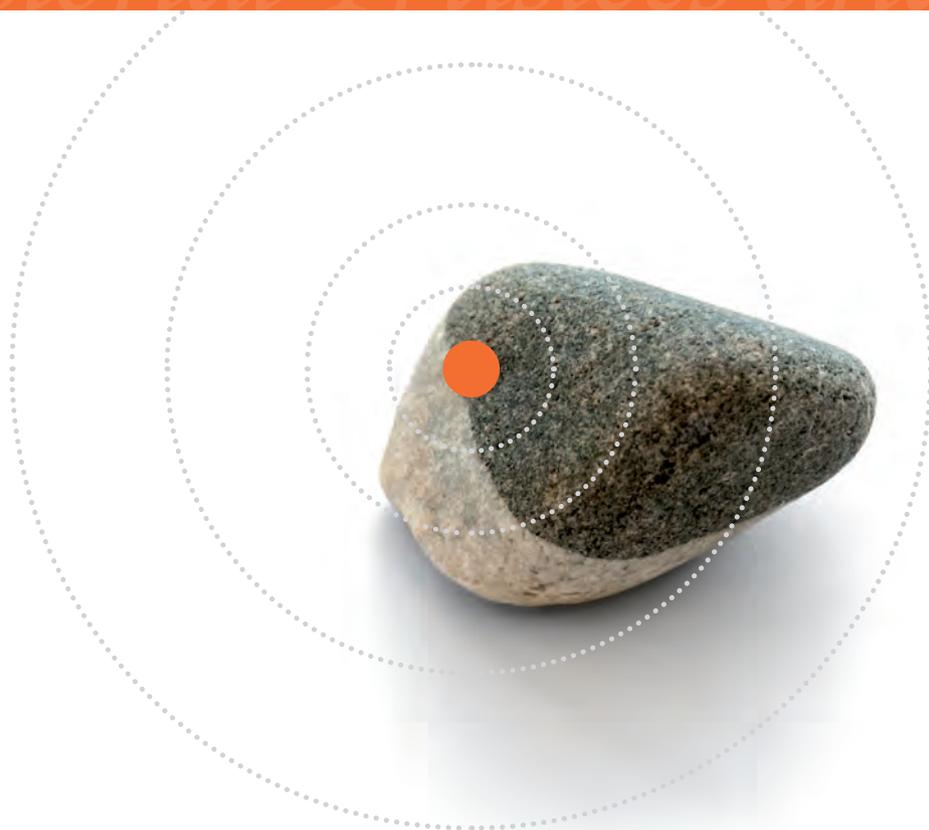


THE EVOLVING TRUST SECTOR



LIECHTENSTEIN INSTITUTE OF
PROFESSIONAL TRUSTEES AND FIDUCIARIES

A corporation under public law

The Liechtenstein Institute of Professional Trustees and Fiduciaries is a public-law corporation that is entrusted to safeguard the honour, the reputation and the interests of the beneficiaries and also to supervise their duties. The

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Vaduz, January 2014

INTRODUCTION

The trust sector is of great importance both to our financial services sector and to the economy of the Principality of Liechtenstein as a whole. More than 2,500 people working in about 250 trust companies have generated approximately 23% of Liechtenstein's annual gross domestic product until now. But changes are imminent: The Liechtenstein financial sector is going through a period of fundamental reorientation and repositioning.

Financial issues are a particular focus in the media right now – since ultimately everyone is affected by them. The flourishing of the Liechtenstein financial centre – and accordingly of the trust sector – is of the utmost public interest, given its enormous significance for the economy. The current structural transformation also entails additional imponderables. This brochure therefore provides important background knowledge on the trust sector and the financial centre.

The demands on professional trustees are high: Anyone wanting to work as a trustee in Liechtenstein requires

a licence by the Financial Market Authority. Key prerequisites for receiving a licence are personal integrity and professional qualification. These must be demonstrated through professional practice and the trustee examination administered by the State.

