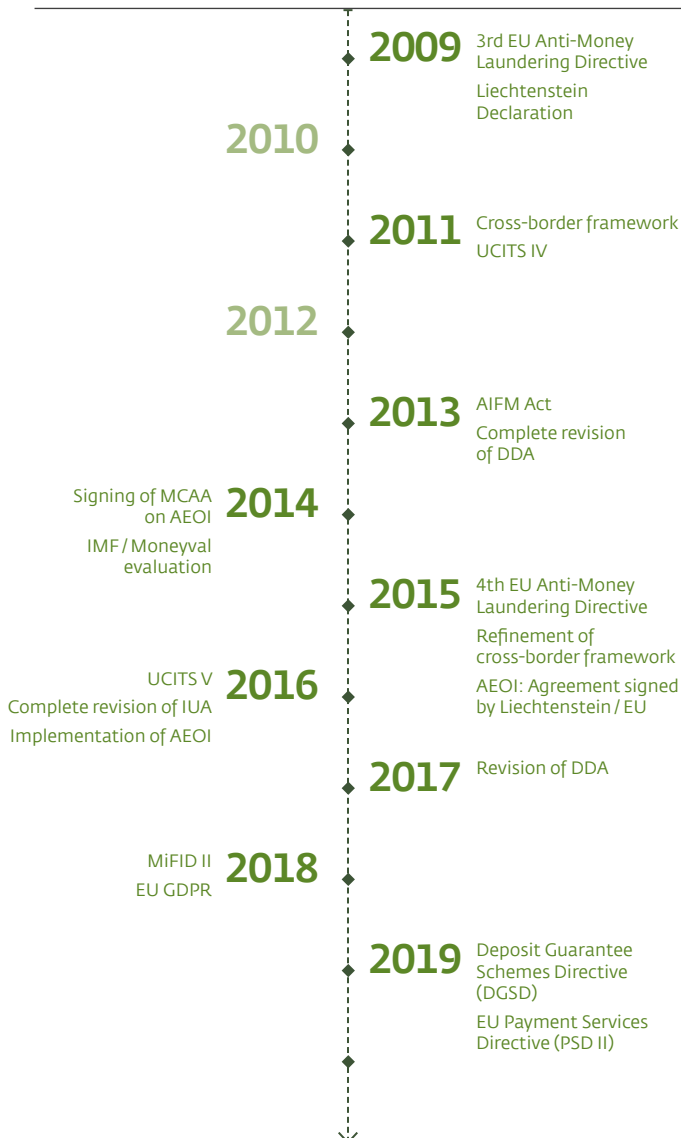


Regulatory framework and developments

With the implementation of the Automatic Exchange of Information, Liechtenstein is one of the so-called early adopters of a comprehensive cooperation in international tax matters. The country and the financial centre stand for access to markets and for legal certainty.

Implementation of regulatory frameworks 2009–2019



Financial centre strategy

Liechtenstein has decided to adopt a financial centre strategy that is based on client tax compliance. The Government Declaration of 14 November 2013 signalled the country's continued strong commitment towards its tax compliance strategy heralded by the Liechtenstein Declaration of 12 March 2009. Liechtenstein has also implemented the US Foreign Account Tax Compliance Act by passing the FATCA Law. At the same time, it is signed up to the Automatic Exchange of Information (AEOI) in tax matters and the applicable standards of the Organisation for Economic Co-operation and Development (OECD). Furthermore, the banks and the Liechtenstein Bankers Association expressly and actively support the financial centre's tax compliance strategy.

In 2016, the Liechtenstein Bankers Association published its strategy for the Liechtenstein banking and financial centre entitled "Roadmap 2020" (<http://www.bankenverband.li>). The aim of the roadmap is to ensure the quality, stability and sustainability of the banking centre, to raise the profile of the financial centre through targeted public relations activities and to strengthen the reputation.

International tax topics

Disclosure of cross-border tax planning arrangements

According to the OECD, the lack of comprehensive and relevant disclosure about potentially aggressive or abusive tax planning strategies is one of the major challenges facing tax authorities. Hence, on 8 March 2018 the OECD published its Mandatory Disclosure Rules (MDR) for aggressive tax planning. They introduce, for instance, an obligation on fiduciaries, lawyers and banks to transparency about reporting avoidance arrangements.

