

The funds business in Liechtenstein

Your location of choice

*A modern funds market in
the very heart of Europe*



Contents

<i>Traditional but far from out of touch – an overview of the Principality of Liechtenstein</i>	4
<i>The funds market in Liechtenstein</i>	5
<i>Why Liechtenstein?</i>	6
<i>Regulatory framework and supervisory authorities</i>	6
<i>Service providers</i>	10
<i>Taxation in Liechtenstein</i>	11
<i>How can we help you?</i>	14
<i>Contacts</i>	15

The funds business in Liechtenstein

Are you looking for an ideal location to start your new funds? Have you ever considered Liechtenstein? You really should as there are numerous advantages.

Traditional but far from out of touch – an overview of the Principality of Liechtenstein

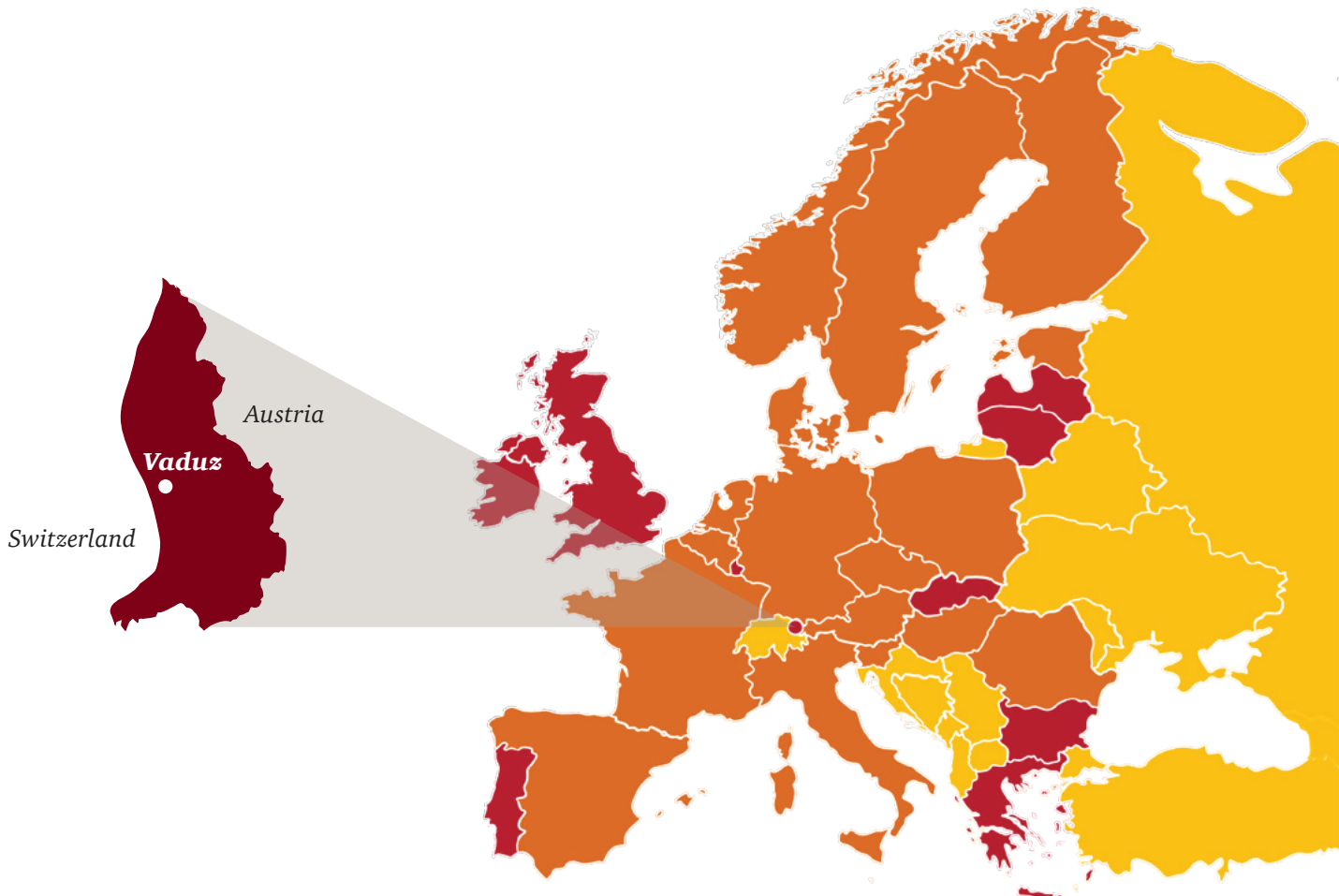
services sector. The official language is German, but people speak an Alemannic dialect.

