

# Liechtenstein Continues To Prosper Post- Pandemic



**Interview with Roger Frick, Member of the Board of Trustees and Executive Committee Member, Allgemeines Treuunternehmen (ATU), Liechtenstein**

**IFC:** It would seem that the COVID-19 pandemic has accelerated the progress of “The Great Wealth Transfer” as HNW families plan to transfer their wealth to the next generation. How has this impacted on the Family Office service offered by ATU?

**RF:** The Coronavirus pandemic indeed changed our lives almost overnight. Being forced to slow down by various lockdowns and restrictions has shifted our focus away from our hectic routine to very important, but sometimes neglected values and ideals. Wealthy families, for example, have started to consider questions of whether their wealth is adequately protected; and also whether the succession of their wealth from one generation to the next has been adequately prepared for and managed in order to face unstable situations such as these. That is why we have seen an increase in demand for the family office services offered by ATU.

**IFC:** The trust sector in Liechtenstein is of significant importance to the country as a financial centre; how does the jurisdiction maintain its competitive advantage in this sector?

**RF:** We do not have to look much at the services of our own trustees. The issue is rather on the elimination of restrictions in foreign states, as the trustee business is normally a cross-border-service activity. Various forms of discrimination and restrictions continue to exist in market access for Liechtenstein financial services providers and companies. In

order to address these in a more focused and coordinated manner, an internal administrative task force was set up some years ago. In addition to the Ministry, the EEA Unit, the Tax Administration, the Financial Market Authority and the Office of Foreign Affairs are represented in this task force. In 2019/2020, restrictions relating to Russia and Kazakhstan were resolved. However, in 2022 Liechtenstein has taken over the EU sanctions against Russia. Restrictions also still remain, particularly in some EU states. The task force is dealing with these priority areas at present.

**IFC:** ESG seems to be the investment buzzword of the moment. Has your company experienced increased interest in sustainable investment?

**RF:** ESG is everywhere, and indeed in the case of charitable foundations, investment decisions are largely driven by ESG elements. However, it is not always so clear and easy to define what ESG is, as there are various criteria used to satisfy the principle.

**IFC:** What frameworks does Liechtenstein have in place to promote sustainable development and growth in the financial services sector?

**RF:** Liechtenstein financial market participants either already have a sustainability strategy in place or are in the process of creating one. These sustainability strategies mainly focus on integrating sustainability risks and factors into the business strategy, or

good governance of companies. More and more, financial market participants are committing to follow the United Nations principles, rely on sustainable investment products, and adhere to the rules of non-financial reporting. At all levels of the financial centre, including charitable foundations and trusts, there is a growing trend towards more sustainable investments - a development following international and European requirements.

In the Liechtenstein financial market, insurance companies, investment firms, banks, fund managers, institutions for occupational retirement provision, manufacturers of retirement products, providers of pan-European retirement products, insurance intermediaries, as well as financial advisors, are subject to a sustainability-related disclosure obligation for the manufacture, distribution and advice of financial products in accordance with EU Regulation 2019/2088<sup>1</sup>.

Companies required to publish non-financial information under Directive 2014/95/EU (NFRD) are also subject to sustainability-related disclosure under Article 8 of Regulation (EU) 2020/852.

Financial products include portfolios managed pursuant to Article 4(1)(8) MiFID II, Alternative Investment Funds (AIFs), Undertakings for Collective Investment in Transferable Securities (UCITS), Insurance Based Investment Products (IBIPs), pension products, pension schemes and pan-European personal pension products (PEPPs).

**IFC: Has there been an increase in philanthropic investment?**

**RF:** In Liechtenstein, there was a total of 1,362 charitable foundations in 2020, 1,379 in 2019 and 1,392 in 2018. However, this figure does not detail whether or not supervised charitable foundations had more funds to fulfil their purposes; and charitable purposes are quite often fulfilled outside of Liechtenstein.

Liechtenstein charitable foundations do not have geographical restrictions on funding activities, on the designation of beneficiaries or on the composition of the board of trustees. Thus, charitable foundations have the possibility of distributing their funds not only to domestic institutions, but also to a large extent to foreign institutions. The philanthropic commitment from Liechtenstein thus becomes internationally visible. In this way,

charitable foundations make a significant contribution to Liechtenstein's future-oriented reputation and the international perception of the financial centre and the business location.

**IFC: Are you experiencing any other changes or trends in clients' requirements for asset management and structuring?**

**RF:** No, not particularly. Wealthy people look for political stability, accountable state actions and security. In today's world, you find such elements less and less. The last 10 years have given young people an opportunity to earn a fortune with small investments, be it with Blockchain or portfolio investments in share markets. So far the markets have only went up, but in the next 10 years we will definitely see a certain volatility. So the time of "fast money" may go away as people give themselves more time to think about what is essential. Also, despite efforts to copy, predict or duplicate human behaviour and gestures through automation and AI, the essentials of human connection continue to be in place: eye contact, personal touch and empathy. A trustee who is worth the money and in whom a client can trust is surely of major value.

