



# The Liechtenstein Investment Fund Centre

European - Dynamic



LIECHTENSTEINISCHER  
ANLAGEFONDSVERBAND

# Legal information

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LIECHTENSTEINISCHER  
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# Contents



- 3 Principality of Liechtenstein: Your European investment fund location
- 4 Principality of Liechtenstein: The compact competitive state
- 6 Traditional and stable: The Liechtenstein financial centre
- 7 Proven and innovative: The Liechtenstein investment fund centre
- 8 Flexible legal structures for UCITS and AIFs
- 9 The Liechtenstein investment undertaking (IU)
- 9 The Liechtenstein Financial Market Authority (FMA)
- 11 Attractive tax system for funds, management and consultancy companies of UCITS or AIFs
- 13 International cooperation in tax matters
- 14 Sustainability in the Principality of Liechtenstein
- 16 Investment fund as solution
- 17 Re-domiciling
- 18 Master-feeder structures
- 19 The Liechtenstein Investment Fund Association
- 20 Links to the Liechtenstein investment fund and financial centre

# Principality of Liechtenstein: Your European investment fund location



Those who are looking for a location for their investment fund or investment fund company will find favourable operating conditions in the Principality of Liechtenstein that are continuously and promptly brought into line with current requirements. The compact size of the country and the resulting short decision-making channels are unique. All decision-makers can respond quickly to changing circumstances and can implement the necessary measures.

## Active member of the European Economic Area (EEA)

Liechtenstein, Norway and Iceland are the three EEA/EFTA states that adopt EU Directives and together with the EU states collectively form the EEA. This membership gives Liechtenstein unrestricted access to the European single market. Liechtenstein's internationally focused investment fund centre profits from this on a daily basis.

Undertakings for collective investments in transferable securities (UCITS) as well as alternative investment funds (AIF) are equally important in Liechtenstein. These two investment fund types, which are regulated at the European level, have been supplemented by the purely national investment undertaking (Investmentunternehmen – «IU»), an ideal instrument for asset structuring.

## Legal security and stability

The Principality of Liechtenstein has for many decades been a traditional and proven financial centre where banks, insurers, asset managers, fiduciaries and fund companies operate successfully. All market participants profit from the long-standing international know-how. Political stability and legal security form the basis for the country's extremely successful financial system.

Building upon these foundations, the creation of optimum statutory and regulatory conditions has top priority for the Liechtenstein investment fund centre and the Liechtenstein Investment Fund Association. Over the past decades, we have worked continually to ensure that this is the case, and we shall continue to do so in future: Creating cutting-edge location and service conditions at the heart of Europe for the international investment fund industry.

Discover more about Liechtenstein as an investment fund centre! The operating conditions are excellent.

Your Liechtenstein Investment Fund Association

# Principality of Liechtenstein: The compact competitive state



Welcome to Liechtenstein! Introducing the unique small state at the heart of Europe, which combines savoir-vivre with tradition.

## What is Liechtenstein?

The Principality of Liechtenstein is situated between Switzerland and Austria at the centre of the European Alpine mountain range. With a surface area of 160 km<sup>2</sup>, Liechtenstein is the fourth smallest state in Europe. As a modern centre of business and finance, the Principality has for decades stood for innovation, development and stability.



*«The financial sector in Liechtenstein strives to fulfil the most exacting expectations of an international clientele. In 2011, the proven cooperation with our Liechtenstein partners and the high professionalism promoted the decision to set up CBR INVESTMENT AG in Balzers as an independent asset management and to exercise the investment fund management as well as the support of our private clients in the Principality.»*

Christian B. Rosenow,  
CBR Investment AG

Principality of Liechtenstein

Vaduz

## Where does Liechtenstein's unique political stability come from?

The state form is a constitutional hereditary monarchy based on democratic and parliamentary principles. The governing head of state, in the 14<sup>th</sup> generation, is His Serene Highness Hereditary Prince Alois of Liechtenstein. In addition to historic continuity at the highest level of national leadership, the Principality of Liechtenstein also demonstrates considerable stability at the government level. Since the end of the Second World War, the country has been governed by a broad two-party coalition. These provide the Prime Minister, depending upon the particular majority.

## What makes Liechtenstein so successful as a place to do business?

With around 38,600 inhabitants and a workforce of a similar size, mostly comprising highly-qualified positions of employment, Liechtenstein is a major job creator in the Rhine Valley/Lake Constance region. Every day over 21,000 persons commute to Liechtenstein, above all from Switzerland and Austria. Success factors include in particular membership of two economic areas (EEA and Switzerland), the liberal economic system, efficient public administration and supervisory system, as well as legal security brought about by transparent and predictable tax and statutory operating conditions that comply with international standards.

## Liberal economic policies

The conservative-liberal outlook of the government and population mean that the small state only rarely intervenes in economic activities. What better proof could there be: At 20.5 % (less than half of the rate in the Eurozone), the Principality has by far the lowest European public spending ratio (government expenditure in relation to gross domestic product).<sup>1</sup>

## Sound financial policies for public budgets

Liechtenstein does not have any government debt. In fact, it has substantial financial reserves. The Principality of Liechtenstein is one of only very few states around the world that have been awarded an AAA rating, the highest creditworthiness rating, by Standard & Poor's in country rankings.

## Working and living in Liechtenstein

The country offers ideal operating conditions for setting up companies, as well as a high quality of life. Further key factors are the outstanding infrastructure and the varied training and further education opportunities, inter alia at the University of Liechtenstein.

