

PRINCIPALITY OF LIECHTENSTEIN – THE FIRST COUNTRY WITH BLOCK CHAIN LAW

BLOCK CHAIN TECHNOLOGY IS MORE THAN JUST CRYPTOCURRENCIES

When encountered with the term Block Chain, one automatically thinks of the cryptocurrency Bitcoin. But Block Chain is much more than Bitcoin, it is a new technology with the potential of making far-reaching changes to vast areas of our society and economics. Its numerous possible applications have put block chain technology back into the public eye. Liechtenstein is the first country in Europe which has decided to create legal certainty by issuing a block chain law.

New technologies are constantly changing society and economics. When telephones hung on the wall and the receivers were connected to the apparatus by a cable, no-one could envisage a mobile phone revolution: The constant willingness to glance at your smart phone is one of today's significant social characteristics, as well as being reachable in any location and at any time, not to mention gaining instant access to the latest world news. Digitalisation is not limited, however, to the telecommunication sector but encompasses ➔

LIECHTENSTEIN PROVIDES LEGAL CERTAINTY

The international financial crisis of 2008 caused Liechtenstein to re-examine its traditional areas of business activity, to transform the financial market place and to adhere to global regulations. A decade after this turbulence, the financial market place Liechtenstein presents itself in a more consolidated and stronger position. The transformation has paved the way to take on new challenges and new developments.

These challenges and developments include block chain technology which has entered the field of business at a tremendous speed. What appeared unthinkable only a few years ago has become reality through so-called fintech companies. These technological innovations have led to previously unknown financial instruments and services. Block chain technology is leading us towards the development of further unexpected possibilities which also include areas outside the traditional financial service sector.

Liechtenstein welcomed the fintech challenge with openness. The Government and the Financial Market Authority have jointly created a "Regulatory Laboratory" which assists start-ups and established financial providers in questions of supervision and regulations. This offer was accepted willingly by the developing market because new companies rely on legal certainty during their initial phase and legal certainty also counts as a location advantage for internationally active operators.

The block chain field has a special role within fintech development because legal certainty is provided for transactions and procedures without the necessity for an intermediary. In order to ensure legal certainty in this field, the Government created the block chain law.

The passing of the block chain law should be concluded by the end of 2018. It is expected that the Government will present, in the course of procedures, a draft bill to Parliament in the coming year. This will enable the new block chain law to come into force by the beginning of 2020.

The New Block Chain Law Makes an Important Contribution to Liechtenstein as an Attractive Location

EDITORIAL



We are living in a digital age. A world that is unimaginable without the use of a smart phone to cater for every facet of our private and business life. Approximately a quarter of a century ago, when the World Wide Web was made available to the general public, the world was given the starting signal for a digital revolution, the extent of which could not have been envisaged. Block chain technology could provide us with a similar experience. This basic technology provides a multitude of possible applications, not only for the financial service sector but practically for all businesses and even your private sphere.

Whenever a new field of activity is developed, regulations are required in order to prevent misuse. Liechtenstein is developing a block chain law, its main function being to provide legal certainty for block chain users.

Yours sincerely,

Dr. Norbert Seeger

all areas of life and economics in today's society. Motorcar manufacturers are working on automated vehicles, transport companies are considering supplying goods by drone and in the manufacturing industry, robots are finding more and more applications. Within the framework of advancing digitalisation, block chain technology shows itself as the latest development, which perhaps retrospectively could be described as a technological revolution.

Block Chain Technology as the Motor of a New Innovation Wave

Blockchain is still largely equated with cryptocurrencies. This impression has come about because Bitcoin is one of the first applications of block chain technology that has become widely known. The possible applications of block chain are, however, far more extensive, almost unlimited, because block chain is, more or less, a public ledger which stores all transactions decentralised on the participants' computers. Transactions are coded, structured in blocks and chained together, which gave rise to the term block chain. The advantage of block chain lies in the fact that the information stored cannot be falsified and does not have an expiry date. Whether it be currency, knowledge or goods, block chain allows business activities to be conducted directly without the necessity of an intermediary. Many transactions using cryptocurrency no longer require a bank as an intermediary because payments are made directly between business partners, thus reducing considerably the administrative effort. The applications of block chain, however, extend far beyond transactions e.g. so called Smart Contracts, which are software-based renting contracts, the regular supply of goods or services but also the delivery of goods and components by logistic companies or the seamless documentation in the used car market, where all the information from the manufacturer, garages and insurers is stored.

Liberal economic structure and short administrative routes have induced a number of block chain technology companies to consider Liechtenstein as their location. In 2017 alone, the "Regulatory Laboratory", the competence centre at the Financial Market Authority in Liechtenstein, supported over 100 fintech enterprises by providing regulatory advice in

regard to the founding of a company. The vast majority of these companies were considering new business areas in the financial service sector. Other companies are developing innovative business models outside the financial services using block chain technology. The Government's intention to foster the location and development of new companies by offering an attractive framework has started to take hold. The associated hope is that block chain technology could be the motor for a new innovative wave of development.