Although the Principality of Liechtenstein is a hereditary monarchy, the political system has both democratic and parliamentary roots. The head of state is Prince Hans-Adam II von und zu Liechtenstein. The country is well-known for its political continuity and stability.

Being liberal, the government of Liechtenstein strongly emphasises individual responsibility and limits its interference to the absolutely necessary. As a result, Liechten-

«Individual responsibility and limited interference»

The Principality of Liechtenstein is situated right in the heart of Europe, between Switzerland and Austria. It is the fourth smallest country in Europe, but an important financial centre. Consisting of only 160 km² and with about 35,000 inhabitants, Liechtenstein offers almost as many jobs, roughly 20% of which in the financial



stein's regulation is well balanced and still business-friendly. The government is highly committed to offering non-discriminatory access to the financial markets abroad.

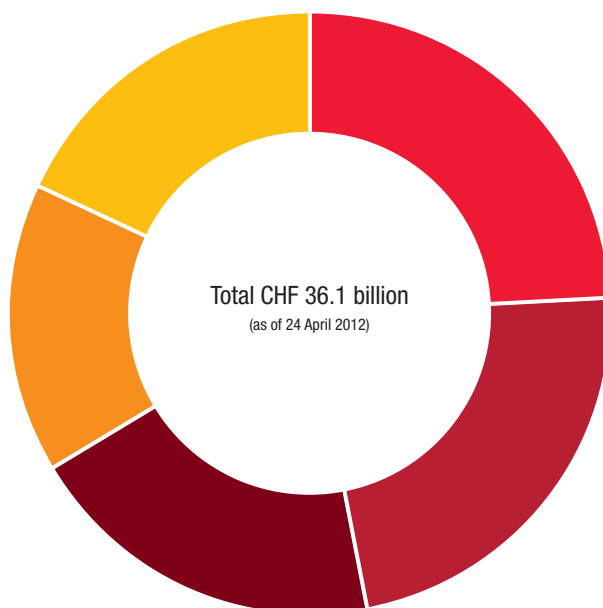
Economically speaking, Liechtenstein has a long liberal tradition. The country's public finances are solid and it strives to be a business location offering the highest quality. Whilst Liechtenstein has been using the Swiss franc (CHF) as its official currency since 1925, the euro is widely accepted. But the Principality has more in common with its neighbour, Switzerland: the two countries also have a common customs treaty.

Liechtenstein is part of the European Free Trade Association (EFTA) together with Switzerland, Norway and Iceland. Liechtenstein has also been a member of the European Economic Area (EEA), consisting of 27 EU countries and 3 EEA countries, since 1995.

The funds market in Liechtenstein

Despite being a small country, Liechtenstein is nevertheless an important market for financial services. As the diagram below dated April 2012 shows, the 727 funds in Liechtenstein had more than 36 billion Swiss francs' worth of Asset under Management.

Funds market in Liechtenstein



Money Markets Funds	24.4%	CHF 8.8 billion
Bond Funds	22.8%	CHF 8.2 billion
Equity Funds	19.3%	CHF 7.0 billion
Mixed Funds	15.6%	CHF 5.6 billion
Other Funds	18.0%	CHF 6.5 billion

Source: Liechtenstein Investment Fund Association

«European market access, solid banks, triple-A rating»

Why Liechtenstein?

