I&F
INDUSTRIE-UND FINANZKONTOR
WEALTH PRESERVATION EXPERTS

NEWS

February 2015

Content

THE ENVIOUS PUBLIC'S PURSUIT OF TRANSPARENCY

For decades, the public has been tutored to believe that the possession of great wealth is fundamentally fishy and that capitalism (a term always tightly laced into a very constrictive and negatively perceived semantic corset) is at fault for the social inequities of this world. At the same time, the Madison Avenue types do whatever they can to reinforce the fantasy that – apart from beauty alone – affluence and the social status that comes with it are the true keys to a fulfilled life. The result: the seeds of a social dichotomy are sewn. On one hand, there are people who yearn to be part of a difficult to achieve ideal. On the other, those who personify that ideal or come pretty close to it are viewed with great suspicion. The gates to envy are thrown wide open.

> Nothing is to be said against transparency per se, as long as it serves to ensure public accountability and stability.

Envy is a handy political tool, a human shortcoming that is played upon by various parties, politicians and communication strategists through the use of pregnant slogans such as «Where are the wealthy in all of this?», «Say yes to social equality» or «Pull the plug on detrimental (tax) competition». The goal of this is to win people's hearts and minds in today's continuing march in the direction of transparency. Nothing is to be said against transparency per se, as long as it serves to ensure public accountability and stability. But that movement, which has been underway for a number of years, has now acquired certain voyeuristic attributes by keying on the state's ostensibly unrestricted right to scrutinise one's private (wealth) circumstances. Here, the communicative jingle is: «Why should information not be made public if one has nothing to hide?»

This whole attempt to harmonise and the deliberate attempt to curtail purportedly harmful competition are pursuing a single goal: namely, to pull successful riders off their so-called high horses and reduce the economic system to its lowest common denominator. Thus one is well advised not to be blinded by sanctimonious slogans and instead ask what the real motivation is behind the whole thing.

The past decades have shown that the principle of competition in fact functions quite well. It helps a society to wend its way out of the poverty zone and achieve a higher level of prosperity for all of its people.

It goes without saying that there have been, are and always will be undesired excesses in a competitive system. But in principle one should not be misled by that fact; rather, the significance of private wealth for stable and sustainable economies and societies should start to be emphasised.

Michael von und zu Liechtenstein
Chairman of the Board

IN THE AGE OF WEALTH PRESERVATION

With the passing of 2014, an extremely disquieting year is now behind us, one in which societal vulnerabilities, economic weaknesses and treacherous ideologies came to the surface in all four corners of the world. The times are tough and our planet offers hardly a safe haven these days, a fact that was underscored in spades this past year.

Emanating from the political, social and economic disturbances that left their scars so noticeably on 2014 are aftereffects that pose a real threat not only to people per se, but also to their assets. Three occurrences stand as prime examples of this hazard to private wealth:

1. The automatic exchange of information (AEOI)*

Dozens of countries have agreed to adopt the OECD's AEOI standard for effect as of the tax year starting in January 2016, and they intend to commence the initial exchange of tax information in 2017. At that point, tax authorities of the more than 50 signatory countries will automatically swap data relating to the bank accounts and securities holdings of taxpayers around the globe. Ostensibly, the AEOI can help to combat tax evasion – or so the argument goes. What isn't mentioned is that certain (G20) states hope to use the AEOI as a way of keeping tabs on private wealth that is assessed abroad so they can realise a significant increase in tax revenue and in turn gain more wherewithal for their public spending policies. Until now, those countries have argued that the AEOI is solely for tax purposes. However, the path leading from mere tax claims towards a general claim to the complete transparency of one's wealth circumstances is worrisomely short. Interestingly, the USA has opted not to take part in the AEOI yet nonetheless insists on blind acceptance of its home-brewed FATCA programme.

> The economic boom years are over for now and an age of uncertainty has dawned.