All professional trustees and trust companies licenced in Liechtenstein are members of the Liechtenstein Institute of Professional Trustees and Fiduciaries. As an important professional association, the Liechtenstein Institute of Professional Trustees and Fiduciaries works on behalf of the continuity, stability and diversity of the trust sector in Liechtenstein.

This brochure offers an overview of the creation and evolution of the financial centre and the trust sector as an integral part thereof, the environment today, the demands on professional trustees and the current challenges, against the backdrop of the international transformations.

HISTORY

The Liechtenstein financial centre can look back on many decades of successful tradition. Of particular importance to its development were the Customs Treaty with Switzerland in 1924, the adoption of the Swiss franc as Liechtenstein's official currency, and the creation of specific legislative foundations for company law in 1926 in an environment characterised by legal certainty and stability.

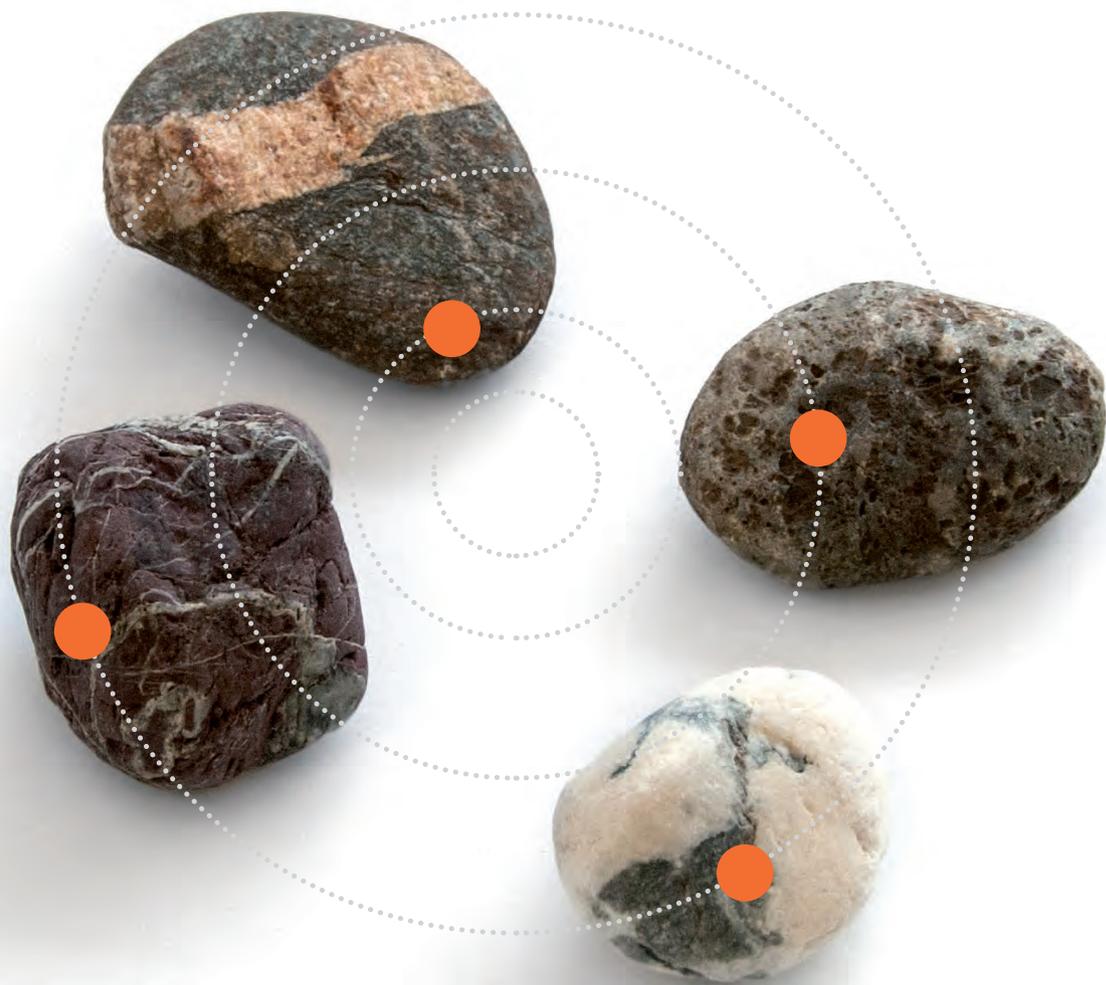
To overcome the grave economic crisis of the 1920s, a very liberal and innovative company law was created. In addition to the company limited by shares, the establishment and the trust enterprise, company forms include foundations and trusts. Foundations and trusts permit the long-term dedication of assets to specific purposes. Due to its flexible design and the associated discretion, the concept of the Liechtenstein foundation was so successful that various other countries also adopted it.

