



INDUSTRIE- UND FINANZKONTOR

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Content

Family Governance: a stabilising factor

Due Diligence: Stability and Protection



It is the charge of any state to create the fundamental conditions that foster the economic and social wellbeing of its citizenry, as well as to conceive and pursue prudent, sustainable financial and fiscal policies that secure its own long-term viability as a state.

The current move to bring about uniformity in the area of taxation is the consequence of negative politico-economic developments and a result of excessively expansive

Sustainable Family Structures

budgetary policies. Tax harmonisation will lead over the long run to a general upward shift of tax rates to the highest possible level – because where no (tax) competition exists, there is no longer any reason to be concerned with the productivity or location-specific attractiveness of one's own country. Public budget discipline falls by the wayside, and in the end the populace gets to pay the bill. That type of financial and fiscal policy-making destroys private wealth.

By contrast, a decentralised fiscal approach serves as a seedbed for competition between states and regions, which in turn forces them to deal in the best interests of their own citizens and remain attractive to private individuals and entrepreneurs alike. In a competitive environment, the consumer (i.e. the citizen) has the choice and can opt for what best suits his or her own needs and interests. Many studies reveal that tax competition, which most often evokes a negative association in the public id, is in fact a major element of personal liberty.

In terms of the citizenry, the family – as the smallest social unit – is accorded a key role: it constitutes the backbone of the state. Family-run companies, thanks to their ongoing hereditary governance and innovative approaches to wealth management, are a driving force behind economic and social development. For that reason it is essential that the state recognises and endorses the importance of family structures rather than razing them to the ground through undisciplined fiscal policies or labyrinthine inheritance and personal property regulations. For their part, entrepreneurial families are faced with the task of protecting their wealth, not just from external onslaughts or unfavourable economic and legal circumstances, but also from intrafamilial problems such as the squandering of that wealth.

Ultimately, the safeguarding of sustainable family structures and their assets promotes the development of the community as a whole.

Michael von Liechtenstein

Family Governance: a stabilising factor

A well-adjusted, properly functioning family is the highest good of man. As the primeval social network, it prepares one for life and lays the cornerstones for the future of each family member. And further down the path, the family affords its members assistance and protection.

Each person creates his or her «own reality». In so doing, one draws on the values and traditions imbued through the family experience. They represent the polestar for familial interaction and guide the way people treat not only themselves and others, but also material assets. Family values are decisive indeed in the perception of right and wrong; in one's personal actions. And they are the reflection of a family culture that determines the family's own success.

Family wealth constitutes a responsibility: «Wealth obliges» – a widely known dictum that represents more than just empty words. Generally, people associate wealth with something wonderful, soothing. Family wealth, for example, broadens one's personal leeway in life and facilitates the independence and flexibility of family members. It also can make an essential contribution to economic development. That is especially the case in terms of successfully run family companies, via which society as a whole actually benefits from private wealth. But it also takes other forms, such as the *patronage of the fine arts* or *research & education*, as well as privately supported infrastructure projects and public buildings – not to mention philanthropic activities on behalf of society. Thus family wealth serves not only private purposes; it can also further the common good.

The term «wealth obliges» already implies the task of dealing with wealth: namely safeguarding it, multiplying it and enabling the problem-free intrafamilial and extrafamilial transfer of that wealth. That of course calls for farsightedness and timely planning. The fam-

ily culture influences to a very significant degree the ways and means of managing family fortunes.

The potential for family conflicts:

Each family member strives to develop, spread their wings and realise their own visions. But out of those personal endeavours, family conflicts can emerge and ultimately pose a threat to the family fortune. The deployment as well as the conveyance of assets is an endeavour replete with difficulties. The views on the long-term preservation or application of a family fortune can differ too greatly, as can the personal motivations of family members. Thus it is also understandable that, amongst the parties concerned, questions can come up such as:

- How can I support projects of family members?
- How can I safeguard my family in emergency situations?
- How can I see to it that my family gets the best upbringing/education?
- How can I ensure that something will also be left over for my grandchildren?
- How will the family company be maintained after my passing?

There is no «one size fits all» solution to these conflicts and difficulties, the same way there is no standard model for managing one's family or assets. But there are methods by which the issues surrounding family and wealth management can be clarified at an early stage and unnecessary contentious situations avoided. *Family Governance* is one of those methods.