- Liechtenstein is unique insofar that it also offers fiscal and political frameworks that are excellent for business.
- Funds in Liechtenstein are internationally compatible. Because of its membership in the European Economic Area (EEA) and its implementation of the relevant EU Directives, Liechtenstein has secured itself non-discriminating access to the European market in all aspects.
- Funds can be launched in an unburdensome and systematic way. The law defines how long the financial market supervision's approval procedure may take for standard products; funds for qualified investors benefit additionally from a simplified procedure.
- The funds market in Liechtenstein has access to a capable banking system. The capitalisation of Liechtenstein banks is among the highest in Europe and even in the world. Personnel is well-educated and not restricted to Liechtenstein. Large contingents of the people who work in Liechtenstein's financial sector are qualified employees from neighbouring Switzerland and Austria. English is widely spoken in the business world.
- Liechtenstein disposes of stringent investor protection rules for the fund business. The business activities of fund management companies are regularly verified by the regulatory authority and the statutory audit firm.
- Liechtenstein's geographical, economical and cultural proximity to Switzerland facilitates business. Liechtenstein can build on a nearly one-hundred years of tradition in private wealth management and today is one of only 16 nations with a Triple-A rating.

Regulatory framework and supervisory authorities

Liechtenstein collective investment schemes may be set up using the following forms:

- Contractual investment fund
- SICAV
- SICAF

The Liechtenstein Financial Market Authority (FMA)

- Supervises financial intermediaries
- Is an autonomous institution and under public law has been granted the freedom of decision
- Is funded by the government which instructs the FMA to ensure and develop the financial centre's credibility
- Its main goals are to protect investors, avoid abuse and to ensure that international standards are implemented
- Has strategic cooperations with important partners, e.g. Switzerland and the Committee of European Securities Regulators (CESR) and exchanges information with these countries/regulators

The collaboration between businesses and authorities has proven to be an efficient and fast way to catch up with recent European regulatory and legal developments.

Revised IUA

In 2005, Liechtenstein amended its Investment Undertaking Act (IUA) which has radically improved investors' protection, giving this aspect the highest priority. Currently, the IUA is applicable to all non-UCITS products. Its main goal is to maintain and increase Liechtenstein's quality as a fund

.....

«UCITSL & AIFML – modern legislation ensures access to Europe»

.....

centre while at the same time aligning itself with European concerns. It allows several different investment fund structures which preserve the individuality of investments.

UCITS Law

Since August 2011 UCITS funds are subject to the UCITS Law (UCITSL). The law governs the authorisation, supervision and activities of undertakings for collective investment in transferable securities (UCITS) and their management companies. This law applies to UCITS established within Liechtenstein or which are offered to the public in or from Liechtenstein. As Liechtenstein is a member of the EEA, the law complies with the European fund law. Fund management companies in Liechtenstein and their UCITS funds benefit from the European passport and the access to the European market.

Possible legal structure of UCITS

A UCITS may take the legal form of:

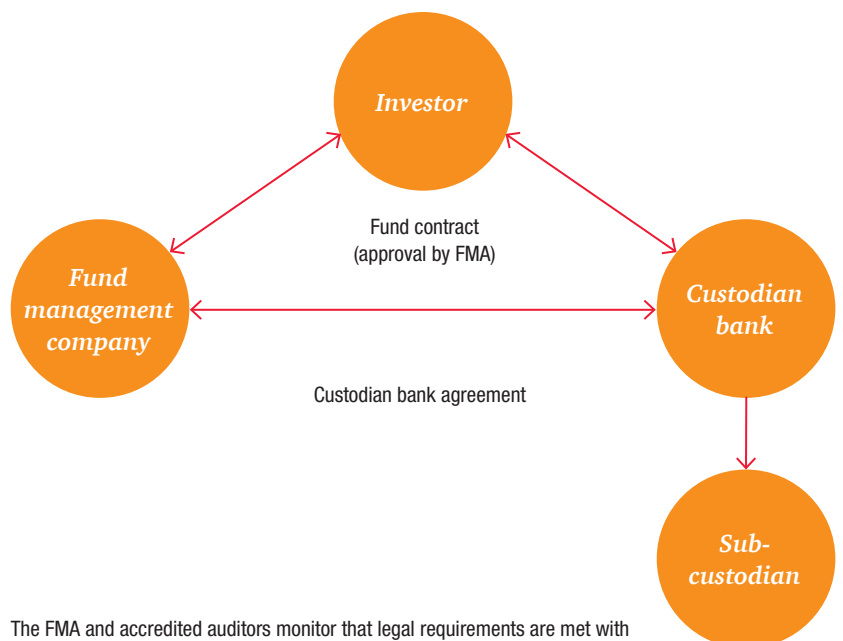
- An agreement (common fund managed by a management company)
- A trust (unit trust)
- An investment company

