

Liechtenstein: An attractive financial marketplace

Over the past few years Liechtenstein has focused on embedding its financial centre within the European regulatory area. Although small but widely diversified as an internationally integrated economic location, Liechtenstein fulfils today international standards, in particular, the application of the law and the supervision of the financial marketplace. Through previous and future efforts, the future of this important sector, especially for the Liechtenstein economy, will be safeguarded in the long term.

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Liechtenstein enjoys a high standard of living. The income per capita of around 100'000 francs exceeds the income in all other European countries. The state possesses substantial reserves and unemployment is less than 3%. The economy is – contrary to common belief – widely diversified. A highly specialised industry operates worldwide exporting 98% of its products. Numerous Liechtenstein companies are leaders in their particular field. Nearly 45% of all employees work in the industry and generate 40% of the gross wealth of the country. The financial marketplace also makes an important contribution to the country's prosperity: Although only employing 15% of all employees, it contributes nearly 30% to the country's revenue and finances around 40% of the national budget.

Liechtenstein has been a member of the European Economic Area (EEA) since 1995 to which all the EU states belong, including Norway and Iceland. As a result, Liechtenstein has adopted approximately 5000 EU directives and integrated them into state law. The majority of these regulations pertain to strengthening and modernising the financial marketplace. Consequently the Financial Intelligence Unit (FIU) was created to combat money laundering, and the entire financial sector was placed under the supervision of the Financial Market Authority (FMA).

Further emphasis was put on a total revision of the law on mutual assistance in criminal matters, tightening the due diligence law, passing a bill on

investment companies as well as adopting the EU Financial Markets Directive (Mifid) which offers a unified framework for the provision of stocks and shares services and investment activities. At the same time, international cooperation was strengthened through various agreements:

- In 2002 an agreement on judicial assistance was finalised between Liechtenstein and the U.S. It serves to protect the international financial markets against terror, organised crime and economic crime.
- An agreement between the EU and Liechtenstein regarding tax on interest came into force in 2005. Since then Liechtenstein levies a withholding tax on interest paid to individuals residing in an EU country, 75% of which flows back to the country of residency.
- Equally Liechtenstein has negotiated an agreement with the EU on its participation in the Schengen/Dublin Accords. Enactment is imminent.

Entering the EEA has provided new opportunities for the financial sector:

- Thanks to the unified licensing of banks, EU banks can settle in Liechtenstein and Liechtenstein banks can set up branches in the EEA. Currently there are 16 banks operating in Liechtenstein.
- Through the EEA the establishment of an insurance location has been made possible. The supervisory insurance law of 1996 created an advantageous framework for life, damage and re-insurance companies. Today 37 insurance companies operate in Liechtenstein.

- Liechtenstein has also gained importance as a fund location. In 2007, 303 national and 246 overseas funds offered their products.
- Finally, the introduction of a new wealth-management law opened new possibilities. 90 companies were operating in Liechtenstein in 2007.

Liechtenstein undertook the reform of its financial-services sector in 2000. Since then numerous changes to the law have been implemented and important international agreements have been reached, strengthening Liechtenstein's position and reputation. This reform process continues:

- An important element is the recently issued law on foundations, in which the rights and obligations of the testator and the beneficiaries are re-defined, placing foundations under the supervision of a newly created foundations supervisory body.
- A second emphasis is the revision of the tax law which supports and safeguards Liechtenstein's attractiveness as an economic and financial location. It latches on to the tradition of a low and competitive taxation system, taking the legal obligations of EEA membership into consideration.
- The third element is in its substance the already negotiated agreement with the EU on fraud. The negotiated definition of fraud basically covers all offences in connection with indirect taxation.

Protection of privacy and estate remains unchallenged. Liechtenstein's economic system offers incentives for individual performance and assigns great responsibility to individuals and companies for the functioning of the society and the economy. Consequently there is extensive protection of privacy to which bank customer secrecy belongs.

Praise from the International Monetary Fund

Liechtenstein's efforts to adapt its national laws to high international standards – many are the highest within the EU! – and to strengthen international cooperation in the financial sector have not gone unnoticed. In 2002 and 2007 the International Monetary Fund (IMF) conducted assessments in Liechtenstein on the quality of the financial marketplace and gave the country an excellent reference.

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