## Culture and leisure opportunities in the region

Liechtenstein is situated at the heart of Europe: Surrounded by the mountains of the Alps, nestled in a region with a wide range of cultural and leisure opportunities. In the summer, keen mountain hikers find over 400 km of well-maintained and signposted hiking routes for every level of aptitude. In the winter, the family skiing region of Malbun attracts skiers and snowboarders onto the pistes. International centres in Europe, such as e.g. Zurich, Milan and Munich, along with holiday resorts such as St. Moritz, Lech/Arlberg, the Lake Constance region with the Bregenz Festival, Tirol and South Tyrol, Lago Maggiore, Lake Como, Lake Lugano and countless others can be reached from Liechtenstein quickly and with ease.



*«For providers as well as for clients, zero government debt, the secure currency, political stability and high legal security are outstanding arguments for the Liechtenstein financial centre.»*

Hannes Fahrnberger, Vienna-Life



From left to right: His Serene Highness Hereditary Prince Alois, His Serene Highness Prince Hans-Adam II, His Serene Highness Prince Joseph Wenzel  
Source: Photo Roland Korner

# Traditional and stable: The Liechtenstein financial centre

A healthy foundation brings high stability and security for the financial centre – both for traditional as well as for modern business models.

Industry and manufacturing account for approx. 40 % of Liechtenstein's gross domestic product.<sup>1</sup> Financial services comprise the second largest economic factor after industry, accounting for approx. 25 %, and consequently one of the central pillars of the Liechtenstein economy.<sup>1</sup> For this reason, a financial centre that is based on long-term continuity and stability is crucially important for Liechtenstein.



*«Our target investors are drawn from the EU region as well as from Switzerland. Liechtenstein meets the requirements of both investor segments. For us, this is the ideal solution.»*

Dr. Harald Staudinger, ASPOMA Asset Management GmbH

contacts, a network with the right contact individuals can be found in the Liechtenstein financial centre quickly and with ease. In addition, professional associations support the members of all financial services sectors.

## FinTech

The regulatory laboratory established at the Financial Market Authority comprises an internal team of experts. As proven interlocutors for companies with innovative business models, the international experts address regulatory and statutory supervisory questions. This has hugely boosted Liechtenstein's attractiveness for FinTech companies.

## Two economic areas

Liechtenstein enjoys the exceptional and particularly beneficial fact that it belongs to two economic areas. An ideal component is its customs and currency union with Switzerland, and it is also part of the EEA, consisting of the EU and the three EEA/EFTA states. This means Liechtenstein has special market access to the EU as well as to Switzerland. As a consequence, the benefits of both economic areas can be used and the interests of investors in Switzerland as well as in the EEA can be professionally fulfilled.

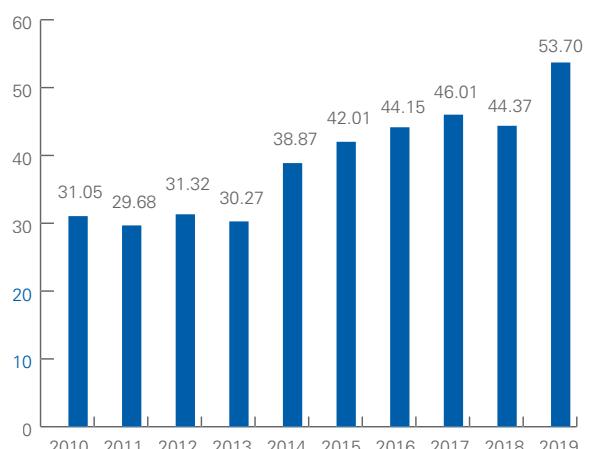
## Safe banks

The assets of domestic investment funds are held for safekeeping by domestic banks in accordance with European directives. Liechtenstein banks bear comparably low risks and are characterised by their financial strength and stability. With a core capital ratio (Tier 1 ratio) averaging more than 20 %, Liechtenstein banks are on average substantially above the equity ratios demanded by BASEL III and the Capital Requirements Directive (CRD IV).<sup>2</sup> This means they are amongst the best-capitalised banks in the whole of Europe (the Tier 1 ratio in the EU averages 14.4 %).<sup>2</sup>

The logical consequence: No bank in the Principality of Liechtenstein required state support during the financial crisis.

## The Liechtenstein investment fund centre in figures

At the end of 2019, approx. EUR 53 billion was being managed in 708 funds in Liechtenstein.