A common fund is incorporated by several investors, a management company and a depositary for the purpose of investment, management and safekeeping of assets on behalf of investors.

In a unit trust, an indefinite number of investors affiliate for the purpose of investing and managing assets on behalf of the investors. Individual investors participate only on a pro-rata basis as per their shares and are only liable up to the amount they have invested. In the UCITS law, unit trusts are treated as common funds.

.....

Basic structure of a UCITS



The FMA and accredited auditors monitor that legal requirements are met with regards to UCITS, the fund management company and the custodian bank.

.....

The open-ended investment company is a UCITS in the form of a public limited company, a European company (Societas Europaea, SE) or an establishment (Liechtenstein Anstalt). The investment company may be managed by its governing body or by an external management company.

Applying for authorisation

The application for the authorisation of a UCITS has to be submitted to the FMA by the management company or by the investment company. The FMA then has ten working days to decide whether it will allow the application, or in case of the first authorisation of a self-managed investment company, one month. This time limit can be extended to a maximum of four or six months, respectively.

The management company also needs to obtain authorisation to ensure investor protection and the solvency of the management company in question. The time limit to obtaining this authorisation is also one month, but can also extend to a maximum of six months. As soon as an authorisation has been granted, the management company may commence business. Its authorisation will not only be valid in Liechtenstein but in all EU and EEA member states.

Minimum capital

The initial capital of a self-managed investment company must be at least 300'000 euros or the equivalent in Swiss francs and 125'000 euros or the equivalent in Swiss francs for funds with management companies. The initial capital must also equal at least one quarter of the fixed overheads of the previous year; in the case of newly set up management companies, the fixed overheads of the management company provided in the budget activity shall apply.

If the management company's portfolio value exceeds 250 million euros or the equivalent in Swiss francs, the management company must provide an additional amount of own funds, but the required total of the initial capital and the additional amount shall not, however, exceed 10 million euros or the equivalent in Swiss francs.

Depositary

The safekeeping of the assets of a domestic UCITS shall be entrusted to a depositary in Liechtenstein. Only the following institutions may be appointed as depositary: a bank or investment firm, a domestic branch of a bank or investment firm with offices registered in the EEA, another person residing in or with a registered office in Liechtenstein and supervised by the FMA.

The functions of depositary and management company or self-managed investment company must not be carried out by the same company.

Delegation

A management company may delegate part of its own functions to third parties provided this improves the efficiency of the company's business.

Fund mergers and master-feeder structures

The UCITS law allows cross-border mergers, spin-offs and transfers within the EU and the EEA irrespective of the fund's legal form or its domicile.

Furthermore, cross-border master-feeder structures are enabled by the UCITS law. One or more feeder funds can pool their assets into a single master fund. The feeder should invest at least 85% of its assets into a single master fund. The feeder may also invest up to 15% in liquid assets or financial derivative instruments. The master and the feeder funds can be located in different member states of the EU and EEA.

«Clearly defined application process and timeframe»

«Prepared for an alternative future»

«Separation of AIFM and administrators»

All other changes instituted by the European Directive, such as the cross-border management of funds, the merger of funds or the creation of master-feeder structures have also been fully integrated into the Liechtenstein UCITS law.

AIFM Law

In Liechtenstein more than 50% of the entire assets under management (36 billion Swiss francs) are at present invested in alternative investment funds (AIF).

