.

The resolution authority commenced operations at the beginning of January 2017. With the adoption of the Recovery and Resolution Act (Sanierungs- und Abwicklungsgesetz, SAG) in autumn 2016, the legislative power 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 organisational units of the FMA, and no conflicts of interest may arise between the Resolution Activity and the other activities of the FMA. For this purpose, a separate Resolution Unit has been created that reports directly to the Executive Board in its capacity as the Resolution Board, without voting rights for the representative of the Banking Division, and whose staff does not belong to any of the four operational supervisory divisions of the FMA.

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. The FMA therefore has an integrated risk management and control system for the purpose of quality assurance and to avoid damage to reputation, cases of official liability, or organisational failure. In addition to a comprehensive risk management and internal control system (ICS), the FMA's integrated risk management and control system also covers aspects such as information security (ISMS), compliance, personal safety, and operational and occupational safety.

The FMA's integrated risk management and control system underwent substantial further development and improvement in 2017. The adjustments were made in close coordination with the external auditors (Audit Office) and included greater coordination of similar ICS processes in the various organisational units as well as a more precise presentation of the FMA's process and risk landscape. In addition, the risk situation of the FMA was fundamentally evaluated in this context. The training of employees in the areas of operational, occupational, and personal safety was continued. The internal training on topics relating to compliance has been made much more comprehensive. Finally, in 2017 the FMA laid the foundations for further measures in the area of information security. The FMA's relevant foundations and systems are to be harmonised in time to meet the opportunities and challenges of digitalisation. The topic of cyber risks is also being taken into account.

Digital transformation: Change is already here

Everyone is talking about FinTech. Digitalisation is creating new business models in the financial sector. Technology companies are pushing into the market, and established financial service providers are adapting to the new situation. But digitalisation does not only have an impact on finance. Technologies such as blockchain have the potential to change our lives decisively, even apart from payment services and ICOs – especially given that digitalisation has long reached the mainstream of society, as the following facts, figures, and forecasts show.

4 out of 5

79.6 % of all people in Europe used the internet in 2017. Among people under the age of 24, the figure is even 95.7 %.

Source: ICT Facts and Figures 2017

4.92 billion

Nearly 5 billion people worldwide use a mobile phone. This corresponds to a global share of 66 %. Last year, the number of users increased by 222 million.

Source: We Are Social Digital Report 2017

10 %

Only 10 % of all bank clients are purely offline customers. All others use the internet to structure their banking relationship or before concluding a banking product. In 2013, 37 % of all bank clients were still purely offline customers.

Source: GfK Customer Journey Banking Study

1 out of 3

Almost one in three or 30 % of all e-banking users are purely online customers and never visit a bank branch. In 2014, this figure was still 19 %.

Source: Bitkom Digital Banking Research

2027

Experts at the World Economic Forum (WEF) expect that by 2027, 10 % of global gross domestic product will be managed by blockchain.

Source: WEF Survey Report 2015

FMA funding

The FMA is funded by a contribution from the State, supervisory taxes and fees, and income from the provision of services. The State contribution was determined by the Liechtenstein Parliament in 2016 and amounts to a maximum of CHF 5 million per year up to and including 2019. In 2019, the State contribution must be redefined by the legislative power for the following years.

Infrastructure and security

At its location at Landstrasse 109 in Vaduz, the FMA has a modern infrastructure and a high standard of building security at its disposal. Building security is checked regularly. The FMA attaches great importance to personal safety. FMA employees may be exposed to verbal and physical threats in the implementation of supervisory measures and supervisory activities. As part of safety management, advanced safety training was carried out during the reporting year with about one third of the FMA's employees. Employees learned to behave properly and in a de-escalating manner in threatening situations and to take preventive measures. At the same time, the Vaduz fire department provided firefighting training, and the Vaduz Samaritan Association taught first aid in event of a heart attack. All FMA employees completed the training, and employees of the Old Age and Survivors' Insurance Authority also took part.

Outlook

With its Core Principles, understanding of itself and its role, corporate culture, and management principles, the FMA has a finely balanced code at its disposal. Various measures are designed to enshrine this content of the FMA's corporate identity more firmly among employees. Active engagement with the code is intended to lead to a more far-reaching common understanding of the demands.