Family Governance – a stabilising factor:

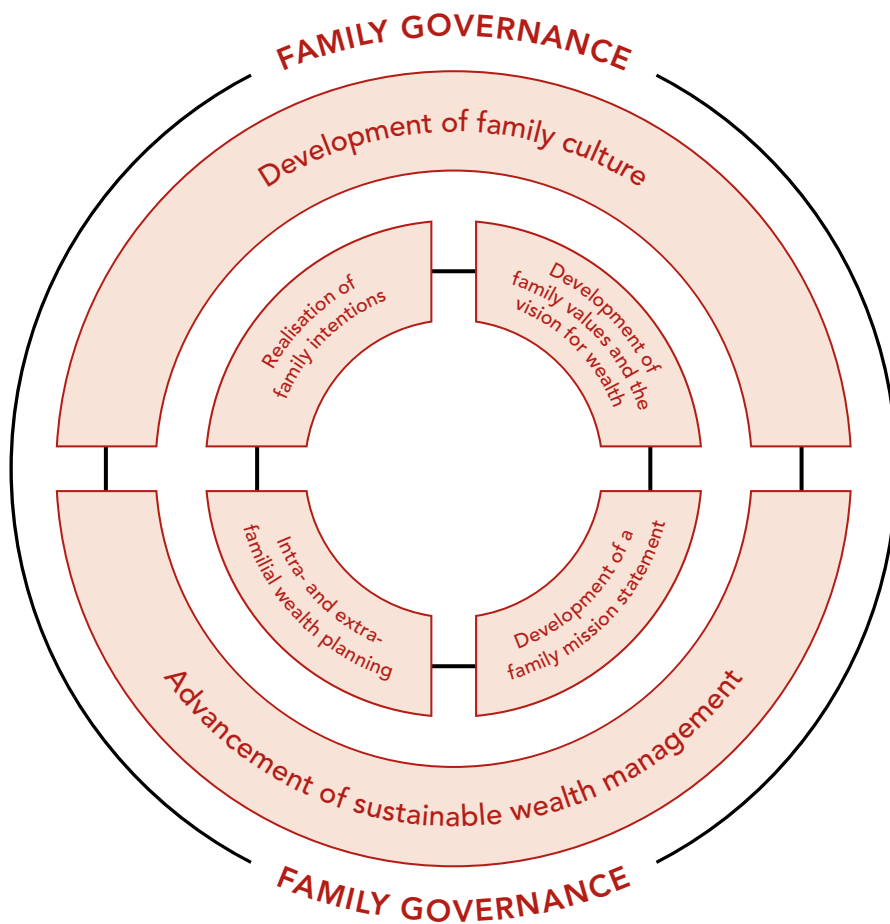
What an expression: *Family Governance*. As cold-hearted as it may sound, it connotes the conscious sense of responsibility that comes along with a family fortune. And it has the purpose of specifying in a timely manner the purpose, handling and conveyance of family wealth. Similar to *Corporate Governance*,

Family Governance establishes the framework for an approach to family and personal asset management that is value-oriented and sustainable. Value-oriented, because values provide orientation; and it is precisely those values that precipitate over time in the form of intrafamilial behaviour and personal dealings. Sustainable, because future generations should be taken into account as well. Via *Family Governance*, generation-transcending competence in the handling of a family fortune can be engendered and family cohesion and self-determination assured.

Family values and the vision for one's wealth:

The point of departure for *Family Governance* is rooted in family values and the vision as to the use of one's wealth. Family values shape the way in which loved ones interact with each other; they also foster solidarity and the ability to stand up in public as a family. Accordingly, family values should also apply to newcomers (e.g. marriage partners and of course the younger generation of family members). Family values are key players in future family decisions. So what in fact are family values? For example, *fairness, transparency, solidarity*; and the list goes on and on. The family members decide which factors are essential to the successful cohesion and self-determination of the family. Once that has been established, conscientious observance and living by those values enables the family culture to develop further.

Then there is the vision: it reflects the future concept a family has in terms of its fortune. Here, the members need to address a bevy of questions; just one example: «What should be done with the family fortune over the long run?». From those deliberations comes the answer as to how the wealth is to be managed. Thus the wealth vision lays the groundwork for intra- and extrafamilial asset planning, which in turn enables concrete steps to be defined with regard to matters such as the investment strategy, financial and investment



planning, estate planning, tax planning, etc. Both the wealth vision and family values are always oriented towards the long term.

Family mission statement:

The family mission statement is based on the wealth vision and family values. It is put down on paper and documents the family’s self-perception with regard to family and wealth management and includes the fundamental principles that family members want to take their bearing from. It states what the family stands for, what the members wish to achieve jointly, and the values they will uphold in their actions – as well as which precise roles the individual members are accorded under this arrangement. All significant family decisions are taken in keeping with the family mission statement. For that reason, it is important

that the mission statement is composed in such a way that it can actually be lived by. The family mission statement represents the framework for wealth planning.