The draft version of the national law for Alternative Investment Fund Managers (AIFML) was published in March 2012 and is expected to be enacted in first half of 2013.

The law applies to AIFMs managing all types of funds that are not already covered by the UCITS law, irrespective of the legal

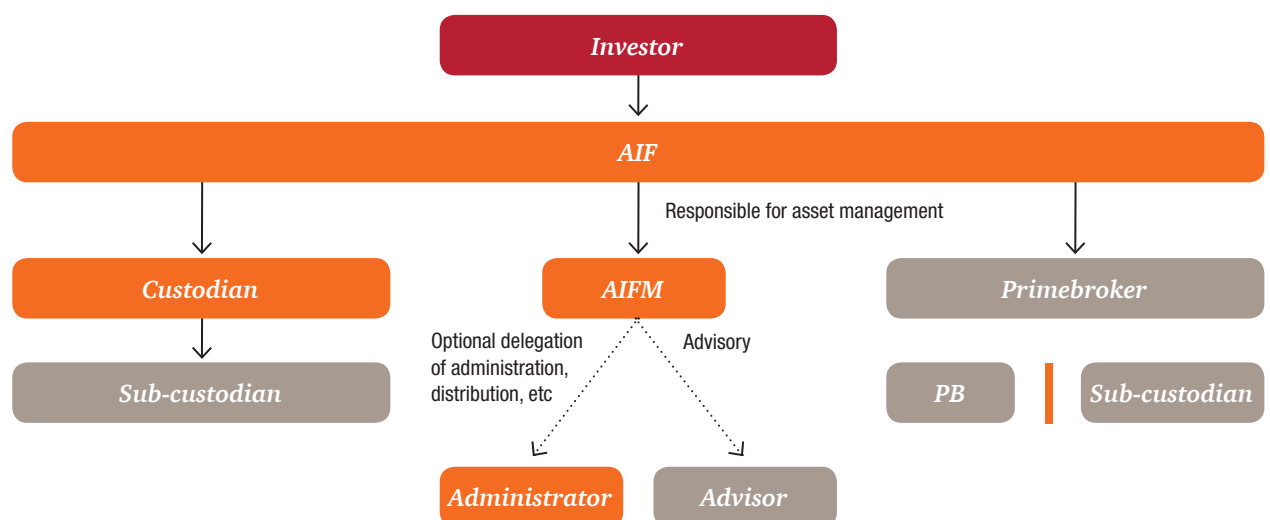
or contractual form. In contrast to the concept of the UCITS law in which the core responsibility lies with the fund management company, the AIFM law places the responsibility for regulatory compliance with the AIFM at the core of the structure. In addition, the concept of an administrator will be introduced. The administration may provide part of the AIFM funding by way of delegation.

Possible legal structure of a company

In addition to the legal structures subject to the UCITS law (see above), two further legal structures are possible under AIFM law:

- The Liechtenstein Limited Partnership (Anlage-Kommanditgesellschaft)
- The Liechtenstein Limited Liability Partnership (Anlage-Kommanditärengesellschaft)

AIF set-up with administrator



The FMA and accredited auditors monitor that legal requirements are met with regards to AIF and AIFM, as well as the fund administrator and the custodian bank.

In a Limited Partnership only one partner is required to be a General Partner. All other Partners are only liable to the extent of their registered investment. The General Partner can either be a Liechtenstein or foreign natural or legal person. In contrast, the Limited Liability Partnership does not have any General Partner, therefore all Partners are only liable to the extent of their registered investment. The Limited Partnership is a similar structure as the Luxemburg SICAR, the American LP or the Swiss KGK.

Applying for authorisation

The draft AIFM law has two distinct threads: (i) the duty to notify and (ii) the duty to obtain a licence from the FMA. A duty to notify exists for example for AIFMs who intend to distribute AIFs only to professional investors in Liechtenstein. Here, AIFMs have to notify FMA and within ten business days after which an authorisation is granted by the FMA (this time-limit can be extended to a maximum of six months). If a license has to be obtained, the FMA has up to three months to grant an authorisation (this time can be extended to a maximum of six months).