**IFC: How has Liechtenstein continued to maintain its economic substance standards despite the disruption caused by the pandemic?**

**RF:** Travel restrictions due to the Coronavirus pandemic certainly make it difficult for companies incorporated in countries with zero or nominal corporate tax rates to maintain economic substance and thus comply with the rules. These rules require a minimum level of local human and technical resources in the jurisdiction where the company is incorporated. Even after the amendment of its Tax Act in 2011, Liechtenstein continues to have a tax system which is attractive both nationally and internationally, while at the same time complying with the European requirements. Corporate income tax at a uniform rate of 12.5 per cent applies to a company's net income/profit irrespective of the size of that profit and its distribution. Since Liechtenstein is not a nil or nominal corporate tax jurisdiction and since, in addition, residency requirements apply to the board members of Liechtenstein companies, foundations and trusts, the financial centre has managed to maintain its economic substance standards.

**IFC: How do you think the G20 decision to implement a minimum global corporate tax rate is likely to impact on investment in Liechtenstein?**

**RF:** The G20 decision is surely an important matter as Liechtenstein, with its open philosophy, wants to respond to important developments. A working group was appointed to deal with Pillar 1 and Pillar 2 of the OECD/G20 proposals. Pillar 2 allows various options and the working group had to analyse the situation and decide which alternative to introduce in their own law.

We will most likely introduce Pillar 2 according to the provisions of the OECD/G20 initiative by limiting it to group structures with a turnover of over EUR750 million. So, only a very small amount of Liechtenstein based companies will pay the unilateral 15 per cent corporate tax, all other entities will be taxed according to the existing tax laws with 12.5 per cent.

So, most companies will not be submitted to Pillar 2 regarding this unilateral tax and we can speak about a small impact on investment in Liechtenstein. Investments will be much more dependent upon the availability of workable double tax treaties and anti-abuse provisions to support the fight against the misuse of the application of treaties. Here, Liechtenstein takes all necessary internal steps to ensure that treaties cannot be misused, and an interesting paper on this is the Proposal for a COUNCIL DIRECTIVE laying down rules to prevent the misuse of shell entities for tax purposes and amending Directive 2011/16/E issued on 22 December 2021<sup>2</sup>.

So, in a nutshell, a corporate tax of 15 per cent will not have a major impact on Liechtenstein.

**IFC: COVID has accelerated the digital transformation of the wealth management industry. Are you witnessing increased investment in tech and how does Liechtenstein compare with other financial centres in terms of innovation and growth in this area?**

**RF:** There is an interest in FinTech, for sure. The Government and the Financial Market Authority (FMA), banks and trust companies all recognised the potential of digitalisation at an early stage, as demonstrated by two supporting initiatives. The FMA's Regulatory Laboratory is the entry point

for FinTech companies on regulatory, licensing, and supervisory issues. The Government also introduced a kind of innovative club, providing a state-accompanied innovation process for start-up companies wishing to establish their new business ideas in Liechtenstein.

Blockchain is a new technology and the lack of legal certainty in cross-border cases is still preventing us from larger applications. With the Blockchain Act, Liechtenstein is one of the first countries to participate in this important field of the future. The Blockchain Act strengthens and expands Liechtenstein's leading position in digitalisation and attracts the use of cryptocurrencies.

**IFC: Is Liechtenstein bringing any new products or services to the market? How is the jurisdiction innovating for the future?**

**RF:** It is difficult to introduce new products and services with a far-reaching effect each year, as this is a continuous process and quite often dependent upon political stability, accountability of state actions and in the case of Liechtenstein, pressure and expectations from foreign organisations and the EU in general.

A Financial Centre Innovation Unit (SFI) oversees the government's

innovation framework for the financial market. Its field of activity can be divided into the following main tasks:


- Provide a business service for financial market participants and financial market-related companies;
- Further the development of the government framework for the financial centre;
- Promotion of the innovation place;
- International cooperation in the area of financial centre innovation;
- Management of projects in the area of financial centre innovation.

Innovative companies in the financial market environment are often confronted with fundamental questions in connection with the legal framework, the administration and the authorities. The SFI acts as a central point of contact for companies and coordinates answers to these questions with experts from the respective authorities. The SFI's business service is available to companies resident in Liechtenstein as well as to companies wishing to establish themselves in Liechtenstein. In the course of the settlement of a company, the SFI coordinates the diverse questions on the part of the companies. It works closely with the other authorities of the national administration and the FMA

and helps to increase the attractiveness of the location and the efficiency within the authorities. The SFI also supports companies close to the financial market in the implementation of innovative projects. The feasibility of such projects often depends on the attitude of the authorities to certain detailed questions in the application of laws. If a company develops a business idea without early dialogue and consultation and then submits an application for approval, it may be that the company has to carry out a large part of the development work again. To minimise such situations, SFI offers companies the opportunity to discuss feasibility and concept decisions confidentially at an early stage. The SFI clarifies these open questions with the specialised agencies and can thus help the company to develop and implement business models more efficiently and effectively. The SFI also offers innovative companies the opportunity to exchange ideas and experiences with the SFI. ■

*Endnotes*

- 1 <https://www.fma-li.li/en/financial-centre/sustainability-in-the-financial-sector/bases-of-sustainable-finance-liechtenstein.html>
- 2 [https://ec.europa.eu/taxation\\_customs/system/files/2021-12/COM\\_2021\\_565\\_1\\_EN\\_ACT\\_part1\\_v7.pdf](https://ec.europa.eu/taxation_customs/system/files/2021-12/COM_2021_565_1_EN_ACT_part1_v7.pdf).




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