To effectively counter any abuse of the financial centre, the legal provisions have been continuously adjusted, and the demands on the activities of professional trustees have

regularly been increased. For instance, the foundation council must now be composed of at least two members and have special qualifications. De facto, the law requires that a licenced Liechtenstein trustee has to be a member of the foundation council.

The last 20 years have been an especially dynamic period for the Liechtenstein financial centre. Liechtenstein's accession to the European Economic Area (EEA) in 1995 served as an engine for numerous fundamental changes and in particular ensured market access to EU countries. The number of banks increased, and new business areas opened up in the fund and insurance sectors. Liechtenstein's EEA membership and the international developments of the past years have also entailed considerable regulatory pressure, however, especially in the financial sector. This pressure continuously poses new challenges for financial service providers.

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LIECHTENSTEIN FINANCIAL CENTRE



The financial centre contributes substantially to the country's gross domestic product. Compared with other countries, Liechtenstein ranks at the very top in this regard, comparable perhaps with Luxembourg. Alongside industrial manufacturing and small and medium enterprises, financial services are one of the main pillars of the national economy.

The financial sector is also an attractive employer. In total, more than 15% of the approximately 34,000 jobs in Liechtenstein are in the financial sector, about half of which in the trust sector. A study by the University of St. Gallen has shown that the other financial service providers – such as banks, insurance companies, asset managers and funds – benefit from the feeder function of the trust sector, and the services sector benefits from its delivery orders. Nearly 1,000 additional jobs, especially in small and medium enterprises in Liechtenstein, depend indirectly on the trustee sector.

The manageable size of the Liechtenstein financial centre is both a strength and a weakness. In addition to the competence and quality of services based on decades of experience, international clients mainly appreciate the short administrative channels, the client-oriented attitude

of market participants, the efficient public authorities, and the legal stability in the financial centre. Nowhere else do they have unhindered access to the Swiss and European Economic Areas. And all of that in the heart of Europe.

But small size can also be a disadvantage when international regulatory and transparency requirements must be implemented. The fundamental changes of the past years call for more and more resources and know-how, which the financial centre itself can offer only to a limited extent. Liechtenstein is pushing its limits in this regard. To satisfy the increasing need for specialists, the country will have to consider easing its immigration restrictions.

But nevertheless: In the assessment of the International Monetary Fund (IMF), Liechtenstein fulfils "high standards in financial market supervision and measures against money laundering". Already very early on, Liechtenstein implemented the 3rd EU Anti-Money Laundering Directive. And also in the field of international cooperation, the country has been breaking new ground for quite some time: With the conclusion of the Savings Tax Agreement in 2005 and the Liechtenstein Declaration in 2009, the financial centre has committed itself to the international standards in tax matters. Since then, Liechtenstein has

concluded OECD-compliant tax agreements with nearly 30 countries already and is working on expanding its DTA network at the same time. With these steps and the modern regulation of the financial centre by the Financial Market Authority, Liechtenstein continues to ensure its unhindered access to the international market.

