F.L. TRENDING 2005

Improved Investment Opportunities in Liechtenstein

Investors Profit through New Law on Investment Undertakings

On 1st September 2005 the completely revised new Law on Investment Undertakings came into force. It regulates the organisation and activities of investment companies and aims in particular at extending the protection of investors. The Financial Market Place Liechtenstein thus underlines its endeavour to offer the highest standards of quality and security for investors. Thanks to the constant efforts to continually improve the economic and political framework for financial services, Liechtenstein has successfully established itself as an internationally recognised banking, fund and insurance center. Investors today benefit from a wide range of financial products and services.

The first Law on Investment Undertakings (IUA) was passed as early as 1996. It was a direct result of Liechtenstein's entry into the European Economic Area (EEA) in 1995.

Since then Liechtenstein, along with the two EFTA States Norway and Iceland, has participated in the ever expanding European Union – after the entry of the Eastern countries currently 25 member states and approx. 450 million people – with its internal market allowing the free movement of goods, people, services and capital.

Upswing for the Fund Center

Membership of the EEA lead to an unquestionable upswing in the financial sector. This was due to the fact that Liechtenstein gained through the EEA the possibility to establish itself as a fund center. The basis for this was the 1996 Law on Investment Undertakings that has now been redesigned and came into force in its new form in September 2005.

The law had to be revised because Liechtenstein, through its membership in the EEA, was obliged to transpose two new EU directives into national law. They concerned the harmonisation of new investment possibilities, design of fund prospectuses, sale of funds, protection of investors as well as the conditions regarding the licensing, management and supervision of investment companies.

Parallel to the revision of the new Law on Investment Undertakings, the Financial Market Authority issued a Code of Conduct for the Liechtenstein Fund Center which serves to interpret the law. It is intended to contribute towards the protection of the investor and further strengthen the confidence in Liechtenstein as a Financial Market Place.

The success of the fund center can

Liechtenstein 10 Years in the EEA

Liechtenstein has been a member of the European Economic Area (EEA) since May 1st, 1995. At the same time, the country has close connections through a customs and currency agreement with Switzerland which is commonly known to have declined entry into the EEA and must therefore seek for bilateral rules with the EU. Liechtenstein is therefore the only country in Europe which belongs to two economic areas. The last 10 years have shown that this double affiliation has had a positive effect on economic development. Industry received undiscriminated access to the European domestic market and the financial sector is able to diversify into new products.

ADVOKATURBÜRO
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be documented through a few figures: whereas, in 1996, the amount of fund capital administered in Liechtenstein was 409 million Swiss Francs, this will have grown to 19 billion Swiss Francs by the end of 2005. At the end of 2004, 141 inland and 208 foreign investment companies were registered in Liechtenstein to market their products.

Advantages for the Liechtenstein Banking Center
When Liechtenstein joined the EEA in 1995, only 5 banks offered their services, in the meantime this number has climbed to 15. The total balance of assets increased from 24.3 billions to 34.2 billion Swiss Francs by the end of 2004. The amount of customer assets is even more impressive: these increased from 56.1 to 107 billion Swiss Francs.

The banks benefited, among other things, from the single banking licence principle, which allows EEA banks to establish subsidiaries in Liechtenstein and, at the same time, paving the way for Liechtenstein banks into the EEA. In accordance with the principle of the control of the country of origin, subsidiary banks in an EEA country are governed by the banking regulatory authorities of their country of origin.

The Establishment of an Insurance Center
Prior to Liechtenstein's entry into the EEA only agencies of Swiss insurance companies were active in Liechtenstein. The EEA also made it possible to establish an insurance center, which has become an important facet of the Liechtenstein Financial Market Place. This was pre-conditioned by the Law on the Supervision of Insurance Undertakings, issued in 1996, which created an advantageous framework for life, damage and re-insurance companies.

Currently, there are 31 insurance companies based in Liechtenstein serving the entire EEA and – thanks to a bilateral insurance agreement between Switzerland and Liechtenstein – also Switzerland. In return, Swiss insurance companies were permitted to transform their agencies in Liechtenstein into subsidiaries.