The authorisation will then not only be valid for Liechtenstein but for all member states of the European Union.

Minimum capital

AIFs must dispose of a minimum capital in order to ensure the company's continuity, management's propriety and cover any potential professional liability claims to which an AIFM might be exposed. Where the AIFM is appointed as an internal manager of the AIF, the initial capital of at least 300'000 euros or the equivalent in Swiss francs is required. If an AIFM is appointed as external manager for AIFs, the AIFM must have an initial capital of at least 125'000 euros or the equivalent in Swiss francs. If the value of the AIF portfolio managed by the AIFM exceeds 250 million euros or the equivalent

in Swiss francs, the AIFM must provide additional security. That additional security has to be equal to 0,02% of the amount by which the value of the portfolios of the AIFM exceeds 250 million euros but shall not exceed 10 million euros.

In addition to the minimum initial capital requirements above, the initial capital must equal at least one quarter of the fixed costs of the previous year; in the case of newly established management companies, the fixed calculated fixed costs of the management companies provided in the budget shall apply.

Delegation

The managers of AIFs should at the very least provide investment management services. AIFMs are generally allowed to delegate the task of carrying out functions on their behalf to third parties, but the delegation of portfolio management or risk management may not be conferred to the depositary or a delegate of the depositary.

Remember: In order to obtain an authorisation as AIFM either portfolio management or risk management has to be provided by the AIFM in Liechtenstein.

Service providers

Currently, the FMA has granted licences to 20 management companies, of which 14 are currently allowed to manage UCITS as well. Authorisation for distribution according to the IUA is currently granted to 12 companies and 1 individual. As for custodians, there are currently 17 licensed credit institutes available in Liechtenstein to choose from.

Updated lists of the individual management companies and custodians can be found on the FMA website under <http://register.fma-li.li>.

**«Ideal
infrastructure,
access to quality
services»**

The Liechtenstein Investment Fund Association (LAFV) represents all investment fund management companies registered in the Principality of Liechtenstein.

While the Association itself does not engage in any business activities, it is LAFV's mission to promote Liechtenstein as a fund location and to represent the interests of the Liechtenstein investment fund industry at home and abroad. The fact that all Liechtenstein investment fund management companies have so far joined LAFV as well as the close cooperation with the FMA enables LAFV to represent its members' interests effectively at the fund location Liechtenstein. LAFV's website can be found under: www.lafv.li.

Liechtenstein's ideal infrastructure also includes access to a wide variety of services, such as high-quality accounting, fiduciary services, marketing, IT and legal advice and auditing.

Taxation in Liechtenstein

Taxation of fund vehicles/fund assets

Profit tax

Pursuant to the Law of 23 September 2010 on National and Municipal Taxes (hereinafter "Tax Act") investment undertakings along with their entire corporate income, are subject to unrestricted tax liability if their domicile or effective place of management is in Liechtenstein.

Investment undertakings are subject to a corporate income tax of 12.5% of the taxable net corporate income. Yet, corporate income from the managed assets of investment undertakings is excluded from the taxable net corporate income. The notional

interest deduction only applies to the equity capital which is not attributable to the assets managed.

Capital tax

The capital tax has been abolished under the new Tax Act.

Coupon tax

Although the coupon tax on new reserves has been abolished under the new Tax Act, the provisions on the coupon tax of the law previously in force continue to apply to old reserves.

Old reserves are the amount of equity held on 1 January 2011 that does not consist of paid-in nominal capital, capital stock or share capital and to which the law previously in force applied. For open and hidden profit distributions, old reserves are deemed to be used first; the amount of old reserves is carried forward accordingly.

Upon application of the taxpayer, a coupon tax is levied on old reserves even if no distribution has taken place. The amount of old reserves (reduced by the amount subject to the requested taxation) is carried forward.

Notwithstanding the law previously in force, the coupon tax rate on old reserves is:

- 2% – in the case of distribution or application until 31 December 2012
- 4% – in the case of distribution or application from 1 January 2013

Swiss stamp duties

A formation tax is levied, unless Swiss stamp duty law applies.