The digital transformation of the financial markets is an opportunity for the Liechtenstein financial centre. As part of the financial centre, the FMA supports this transformation flexibly and pragmatically. As the supervisory authority, the FMA is committed to the protection of clients and the stability of the financial centre, which, in addition to supporting innovation, requires an appropriate approach to risks.

Digitalisation also has an impact on the FMA as an enterprise and on the way the FMA interacts with financial intermediaries. By proactively addressing these challenges on the basis of its digital strategy, the FMA aims to positively support the transformation process and offer maximum added value. The revision of the IT strategy approved by the Board of Directors in the reporting year is consistently guided by the objectives of the digital strategy.

Linen day shirt with crocheted lace
Short day shirt with underarm closure and mother-of-pearl buttons. Armholes and neckline are bordered with crocheted lace.

Organisational chart as of 31 December 2017

Board of Directors
Prof. Dr. Roland Müller, Chairman
Michèle Borgeaud, Vice Chair
Dr. Ivo Ritter
Jürg Meier
Dr. Michael Ritter

Executive Board
Mario Gassner, CEO
Dr. Alexander Imhof, Deputy of the CEO
Patrick Bont
Dr. Marcel Lötscher
Werner Meyer
Martin Schädler

Resolution Board

Resolution Unit
Dominik Häuptle

Central Services
Martin Schädler

Finance/HR
Martin Schädler

IT/Projects
Roger Guntli*

Reception
Martin Schädler

Infrastructure
Heinz Schädler

Executive Office
Mario Gassner

Communications
Beat Krieger

Legal/International Affairs
Dominik Häuptle

Macroprudential Supervision
Dr. Martin Gächter

Secretary of the Board of Directors
Nadja Rossettini-Lambrecht

Banking Division
Patrick Bont

Supervision Section
Markus Meier

Legal Section
Heinz Konzett*

Insurance and Pension Funds Division
Dr. Alexander Imhof

Auditing/Actuarial Section
Martin Bieniek

Legal Section
Philipp Fuchs*

Securities and Markets Division
Dr. Marcel Lötscher

Supervision Section
Dr. Reto Degen*

Legal Section
Claudio Concin

Other Financial Intermediaries Division
Werner Meyer

Supervision Section
Simone Edelmann-Böniger

Legal Section
Patrik Galliard*

*Deputy Head of Division or Unit

Figure 5
Organisational chart

Governing bodies of the FMA as of 31 December 2017

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

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

Board of Directors

Chairman
Prof. Dr. Roland Müller, Staad, Switzerland, elected from 2010 to 2016 (Vice Chairman) and from 2017 to 2019 with the option of re-election until the end of 2021.

Vice Chair
Michèle Borgeaud, Altendorf, Switzerland, elected from 2017 to 2021

Members
Dr. Ivo Furrer, Winterthur, Switzerland, 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, Switzerland

Head of Securities and Markets Division
Dr. Marcel Lötscher, Baden, Switzerland

Head of Other Financial Intermediaries Division
Werner Meyer, Wettswil, Switzerland

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 6
Governing bodies of the FMA

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TEAM

The FMA is an attractive employer with motivated employees. The FMA's innovative presentation of itself as an employer provides insight into the varied and exciting working and living environment of the FMA team. The FMA is also a place of learning. Apprentices learn for work and life, and interns put their knowledge to use and gain valuable work experience. During the reporting year, further measures were implemented to secure personnel resources for the long term.

Positioning the FMA as an attractive employer

In order to manage the high degree of complexity and the growing portfolio of responsibilities, securing the FMA's personnel resources is of the utmost strategic importance to the Board of Directors and the Executive Board. A success factor is the ability of the FMA to recruit sufficient personnel with the required qualifications. The FMA's areas of responsibility require highly specialised personnel. When recruiting personnel, the FMA is also competing with financial service providers.

Successful personnel recruitment requires a correspondingly high level of attractiveness as an employer. The FMA is indeed an extremely attractive employer with varied and exciting areas of responsibility in an international environment. It also offers modern and fair employment conditions. This attractiveness as an employer must be communicated in ways that are innovative and responsive to the channels used by potential applicants.

In the reporting year, the FMA developed and implemented a concept for intensified personnel marketing. This concept is intended to strengthen the external perception of the FMA as an attractive employer and to better establish the FMA's reputation on the labour markets. By strengthening its market presence, the FMA is pursuing one of its main goals of increasing the proportion of Liechtenstein employees.