The market participants are working urgently with policy-makers to reposition the Liechtenstein financial centre. The goal is to improve the attractiveness and thus the competitiveness of the location. Alongside the unquestionable advantages such as stability, continuity and quality, three key elements are being emphasised: recognition, creativity and openness. Liechtenstein, its market participants and their products and services rely on the greatest possible international recognition. Opportunities in this regard are available especially within the framework of EEA law and a successful policy of international agreements. Liechtenstein needs creativity in the development and marketing of new business areas. And it needs openness to cross-border cooperation, new enterprises and new entrepreneurs.

PROTECTION FROM ABUSE/ FINANCIAL CRIME

The rapid growth in the 1990s – not only in Liechtenstein, but also in the financial services sector worldwide – unfortunately also increased the risk of abuse of financial centres for the purpose of money laundering. The State responded to this risk by continuously tightening due diligence requirements and by dramatically increasing the workforce of the supervisory authorities, the National Police and the courts. These efforts by Liechtenstein and its financial service providers in the implementation of the new provisions were consequently recognised by international organisations such as the International Monetary Fund (IMF), the Financial Action Task Force on Money Laundering (FATF) and the Moneyval committee of the Council of Europe.

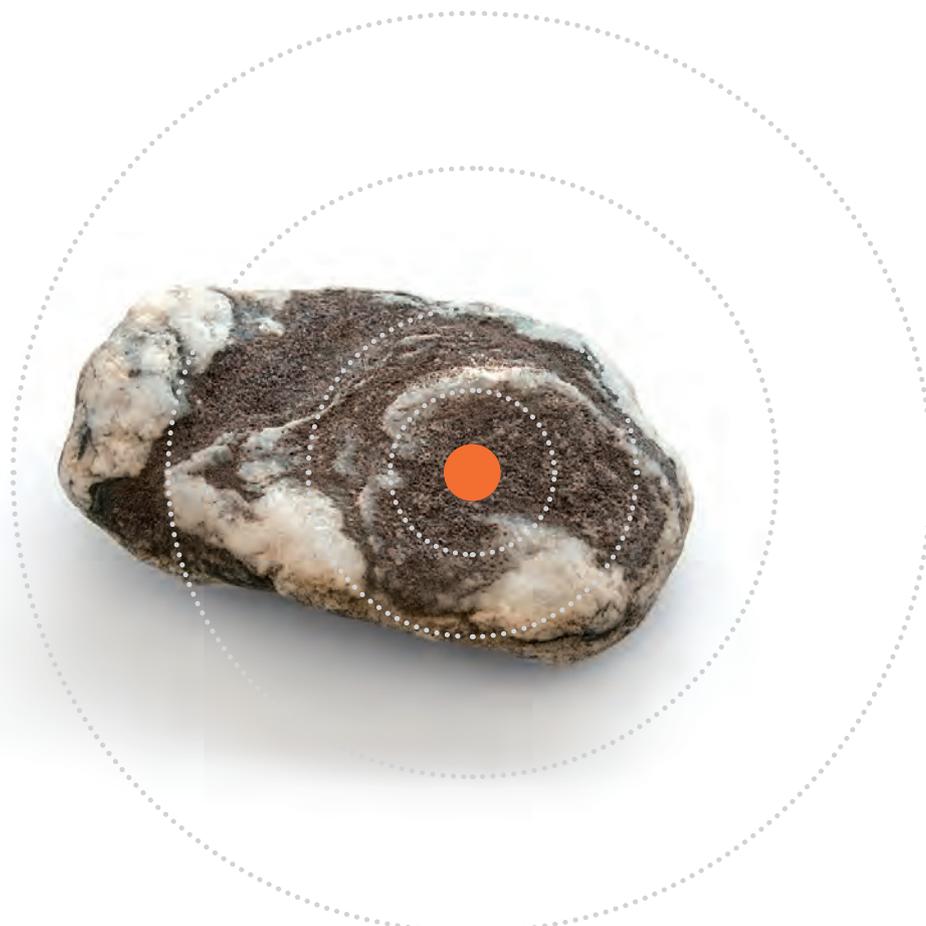
The FATF, the IMF and other organisations praised the Liechtenstein authorities' efficient measures to combat financial crime. In the field of anti-money laundering, Liechtenstein incorporated the relevant provisions (3rd EU Anti-Money Laundering Directive, FATF recommendations) into national law. As a member of the European Economic Area, Liechtenstein takes over the EU directives on financial market regulation without any gaps. The

