

STABSSTELLE FINANCIAL INTELLIGENCE UNIT
DES FÜRSTENTUMS LIECHTENSTEIN

Annual Report 2021

Financial Intelligence Unit (FIU)
of the Principality of Liechtenstein

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«The Evil That Men Do Lives On And On»

Smith/Dickinson/Harris

I. Foreword

5 | Dear Readers

At the time of writing of this annual report in the first quarter of 2022, it's very difficult for me to remember the past year. So many terrible things have already happened this year that will permanently change our world. With its military attack on Ukraine, the Russian Federation has brought immense suffering to the people of the region, setting back international cooperation and mutual trust by years, if not decades.

For the Financial Intelligence Unit, this new situation means that – in addition to our traditional activity of receiving and analysing reports of suspicion – our focus is increasingly on a second responsibility that has often been more of a side job: monitoring and enforcing the implementation of international sanctions.

Already over the past few years, the analysis of fact patterns has become increasingly important which – in addition to indicators of money laundering – might also provide indications that sanctions are being evaded. We have talked about this repeatedly in our annual reports and public appearances and decided to publish a semi-annual casebook in 2021. This casebook packages cases into a suitable form as typologies, pointing interested readers to processes that should be clarified further. We have decided to divide the casebook into sections covering money laundering, international sanctions, and terrorist financing. Cases concerning virtual currencies and other incidents are also presented. The casebooks can be found on our website at www.fiu.li. This format has met with a positive response, which is why we will continue it and no longer present the typologies as part of our annual report, but rather again in specifically designed casebooks.

Overall, 2021 was a very work-intensive year. In addition to the unbroken strong increase in reports of suspicion for the fourth year in a row, MONEYVAL conducted its on-site assessment of Liechtenstein. The MONEYVAL report is expected to be submitted to the plenary session of the Council of Europe in May 2022.

The increase in the number of reports of suspicion was due to the rising number of reports from banks and, once again and most significantly, from virtual asset service providers (VASPs). The number of analysis reports submitted by the FIU to the Office of the Public Prosecutor, the Fiscal Authority, and the Financial Market Authority also increased.

The Government approved two new positions for the FIU for the year 2022, the budget items for which were then confirmed by Parliament. I would like to take this opportunity to express my gratitude for this and for the trust placed in us. We also undertook an intensive reorganisation, given that the organisational chart had to be adjusted to tasks effectively performed. The FIU will now no longer be divided into Operational Analysis and Strategic Analysis departments. Instead, the areas involving analysis of reports of suspicion are now combined within a single department. The mandate of a second department is to perform targeted optimisation of processes and to respond to the growing number of cases with the help of automation. A third department is mandated to enforce international sanctions, finally providing it with appropriate organisational space within the FIU.

Unfortunately, what had become increasingly apparent over the past few years is now even more pronounced – the analysis of behavioural patterns by persons subject to due diligence and the FIU increasingly identifies fact patterns which cannot necessarily be attributed to a predicate offence, even though they involve the use of money laundering methods. Recognising and classifying such behaviour as potential evasion of sanctions will be a major preoccupation for all of us effective immediately and for the next few years. We are committed to continuing to take on this challenge, together with the private sector and our colleagues in other government offices and authorities. We are ready to learn and to act. And we are also ready to continue on the new paths we have embarked on, including private-public partnerships.

Vaduz, April 2022

Michael Schöb

II. Activities of the FIU

6 | The FIU is the central authority for obtaining and analysing information necessary to detect money laundering, predicate offences of money laundering, organised crime, and terrorist financing. Its core responsibilities are to receive and analyse reports of suspicion – suspicious activity reports (SARs) and suspicious transaction reports (STRs) – from persons subject to due diligence and to implement the coercive measures set out in international sanctions. In the year under review, the FIU's work was dominated by the heavy workload resulting from the further increase in the number of reports of suspicion, as well as preparations for and participation in the MONEYVAL country assessment. During the current year, the employees who had not yet received training in connection with crypto reports of suspicion – i.e. reports submitted by virtual asset service providers – received such training.