The core of the measures is a new, innovative presentation of the FMA as an employer, which went live on the FMA website at www.fma-li.li/karriere in September 2017 and is updated weekly. Visitors are given insight into the working and living environment of the FMA. The web presence appears in a modern tile-based design, with tiles that regularly rearrange themselves. The site presents portraits of FMA employees with statements, job advertisements, video sequences with employees, news, and the employer's promise. FMA employees themselves participated as portrait photographers.

The enhanced personnel marketing also includes the targeted use of various social media channels. Instagram offers a playful insight into the working and living environment of the FMA team. XING and LinkedIn are important channels for personnel recruitment. Employees participate by posting job advertisements on their personal and professional networks.

Experience more: No day like any other

FMA
FMA Liechtenstein

The FMA's new presentation of itself as an employer provides insight into the working and living environment of the FMA team.

Succession planning

As part of the personnel strategy, systematic succession planning was introduced during the reporting year. Succession planning is intended to ensure that important functions at all levels of the hierarchy can be filled competently and, if possible, by internal candidates.

Succession planning also forms the basis for strategic personnel planning, which is updated each year and analyses both the identified gaps in succession planning and the long-term strategic orientation of the FMA. The goal of strategic personnel planning is to qualitatively and quantitatively assess the need for important competencies as early as possible. This makes it possible to develop young talent early on, especially in functions that require skills that are difficult to cover on the labour market.

DRINK TAP WATER. DONATE DRINKING WATER

The FMA has switched from bottled mineral water to fresh, high-quality tap water. In doing so, it is supporting the non-profit association Drink&Donate, which stands for "Drink tap water. Donate drinking water" and advocates the consumption of excellent tap water instead of water transported by road. The generated donations are used to implement drinking water projects. This gives people in developing countries access to clean drinking water. In Liechtenstein, the project is known by the name Waterfootprint Liechtenstein.

Very high employee satisfaction at the FMA

In the reporting year, the FMA participated in the Swiss Employer Award benchmark study as part of its personnel strategy. The goals were to measure employee satisfaction and to compare it with companies in the financial services sector, with which the FMA competes in personnel recruitment. The online survey was conducted anonymously.

The survey indicated a very high level of employee satisfaction. The FMA achieved very high levels of overall satisfaction with the work situation, the employees' sense of belonging, and the spirit of the organisation. Management and employee development were also highly rated. The figures were high in comparison with all participating companies and also in comparison with the benchmark of financial services companies. The participation rate in the online survey was an excellent 97 %. The results show that the measures taken in recent years as part of the personnel strategy have had an impact.

Certain weaknesses were seen in regard to work and leisure time, cooperation among individual organisational units, knowledge management, as well as structures and processes. Following the internal presentation of the results, workshops were held for managers as well as in the individual teams, and follow-up measures were defined at the management level. These measures will be communicated to employees in the first quarter of 2018.

Job rotation: Insight into other areas of responsibility

From the beginning of 2018, a Deputy Head of Division will rotate to another supervisory division for three months. This temporary switch is a component of the job rotation model introduced within the framework of the personnel strategy. Employees have the opportunity to rotate jobs within the FMA for a certain period of time and in that way to gain insight into another area of responsibility. Job rotation promotes the interdisciplinary knowledge of employees as well as cooperation across divisional boundaries. Interdisciplinary knowledge is of very high value for an integrated supervisory authority due to growing cross-divisional issues.

During the reporting year, job rotation for junior staff members was also introduced. Within two years, a junior employee passes through all four supervisory divisions. A Liechtenstein lawyer was employed for almost one year in several supervisory divisions. She has now been hired permanently. She will contribute the knowledge she has gained to the Legal/International Affairs group within the Executive Office.

The FMA offers internship opportunities for students and graduates.

Development of the workforce

In 2017, the average workforce at the FMA was 91 (previous year: 83). As of 31 December 2017, the FMA employed 95 people (previous year: 86). Of these, three were employed on a temporary basis. The share of women was 41 % (previous year: 42 %). 20 employees worked part-time. 10 employees left the FMA during the reporting year (previous year: 7). 15 new employees joined the FMA (previous year: 15), and three interns were employed on a temporary or permanent basis. In total, 87.9 full-time equivalent positions were filled at the end of 2017. The number of full-time equivalents approved by the Board of Directors as of the end of 2017 was 89.7 (previous year: 82.7).