EEA legislation applicable in Liechtenstein in the areas covered by the EEA Agreement, such as the regulation of banks and insurances as well as anti-money laundering measures, is therefore identical to the corresponding EU legislation. This prevents a regulatory differential from arising, and the EU single market is opened up to Liechtenstein financial service providers.

Like the other EEA countries that are not members of the EU, Liechtenstein is subject to supervision by the EFTA Surveillance Authority (ESA) headquartered in Brussels in regard to its application of EEA law and implementation of EU law. For EU member states, this surveillance function is exercised directly by the EU Commission.

Thanks to this, the clients of the Liechtenstein financial centre can be assured that financial service providers offer high-quality products in conformity with the international standards and that they are subject to strict supervision by the state. At the same time, the legitimate interest of clients in protecting their privacy continues to be honoured.

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TAX COOPERATION/ AGREEMENTS

For quite some time, Liechtenstein has embarked on a path of cooperation also in tax matters. Already in 2002, Liechtenstein concluded a mutual legal assistance treaty with the United States. In 2005, Liechtenstein incorporated the EU Savings Tax Directive by way of the Savings Tax Agreement. In 2008, Liechtenstein signed the Schengen Agreement, which also provides for cooperation on direct and indirect taxes.

Since June 2008, the EU Commission has moreover had an Anti-Fraud Agreement negotiated with Liechtenstein on its desk. According to that agreement, Liechtenstein offers every individual EU member full tax cooperation according to OECD standards within the framework of bilateral double taxation agreements. Individual EU states are still delaying ratification of the Anti-Fraud Agreement, however. And in December 2008, Liechtenstein concluded an OECD-compliant tax information exchange agreement (TIEA) with the United States, which entered into force on 1 January 2010.

Finally, with its „Liechtenstein Declaration“ of 12 March 2009, the Liechtenstein Government committed itself to adopting the globally valid OECD standards on cooperation in tax matters, and it declared its willingness to support international measures against non-compliance with tax laws. Meanwhile, Liechtenstein has concluded TIEAs and double taxation agreements (DTAs) to this effect with numerous states in accordance with OECD standards, including heavyweights such as Germany, China and Australia.

According to the „Liechtenstein Declaration“, Liechtenstein strives to use the introduction of OECD standards to conclude comprehensive bilateral agreements permitting the voluntary disclosure of untaxed assets or the payment of back taxes, thus going beyond the OECD standards. The Liechtenstein Disclosure Facility, for instance, already permits advantageous regularisation of UK assets. Liechtenstein is currently engaged in concrete discussions on additional agreements with Germany and Austria. In addition to achieving tax compliance, the focus is on the protection of the clients and employees of the financial centre.

WHAT WE DO

For many decades, the trust sector has been an important pillar of the Liechtenstein economy. This is a reason here to present the comprehensive services provided by trustees to clients in Liechtenstein and abroad.

Increasingly sophisticated financial services and the associated stronger regulation for the purpose of protecting clients make financial planning increasingly complicated as well.

This is where the professional trustee comes in: Starting with the client's needs, the trustee puts together a bespoke package of services and products. For this purpose, the trustee draws on his or her own competences as well as a comprehensive network of other service providers. In this sense, the trustee is a financial adviser and a financial planner in one. The focus here is often on securing wealth for the long term, even beyond the death of the individual. In the best case, the professional trustee becomes an important confidant of the client.