The trend in the number of reports of suspicion is now unbroken for the fourth year in a row. A total of 2'223 reports of suspicion were filed. This represents an increase of 33 % over the previous year. The workload is correspondingly high and requires a certain degree of prioritisation in case processing. This is done on the basis of clearly defined criteria. It is also apparent that the software solutions we employ must be continuously updated, improved, and supplemented. The optimisation of work processes through automation in areas where it makes sense to do so needs to be further intensified. The use of various interface solutions must also be examined in order to relieve the burden on our analysts, enabling them to focus on their core competencies. They should be able to analyse fact patterns and write professional reports for other authorities and not have to spend a significant part of their working time compiling data.

The traditional reports of suspicion continued to focus on fact patterns relating to fraud and corruption. In the year under review, more analysis reports (including supplementary reports) were submitted to the Office of the Public Prosecutor (+4%), the Financial Market Authority (+20%), and the Fiscal Authority (+50%) than in the previous year. These figures may of course fluctuate greatly, given that they depend on a wide variety of factors such as the scope and complexity of the analysis, dependence on external information, and preparatory work by the compliance departments of the persons subject to due diligence.

1 Receipt and evaluation of reports of suspicion

Of these reports of suspicion under the SPG, 862 (39 %) came from banks, 1'175 (53 %) from VASPs, 84 (4 %) from the fiduciary sector, 36 (2 %) from the insurance sector, 11 (0.5 %) from casinos, and 26 (1.1 %) from

public authorities (mainly the FMA). With the exception of the fiduciary sector, the absolute case numbers rose again significantly compared with the previous year among all groups subject to the reporting requirement.

Most sectors thus recorded an increase in the number of reports of suspicion, with the VASP sector in particular showing a very high growth of 184%. In 2021, the fiduciary sector submitted 18% fewer reports of suspicion than in the previous year.

The following are the most significant findings from 2021:

A. Higher risks have been realized strikingly often

This conclusion is based on findings from submitted reports of suspicion. Wherever large sums of money are in play, people are more willing to take on higher risks. Especially during the year under review, various fact patterns were identified in which the high risk has now been realized. In some of these fact patterns, even internal compliance did not recommend entering into the business relationship. The idea that 'if we don't do it, someone else will' evidently still prevails in regard to certain high-risk transactions.

B. Clean-up work is still underway

On the one hand, it is gratifying to see that many persons subject to due diligence are using reviews to analyse their own client bases. It is not surprising in this regard that various fact patterns no longer meet the standards of today when viewed retrospectively and that reports of suspicion consequently have to be submitted. Again and again, however, it becomes embarrassingly evident how much reliance has been placed on analyses by – generally foreign – introducers instead of on one's own analyses, and how these introducers have been given extensive leeway in the management of business relationships.

C. The search for a predicate offence is not the task of persons subject to due diligence

As has been repeatedly emphasised, persons subject to due diligence must submit a report of suspicion if they have reason to suspect money laundering, predicate offences to money laundering, organised crime, or terrorist financing. Under no circumstances is the ability to actually identify a possible predicate offence a decisive criterion. Making this determination is instead the task of the Financial Intelligence Unit.

Against the background of the ever-growing importance of recognising potential sanction evasions, this is becoming an increasingly significant point. Sanction evasion works using the same mechanisms as money laundering. Sanctions are evaded by means of bogus contracts, falsified profiles, pass-through accounts, non-existent

7 | operational activity, mixing of legitimate and illegal behaviour, and the use of nominees. In accordance with the executing ordinances, recognised potential sanctions evasions must be reported pursuant to the International Sanctions Act, and any violation is a punishable offence. Anyone claiming that, in the absence of an identified predicate offence, no notification or report need be made to the FIU is under certain circumstances liable to prosecution, harms the financial centre, and enables criminals and sanctioned persons to abuse the Liechtenstein financial centre.

D. Stronger cooperation between the private sector and public authorities within the framework of PPPs has so far proven its worth

In the year under review, the FIU engaged in increased, targeted cooperation with representatives of the private sector, both bilaterally and multilaterally, to discuss typologies as well as findings and trends. This cooperation is proving to be very useful. As a next step, it should be considered to what extent such cooperation efforts can be used for joint strategic analysis and how the results and findings can be used advantageously by all sides to strengthen the defence mechanism.

2 Combating terrorist financing

In changing times, it is all the more important to keep a compliance focus on the very important issue of terrorist financing, even as pressure and complexity increase. Especially given the rising importance of expertise in international sanctions, greater recognition of the need to submit notifications and reports even without an identified predicate offence is advantageous.

29 reports of suspicion of terrorist financing were submitted in the reporting year.