In the previous year, the Board of Directors had approved six additional positions for 2017: firstly to cope with new responsibilities in the supervision of banks, markets, and auditors, and secondly to fulfil the FMA's newly assigned function as the resolution authority. New demands also arose for the FMA due to the tightening of standards to combat money laundering and terrorist financing. Finally, the FMA has also been assigned due diligence supervision of casinos.

In July 2017, the Government decided to transfer the regulatory tasks of the Office for International Financial Affairs to the FMA as of 1 October 2017. Consequently, the Board of Directors decided to increase the number of full-time equivalents by one position to a total of 89.7 as of 1 October 2017.

91 full-time equivalent positions have been authorised for 2018. The increase by 1.3 positions is intended on the one hand for the job pool, so that

Liechtenstein traditional costume with accessories
Liechtenstein traditional costume with various ribbons and lace, velvet bow with decorative stone, Pearl ribbon and pearl bow with bird heads.

part-time employees have the option of adjusting their workload where possible and subject to a review. On the other hand, the FMA's job pool should offer a certain degree of flexibility. In addition to the 91 full-time equivalent positions, 2.6 temporary positions are planned for 2018. Two of these positions are to be filled by junior specialists as part of the FMA's job rotation model. A temporary 60 % position was already filled at the beginning of 2018. The holder of the position is studying financial and actuarial sciences part-time.

The FMA offers internship opportunities for students and graduates. As of the end of 2017, 10 interns accounting for a total of 7.7 full-time positions were employed. These internships are generally in the legal or economic field, with a duration varying from six to 12 months. In addition, nine holiday interns were employed in various areas for a period of one to three months.

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

Finally, five 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 organisations. The secondees remain in the normal employ of the sending authorities or companies and are paid by them.

Educational background and nationalities

Because of its complex and specialised areas of responsibility, the FMA has a very high share of employees with an academic background. 52 % of employees are lawyers, and 30 % are specialists such as auditors, banking experts, economists, or actuaries. 18 % of employees are officers or have a different educational background. As digitalisation progresses and the number of complex IT applications grows, so does the need for specialist knowledge in the areas of business information technology and information management, as well as for the digital knowledge of employees in general.

24 % of employees are Liechtenstein citizens, 26 % Swiss citizens, 36 % Austrian citizens, and 14 % German citizens. The FMA strives to employ as many Liechtenstein citizens as possible. A further measure to increase this share has been implemented with the FMA's new presentation of itself as an employer. The FMA's high level of attractiveness as an employer is intended to increase the number of Liechtenstein applicants to fill vacancies.

Changes and promotions

In November 2016, the Government elected Prof. Dr. Roland Müller, Staad, Switzerland, as Chairman of the Board of Directors of the FMA Liechtenstein. Roland Müller took office on 1 January 2017. From the beginning of 2010 until the end of 2016, Roland Müller served as Vice Chairman of the Board of Directors. The former Chairman of the Board of Directors, Dr. Urs Philipp Roth-Cuony, retired at the end of his term of office at the end of 2016. Also in November 2016, the Government elected Michèle Borgeaud, Altendorf, Switzerland, as a Member of the Board of Directors. In December 2016, the Board of Directors appointed her Vice Chair of the Board of Directors of the FMA. Michèle Borgeaud took office on 1 January 2017.

Effective 1 January 2017, Philipp Fuchs was promoted to Deputy Head of the Insurance and Pension Funds Division, and Dominik Häuptle was appointed Head of the new Resolution Unit of the resolution authority. Dominik Häuptle also serves as Head of Legal/International Affairs in the Executive Office. Martin Bieniek was promoted from Head ad interim to Head of the Auditing/Actuarial Section in the Insurance and Pension Funds Division effective 1 March 2017. Nadja Rossettini-Lambrecht was appointed Secretary of the Board of Directors effective 1 April 2017. Dr. Martin Gächter took over as Head of Macroprudential Supervision in the Executive Office effective 15 May 2017. Martin Schädler, Head of Central Services and Member of the Executive Board, has also held the position of Head of the Reception group since 1 April 2017.

Outlook

In recent years, numerous measures to secure personnel resources have been implemented as part of the personnel strategy. In an environment of growing responsibilities and increasing complexity, the FMA attaches great strategic importance to securing personnel resources.