2. The 2014 bestseller: *Capital in the Twenty-First Century*

In his book entitled *Capital in the Twenty-First Century,* Thomas Piketty, a rising young economist, aims to prove that the alleged concentration of wealth amongst a privileged few is the root of all social inequality. Piketty singles out the free market economy as being the trigger for that disparity, as well as the circumstance that income from capital is given preferential treatment over income from hard work. Consequently, he is of the opinion that annual income in excess of USD 500,000 should be taxed at a 60 to 80 per cent rate. In addition, he proposes that a wealth tax be levied on an individual's asset base. With the resulting revenues, nations could implement a redistribution policy. Unfortunately, in his book Piketty pays no regard to three relevant factors, namely: the fact that capital by its very nature cannot be equated with wealth; that free-market entrepreneurialism is the source of innovative products, services and jobs and thereby fosters the common good; and that income from capital is highly volatile and only in very few cases does it accrue to the benefit of the same individuals. Instead, Piketty adopts the tenor of today's covetous society by positing spurious arguments in support of the political efforts to impose stricter control over private wealth.

> This fact demands the ability to identify trends and interrelationships as well as professional expertise.

3. The concept of a cashless society

Late last year, economist and Harvard professor Ken Rogoff drew attention to himself by expounding on the idea of a cashless world. On one hand, such an approach would hinder money laundering and the financing of terrorism and, on the other, make tax-evasion gimmicks impossible. But in particular, at least according to Rogoff, the central banks would then have another gearstick in their hand: in a cashless world, they at their own discretion could levy negative interest on wealth in order to spur urgently needed economic growth. However, Rogoff conceals the flipside of the coin, namely the stealthy expropriation of people's savings and yet another possibility for collecting personal data. Moreover, the notion that money should not be saved but instead circulate constantly within the economy comes up short of the mark. The net result of that idea would be an increasingly indeterminable pile of debt, a progressively dependent nation of consumers, and a smoothly paved avenue towards total controllability.

These three examples make it patently clear that our world is in a constant state of change. In order to protect one's wealth, it takes a healthy portion of mindfulness, the ability to identify trends and interrelationships at an early stage, as well as the requisite flexibility and professional expertise. The economic boom years are over for now and an age of uncertainty has dawned, one which is inevitably accompanied by the question as to how private wealth can be protected against loss and unjustified confiscation. The answer would be relatively simple: precisely in times of uncertainty, wealth can be safeguarded with the help of a strategy, the use of suitable protective instruments and a conscious approach within one's private sphere. The fact is, though, that the practical implementation of those safety mechanisms is considerably more complex than it appears at first glance, and that many apparently brilliant strategies have failed. The cause for that is frequently based on an analysis that was faulty to begin with: it relied on incomplete and one-sided assumptions, thus the initial wealth matrix was misinterpreted. How can that happen?

Interpreting things is part of human nature. The less we actually converse with each other, the more we interpret. The same applies to wealth matters. Frequently, the details are regulated informally and only discussed with a few family members. Especially when it comes to a family fortune, frank and open communication is avoided out of fear that conflicts and undesired expectations could arise. As a result, the leeway for interpretation is broad indeed. Personal misunderstandings, false hopes and unrealistic aspirations ensue. And precisely that which one wanted to avoid at all costs actually comes to pass: a dramatic increase in the potential for conflict which, when combined with

> The goal of wealth preservation is to reinforce certainty for assets in an unsafe world.

the external threats, can have an unpredictable impact on one's wealth and family. If however communication regarding the family fortune is consciously initiated and shaped, it gives birth to a dialogue which at the appropriate point in time lays everyone's cards on the table and acts to bond the people involved without arousing greediness. It has been proven that conscious and open communication has a positive influence on the perception and hence the feelings and personal attitudes of those concerned.

The hallmark of Industrie- und Finanzkontor is Wealth Preservation Expertise. The goal of wealth preservation is to reinforce the safety of certain assets in an unsafe world. This heightened degree of security requires however that the different views of a family fortune have been articulated candidly, the myriad risks and threats to that wealth are identified and, especially in terms of younger generations, a sense of responsibility for that wealth has been deeply instilled in them. This is where communication plays a crucial role.

We at Industrie- und Finanzkontor support people by giving their wealth and personal values a future. We can look back on an age-old tradition of sustained, generation-transcending wealth preservation. For the requisite experience, we draw on our roots. Learn more about us at *www.iuf.li > Industrie- und Finanzkontor > Our roots in the House of Liechtenstein.*

* Further remarks concerning the AEOI can be found in I&F-News July 2014,which can be downloaded via *www.iuf.li > Our publications.*

Francis von Seilern-Aspang
Managing Director, CEO

LIECHTENSTEIN FROM A DIFFERENT PERSPECTIVE

Liechtenstein – the tiny little country in the heart of Europe; a constitutional monarchy that's been in existence for almost three centuries; a country that can look back on a truly eventful history. People imagine they already know Liechtenstein, but there's much, much more to it than they generally believe. So for once we would like to use this last page as a way of taking you on a brief tour of the heritage and multiplicity of Liechtenstein.