3 Enforcing international sanctions

In last year's annual report, we noted that we have identified a great need to raise awareness among persons subject to due diligence in regard to the enforcement of international sanctions. In 2021, we accordingly treated international sanctions as a key element in training, presentations, and public-private partnerships. We also structured the newly created casebook so that international sanctions constitute a separate category of cases.

Contrary to popular belief, sanctions have proven to be an efficient means of countering geopolitical developments. Sanctions constitute an asymmetric response to military or other physical displays of power. They are likely the last remaining option besides military engage-

ment or, of course, the always preferable diplomatic or peaceful conflict resolution.

Unfortunately, we are moving towards a future in which international sanctions will shape our everyday lives, both professionally and privately. It is clear that both public authorities and the private sector still have a lot of catching up to do in terms of processes, expertise, and decisive behaviour. We must approach these challenges resolutely and together.

With its reorganisation, the FIU will have a separate department to deal with issues relating to the enforcement of international sanctions. This involves interaction with private parties – which in the case of sanctions are not only persons subject to due diligence – and exchanges with national and international partners. Domestically, these authorities are primarily the Financial Market Authority, the National Police, the Fiscal Authority, the Office of Justice, the Office for Foreign Affairs, the Office for Communications, and the Migration and Passport Office. The Liechtenstein FIU's international partners in this context are not the financial intelligence units of other countries, but rather the competent authority or authorities for enforcing international sanctions. While this makes it more time-consuming for the FIU to establish relevant contacts, the dual role of the Liechtenstein FIU as the enforcement authority for the International Sanctions Act turns out to be ideal for the challenges of a financial centre. As described above, expertise from money laundering can be used for the analysis of sanctions cases without delay. We never tire of repeating that the mechanisms for sanctions violations are the same as those for money laundering or terrorist financing.

4 International cooperation

In cases with an international nexus, the Financial Intelligence Unit engages in targeted cooperation with other FIUs, requesting them to provide information or documents necessary for the analysis of a case. The FIU grants corresponding requests from abroad if the requirements set out in the FIU Act (FIUG) are met. The number of requests in this context was stable, while active exchange of information increased substantially with entry into force of the TVTG, due to links with users of VASP services. Exchange of information is governed by national legislation and the Principles of Information Exchange established by the Egmont Group of Financial Intelligence Units. International cooperation is not limited to case-specific exchange of information, however, but also includes a general exchange of experience and participation in international working groups and organisations such as MONEYVAL, the FATF, the International Monetary Fund (IMF), the World Bank, and the United Nations.

8 | 4.1 *EGMONT Group*

The Egmont Group is the worldwide association of currently 166 national financial intelligence units. The main work of the Egmont Group consists in particular in setting out the rules governing the exchange of information among the national financial intelligence units and ensuring that such exchange takes place in practice. The Liechtenstein FIU has been a member of the Egmont Group since June 2001. Two FIU staff members participated in two Egmont Group project working groups looking at large-scale transnational money laundering.

4.2 *MONEYVAL*

MONEYVAL is a committee of experts of the Council of Europe founded in 1997 to support the member states in their fight against money laundering and terrorist financing. MONEYVAL conducts a process of peer reviews. The goal of this process is to ensure that the member states' systems to combat money laundering and terrorist financing are effective and that they comply with the relevant international standards in this field (FATF, Council of Europe, and EU). Liechtenstein was assessed in September 2021 for the fifth time by MONEYVAL in regard to compliance with these standards. The evaluation report for Liechtenstein is scheduled to be considered at the MONEYVAL plenary in May and published in June 2022.

4.3 *FATF*

The FATF is an international organisation whose mandate is to analyse the methods of money laundering and terrorist financing and to develop measures to combat them. It is the global standard-setter in this field and currently consists of 37 members. The current minimum standard (40 Recommendations) was revised in 2012. Since 2015, all members have been reviewed for compliance with and effective application of this standard. Thanks to Liechtenstein's membership in MONEYVAL, the country is also indirectly represented in the FATF.