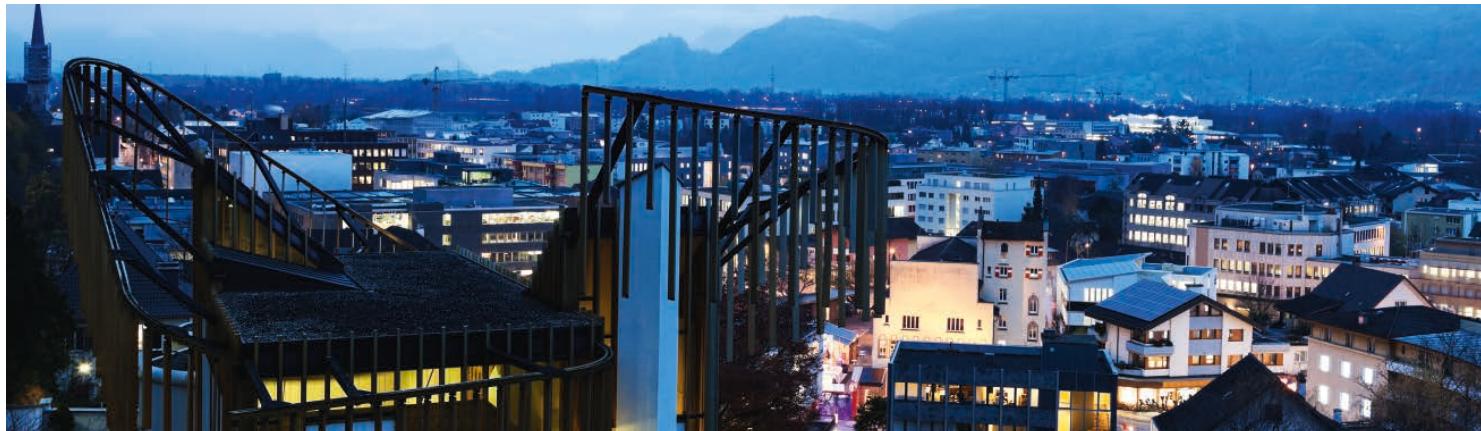


*Development of fund volumes in EUR billion, 2019 estimated  
Source: FMA Liechtenstein and LAFV*

<sup>1</sup> Source: Office of Statistics Liechtenstein

<sup>2</sup> Source: Liechtenstein Bankers Association

# Proven and innovative: The Liechtenstein investment fund centre



Operating successfully in the investment fund market.  
The Liechtenstein domicile offers ideal operating conditions.

## With EU passports to Europe

National implementation of EU requirements, in conjunction with the adoption of EU law in the EEA Treaty, enables Liechtenstein to passport its financial services in the EEA. This passporting system encompasses on the one hand the product passport, and on the other the management company passport. The product passport means that Liechtenstein UCITS and AIFs can be offered throughout the whole of the EEA. The management company passport also enables Liechtenstein management companies and alternative investment fund managers (AIFM) to manage funds within the EEA, in addition to Liechtenstein funds, and to market these actively within the European domestic market.

## Know-how

Within the context of European rules, the Liechtenstein investment fund centre offers many opportunities and considerable freedoms when it comes to organising investment policies and selecting investment instruments. Liechtenstein's distinguished track-record in the financial services field and the specialist expertise of its market professionals prove their worth, particularly when it comes to structuring complex investment forms in a fund.

## Short decision-making channels: Quick decisions

The Principality of Liechtenstein turns its compact dimensions to its own particular advantage. Short decision-making channels to and between public au-

thorities make it possible to work efficiently and expeditiously. This makes speed, not just when it comes to setting up an investment fund, the oft-cited special «Liechtenstein USP».

## High investor protection

Liechtenstein has introduced strict code of conduct rules to protect investors in the investment fund business. The business activities of the fund companies are monitored by the Financial Market Authority and accredited auditors.



## Cost-effectiveness

On an international comparison, the cost of setting up, overheads and supervision fees are very competitive. This also applies in particular to the standard minimum fees, which are often substantially higher in other countries. The all-in fees usually offered in Liechtenstein give fund promoters/initiators considerable planning security.

*«What we value about the Liechtenstein investment fund centre are the short decision-making channels and the prompt implementation of the Financial Market Authority as well as of our management companies.»*

Hakan Semiz, swisspartners AG

## Umbrella funds

Liechtenstein investment funds may be licensed as so-called umbrella funds with various sub-funds. With this model, sub-funds are established within a single legal structure. The sub-funds form independent economic units, and can invest in different investment classes with different strategies.

# Flexible legal structures for UCITS and AIFs



Liechtenstein offers an optimum range of legal forms for the flexible setting up and structuring of the European fund types UCITS and AIF.



*«Individual solutions and flexibility on the part of the fund administrator, as well as of the custodian, are necessary for the implementation and realisation of our investment fund projects and investment strategies. Our Liechtenstein partners offer precisely this individual service.»*

Dr. Harald Staudinger, ASPOMA Asset Management GmbH

UCITS and AIF with the sub-forms ELTIF (European Long-term Investment Fund), EuVECA (European Venture Capital Fund) and EuSEF (European Social Entrepreneurship Fund), may be set up in a wide variety of ways and with the widest possible variety of legal forms.

This enables proper account to be taken of requirements arising, inter alia, out of the nature of the target investments or the tax requirements of the domestic country of the investors.

For UCITS, in addition to contractual forms (FCP) that are conventional in other German-speaking countries and the likewise commonplace form under company law (SICAV, SICAF), the trust form (contractual fund on the basis of a trusteeship, the so-called collective trusteeship) is also a possibility. For its part, the investment company can be set up in the form of a stock corporation or European company dedicated solely to asset investment and management on the account of investors.

## Attractive alternatives

The options available for AIFs are the same as for UCITS, although supplemented by attractive additional alternatives replicating the limited partnership (LP) structure, which is popular internationally for venture capital and private equity vehicles. These are the investment limited partnership [«Anlage-Kommanditgesellschaft»] and the investment partnership of limited partners [«Anlage-Kommanditärengesellschaft»] (partnership of partners who do not have unlimited liability). The investment limited partnership introduced a special form of limited partnership that, in addition to the aforementioned US LP, also corresponds to the Swiss limited partnership for collective capital investment or the German «GmbH & Co. KG». The investment partnership of limited partners represents a legal form that is specific to Liechtenstein.

Moreover, in order to ensure maximum flexibility with regard to the requirements of market participants, Liechtenstein law provides that the Financial Market Authority may, upon request and in justified individual cases, also recognize other domestic legal forms, such as the establishment, foundation or limited liability company, for structuring an investment company.