Business volume and growth rates of the insurance sector are considerable: in 2003 1.4 billion Swiss Francs gross premiums were collected, 120 per cent more than the previous year. By 2004 gross premiums had already increased to 2.5 billion Swiss Francs. The main part of which, in both years, was life insurance, which, by far the biggest part, contributed 90 per cent, thereby offering interesting

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Liechtenstein offers investors excellent opportunities, in addition to a wide variety of financial products and services.

Future Perspectives in Liechtenstein for Investment Companies

In 1998, the fund volume in Liechtenstein had passed the one billion Swiss Franc mark, by 2003 it had already jumped the 10 billion hurdle so that today, in 2005, 20 billion is within reach. This development over just 7 years has to be described as spontaneous.

The fast growth can be simply explained: entry into the EEA in 1995 created a solid legal framework, which found high approval by the participants in an international context. Liechtenstein banks, through the repatriation of their foreign based fund structures, also contributed considerably to the growth of the fund market. Numerous small fund suppliers who have grown to know and respect the European platform, round off the picture.

A further very important factor which contributes to increasing the attractiveness of the fund market and creating the corresponding growth, is the Law on Investment Undertakings (IUA) and the appendant Ordinance on Investment Undertakings (IUO). Both were adapted to European standards, and, utilising the opportunity, were totally revised. This new law includes the latest fundamentals of European investment law and has been in force since September 2005. It presents alternatives to the international market participants and offers additional options with regard to the structure of investment funds as well as the continued expansion of a competitive fund location in Liechtenstein in addition to Luxemburg and Ireland.

Resulting from this modern legal platform, further possibilities evolve to market traditional standard products in the whole of Europe and to utilise alcoves which could not be done so easily in other locations. The European passport for funds and for qualified investors or the legally set maximum periods for the registration of fund products are, without doubt, added values. These points are especially important when compared to Switzerland whose Swiss Law on Investment Companies is still in preparation and is expected to be released at the end of 2006/beginning of 2007.

If, in addition to these legal adjustments, a certain continuity and development of the money and capital market is secured, Liechtenstein's future as a fund center looks quite promising.

Matthias Voigt, President
Liechtenstein Investment Funds Board

opportunities even for the foreign investor.

Increased Supervision and Tightening of the Regulations Governing the Protection of the Financial Market Place

Strong diversification of financial services has brought a significant increase of business volume as well as a clearly increased number of suppliers. The government reacted to this development with a series of legal measures aimed at strengthening the security of the Financial Market Place and discouraging criminal revenue without weakening any of the bank secrecy laws, which remain a cornerstone of the Financial Market Place Liechtenstein.

At the same time, the Economic Police and the supervisory authorities were strengthened. On 1st January 2005 an independent Financial Market Authority commenced its work. They contribute to the stability of the Financial Market Place and thus to the security of its international clientele.

The Liechtenstein consequential action of fostering stability and security in the Financial Market Place as well as creating an independent supervisory authority has gained recognition from the International Monetary Fund in Washington and Financial Action Task Force (FATF) of the OECD in Paris.

Financial Market Place as Important Pillar of National Economics
In Liechtenstein's economic landscape, the financial services sector contributes nearly 30 per cent to total value. In addition, it provides 12 per cent of all jobs. In the face of this economic importance, the government is determined to do everything to safeguard the Financial Market Place Liechtenstein also in the future.

At the same time, through innovative products as well as expansion of services and infrastructure, the market place participants have gained the confidence of international customers and ensured that Liechtenstein can remain competitive in the global market as an important Financial Market Place.

F.L.BULLETIN

On 1st July 2005 the directive on taxation of savings income between the EU and Liechtenstein came into force. It provides for the taxation of cross-border interest payments to individuals resident in an EU country providing that these interest payments are made through a Liechtenstein paying agent. For further details please see F.L. Trending 2004 (www.seeger.li).

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On 19th June 2005, the currency agreement between Switzerland and Liechtenstein was 25 years old. Liechtenstein unilaterally introduced the Swiss Franc after the customs agreement of 1924 had been signed. In 1980 Switzerland and Liechtenstein decided to regulate their currency union through bilateral state contracts. Liechtenstein could thereby safeguard its wish to remain part of the Swiss currency area. Today, the customs and currency agreements are supporting pillars in the economic cooperation between the two countries.

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Liechtenstein's economy grows. Turnover based on recorded VAT rose by 9 per cent in the first half of 2005, the number of jobs increased by 0.5 per cent and industrial exports grew by a further 1.9 per cent.