Improved Customer Protection and Reduced Reputation Risk for Liechtenstein

Liechtenstein encourages innovation within the framework of block chain technology, but is also aware of the necessity for regulatory measures, which minimise the risk connected with this technology. Liechtenstein is the first country in Europe to initiate a block chain law which provides at its core legal certainty for providers and users of block chain business. Because of the high innovative speed of block chain technology and its varied applications, a white paper, in the form of an abstract, was presented to interested parties in the second half of 2018, in order to ensure its validity for generations of follow-on technology. Consequently, the law uses the term "Transaction Systems Based on Trustworthy Technology" (in German: "Vertrauenswürdige Technologien" abbreviated to VT Systems). Since block chain technology is already actively being used in Liechtenstein, the law will set out the conditions which apply to activities of block chain systems in order to increase customer protection, on the one hand, and reduce the reputation risk for Liechtenstein, on the other. Bearing in mind the great importance of the financial service sector, this fundamental law should assist in bridging the gap between established companies and block chain applications.

The Government envisages the use of block chain applications for banks as well as asset administrators and for funds as well as insurance companies. In order to grasp the application potential as completely as possible, the legal construct "Token" will be introduced: In contrast to the various current uses of this term, Liechtenstein has defined "Token"

Block Chain Technology Permits New Services at Low Cost for Digital Transactions

as “information on a trustworthy technological system” i.e. a new legal element which embodies all forms of rights. Despite the fact that different types of tokens are distinguished internationally, Liechtenstein has waived a corresponding classification. A legal basis will be formed for an extensive application of the “Token Economy” together with legal certainty for cases which are, in essence, currently recognisable.

Obligation to Register and Minimum Requirements on Business Activities

The application of block chain technology in new business fields can only be governed partly by current regulations and thereby represents a potential risk. The Liechtenstein Financial Market Authority (FMA), through its Regulatory Laboratory, has determined that new fintech companies are willing to be regulated. The underlying reason being the associated legal certainty. The draft of the block chain law does not envisage regulating technology but considers the regulation of Trustworthy Technologies (TT) Service Providers to be more efficient: The providers of such services should be obliged to undergo a critical examination of their TT systems. The advantage seen in this regulation is that service providers are able to react swiftly to new developments in the field of TT systems. Minimum requirements for TT service providers resulting from user protection, upholding international standards and maintaining Liechtenstein’s reputation are deemed to be of utmost importance: This includes a clear organisational structure with separate, transparent and coherent areas of responsibility, internal control mechanisms applicable to the field of activity as well as a minimum capital of CHF 100’000 or equivalent security.

The Government is aware that as a result of these legal requirements, TT providers are presented with a hurdle which does not exist in other countries. In contrast to providers located abroad, service providers located in Liechtenstein are required to register. Registration and minimum requirements on the field of activity should be seen by customers as a stamp of quality and act as a sales argument. As the time factor often plays an important role in the foundation of a company, the State foregoes an extensive examination of new companies. A less

time-consuming registration procedure by the Financial Market Authority comes into play; they are equally responsible for companies whose business activities do not fall into the field of financial services.

Liechtenstein – The Ideal Location for Innovative Ideas

According to the Government, the block chain law should fulfil the role of providing an impulse for innovative business models – irrespective of whether



BLOCK CHAIN IN THE STABIQ TREASURE HOUSE

The STABIQ Treasure House is an absolutely secure place to store your valuable objects. Safes and vaults maintain the highest security standards. Individually designed facilities are particularly suited for the safekeeping of gold and precious metals, valuable watches and jewellery as well as exclusive coin collections. The climatized environment provides favourable conditions for the storage of paintings and works of art which can be presented to art-lovers in an exquisite atmosphere of the specially designed showrooms.

Block chain technology also opens new and till now unforeseen possibilities for the STABIQ Treasure House. The application of these innovative technologies extends far beyond the field of digital currencies which is currently still at the forefront. In particular, because block chain is an electronic ledger of digital data and transactions, numerous opportunities can be developed with respect to valuable objects which are stored in secure safes or vaults.

CRYPTO STORAGE

Trading cryptocurrencies is increasing in intensity and needs to be secured by a physical backup solution. Each crypto wallet has its so-called seed, a private and secret key which permits access to the crypto wallet. It is recommended that wallet and seed are stored separately in a high-security facility – safe from third-party access. STABIQ Treasure House offers state-of-the-art safekeeping solutions.

Block chain application could be of importance for art and valuable objects as a manipulation-secure data bank. Compared to traditional methods, block chain has considerable advantages, especially in tracing ownership. It is also possible because of the Peer-to-Peer System of block chain technology to conduct transactions of works of art directly between participants with no necessity for an intermediary. Block chain technology apart from cryptocurrency is still at its early beginnings. Thanks to encryption and decentralised distribution of the data bank in a network, block chain is considered to be forger-proof which is, especially in the case of valuable objects, of significant importance.

Liechtenstein's New Block Chain Law Provides the Necessary Legal Certainty for All Participants

it is an established company or a start-up – and an attractive environment for creating the necessary legal certainty. With the backdrop that digitalisation has, and will continue to have, great dynamic influence on the economy and society, the Government considers Liechtenstein's innovative ability to be a central factor in the future development of the country. The Government considers Liechtenstein, ultimately through the introduction of the new block chain law, to be an ideal location for the fulfilment of innovative ideas which can be brought to market fruition.

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