# The Liechtenstein investment undertaking

Along with the UCITS and the AIF, the investment undertaking (IU) offers first-class asset structuring opportunities in four categories overseen by the Financial Market Authority. In addition to the low cost structure, a particular advantage offered by this collective investment form is the speed in which it can be set up. In contrast to the UCITS or AIF, an IU may not be actively distributed, but is instead intended for a specific circle of investors defined in advance. The possible circle of investors is also the criterion for the IU categories:

- IUs for single investors
- IUs for families
- IUs for interest groups
- IUs for corporate groups

IUs for single investors are aimed in particular at insurance or pension institutions, while IUs for families offer excellent opportunities above all to established

family offices. IUs for interest groups are suitable for existing groups of investors who wish to pool their resources in order to realise joint investments. IUs for corporate groups are available for corporate groups and companies.



*«The Liechtenstein investment fund centre has a clear positioning – flexible, cost-effective and dynamic.»*

Nico Rischmann,  
Plenum Investments AG

## Legal forms

In the case of IUs, the law makes provision for the same legal forms as those that are available for AIFs.

# The Liechtenstein Financial Market Authority (FMA)

Pursuant to its statutory remit, the Liechtenstein FMA is responsible for guaranteeing the stability of the Liechtenstein financial market, the protection of clients, the prevention of abuses as well as the implementation of and adherence

to recognised international standards. In its capacity as an integrated and independent supervisory authority, the FMA supervises financial market participants in the Liechtenstein financial centre. At the European and global level, the FMA is represented in all key supervisory organisations.

## External relations

The Liechtenstein FMA is a full member of the European Banking Authority (EBA), the European Insurance and Occupational Pension Authority (EIOPA) as well as the European Securities and Markets Authority (ESMA).

The Liechtenstein FMA strikes just the right balance between its supervisory and protective functions, as well as the needs of the market.

Full integration in these European supervisory authorities strengthens the FMA's position as an equal and recognised supervisory authority. The FMA has a seat on the respective supervisory councils, and has the same rights and obligations as the EU's national supervisory authorities. As Liechtenstein is not an EU member, however, the FMA does not have the right to vote on these international financial supervisory authority bodies.



*«We have for many years valued the excellent services and effectiveness of the regulatory system at the Liechtenstein financial centre»*

Alessandro Ciocca, Alean Capital AG

## Quick licensing procedure and short time-to-market for investment funds

Statutory provisions establish a quick approval procedure for UCITS. It may not exceed 10 working days following receipt of the full documentation. Exception:

It is only in the case of self-managed investment companies that the respective period is one month. On a European comparison, the short time-to-market that this ensures is extremely attractive.



*«The Financial Market Authority in Liechtenstein successfully offers added value within the context of investment fund regulation. Fast processes are just one example.»*

Nico Rischmann,  
Plenum Investments AG

For Alternative Investment Funds (AIF), the reform of the Alternative Investment Fund Managers Act (AIFMG) on 1 February 2020 replaced the authorisation with a notification to the Financial Market Authority. AIF that are only managed and not distributed can therefore start immediately. If it is intended to distribute the AIF, a notification of distribution to the FMA is required, which by law must give a commitment within 20 days, but usually does so within a few days. In both cases, the AIF is regulated and directly supervised.

IUs (pursuant to the Liechtenstein Investment Undertakings Act [Investmentunternehmensgesetz – «IUG»] also of 2 December 2015) also do not require a licence from the FMA. They may commence their business activities as soon as the FMA has notified the management company that it has received the confirmation issued by the auditor.

## Licensing of management companies and AIFM

The licensing deadline established by the Liechtenstein Act concerning Undertakings for Collective Investment in Transferable Securities [Gesetz über bestimmte Organismen für gemeinsame Anlagen in Wertpapieren – «UCITSG»] for management companies is one month, which is very competitive by international standards. The licensing period for AIFMs is a maximum of three months.

In addition to the AIFM itself, the associated legislation [«AIFMG»] also establishes the option of being licensed as a risk manager, administrator or sales agent.

## FMA as interlocutor

Notwithstanding its important supervisory function, the FMA also ensures that it understands the market and its needs. It is available to companies for enquiries, in particular in conjunction with innovative business models. This means it makes an important contribution towards Liechtenstein's attractiveness as an international investment fund centre.

Liechtenstein Financial Market Authority  
Landstrasse 109  
PO Box 279  
9490 Vaduz  
Principality of Liechtenstein  
Phone +423 236 73 73  
info@fma-li.li  
www.fma-li.li



Financial Market Authority building  
Source: FMA Liechtenstein

# Attractive tax system for funds, management and consultancy companies of UCITS or AIFs

by Günther Dobrauz-Saldapenna and Martin Meyer, PwC Switzerland/Liechtenstein

Financial centres are in constant competition to offer an attractive business environment for both investors and financial service providers. The key drivers for an attractive business environment are primarily an independent and proactive supervisory authority, moderate tax rates, moderate fee level, high transparency and a large number of sales channels as well as a wide selection of information resources.

## Consistent and proactive implementation

Considering the current developments in Europe (e.g. Brexit, breach of state aid rules etc.), the attractiveness of Liechtenstein increased significantly in comparison to the established financial centres. One of its primary advantages is the internationally recognised, efficient and trustworthy financial market authority, which implements European law consistently and proactively. Furthermore, the EU passport for both UCITS and AIF allows unlimited access to the European markets for fund providers and asset managers. Last but not least, Liechtenstein's EU-law compliant tax system offers one of the lowest tax rates combined with the absence of withholding taxes for distributions.

In Liechtenstein, management and consulting companies of UCITS and AIF benefit from reasonable infrastructure prices and of course from EU market access. In addition, the proximity to Switzerland, Austria and Germany enables a high quality of life for the employees, a factor that increasingly gains importance in the location selection.