Did you know that Liechtenstein came into being in 1719 through the combination of the Earldom of Vaduz and Lordship of Schellenberg? In 1938, Prince Franz Josef II von und zu Liechtenstein (father of today's Prince Hans-Adam II) became the first prince to actually take up residency in Liechtenstein rather than reign over it from Vienna. The Principality's name derives from a castle situated to the south of that city.

Liechtenstein gained sovereignty during the Napoleonic era. Prince Johann Josef I von und zu Liechtenstein was a field marshal in the Imperial Austrian Army. His bravery and leadership were held in high regard, not just by his own ranks. Napoleon respected him highly and in 1806 consented to inconspicuous little Liechtenstein's becoming a member of the newly established Confederation of the Rhine and being granted the status of a sovereign microstate; this at time when many small countries were disappearing from the map.

Did you also know that Liechtenstein remained an agrarian state until the mid-twentieth century and was anything but rich? A victim of the European malaise during both World Wars, the Principality suffered through decades of unemployment, hunger and devastating poverty. Only in 1945 did its economic upswing start to take shape, with four milestones having marked the way: the strict observance of neutrality in World War II (WWII), adoption of the Swiss franc as Liechtenstein's national currency already back in 1924, the entry into force of the Persons and Companies Act (i.e. the Civil Code, or PGR) in 1926, as well as a liberal stance that fostered entrepreneurialism and the rapid development of the Principality as a location for industry.

Did you know that a foundation already served in the Middle Ages as an instrument for enabling wealth to be directed towards a specified purpose? The Liechtenstein foundation is the civil law equivalent of an Anglo-Saxon trust. The rationale behind a Liechtenstein foundation is to preserve one's fortune over the long term and for the benefit of generations to come, this under the superintendence of the Foundation Board who ensures that the wealth is administered in keeping with a predetermined intrafamilial, extrafamilial or charitable purpose.

Today, Liechtenstein is one of the world's most industrialised nations. The electric drill you perhaps used recently; the steering gear box in your car; the crystal rhinestones that decorate your daughter's jeans; the convenience food or pre-packed pizza you ate the other day; or even dental implants – all of them could actually have their origin in Liechtenstein. The Principality is home to a wide array of renowned companies.

Did you also know that Liechtenstein is a member of major international organisations? Since 1978, it holds a seat on the European Council, in 1990 it joined the UN, in 1991 EFTA and in 1995 the EEA and WTO. Liechtenstein is also a member of Moneyval, the European Council's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism.

With a surface area of 160 km^2 (62 square miles), Liechtenstein is divided into eleven municipalities where one public and one private university are located, as well as a research centre, two think tanks and a geopolitical information service. Communities with a rich, multifaceted cultural life, where wine is made, whiskey distilled, beer brewed, coffee roasted and international-award-winning custom Harleys are built. And several of those communities can be traversed once a year as part of an alpine marathon.

And were you also aware that Liechtenstein is frequently described as «So small, but so beautiful!» by many visitors and quite a few locals, too? Malbun – a quaint village where the winding mountain road ends in a horseshoe canyon – is very popular amongst families from near and far. There, you can ski and hike to your heart's desire, high up in the Alps that loom majestically over the Princely castle and meandering Rhine. Indeed, tiny Liechtenstein has more to offer than you can sightsee in one day.

The Principality's first bank was founded in 1861. The Liechtenstein financial centre blossomed along with the post-WWII economic recovery and throughout its history has upheld the tradition of transgenerational wealth preservation and a long-term approach to wealth management. This erstwhile farming nation has evolved into an uncommonly stable, highly competent and remarkably diverse business location that offers world-renowned products, a broad range of first-rate services and an exceptional quality of life.

Liechtenstein – the tiny country with a unique profile!

Susanna Gopp
Communications Officer

INDUSTRIE- UND FINANZKONTOR ETS.
P.O.Box 339 . Herrengasse 21 . LI-9490 Vaduz . Liechtenstein
Phone +423 237 58 58 . Fax +423 237 58 59 . www.iuf.li . contact@iuf.li