The FMA's new presentation of itself as an employer is intended to strengthen the external perception of the FMA as an attractive employer among potential specialists. Liechtenstein specialists are the main target group for the increase in personnel marketing.

Young Liechtenstein talents enthusiastically take advantage of the FMA's internship opportunities. Several former interns are now employed on a permanent basis at the FMA. The internship opportunities are thus also a measure in the FMA's efforts to increase the share of Liechtenstein employees. In 2018, the FMA plans to fill two junior positions with alternating assignments in all four supervisory divisions.

The employee survey conducted in 2017 indicated a very high level of employee satisfaction. But the survey also revealed certain weaknesses. The measures derived from the analysis will be implemented in 2018.

The share of women at the FMA was 41 % at the end of 2017. Need for action has been identified in regard to management positions. In October 2017, the Board of Directors decided that specific measures should be taken to increase the share of women in management positions at the FMA. The Executive Board has been mandated to develop a corresponding strategy.

The FMA promotes the technical qualifications of its employees through a broad range of internal training opportunities and targeted external training. Given the ongoing digitalisation of the FMA as an enterprise as well as of the financial sector, improving the digital competence of employees is especially important. The development of digital knowledge is a key action area in the digital strategy.

Learning for work and life

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

Ich bin sehr gerne ein zweites Mal zur FMA gekommen.

"I am now at the Liechtenstein Court of Justice. I worked for the FMA twice for six months each. I very much enjoyed working for the FMA a second time because it was such a good match. I was at the reception and in accounting. My favourite job was in accounting. My main responsibilities were accounts receivable, accounts payable, and the cash book. I learned that these areas require very precise work. We followed the principle of dual control. I was able to apply the theory I had learned in school in practice. That was exciting and challenging."
Dusanka Savanovic*, 3rd-year commercial apprentice*

Meine Zeit bei der FMA hat mich
persönlich und beruflich einen grossen
Schritt weitergebracht.

"I've been with the FMA since the summer, at the reception and in accounting. At the end of January, I'll switch to the EEA Coordination Unit. Interactions at the FMA are very personal. I like that a lot, and I'm happy to be able to assist others. My time here has taken me a big step forward, both personally and professionally. My trainers invest a lot of time in me, which I appreciate very much. I don't have any specific plans yet. But after finishing my apprenticeship, I want to specialise in a field and continue my education."

***Noah Giampa**, 3rd-year commercial apprentice*

Ich fühlte mich damals
nicht als Lernende,
sondern als Teil vom Team.

"My apprenticeship at the FMA was more than six years ago. I didn't feel like an apprentice then, but rather as part of the team. Everyone was always willing to listen and very helpful. I am still grateful that the FMA gave me the opportunity to join the organisation after I finished my apprenticeship. First I worked at the reception. Then a position became available in Human Resources, which had already been my favourite area during my apprenticeship. Today, with my professional experience and after training to become an HR assistant and then an HR specialist with a federal professional certificate, I am a Human Resources Officer at the FMA. The FMA supported my continuing education, which I very much appreciate."

***Rahel Hauser**, Human Resources Officer at the FMA*

Cotton blouson with lace
Sleeveless blouse with lace border at the neckline. Ribbon threaded through the waist. With buttons in the front and hidden button placklet.

FINANCIAL STATE-MENT 2017

FINANCIAL STATEMENT 2017

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 29 November 2016, the Government approved the detailed 2017 FMA budget with a State contribution of CHF 5,000,000 and expenses of CHF 22,535,000. The actual expenses for the 2017 fiscal year were CHF 21,770,756, CHF 764,244 (3.4 %) lower than the approved budget.

Income without the State contribution amounted to CHF 17,692,958, CHF 247,958 (1.4 %) higher than the budget. Income breaks down as follows: Income from licensing fees amounted to CHF 983,021, CHF 16 979 (1.7 %) lower than budgeted. In contrast, the supervisory taxes were CHF 103,802 (0.7 %) above budget and amounted to CHF 15,653,802, while income from other fees amounted to CHF 933,035, CHF 73,035 (8.5 %) above the budget of CHF 860,000. Other operating income amounted to CHF 93,378, CHF 88,378 above budget. The main reason for this was the reduction of the del credere in the amount of CHF 62,439, which was booked under this item.