## Taxation of funds, management and consulting companies

Funds established in Liechtenstein (UCITS and AIF) are subject to unlimited tax liability in Liechtenstein and thus generally have to meet the same information obligations as any other corporation subject to taxation. However, income from the managed assets are exempt from taxation. As a result, Liechtenstein based funds are in effect not taxed. Moreover, distributions by the fund to its investors are not subject to any withholding taxes.

The key challenge for funds in Liechtenstein is obtaining a refund of foreign withholding taxes. In relation

Liechtenstein offers an outstanding business environment for investors and financial service providers.

to various EU states, there are refund possibilities due to the European non-discrimination principle (e.g. in relation to France, Sweden and Ireland). In relation to non-EU-countries, a refund is only possible for Liechtenstein based investment funds if there is a double-tax-treaty between Liechtenstein and the respective country. Otherwise, a claim for refund has to be examined at the level of the investor.



*«Very good service, short decision-making channels and transparent costs together with European access for the funds have proven their worth for B&I Capital and continue to represent an important pillar of our business model.»*

Charles Isaac, B&I Capital

Management and consulting companies are generally subject to ordinary taxation. The corporate income tax rate of 12.5 % leads to a comparatively low taxation of profits. The notional interest deduction and the exemption of investment income and capital gains further reduce the tax burden on investment income to a minimum.

## Base Erosion and Profit Shifting (BEPS): The importance of substance

The gradual implementation of the BEPS minimum standards increases the pressure on corporate and investment structures with little or no substance. On the one hand, tax authorities question the place of effective management and claim the right of taxation on foreign profits. On the other hand, some countries impose additional requirements regarding substance and economic motives to the application of double tax treaties (e.g. «principle purpose test»). This affects corporations and funds (if entitled to apply the treaty) seeking for relief from double taxation.

Liechtenstein offers excellent conditions for fund management and consulting companies to build an appropriate amount of substance on site. The advantageous location as well as the attractive living and working conditions make Liechtenstein a favourable place of work for specialists from Austria, Germany and Switzerland.

With the double tax treaty between Liechtenstein and Switzerland which is applicable since 1 January 2017, Liechtenstein additionally benefits from the proximity to Switzerland. Corporations already employ Swiss specialists and deploy them e.g. both in Liechtenstein and Switzerland with split employment contracts. The short distance between Liechtenstein and the financial centre of Zurich as well as the supply of qualified employees are an effective competitive advantage compared to other fund locations such as e.g. Luxembourg.

### Choice of an optimised fund structure

The choice of the fund management company, custodian bank, fund promoter, asset manager etc. plays an important role in finding the optimal fund structure. Often too little attention is paid to the robustness and tax efficiency of the chosen investment structure when setting up funds. In view of the stricter substance requirements and the fact that non-refundable withholding taxes negatively impact the fund performance, a solid and well thought through investment structure is decisive in competition. Therefore, fiscal aspects should be taken into consideration already when a fund or new investment structure is set-up.

### Comparison: Positioning in the market environment

	Liechtenstein	Switzerland	Luxembourg	Netherlands
Taxation at the level of the investment fund	none	none	0.01 %/0.05 % <sup>1</sup>	none
Taxation at the level of the fund management company	12.5 %	12.3 % – 24.2 %	29.2 %	25 %
EU market access	yes	no	yes	yes
Withholding taxes on distributions	none	35 % <sup>2</sup>	none	15 % <sup>2</sup>
Possibility to reclaim withholding taxes within the EU without a DTT <sup>3</sup>	yes	no	yes	yes
Stamp duty at the level of the investment fund	none <sup>4</sup>	none <sup>4</sup>	none	none

<sup>1</sup> Yearly subscription tax of 0.01 %/0.05 % on the Net Asset Value, with certain exceptions

<sup>2</sup> Reductions possible if a DTT is applicable and further requirements are fulfilled

<sup>3</sup> Results from the free movement of capital and the freedom of establishment

<sup>4</sup> Liechtenstein and Swiss collective investment schemes qualify for stamp duty purposes as exempt parties. Nevertheless, if the fund management company or the custodian are domiciled in Liechtenstein or Switzerland, securities transactions may be subject to stamp duty

# International cooperation in tax matters



Liechtenstein builds on intensive international integration and cooperation in tax matters as well as a rigorous tax conformity strategy.

The Global Forum on Transparency and Exchange of Information for Tax Purposes gave Liechtenstein good grades within the context of its 2015 country assessments, judging that it was «largely compliant». This means Liechtenstein has the same rating as e.g. Germany and Great Britain.

For years, Liechtenstein has pursued a rigorous tax conformity strategy and has already concluded bilateral tax treaties with over 50 states around the world: With the United Kingdom (August 2009), Germany (September 2009), France (September 2009), the Netherlands (November 2009), the USA (December 2008), Australia (June 2011), Japan (July 2012) and Canada (January 2013), to mention just a few.

## Administrative assistance convention as the basis for the exchange of information upon request

On 21 November 2013 the Principality of Liechtenstein signed the Multilateral Convention of the OECD and the European Council on Mutual Administrative Assistance in Tax Matters (MAC), and ratified this on 22 August 2016. The MAC enables the contracting parties to provide administrative assistance in respect of a wide range of taxes. The exchange of information upon request and the spontaneous exchange of information have been applicable since the beginning of 2017.

The MAC is simultaneously the basis for the Multilateral Competent Authority Agreement (MCAA), which implements global AEOI standards.

## Automatic Exchange of Information (AEOI)

The OECD's AEOI standard includes the obligation to exchange specific information about financial accounts in tax matters. Liechtenstein signed the Multilateral Competent Authority Agreement (MCAA) with 50 further states on 29 October 2014.