For historical reasons, the professional profile of the trustee is very extensive. The Law concerning the Trustees

allows practitioners to offer a wide range of services. These include the formation on a fiduciary basis – i.e. the formation on behalf of the client – of foundations, companies and trusts as well as their administration and management. Since the trustee is bound by professional secrecy, the client can always rely on the greatest possible degree of discretion.

Especially for commercially operating companies, professional trustees offer various services in addition to formation. They take care of accounting, annual financial statements and payroll, and they serve as auditors. Tax advice is becoming increasingly important. Especially for foreign clients, it is important to reconcile our national tax laws with the tax laws at the client's domicile in such a way that no multiple taxation arises.

Especially the new Tax Act, but also the changing requirements in other areas of the law (accounting, social insurance contributions, inheritance law, real estate and many more) cause many domestic and foreign clients to avail themselves of a professional trustee's advice. The Liechtenstein Institute of Professional Trustees and Fiduciaries are happy to assist in this regard.

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DEMANDS ON PROFESSIONAL TRUSTEES

The trust sector has traditionally played an important role in Liechtenstein. Its national economic significance, the social policy dimension, and the rapid development of the framework conditions for this economic sector have considerably increased the demands on professional trustees. The provision of services to national and international clients requires solid and broad knowledge of legal, economic, tax and social matters. In this context, the approximately 250 trust companies offer interesting and future-oriented work in an international environment to more than 2,500 employees.

To work as a professional trustee in Liechtenstein, a licence by the Financial Market Authority (FMA) is required. This licence is only granted to individuals who have acquired the necessary expertise through solid education and several years of qualified practice in the trust sector and have successfully passed the examination required by law. Liechtenstein offers advantages in regard to the formation and administration of companies, foundations and trusts, but defends against any abusive assertion of anonymity and sets high ethical and professional standards when ac-

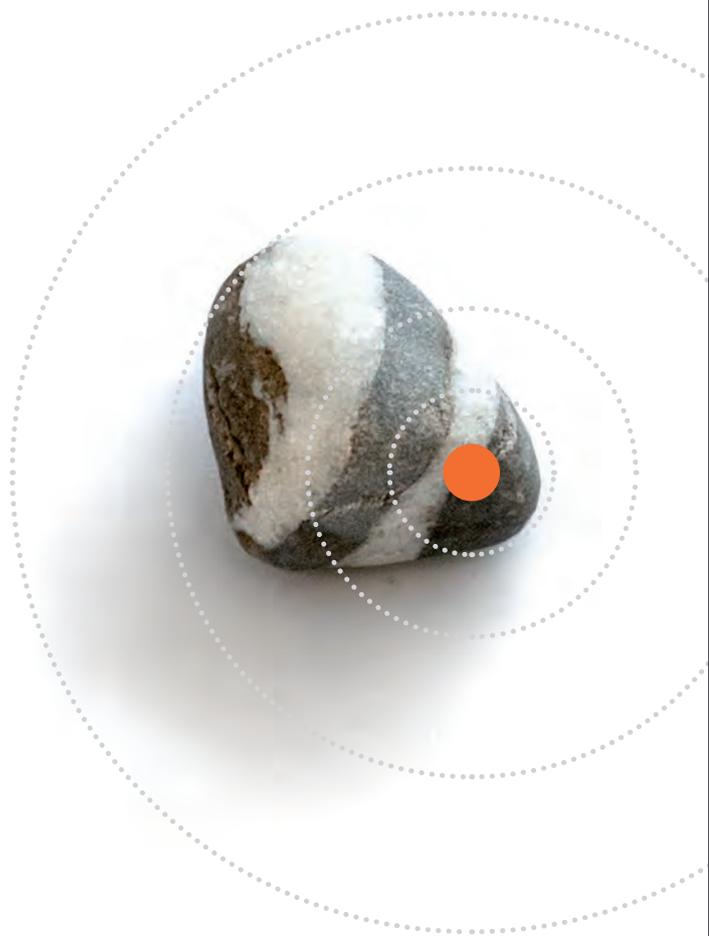
cepting mandates and conducting business. The profession of trustee has therefore been regulated by law for many decades already.