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 ordinary expenses over the past three years according to the financial statement. Under this legal requirement, the reserves for the year 2017 could reach a maximum of CHF 10,330,213. Because the reserves on 1 January 2017 had already reached CHF 9,924,072, only CHF 406,141 could be assigned to the reserves as of 31 December 2017. The State contribution was adjusted accordingly. Instead of the budgeted CHF 5,000,000, the State contribution for 2017 was CHF 4,483,939. Total income including the State contribution was thus CHF 22,176,897. Deducting the total expenses of CHF 21,770,756, the accounts closed with an annual profit of CHF 406,141.

Personnel expenses in the 2017 fiscal year amounted to CHF 14,562,283, CHF 517,717 (3.4 %) lower than budgeted. In particular, salaries and social security contributions were lower than budgeted. The main reason for this was that certain positions were filled later than expected. In addition, it was not possible to immediately replace employees who left the FMA.

At CHF 5,777,823, other operating expenses ended up CHF 192,177 (3.2 %) lower than budgeted. The main items below budget were IT costs as well as events and representation. The main reasons for this were that IT projects and an event had to be postponed until 2018.

Write-downs totalled CHF 1,419,195, CHF 65,805 (4.4 %) below budget. The main reason for this was also the delay in IT projects.

As already mentioned, the FMA had an annual profit of CHF 406,141 in the 2017 fiscal year. After allocation of profit to reserves, the reserves as of 31 December 2017 thus amounted to CHF 10,330,213. The legally defined maximum amount of reserves has thus been exhausted.

Balance sheet as of 31 December (in CHF)

Assets			2017		2016
Fixed assets					
Intangible assets	– Software		1,332,345.78		966,898.64
Tangible assets	– Operating equipment		420,254.95		593,397.80
	– IT equipment		132,596.42		65,272.40
	– Furnishings		137,712.16		122,281.44
Current assets					
Receivables	– Receivables from services		367,856.25		368,780.00
	– Receivables from the Principality of Liechtenstein		3,435,010.55		0.00
	– Other receivables		2,300.00		0.00
Bank deposits and cash	– Bank		7,937,906.13		19,345,822.29
	– Cash		1,139.45		137.15
Accrued items			210,938.23		185,599.10
TOTAL ASSETS			**13,978,059.92**		**21,648,188.82**

Liabilities			2017		2016
Equity capital					
	– Endowment	2,000,000.00		2,000,000.00	
	– Reserves	9,924,072.28		9,537,448.19	
	– Annual profit	406,140.69		386,624.09	
		12,330,212.97	12,330,212.97	11,924,072.28	11,924,072.28
Provisions					
	– Other provisions		490,512.67		442,037.45
Accounts payable					
	– Accounts payable from deliveries and services		974,860.71		591,278.91
	– Accounts payable to the Principality of Liechtenstein		0.00		8,314,101.59
	– Other accounts payable		119,845.03		237,938.28
Deferred items			62,628.54		138,760.31
TOTAL LIABILITIES			**13,978,059.92**		**21,648,188.82**