Liechtenstein joined the early-adopter initiative of the G5 states (France, Germany, Great Britain, Italy, Spain) concerning the earlier introduction of the AEOI. In a bilateral tax transparency agreement between Liechtenstein and the EU, the introduction of the AEOI was agreed from 2016 with practically all EU member states.

Since November 2016, the Liechtenstein Parliament has agreed to the notification of 60 further partner States. Including the EU States, the AEOI in Liechtenstein thus currently comprises 88 countries. In 2020, the expansion by a further 20 agreements to 108 is planned.



*«Thanks to the long-standing and excellent cooperation with a Liechtenstein management company, I have never for one second regretted the decision to set up a Liechtenstein investment fund. In my view, the fact that communications take place in German and that Liechtenstein is only one hour away are added bonuses.»*

Daniel von Allmen,  
Progressive Capital Partners Ltd

# Sustainability in the Principality of Liechtenstein



In Liechtenstein, sustainability is not just a slogan, but is practised on a daily basis – and not just within the investment fund industry.

Modern society in the 21<sup>st</sup> century sets itself the objective of operating sustainably, in order to pass on an intact social, ecological and economic system to its descendants. Liechtenstein's financial centre actively nurtures the assumption of responsibility as well as commitment in the field of sustainability, and continues to develop this on an ongoing basis.



*«Working together as equal partners – that is for us the central aspect of the long-term partnership with our Liechtenstein management company.»*

Peter Zeier, Quantex AG

LIFE Climate Foundation, yourSRI and the survey on the sustainability of Liechtenstein equity funds.



**LIFE Klimastiftung**  
Liechtenstein

## LIFE Climate Foundation Liechtenstein

The LIFE Climate Foundation was founded at the beginning of 2009 with the support of the Government of the Principality of Liechtenstein, and is a common benefit foundation under Liechtenstein law. The aims of the LIFE Climate Foundation are to promote and raise awareness of the topics of climate protection and sustainability in general. The motto of the successful foundation is «for a better life». It has set itself the mission of protecting our environment for our descendants.

The foundation's patrons are:

- Government of the Principality of Liechtenstein
- University of Liechtenstein
- Liechtenstein Bankers Association
- Liechtenstein Institute of Professional Trustees and Fiduciaries
- Liechtenstein Insurance Association
- Liechtenstein Investment Fund Association



### yourSRI – ESG fund rating per Click

yourSRI.com – a Fintech platform that screens about EUR 15 trillion of assets under management per day, enabling investors with one click to create ESG and climate investment ratings, investment KPIs and investment reports for mutual funds, exchange traded funds (ETFs) as well as discretionary investment mandates. Data are available in 14 European countries and 9 languages.

### Sustainability in the fund industry

Many people still have the preconception that sustainably investing funds perform worse than other investment funds. Recent analyses demonstrate that this is not (or no longer) the case today. Sustainable investments are at least as good and many experts are confident that these will generate even better returns over the next few years. Liechtenstein is very well positioned in this regard.

The results of a study into so-called environmental, social and governance (ESG) criteria of equity funds

highlight the fact that funds in Liechtenstein invest in an exemplary sustainable manner. In relation to the total number of funds, an above-average number of investment funds meet the ESG criteria.

The findings reflect the basic outlook of Liechtenstein, of its government, its inhabitants and its businesses. The country is, for example, a leader in the field of solar energy and since 2014 the global No. 1 in the per capita ranking for the use of photovoltaics. 37.7 % of total farming land in Liechtenstein is organic. This is by far the biggest proportion of any country in Europe, making Liechtenstein also the global No. 1 in this regard.<sup>1</sup> Sustainability is not just a trendy slogan, but is actively practiced in Liechtenstein on a daily basis, not least in the investment fund sector.



*«For over 16 years the Liechtenstein investment fund centre has enjoyed our complete confidence. We have profited from the immense experience of our management company and have always been able to implement the latest regulatory requirements for our fund without difficulty.»*

Daniel Gonzenbach,  
HighValue Partners

<sup>1</sup> Source: Research Institution for Organic Farming (Forschungsinstitut für biologischen Landbau – «FiBL»)

# Investment fund as solution



Increasing regulation within the financial sector, coupled with current market developments, can be mastered more effectively with expert investment fund solutions.

## MiFID II (Markets in Financial Instruments Directive)

### Cross-border sales

Some countries in Europe have used the scope provided by MiFID II to introduce additional regulations regarding sales. Asset managers/consultants who advise investors from several countries need to know and comply with the different rules that apply in the countries of origin of their clients. Under certain circumstances, this can cause a huge workload. However, this burden can be substantially reduced by a dedicated investment fund. The fund management company performs the necessary administration for the cross-border transaction, monitors changes in regulations and provides the required regulatory reporting.

### Ban on commissions

Due to the new ban on commission imposed by MiFID II (Markets in Financial Instruments Directive), many financial service providers have lost an important source of income. Setting up an in-house umbrella fund, which invests in previously offered target funds, represents an effective solution.

This solution fully implements the neutral advice effect that MiFID II was designed to establish. Possible target fund retrocessions flow into the umbrella fund and are credited to the investors. For his part, the financial services provider is entitled to remuneration from his own umbrella fund.

## Investment fund instead of individual asset management

### Reduced administration

Administrative overheads are continuing to rise for asset managers, not least on account of increasing regulation. The workload per client is growing steadily. If several client portfolios are managed via a fund, however, then individual steps only need to be performed once. This would simplify many processes, particularly if a large number of clients are involved, such as e.g. order management and documentation. Reporting is done by the fund management company, thus easing the workload on the asset manager. The result is that new client segments that were previously unprofitable, or that have become unprofitable due to increasing regulation, become lucrative (once again).