Already in the 1980s, the profession of trustee was subject to a licence. While no specific professional examination was required at the time, applicants already had to have advanced commercial training and many years of professional experience in the trust sector. Gradually, the demands on the qualification of professional trustees were increased, and with the enactment of the Law concerning the Trustees at the beginning of the 1990s, a trustee examination administered by the State was introduced. Since then, professional trustees in training have had to demonstrate their professional qualifications by passing a demanding examination.

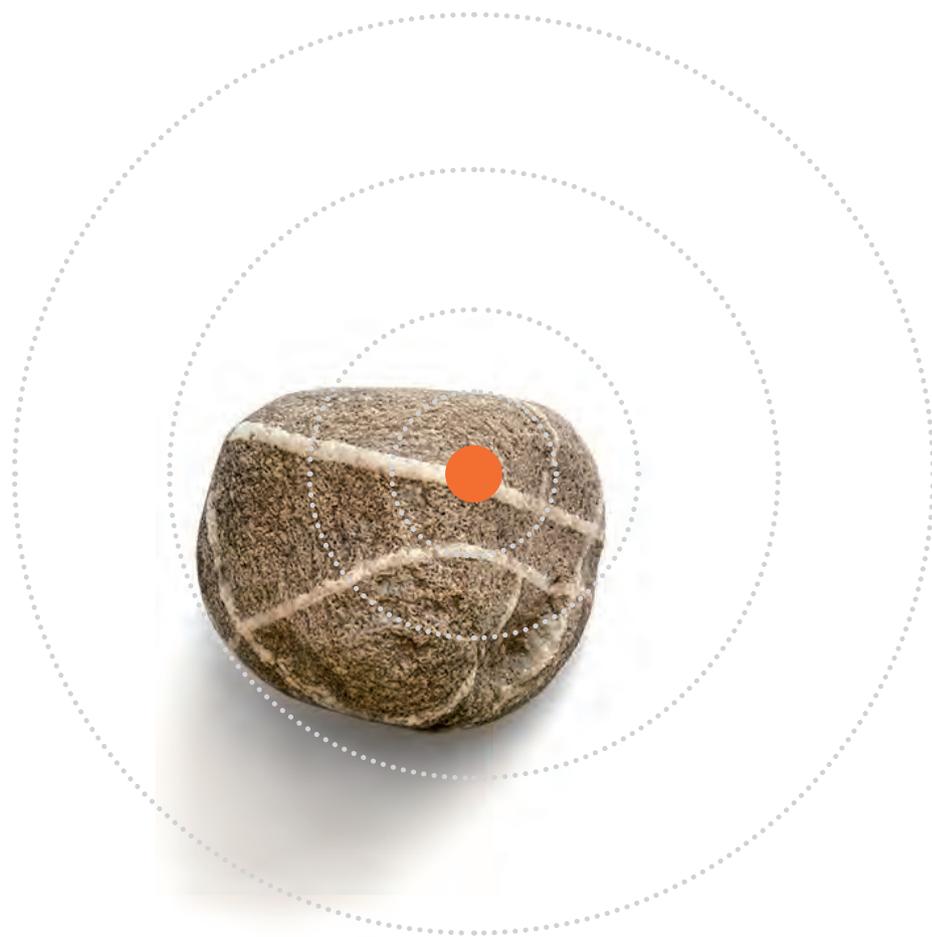
According to the Law concerning the Trustees, anyone wanting to obtain a licence as a professional trustee in Liechtenstein must demonstrate that the following conditions are met:

- legal capacity and trustworthiness;
- completed studies of economics or law, or certain equivalent diplomas (accounting certificate, banking expert, auditor);
- at least three years of relevant professional practice (at least one year of which with a Liechtenstein trust company);
- State trustee diploma (passed professional trustee examination);
- office in Liechtenstein and professional liability insurance;
- EEA citizenship.