In this context, the EU, with the amendment to the EU Mutual Assistance Directive (Directive 2011/16/EU – "DAC 6") which came into effect on 25 June 2018, has introduced a disclosure requirement for cross-border tax arrangements.

Automatic exchange of information (AEOI)

Liechtenstein was among the so-called early adopter countries that signed the multilateral agreement on the automatic exchange of information, the so-called Multilateral Competent Authority Agreement (MCAA), on 29 October 2014. To date, 108 countries and financial centres have signed up to the AEOI. On 22 August 2016, Liechtenstein took another important step towards the implementation of its financial centre and tax strategy. The Government deposited its instrument of ratification for the Council of Europe and OECD Convention on Mutual Administrative Assistance in Tax Matters (MAC) at the OECD in Paris.

FATCA

The Liechtenstein FATCA Law ensures that Liechtenstein's financial institutions can operate in the US capital market. On 16 May 2014, Liechtenstein and the USA hence concluded an agreement (Intergovernmental Agreement according to model 1) on the implementation of the Foreign Account Tax Compliance Act (FATCA). This US Act obliges financial institutions worldwide to identify their US clients and to disclose their assets and revenues to the Internal Revenue Service (IRS) of the United States. The information goes beyond the provisions of the Qualified Intermediary (QI) regime.

Access to the EU market

Thanks to its membership of the EEA, Liechtenstein has unrestricted access to the internal European market. The internationally oriented fund location benefits in particular from this. It has a legal basis that is focused on clients and investor protection. The investment fund law comprises three pillars: the Act on Certain Undertakings for Collective Investment in Transferable Securities (UCITS Act, 2011), the Law on Alternative Investment Fund Managers (AIFM Act, 2013) and the Investment Undertakings Act (IUA), which was revised in 2016.

UCITS V

With the transposition on 18 March 2016 of the EU's Directive on Undertakings for Collective Investment in Transferable Securities (UCITS V) into the Act on Certain Undertakings for Collective Investment in Transferable Securities (UCITS Act), traditional funds will be subject to uniform regulation Europe-wide. It places new requirements on custodian banks with regard to liability, control function, custody, independence and sanctions level.

AIFM

Access to the EU market is central to the competitiveness of both the Liechtenstein financial and investment fund centre. Since the adoption of EU law in the EEA Agreement, Liechtenstein investment companies have been legally entitled not only to administer and sell UCITS funds across national borders, but also to use the EU passport for alternative investment fund managers (AIFMs). The AIFM Directive serves to increase the transparency of the activities of the alter-

native investment fund managers and the alternative investment funds (AIFs) they manage vis-à-vis investors and the supervisory authorities.

IUA

The Investment Undertakings Act (IUA) was completely revised in 2016 and applies to four clearly defined domestic fund categories. The new fund law regulates most notably the fund business model for single investors that was specially set up in Liechtenstein.

Data protection

The ever more stringent legal requirements set clear guidelines for data protection. Data protection is central for the LLB Group. We are bound by the laws and the regulatory guidelines in Liechtenstein, Switzerland and Austria, as well as the specific requirements and circumstances in our target markets. In the reporting year, LLB registered no substantiated complaints regarding breaches of client privacy or losses of client data.

EU General Data Protection Regulation

The General Data Protection Regulation (GDPR) entered into force in the European Union on 24 May 2016. It harmonises the rules on the recording and processing of personal data by companies and public authorities across the EU. It aims to ensure the protection of data and guarantee the free movement of data within the EU. Following a two-year transition period, the regulation has been binding throughout the European Union since 25 May 2018. It establishes a uniform legal basis for data protection across the EU for the first time.

The content of the regulation has brought about various significant changes: New is the "right to be forgotten", under which a person can have the data controller erase their data from the web. New is also the one-stop-shop mechanism, under which a person can notify directly the data protection authorities in their member state of any data breaches, regardless of where the breach occurred.

The regulation also provides in part for stricter regulations on key aspects of the data protection law: for instance, informing a person about the processing of their data, making contractual arrangements for the processing of data by third parties and transmitting personal data to third countries. LLB has established corresponding rules which are applicable throughout the Group and implemented the necessary organisational and technical adjustments in a timely manner.