Due to the customs treaty with Switzerland, Swiss federal stamp duty law also applies

in Liechtenstein. A 1% federal stamp duty is generally payable by legal persons upon issuing shares or other participation rights and the increase in their nominal value, provided the share capital exceeds 1 million Swiss francs.

Securities transfer tax

Securities transfer tax is due on every change of ownership of taxable securities against payment, provided one of the parties involved or the broker qualifies as a domestic securities dealer and no exemption applies. This is irrespective of whether the involved securities dealer acts as a trader, an agent of or for its own account.

The issuance and redemption of fund shares is exempted from the securities transfer tax.

In the course of a purchase, sale or transfer of shares in a Liechtenstein fund (secondary market transactions) through a securities dealer (e.g. Liechtenstein bank), a security transfer tax will be levied, which in general has to be borne in equal parts by the seller and purchaser.

Contractual investment funds and SICAVs are regarded as investors exempted from stamp duty. Therefore, 50% of the stamp duty allocated to contractual investment funds or SICAVs upon the purchase/sale of domestic and foreign securities by the contractual investment funds or SICAV is omitted in these instances.

A SICAF however is not treated as a tax-transparent vehicle. Its legal form is that of a company limited by shares and its taxation consequently abides by those rules.

Value Added Tax

Sales of securities and derivatives as well as participation rights in corporations and other associations, including the brokering thereof, are exempt from Value Added Tax.

Taxation of investors

Taxation of Liechtenstein resident individual investors

Individual investors holding units as private assets

Income on wealth for which the taxpayer pays wealth tax is not subject to personal income tax. Also exempt from personal income tax are other capital gains from the sale of components of movable and immovable private wealth, dividends arising from participations in domestic or foreign legal persons and capital gains from the sale or liquidation of participations in domestic or foreign legal persons are exempt from personal income tax. Capital gains on real estate are subject to real estate capital gains tax.

Individual investors holding units as business assets

Individual investors residing in Liechtenstein that hold their local fund investments as business assets are liable to personal income tax on received distributions from the local funds and on capital gains derived from selling their local fund investments. The income tax rate is progressive; however the effective tax rate can be further reduced by applying the notional interest deduction on the so-called modified net equity (4% for 2012).

In Liechtenstein, dividends arising from participations in domestic or foreign legal persons and capital gains from the sale or liquidation of participations in domestic or legal foreign persons are tax exempt. However, units in investment undertakings do not constitute participation in a legal person. Nevertheless, to the extent that the investment undertaking in turn invests in participations in legal persons, such investments are tax exempt.

.....
**«Modern
tax system,
moderate
tax burden»**
.....

Taxation of corporate investors domiciled in Liechtenstein

Corporate investors domiciled in Liechtenstein are liable for profit taxes on received distributions from the local funds and on capital gains derived from selling their local fund investments. The profit tax rate in Liechtenstein is 12.5%. However, the effective tax rate can be further reduced by applying the notional interest deduction on the so-called modified net equity (4% for 2012).

In Liechtenstein, dividends arising from participations in domestic or foreign legal persons and capital gains from the sale or liquidation of participations in domestic or legal foreign persons are tax exempt. However, units in investment undertakings do not constitute a participation in a legal person. Nevertheless, to the extent that the investment undertaking in turn invests in participations in legal persons, such investments are tax exempt.

Furthermore, if the corporation holding the local fund investments is able to claim the special tax status of a so-called “private asset structure” there would be no taxation apart from the annual minimum tax of 1’200 Swiss francs.

Taxation of fund management

Profit tax

Liechtenstein companies are subject to Liechtenstein corporate profit tax on their worldwide profit. Profit attributable to permanent establishments or immovable property located abroad is however excluded from the Liechtenstein tax base.