Liechtenstein is thus one of the few financial centres that regulates and supervises the activities of professional trustees by law. The increasing demands on professional trustees are continuously reflected in more demanding licencing conditions and stricter disciplinary supervision. In this regard, the Liechtenstein Institute of Professional Trustees and Fiduciaries and the FMA have recently presented a proposal for a revised Law concerning the Trustees.



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APPRENTICESHIPS

In any sector, the training of qualified specialists means a sustainable investment in the future. Also the trust sector takes its responsibility seriously and trains apprentices each year who will later serve the Liechtenstein economy as knowledgeable professionals. The apprentices appreciate the varied activities in the trust sector and get to know a wide range of tasks in practice, from administrative work to client contact.

Anyone who learns foreign languages easily, enjoys working with numbers and especially also likes contact with people in an international environment should think about a career in the Liechtenstein trust sector. About 40 apprentices are being trained by us each year. After completing their apprenticeships, many of them already take on demanding assignments in trust companies or simultaneously pursue part-time studies as trust experts. Others – thanks to their basic training – find interesting jobs in other sectors such as the manufacturing industry or small and medium enterprises.

Our apprentices complete their training with the best qualifications in general office administration as well as in the fields of company law, accounting, succession planning, tax law, banking and – not least of all – working with international clients.

Naturally, apprentices feel that their sector is currently facing new challenges. Nevertheless – or precisely for that reason – apprentices look forward to a promising future in which new and exciting business areas are opening up in the trust sector. The young generation is growing up in a time of change and will therefore have an easier time breaking away from existing patterns, being flexible and thinking in new ways. These skills of the future generation of decision-makers will be of enormous value to the entire Liechtenstein economy.

OUTLOOK

The trust sector is aware of its importance and responsibility to the financial centre and accordingly to the entire Liechtenstein economy as an attractive employer and high-performance service provider in the field of high-quality financial planning. It is clearly committed in this regard to compliance with the relevant international standards.

The trust sector is undergoing long-term change in a dynamic environment. Business in standardised products (such as foundations), which has long been successful, is becoming increasingly less attractive – more and more, solutions specifically tailored to the needs of clients are in demand. The professional trustee as a confidant is increasingly playing a key advisory role for international clients in their integrated financial planning.

This places new demands on all market participants. The trust sector and the entire financial centre will continue to be successful if the framework conditions are designed in a prudent way. In particular, this includes:

- recognition of Liechtenstein companies in international business;

- expansion of the free movement of persons to bring know-how, entrepreneurs and enterprises to Liechtenstein;
- tax agreements and withholding tax solutions appropriate to a small state;
- competitive regulatory adjustments;
- the consistent identification and adaptation of future-oriented business areas; and
- the consistent expansion of advisory skills in the financial centre.

While Liechtenstein enjoys important location advantages such as stability, its central location, lack of corruption, short channels, etc., the future development of the location will depend on the recognition of Liechtenstein trust services under civil and tax law and accordingly the abolition of existing forms of discrimination. This recognition is achieved through the consistent application of EEA law, international agreements, and the further development of international relations. These must in future take even greater account of the strategic range of services offered by professional trustees and the demands placed on them.

Long-term change in a dynamic
environment undergoing long-term change

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The international standards must be implemented, but with due consideration of the economic impact on the financial centre and the small size of the country.

Liechtenstein's competitiveness and that of its financial centre depend very heavily on these and other framework conditions. Strategic positioning therefore requires a concerted approach by the private and public sector.

The trust sector itself is called upon most strongly to structure the expected continuing consolidation over the

coming years in a positive way: Only through targeted basic and continuing training can the evolving needs of international clients in the field of asset protection be satisfied in this new context. The path leads from quantity to quality. If the transition is successful, this will create a successful future for the trust sector, the financial centre and accordingly the entire Liechtenstein business location.