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

	2017	Budget 2017	Budget dev.	2016
Fees and taxes				
Licensing fees	983,021.08	1,000,000.00	−16,978.92	1,146,665.36
Supervisory fees	15,653,802.17	15,550,000.00	103,802.17	15,944,327.06
Audit fees	29,721.60	30,000.00	−278.40	47,781.60
Other fees	933,034.90	860,000.00	73,034.90	546,435.75
Other operating income	93,377.83	5,000.00	88,377.83	61,973.85
State contribution	4,483,939.43	5,000,000.00	−516,060.57	3,668,731.79
	22,176,897.01	**22,445,000.00**	**−268,102.99**	**21,415,915.41**
Personnel expenses				
Wages and salaries	−11,757,169.10	−12,180,000.00	422,830.90	−11,190,377.60
Social security contributions and expenses for retirement provision and support	−2,130,744.52	−2,275,000.00	144,255.48	−2,056,601.50
of which for retirement provision	*−1,804,092.30*			*−1,716,732.00*
Board of Directors	−674,368.98	−625,000.00	−49,368.98	−617,880.78
Write-downs and value adjustments				
Depreciation on software	−1,092,179.43	−1,160,000.00	67,820.57	−984,188.76
Depreciation on IT equipment	−91,297.63	−90,000.00	−1,297.63	−43,600.99
Depreciation on furnishings	−62,575.08	−60,000.00	−2,575.08	−48,976.11
Depreciation on operating equipment	−173,142.85	−175,000.00	1,857.15	−173,142.85
Other operating expenses				
Other personnel expenses	−246,933.64	−220,000.00	−26,933.64	−336,767.85
Basic and continuing training	−328,440.19	−350,000.00	21,559.81	−329,069.06
Office expenses	−230,230.13	−225,000.00	−5,230.13	−187,816.24
Travel expenses	−495,183.13	−500,000.00	4,816.87	−415,380.68
Expert fees/opinions	−1,050,521.55	−1,030,000.00	−20,521.55	−1,039,335.16
Audit firms	−20,358.00	–	−20,358.00	−781,771.90
Reimbursements from audit firms	20,358.00	–	20,358.00	763,033.90
Premises	−1,952,039.34	−1,955,000.00	2,960.66	−1,959,257.84
Insurance	−48,457.60	−50,000.00	1,542.40	−47,362.60
IT costs	−865,209.98	−950,000.00	84,790.02	−792,894.73
Public outreach	−97,388.39	−90,000.00	−7,388.39	−96,919.00
Events and representation	−40,370.02	−90,000.00	49,629.98	−24,611.30
Membership fees for associations/institutions	−253,783.20	−270,000.00	16,216.80	−240,309.53
Audit expenses	−29,721.60	−30,000.00	278.40	−47,781.60
Other expenses	−105,021.97	−110,000.00	4,978.03	−233,343.12
Losses on accounts receivable	−34,522.18	−100,000.00	65,477.82	−144,901.92
Interest and similar expenses	−11,455.81	–	−11,455.81	−34.10
Annual profit/loss	**406,140.69**	**−90,000.00**	**496,140.69**	**386,624.09**

Summarised income statement	2017	Budget 2017	Budget dev.	2016
TOTAL INCOME	**22,176,897.01**	**22,445,000.00**	**−268,102.99**	**21,415,915.41**
Personnel expenses	*−14,562,282.60*	*−15,080,000.00*	*517,717.40*	*−13,864,859.88*
Write-downs and value adjustments	*−1,419,194.99*	*−1,485,000.00*	*65,805.01*	*−1,249,908.71*
Other operating expenses	*−5,777,822.92*	*−5,970,000.00*	*192,177.08*	*−5,914,488.63*
Interest and similar expenses	*−11,455.81*	–	*−11,455.81*	*−34.10*
TOTAL EXPENSES	**−21,770,756.32**	**−22,535,000.00**	**764,243.68**	**−21,029,291.32**
Annual profit/loss	**406,140.69**	**−90,000.00**	**496,140.69**	**386,624.09**

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 (Personen- und Gesellschaftsrecht, 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 assets and liabilities, financial position, and profit or loss. Changes have been made to the presentation of the financial statement in accordance with the PGR. The previous year's figures have been adjusted accordingly.

Balancing and valuation methods

Tangible assets are valued at acquisition cost reduced by depreciation. Depreciation is calculated using the straight-line method, based on the acquisition value. The depreciation policy provides for the following useful lives:

Category	Useful life
Software	3 years
IT equipment	3 years
Furnishings	5 years
Operational equipment	10 years

Table 1
Useful life

Receivables are stated at nominal value, reduced by any required value adjustments. Provisions are to be calculated so as to take sufficient account of all identifiable risks in accordance with sound commercial judgment. Accounts payable are valued at their nominal 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 stated at the mean spot exchange rate on the balance sheet date.

Receivables

All receivables have a maturity of less than one year. They are stated in the balance sheet at nominal value. Value adjustments for risks identifiable on the balance sheet date are made to the extent necessary for business purposes. All value adjustments are offset directly against receivables.

Compared with the previous year, the balance sheet shows receivables from the Principality of Liechtenstein. In 2017, payments on account were made to the National Financial Accounting Office for salaries, social security contributions, and compensation. For that reason, there were no accounts payable to the Principality of Liechtenstein as of 31 December 2017. As a result, the balance sheet total decreased significantly compared with the previous year.

