

Creating trust in times of crisis

Editorial by Prime Minister Otmar Hasler

Trust is a valuable commodity on the international capital and financial markets. Many market participants have recently had the unpleasant experience of what it feels like when even just a bit of that trust vanishes. Cross-border distrust among banks has plunged the entire industry into a crisis unlike any since the bank and stock-market crash of 1929. In many countries, the state as “lender of last resort” had to preserve the market from collapse.

Only few financial centers have not been directly affected by the crisis. These include Liechtenstein. The reasons are quickly enumerated: Liechtenstein banks are healthy and liquid. This, in turn, is because they do not engage in high-risk investment banking, are careful when granting loans and largely operate as wealth managers. Liechtenstein policymakers are also aware of the crucial role trust plays, especially in private wealth management.

“Perspectives on Private Wealth Management”: Not coincidentally, this was the title of this year’s Liechtenstein Dialogue, organized by the government for the fifth time al-

ready. What happened to be during the first days of the financial-market crisis, on 2 and 3 October, decision-makers from the financial sector, politics and academia discussed the future of private wealth counseling and management in Vaduz. One of the outcomes of this exchange at the highest level was a positive assessment of the Liechtenstein financial center as a location for private wealth management.

After this crisis, the structures of the global capital and financial markets will no longer be the same as before the crisis. Even in this crisis situation, Liechtenstein banks have demonstrated their stability. Nevertheless, the responsible authorities are carefully observing all relevant developments on the markets. Security is a competitive advantage on the markets and strengthens trust. Security means continuity. Continuity also includes the protection of privacy in times of crisis.

In my opening remarks at the Liechtenstein Dialogue, I mentioned that international cooperation on tax matters and the protection of privacy do not have to contradict each other. However, a precondition is that homogeneously evolved client relationships can be preserved. The ongoing reform and transformation process of the financial center met with a positive response at the Liechtenstein Dialogue. This process also includes enhanced cross-border cooperation on tax matters. The primary means of achieving this will be through the conclusion of bilateral agreements, which also include rules to avoid double taxation.

High standards on the financial center

High regulatory standards will continue to guide all reforms. These standards are the sustainable and therefore best guarantee that a financial center can compete internationally even in times of crisis. One example are the negotiations with the United States on a tax information exchange agreement, which have recently been concluded. Its pillars include the requirement that information will only be exchanged upon request. Several other preconditions must also be met. Information will be exchanged at the level of both mutual legal assistance and administrative assistance. Where coercive measures are employed, Liechtenstein requires judicial proceedings.

We are also pursuing international standards in our implementation of the 3rd EU money laundering directive. The government has submitted the draft implementing legislation to parliament. The proposal includes a total revision of the Due Diligence Act (DDA). Overall, the implementation carefully extends the application of the DDA beyond the scope of pure financial transactions. This expansion has different consequences for different industries. It is practically irrelevant for banks. It may have a stronger impact on the fiduciary sector, however, depending on how business is structured.

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