Data Protection Act Liechtenstein/Switzerland

The complete revision of the Data Protection Act in Liechtenstein entered into force on 1 January 2019. The adaptation of the Swiss Data Protection Act to the new EU regulation is still in progress. Entry into force is not expected before 2020.

Protection against money laundering

The fight against money laundering and terrorist financing has been a top priority for years for Liechtenstein, which has a zero-tolerance policy towards such matters. As a member of the EEA, Liechtenstein implemented in 2017 the 4th EU Anti-Money Laundering Directive 2015 / 849 as well as Regulation 2015 / 847 on information accompanying transfers of funds. The relevant implementing provisions are found especially in the Law on Professional Due Diligence to Combat Money Laundering, Organised Crime, and Terrorist Financing (Due Diligence Act; DDA) of 1 September 2017 and in the corresponding Ordinance (Due Diligence Ordinance; DDO). With the entry into force of the act on the establishment of a register of beneficial owners of domestic legal entities in April 2019, Liechtenstein will have fully implemented the 4th EU Anti-Money Laundering Directive.

Compliance with international standards

The Financial Intelligence Unit (FIU) serves as the country's central authority for obtaining and analysing information that is necessary to recognise money laundering, predicate offences for money laundering, organised crime and terrorist financing. It represents Liechtenstein in the Committee of Experts on anti-money laundering and terrorist financing in the EU. The current version of the FIU Law of 1 September 2017 and the adaptations made to the Due Diligence Act ensure Liechtenstein is fully legally compliant with the international standard.

In 2002, 2007 and 2013/2014, the International Monetary Fund (IMF) and Moneyval (the Council of Europe's Committee of Experts) assessed to what extent the Liechtenstein provisions on anti-money laundering and combating the financing of terrorism meet the standards laid down by the Financial Action Task Force (FATF 40+9 Recommendations). In their last report, the IMF and Moneyval attested positively to Liechtenstein's standards in combating money laundering and financing of terrorism. The next country assessment for Liechtenstein started already in 2018 and is due to be completed in 2020. The measures will be assessed to check they are risk-based and effective.

Deposit guarantee schemes and investor compensation

Bank Recovery and Resolution Directive

With the entry into force of the Recovery and Resolution Act (RRA) at the beginning of 2017, Liechtenstein has significantly improved its financial stability, in that a statutory mechanism is now available to counteract the "too big to fail" risk of large, systemically important banks in a crisis. The EEA country has thus transposed the Directive 2014 / 59 / EU on the recovery and resolution of financial institutions (the Bank Recovery and Resolution Directive (BRRD)) into national law. The RRA designates the Liechtenstein Financial Market Authority (FMA) as the resolution authority. For this function the FMA created a separate organisational unit within its organisational structure on 1

January 2017. This authority's primary objectives are to avoid significant adverse effects on the stability of the Liechtenstein financial market and to protect client funds and client assets.

The RRA requires LLB, as a systemically important bank in Liechtenstein, to submit a recovery plan to the FMA. The recovery plan contains an analysis of measures determined as part of an overall bank stress test that can be taken to restore its financial position under various crisis scenarios.

Deposit Guarantee Schemes Directive (DGSD)

The DGSD requires EEA member states to recognise at least one national guarantee scheme that is responsible for the implementation of the deposit guarantee scheme at banks. All banks must belong to a deposit guarantee scheme which is supervised by the competent national authorities; this function should remain with the FMA. The new Deposit Guarantee and Investor Compensation Act (DGICA) is expected to enter into force in the first half of 2019. It provides for broadened and clarified scope of coverage for deposits, faster repayment periods, improved information and more robust funding requirements. The aim is to strengthen depositor confidence in the financial system. Among other significant changes introduced by the DGICA are the gradual changeover from a pure ex-post funded deposit guarantee system to a system where the assets to finance compensation cases are accumulated ex-ante through the contributions of the banks, as well as much faster repayment periods in the event of a deposit compensation case.

In the event of a compensation case, the Deposit Guarantee and Investor Compensation Foundation PCC (EAS) that has been established would ensure that the financial consequences for depositors and investors are at least mitigated by covering depositor and investor claims by up to a maximum of CHF 100'000. Deposits are all kinds of account balances as well as call money and time deposits.