Fixed assets in CHF

The development of the individual fixed asset items is shown separately in the fixed asset schedule:

Fixed assets		Software	IT equipment	Furnishings	Operating equipment	Total
Acquisition costs	Balance 01.01.2017	5,080,169.30	504,704.39	831,901.30	1,731,428.55	**8,148,203.54**
	Acquisitions	1,469,377.87	158,892.65	78,005.80	0.00	**1,706,276.32**
	Divestitures	167,407.15	291,321.85	0.00	0.00	**458,729.00**
	Balance 31.12.2017	6,382,140.02	372,275.19	909,907.10	1,731,428.55	**9,395,750.86**
Depreciation	Balance 01.01.2017	4,113,270.66	439,431.99	709,619.86	1,138,030.75	**6,400,353.26**
	Acquisitions	1,092,179.43	91,297.63	62,575.08	173,142.85	**1,419,194.99**
	Divestitures	155,655.85	291,050.85	0.00	0.00	**446,706.70**
	Balance 31.12.2017	5,049,794.24	239,678.77	772,194.94	1,311,173.60	**7,372,841.55**
Book value	Balance 01.01.2017	966,898.64	65,272.40	122,281.44	593,397.80	**1,747,850.28**
	Balance 31.12.2017	1,332,345.78	132,596.42	137,712.16	420,254.95	**2,022,909.31**

Table 2 | Fixed asset schedule

Provisions

Under the PGR accounting rules, all provisions are reassessed each year, justified, and adjusted where necessary. The provisions include litigation risks in the amount of CHF 50,000 as well as accrued holiday entitlements as of 31 December 2017 in the amount of CHF 440,513.

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 concluded in December 2010, with a rental term of 20 years. The annual rent amounts to approximately CHF 1,800,000 (including 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 2017 fiscal year, including social security contributions, was CHF 674,369. The Board of Directors was composed as follows in 2017:

Board of Directors	Government decision	Term of office
Prof. Dr. Roland Müller (Chairman)	– LNR 2014-897 BNR 2014/841 REG 0660 of 01.07.2014 – LNR 2016-1635 BNR 2016/1674 REG 7402.2 of 16.11.2016	01.01.2015 – 31.12.2016 01.01.2017 – 31.12.2019
Michèle Borgeaud (Vice Chair)	– LNR 2016-1635 BNR 2016/1674 REG 7402.2 of 16.11.2016	01.01.2017 – 31.12.2021
Dr. Ivo Furrer	– LNR 2016-653 BNR 2016/663 REG 7428 of 10.05.2016	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 3 | Board of Directors

The remuneration of the Members of the Board of Directors is based on the Government decision of 31 January 2017 (LNR 2017-135 BNR 2017/101 REG 0314). The Government specified the following remuneration:

– Basic compensation for the Chairman
– Basic compensation for the Vice Chair
– 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 2017 fiscal year was CHF 1,841,045 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 2017:

– 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 and Markets Division
– Patrick Bont, Head of Banking Division
– Werner Meyer, Head of Other Financial Intermediaries Division
– Martin Schädler, Head of Central Services

Workforce

In 2017, the average workforce at the FMA was 91 (previous year: 83). As of 31 December 2017, the FMA employed 95 people (previous year: 86). Of these, three were employed on a temporary basis. The share of women was 41 % (previous year: 42 %). 20 employees worked part-time. 10 employees left the FMA during the reporting year (previous year: 7). 15 new employees joined the FMA (previous year: 15), and three interns were employed on a temporary or permanent basis. In total, 87.9 full-time equivalent positions were filled at the end of 2017. The number of full-time equivalents approved by the Board of Directors as of the end of 2017 was 89.7 (previous year: 82.7).

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 2017 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	Fredy Baschleben
Leiterin	*Mandatsleiter*

Vaduz, 15. März 2018

Liechtenstein textile industry

The textile industry in Liechtenstein played an important economic role at the beginning of the last century and was also responsible for many jobs. To celebrate the heyday of our textile industry, we have selected a few textile objects from past times for the illustration of this Annual Report. Photographer Sven Beham has presented the textiles from the archive of the Liechtenstein National Museum in the best light. The FMA would like to thank the Liechtenstein National Museum for its support in implementing this concept.

www.landesmuseum.li

Linen shirt blouse
White shirt blouse with rectangular neckline and buttons in the front. The sleeves and the neckline are bordered with crochet lace.

Publisher and Editor
Financial Market Authority
Liechtenstein
Landstrasse 109
PO 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
Textiles: Photographs, Sven D. Beham, Liechtenstein National Museum, in cooperation with Thomas Müssner, Liechtenstein National Museum

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