### Institutional player

By bringing assets together in an investment fund, the asset manager becomes an institutional player. His fund gives him access to financial sector professionals and service providers who would not have accepted him as an asset manager with a large number of individual clients. By pooling the assets, he is able to obtain significantly more favourable terms and conditions for his clients, along with better order execution, and can profit from the know-how of financial services providers. For example, he is able to acquire bonds on securities trading floors for better prices, or

can obtain access to certain new issues that would not otherwise have been available.

#### Security for asset managers

A fund solution ensures tax conformity, both within the fund as well as in the country of domicile of the client. The management company processes the necessary associated documents.

The performance of a fund is ascertained by an auditor. This ensures that all clients are treated equally, and further reduces the workload of the asset manager. Use of a fund makes sure that the asset manager is properly regulated for his activity. The potential risk of breaching statutory supervisory requirements is eliminated.

#### Bankable assets

Tangible assets, such as e.g. real estate or private equity, can be turned into bankable assets by an investment fund. This enables client portfolios to buy them.

#### Asset structuring

Clients with substantial assets tend to distribute these amongst several banks. Different intermediaries exercise different functions and are compensated for their work in accordance with different remuneration models. At the same time, there are often complex beneficiary as well as ownership circumstances on the client side, which need optimum

long-term structuring and focusing. The investment fund can bring these various interests together. Fund subscribers may be private persons, companies or foundations. Succession planning and settlement can be massively simplified if assets that are difficult or impossible to separate, such as for example family-owned companies, are brought into the investment fund, and then fund units are distributed in various quotas to the individual beneficial owners.

The client receives a supervised product, audited by an auditor that provides the highest degree of investor protection. Reducing complexity by holding the assets for safekeeping and then pooling these at one depository bank or custodian leads on the one hand to a transparent set up, and on the other also tends to cut costs for the client. The financial intermediary remains the contact individual for the client and can exercise a wide variety of functions in the above-described constellation Liechtenstein investment companies (IU) are particularly suitable for asset restructuring, as described on page 9.



*«When expanding Craton Capital in Europe, we compared the established fund domiciles and came down unequivocally in favour of Liechtenstein. Professional, uncomplicated, personal, pragmatic and above board are the attributes that we associate with Liechtenstein as a place to do business.»*

Markus Bachmann, Craton Capital

Re-domiciling means switching from one fund domicile to another. If one has already launched an investment fund, whether within or outside the EEA, and if one wishes to enjoy the benefits offered by Liechtenstein as an investment fund centre, then re-domiciling can be realised without difficulty. Implementation may take one of three forms: By moving the registered domicile, by merging or by making a non-cash contribution/non-cash transfer.

Major advantage of the domicile relocation: The track-record of the fund can be retained.

In the case of a merger, an investment fund is set up in Liechtenstein and the non-domestic investment fund is then merged with this. Very flexible investment fund legislation means that any fund can join forces with one or more other funds within the context of a domestic or cross-border merger, irrespective of the legal form and the domiciliary state of the host fund or transferring fund.

## Re-domiciling

Flexible statutory provisions mean that existing investment funds can be transferred from abroad to Liechtenstein with ease.

In the case of the non-cash contribution/non-cash transfer, the non-domestic investment fund buys 100 % of the units of the Liechtenstein fund with a non-cash contribution. The non-domestic investment fund then goes into liquidation and the investors receive fund units in the Liechtenstein fund as liquidation proceeds in the form of a non-cash transfer.

All re-domiciling variants are realised in accordance with a precise plan. In order to safeguard the interests of investors, the plan is developed by the management company and is overseen by an auditor.

# Master-feeder structures

The regulatory framework enables the efficient implementation of master-feeder structures.

by Günther Dobrauz-Saldapenna and Philipp Rosenauer, PwC  
Switzerland/Liechtenstein

The UCITS V Directive permits the use of master-feeder structures. These structures enable funds' assets to be pooled and managed in a centralised manner. This allows, in particular, management costs and other administrative costs to be spread across a larger pool of assets.

The basic design of a master-feeder structure is relatively simple. One or more feeder funds invest in a master fund at least 85 % of the assets received from their own investors. Thus, it's a dual-level fund structure. The master fund is a diversified investment fund supplied with capital from its feeder funds. The obligatory 85 % investment threshold is a characteristic feature of the feeder fund. A fund that invests less than 85 % of its assets in a master fund is not a feeder fund per se. The result is that the feeder fund can hold units in only one master fund. To protect the investors in the feeder fund and for reasons of transparency, any investment in a master fund must be approved first by the relevant authority in the feeder fund's country of origin.