Consumer protection

MiFID II / Liechtenstein

The Liechtenstein banking centre implemented the Markets in Financial Instruments Directive (MiFID) on 1 November 2007. MiFID simplifies cross-border financial services and allows investment firms, banks and stock markets to also offer their services in other EU / EEA member states. Furthermore, they are required to conduct precise client and product analyses as well as disclose information on compensations and commissions.

The Amendment (MiFID II) and the accompanying Regulation (MiFIR) came into force in the EU on 3 January 2018, one year later than originally planned. They provide for further regulation of the financial markets and investment services. MiFIR also regulates trading transparency. Besides the refinement of regulations since MiFID, the aim of MiFID II is to create greater transparency in the markets and to increase investor protection.

High-frequency trade will be made more transparent and subject to stricter supervisory controls, while position limits on commodity trading will be stricter. Throughout the EU, consultations at bank branches and consultations by telephone must record and document in a comprehensive manner why a financial product was recommended and how it matches the client's risk profile.

In Liechtenstein, the implementation of MiFID II required comprehensive changes to the Banking Act and the Asset Management Act, the Banking Ordinance and the Asset Management Ordinance, as well as amendments in particular to the Act on Certain Undertakings for Collective Investment in Transferable Securities (UCITS Act) and the Financial Market Supervision Act (FMA Act). The legislative process has been completed at national level and the amendments came into force on 3 January 2018. LLB has implemented MiFID II within the specified time.

FinSA / Switzerland

Switzerland intends to conceptually reshape the guiding principles of its financial centre in order to transpose investor protection issues arising from MiFID II, in particular, into national law. The ordinances from the Swiss Financial Market Supervisory Authority (FINMA) are expected for autumn 2019: the Financial Services Ordinance (FinSO) and the Financial Institutions Ordinance (FinIO). The acts and ordinances enter into force on 1 January 2020, whereby different transition periods apply.

The Financial Services Act (FinSA) and the Financial Institutions Act (FinIA) create a level playing field for financial intermediaries and improve client protection in Switzerland. The FinSA contains rules of conduct towards clients that Swiss financial service providers must comply with. It also provides for prospectus requirements and requires a basic information sheet for financial instruments that is easy to understand. The FinIA essentially standardises the authorisation rules for financial service providers in Switzerland.

New rules of the game in the EU payment systems market

For LLB, the harmonisation and the digitalisation of the European payment systems market are important topics. As an EEA country, Liechtenstein will adopt the second EU Payment Services Directive (PSD II) in 2019. The new regulations take into account the increased requirements for data protection and the security of electronic payments. In addition, the transparency for clients is to be increased, thereby strengthening consumer protection. The PSD II allows market access to new payment service providers such as fintechs, thereby increasing competition and innovation. The directive now requires banks to grant third parties access to a client's accounts if the client so wishes. There would be no need to have any direct interaction with the bank where the account is held. LLB plans to make the adjustments required to implement the PSD II in 2019.

EU Mortgage Credit Directive

The Directive 2014 / 17 / EU on credit agreements for consumers relating to residential immovable property has been in force in the EU member states since 20 March 2014. As a member of the EEA, Liechtenstein is obliged to transpose this directive into national law. With the corresponding legislative process underway, it is expected to come into force in January 2020. The directive serves to protect consumers taking out loans to buy residential property. Under the directive, the banks are subject to various obligations when granting a loan. These include, in particular, (pre-)contractual information requirements, creditworthiness assessment requirements and qualification requirements for bank employees involved in granting loans.

LLB will implement the law in a timely manner. In 2019, the specialist departments and marketing and distribution units will incorporate the new provisions into the relevant processes. The advisory process, in particular, will be adjusted due to legal requirements.

Capital adequacy requirements

Basel III

The comprehensive reform package of the Basel Committee on Banking Supervision (Basel III) has been in effect in the EU since 1 January 2014. The regulations commit banks to larger capital buffers and set requirements for liquidity coverage. The reforms aim to improve the regulation, the supervision and the risk management of banks and, as a result, to increase the resilience of both individual banks and the banking system as a whole.

Liechtenstein, as a member of the EEA, implemented the Basel III standard with the enactment of the Capital Requirements Regulation (CRR) and the accompanying Capital Requirements Directive (CRD IV) on 1 February 2015. The CRD IV package ensures banks hold quantitatively and, in particular, qualitatively better capital. The primary goal of the measures is to foster the resilience of the EEA banking sector towards destabilising economic shocks.