Intra- and extrafamilial wealth planning:

Based on the principles defined in the family mission statement, wealth planning can be conducted. In this process, the intrafamilial asset plan focuses on the long-term investment objectives of a family, e.g. the educational path for family members, plans for the preservation of capital, as well as estate and succession planning. The medium-term need for liquidity can then be derived from these investment objectives and hence the approach to budgeting as well as financial and investment planning. Extrafamilial wealth planning centres on the philanthropic

and entrepreneurial intentions of family members. Here, too, the principles laid out in the family mission statement constitute the framework for how suitable projects are to be identified and evaluated or, alternatively, how personal projects are to be sketched out and planned.

The purpose of intra- and extrafamilial wealth planning is to identify the intentions of family members, reduce the potential for conflicts, and secure both the material and nonmaterial future of the family.

Realisation of family intentions by means of Liechtenstein legal entities:

Liechtenstein corporate law has decades of tradition and ensures legal certainty as well as asset protection. Liechtenstein legal entities – in particular, Liechtenstein foundations and trusts – have proven to be appropriate vehicles for the realisation of family intentions. Their structuring possibilities afford the founder the requisite leeway as to the specific design, and the autonomisation of assets takes into account the need for asset protection. The entire *Family Governance* process can be implemented and administered via a Liechtenstein legal entity of this nature.

Industrie- und Finanzkontor:

We speak out of years of professional experience when we say that we are highly conscious of the problems and difficulties with which wealthy families are confronted. A harmoniously functioning family is indeed the highest good of man. And in this spirit, we advise and accompany families in the introduction and performance of *Family Governance*. We seek out solutions that satisfy in the best possible way the specific needs of those families as well as reinforce the family unit.

Industrie- und Finanzkontor is the «general contractor» in this regard; one that acts solely in the best interests of its clients.

Due Diligence: Stability and Protection



Markus Büchler
Compliance & Human Resources Officer
Member of the Management Board, Director

Dear Reader

For many people, the term *Due Diligence* might trigger the initial thought: «Ugh, what tedious obligation.» – Due Diligence is neither colourful nor spectacular nor exciting. It is conservative, watchful and demanding. But on closer inspection, the concept of Due Diligence is fascinating precisely because of those characteristics.

Due Diligence enables a company to act in a prudent, circumspect and thoughtful manner. Yes, it calls for compliance with legal provisions and regulatory standards. But more importantly it also helps one to arrive at implementable internal Due Diligence criteria that reflect the company's own values and principles. In keeping with the spirit of Due Diligence, business relationships can be scrutinised with a more alert eye and potential risks can be investigated in good time or, as it were, in good times. By doing so, risks can be avoided or at least minimised. With the Due Diligence, companies as well as their customers can count on stability and protection.

Liechtenstein's Due Diligence Act has been evolving over the past decade. However, al-

ready in the late 70s, Liechtenstein banks for example committed to ascertaining the identity of their clients. Later on, the actual beneficial owner of the assets also needed to be identified. Then, in 1996, the Due Diligence was finally anchored in law and the pre-existing ban on the receipt of stolen goods was reinforced. Ever since, the various provisions have been augmented and fine-tuned.

For Industrie- und Finanzkontor, Due Diligence is synonymous with responsibility – responsibility towards our long-existing as well as future clients. Due Diligence starts with the establishment of a client relationship and only ends if and when the relationship is discontinued, whereby the ongoing obligation to retain Due Diligence records must be taken into account. Through a formal Due Diligence audit conducted in conjunction with the initial advisory discussion, we come to know our clients, the possible beneficiaries and the provenance of their assets. However, Due Diligence applies throughout the entire client relationship and enables us at all times to examine and gain comfort with the plausibility.

Apart from those legal provisions and regulatory standards, the question also arises as to how we can sensibly define our own internal Due Diligence criteria, for example as they pertain to the handling of client data and the credibility of the *know-your-customer* process. To that end, we have established internal guidelines that constitute an integral part of our employment contracts. Together with the legal and regulatory stipulations, these internal guidelines give our employees a sense of orientation and security in the way they deal with clients and client data. For us, Due Diligence represents the polestar for assessing risk, even as it constitutes a key element of our own risk management. On the basis of these internal guidelines, we can conduct the material Due Diligence audit of specific asset transactions.

Even though Due Diligence may appear tiresome at first glance, as soon as one takes a closer look it becomes clear that Due Diligence affords a multitude of opportunities. Everyone benefits from a properly functioning Due Diligence – because thanks to that, not only clients but also employees and other stakeholder groups can count on long-term, stable and sound corporate management. And by its very nature, the Due Diligence fosters protection of the individual.

Markus Büchler