The profit tax rate amounts to 12.5% on profits, whereas taxes themselves are not tax deductible. Please note that dividends arising from participations in domestic or foreign legal persons and capital gains from

the sale or liquidation of participations in domestic or legal foreign persons are tax exempt. Furthermore, a deduction for notional interest on equity is granted. The deduction is calculated with a percentage that is defined annually (2012: 4%) on the so-called modified equity.

Value Added Tax

Asset management services and fund distribution services that are provided by a company domiciled in Liechtenstein to a Liechtenstein collective investment scheme are generally regarded as VAT-exempt services and as a result, the input VAT recovery of the Liechtenstein management company will be limited or denied completely.

Coupon tax

See “Taxation of fund vehicles/fund assets” (page 11).

Swiss stamp duties

Issuance stamp tax/formation tax

Depending on its legal form, the management company of a contractual investment fund is subject to corporate taxes. If the management company is incorporated in the legal form of a company limited by shares, then the issuance of shares is subject to a 1% stamp tax, with an allowance of 1 million Swiss francs.

If the management company is incorporated in the legal form of an establishment, then the equity is subject to the foundation tax amounting to 1%, with an allowance of 1 million Swiss francs. The foundation tax is reduced to 0.5% for capital exceeding 5 million Swiss francs and to 0.3% for capital exceeding 10 million Swiss francs.

Securities transfer tax

Securities transfer tax is due on every change of ownership of taxable securities against payment, provided one of the parties or the broker involved qualifies as a domestic securities dealer and no exemption applies. This is irrespective of whether the involved securities dealer acts as a trader, an agent of or for its own account.

The ordinary tax rate amounts to 0.15% for securities issued by a resident of Switzerland and Liechtenstein and 0.3% for securities issued by a resident of a foreign country. The securities transfer tax is calculated based on the consideration of the securities traded.

Financial Transactions Taxation

As a result of membership in the EEA, banks and investment companies based in Liechtenstein benefit from easy and equal access to the European market. However, it is likely that the planned EU Financial Transactions Taxation will not affect Liechtenstein despite being an EEA country or rather, funds domiciled in Liechtenstein may be exempt from such tax as opposed to funds domiciled in Luxembourg or Ireland.

How can we help you?

PwC has an excellent and proven track record in the (re)location of fund management companies and funds. We provide a wide range of assurance, tax and advisory services to a large and varied client base in Liechtenstein, including:

- Procedure of licence approval
- Passporting advice for funds, insurance companies and financial service companies in 30 EU and EEA countries
- Fund structuring under legal and tax provisions
- Regulatory and compliance advice
- Tax advice and tax reporting in/for 30 EU and EEA countries
- Auditing services

We trust this short overview has given you some food for thought. We would be delighted to talk you through some of our findings and show you how Liechtenstein is a location of choice for funds business.

Contacts

Claudio Tettamanti
Market Leader Liechtenstein
+41 58 792 74 46
claudio.tettamanti@ch.pwc.com

Assurance

Adrian Keller
+41 58 792 23 09
adrian.keller@ch.pwc.com

Andrin Bernet
+41 58 792 24 44
andrin.bernet@ch.pwc.com

Daniel Pajer
+41 58 792 24 86
daniel.pajer@ch.pwc.com

Guido Andermatt
+41 58 792 25 40
guido.andermatt@ch.pwc.com

Jean-Sébastien Lassonde
+41 58 792 81 46
jean.sebastien.lassonde@ch.pwc.com

Tax & Legal Services

Benjamin de Zordi
+41 58 792 43 17
benjamin.de.zordi@ch.pwc.com

Dieter Wirth
+41 58 792 44 88
dieter.wirth@ch.pwc.com

Marco Felder
+41 58 792 44 18
marco.felder@ch.pwc.com
(from 1 November 2012)

Regulatory & Compliance Services

Günther Dobrauz
+41 58 792 14 97
guenther.dobrauz@ch.pwc.com

Patrick Meyer
+41 58 792 25 54
patrick.k.meyer@ch.pwc.com

Financial Risk Reporting and Performance Measurement

Dimitri Senik
+41 58 792 23 72
dimitri.senik@ch.pwc.com

www.pwc.ch/liechtenstein