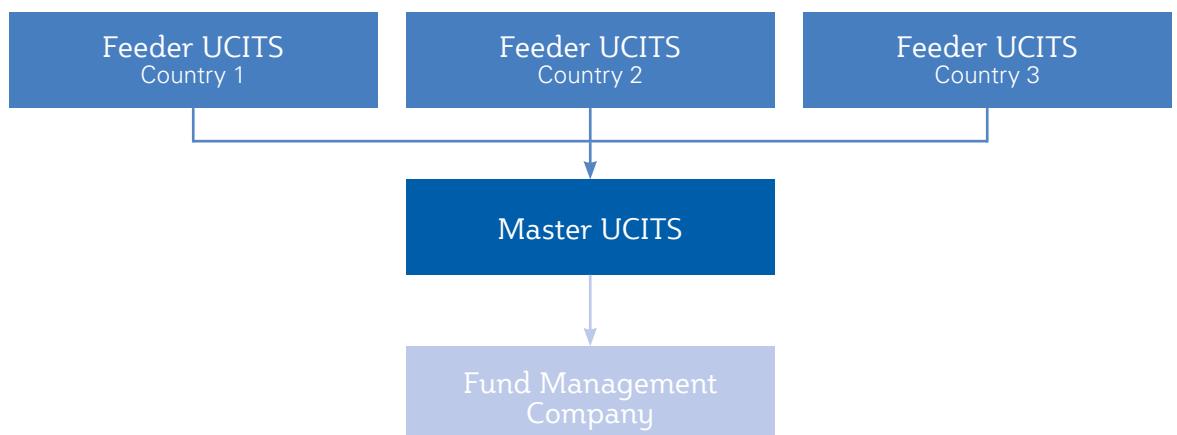
Besides the above-mentioned management and administrative cost savings, master-feeder structures offer other benefits compared with direct investments. From a sales perspective, each product can be designed differently. Local feeder funds can be offered under an independent brand name or under their own name in the various countries in which they are distributed («white labelling»). On the other hand, a master fund manages the assets centrally. In this way, international asset managers, in particular, can address investors' preferences for national products as well as taxation aspects. The feeder fund and the master fund may be subject to different regulations, for example with regard to the fund currency, fee structure and distribution policy.

Because of the high degree of involvement of the feeder fund in the master fund, the former doesn't just contribute strongly to the economic growth of the master fund. Rather, the existence of the feeder fund itself depends on the existence of the master fund.

## Significant cost savings

Given the broad flexibility of Liechtenstein law, the use of master-feeder structures can generate significant cost savings. By pooling funds' assets, synergies can be realised, which can be passed on as higher returns for investors.

## Typical master-feeder fund structures



Source: Dobrauz/Igel, Liechtensteinisches Investmentrecht, p. 81

# The Liechtenstein Investment Fund Association



An industry association that always has an open ear for members and fund promoters and their wide-ranging interests and concerns.

The Liechtenstein Investment Fund Association (Liechtensteinischer Anlagefondsverband – «LAFV») is the official industry representative for the Liechtenstein investment fund sector. Its members include all UCITS management companies, most AIFM and fund sector service providers, such as e.g. custodian banks, law firms, auditors, specialised IT service providers or training institutions.

## Responsibilities

- The LAFV promotes the development of the Liechtenstein investment fund centre and works to continuously boost its attractiveness for fund providers and investors. It aims to achieve this in particular by means of the active further development of the investment fund legislation to meet the needs of the sector, in cooperation with the government, the FMA as well as other Liechtenstein financial associations.
- The LAFV monitors developments at the national and European level that are of relevance to the investment fund centre and keeps its members informed about these.
- The LAFV promotes training in the investment fund field.
- The LAFV represents the interests of the Liechtenstein investment fund sector at national level and abroad.

– With its website [www.lafv.li](http://www.lafv.li) the LAFV exercises the function of the official organ of publication for the Liechtenstein investment fund industry.

The LAFV is an active member of the European Fund and Asset Management Association (EFAMA), of the International Investment Funds Association (IIFA) and one of the patrons of the LIFE Climate Foundation.

Do you have any further questions about Liechtenstein investment funds? Visit our website [www.lafv.li](http://www.lafv.li) or contact us directly.



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Follow us on LinkedIn.

# Links to the Liechtenstein investment fund and financial centre

## Investment fund sector

LAFV website

[www.lafv.li](http://www.lafv.li)

Register for the newsletter **LAFVaktuell**

[www.lafv.li/ENG/NewsletterSignUp](http://www.lafv.li/ENG/NewsletterSignUp)

## Financial centre

At a glance

[www.finance.li/en/](http://www.finance.li/en/)

Liechtenstein Financial Market Authority

[www.fma-li.li/en/](http://www.fma-li.li/en/)

## Important financial sector events

Finance Forum Liechtenstein

[www.finance-forum.li](http://www.finance-forum.li)

Liechtenstein Fund Day | Fund evening

[www.uni.li/de/weiterbildung/themen/recht/tagungen/liechtensteinischer-fondstag](http://www.uni.li/de/weiterbildung/themen/recht/tagungen/liechtensteinischer-fondstag)

## Sustainability

LIFE Climate Foundation

[www.klimastiftung.li](http://www.klimastiftung.li)

yourSRI

[www.yoursri.com](http://www.yoursri.com)

## About the Principality of Liechtenstein

The Principality

[www.liechtenstein.li/en/](http://www.liechtenstein.li/en/)

Liechtenstein as a place to do business

[www.liechtenstein-business.li/en/](http://www.liechtenstein-business.li/en/)

Holidays and leisure opportunities in Liechtenstein

[www.tourismus.li/en/](http://www.tourismus.li/en/)

## Other industry associations

LBV Liechtenstein Bankers Association

[www.bankenverband.li/english](http://www.bankenverband.li/english)

LVV Liechtenstein Insurance Association

[www.lvv.li](http://www.lvv.li)

THK Liechtenstein Institute of Professional Trustees and Fiduciaries

[www.thk.li/en/](http://www.thk.li/en/)

VLGST Association of Liechtenstein Charitable Foundations and Trusts e. V.

[www.vlgst.li/en](http://www.vlgst.li/en)

VuVL Association of Independent Asset Managers in Liechtenstein

[www.vuvli/home-english](http://www.vuvli/home-english)

WPV Liechtenstein Auditors Association

[www.wpv.li](http://www.wpv.li)





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