Liechtenstein Maintaining Standards During Turbulent Times

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

IFC: 2020 was a turbulent year for the global economy. How has Liechtenstein survived as an international financial centre and what strategies have been put into place for continued stabilisation and growth?

RF: The Liechtenstein financial centre has remained stable in the course of the pandemic. This is mainly due to the diversification of the Liechtenstein financial centre which offers a variety of services from traditional trust/corporate and banking services to fund solutions and lately, also blockchain and FinTech. The financial centre has, however, experienced rather "turbulent actions" with a view to international regulations, including issues on the effectiveness of the implemented standards (also part of the National Risk Assessments (NRA) evaluation round preparation of the IMF and MONEYVAL). "Turbulent actions" in this context means that the Liechtenstein authorities put much time and work into the National Risk Assessment Report and the local financial industry, as a consequence, had to give repeated input to the reports. This meant an intensified workflow within a very short time frame.

IFC: Last year, the Government announced a new Financial Centre Strategy with a focus on unrestricted and equal access to important markets; international cooperation and innovation. What progress has been made to date?

RF: The Government is further strengthening Liechtenstein's position as a responsible and open international partner, thereby aiming to achieve international recognition as well as equal treatment by the international community. Adherence to compliance with international and European standards is an important cornerstone of the Liechtenstein financial centre strategy. In addition, the Government is continuing to expand the Liechtenstein network of double taxation and free trade agreements in order to ensure international recognition for Liechtenstein company forms. A new double tax treaty has entered into force with Lithuania and amendments to the treaties with Germany and Switzerland were implemented. The treaty with The Netherlands was postponed to January 2022 due to a delay within the Dutch Parliament.

IFC: In April 2019, the country established a Unit for Financial Centre Innovation, specifically to drive FinTech and Blockchain development. How successful has this been and what new initiatives have been put into place?

RF: The Liechtenstein financial centre is among the market leaders in providing competitive FinTech solutions. In realising their projects, investors are supported by both the Liechtenstein Government as well as the Liechtenstein Financial Market Authority (FMA). Through its innovation framework and more specifically through its "Innovation Clubs" platform, the Liechtenstein Government has launched a process for enhancing economic operating conditions. The FMA's Regulatory Laboratory on regulatory, licensing and supervisory issues, on the other hand, serves as a point of contact for FinTech start-ups and financial services providers alike. In addition, Liechtenstein is also among the first countries to have enacted a Blockchain Act, which provides for a detailed legal framework in the cryptocurrency sector.

IFC: Are you aware of any plans to introduce tax or other incentives to encourage FinTech investment?

RF: Liechtenstein as such does not provide any special tax incentives for investments into FinTech. However, corporate income tax at 12.5 per cent is moderate, whereby dividends and capital gains are exempt. In addition, Liechtenstein tax law is further complemented by a liberal company law and the Government's general interest in attracting new start-up businesses to the country.

IFC: Has it been possible to maintain economic substance standards during 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 during the Coronavirus pandemic.

IFC: Have you noticed any change in trends in clients' requirements for asset structuring and management?

RF: The pandemic has shown the vulnerability of both man and his fortune. As a consequence, clients' requirements for asset structuring and management have changed. The focus now clearly lies on family governance, asset protection, and estate planning. As the pandemic has also affected the financial markets, we see a preference for long-term and stable investment. The risk appetite of investors has clearly decreased and investors have reverted to safe havens such as real estate, for example.

IFC: Have clients' financial goals changed in the wake of the pandemic and, if so, how have they changed?

RF: Clients are looking for ways to reduce the economic impact of the pandemic and are aiming at economic stability. They are nowadays clearly sticking to a budget and have also been setting up their own "emergency" funds over the past year. Paying off debt and saving for retirement are important goals. When investing, fewer funds are invested on the financial markets; as mentioned previously, clients rather prefer stable investments in real estate and the like.

IFC: The revision of the Trustee Act came into force in the second half of 2020. How has this changed the way in which Trusts and Foundations are implemented and managed?

RF: The revised Trustee Act entered into force on 1 July 2020. It inter alia stipulates stricter licensing and supervisory requirements, addresses possible conflicts of interest, governance matters, financial stability, and annual reporting requirements of trustees, as well as extended cooperation among national authorities. All these provisions cater for the protection of the financial centre's international clients and, from a client's perspective, have had a positive impact on the way trusts and foundations are managed, in particular with regard to clients' protection. Worth mentioning is also the establishment of the professional ethics committee that exercises disciplinary powers over professional trustees and trust companies and serves as a first point of contact for unsatisfied clients.

IFC: Is Liechtenstein doing anything specific to encourage financial service providers to maintain a presence in the country?

RF: The financial sector in Liechtenstein contributes about one quarter to the national GDP and is thus an important economic sector, a fact that is also underlined by the Liechtenstein Government. As mentioned previously, licensing and residency requirements apply to local financial service providers so that the financial business is carried out from within the country. On the other hand, the financial service providers are also actively involved in the law making process. They are represented by the Liechtenstein Institute of Professional Trustees and Fiduciaries, a public-law corporation that safeguards the honour, the reputation and the rights of trustees and also supervises their duties. ■