III. Statistics

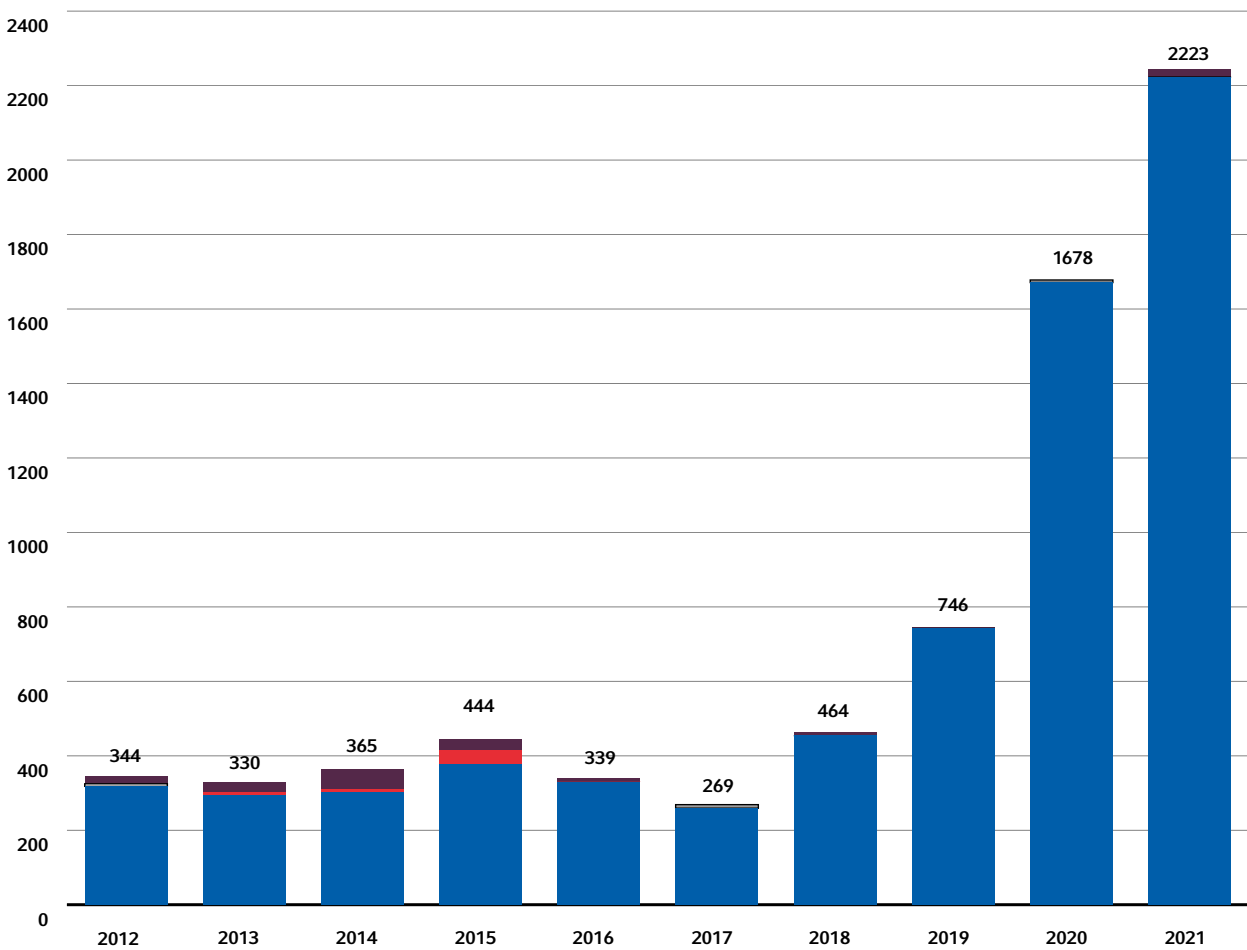
9 | 1 Overall view

The statistics presented under this heading provide an overview of the total number of notifications and reports received. They impressively show the continuous increase in the numbers and the growing workload for reporting persons and the FIU.

2 Reports of suspicion under the SPG

This heading covers the SARs/STRs submitted to the FIU by persons subject to due diligence pursuant to Article 17 SPG in the case of suspicion of money laundering, a predicate offence of money laundering, organised crime, or terrorist financing.

All notifications, notifications and license applications



■ SARs/STRs SPG ■ Reports MG ■ Reports/applications ISG

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
■ SARs/STRs SP	318	293	303	376	330	259	454	742	1'671	2'223
■ Reports MG	7	9	7	38	0	0	0	0	0	0
■ Reports/applications ISG	19	28	55	30	9	10	10	4	7	19

10 | 2.1 Evaluation by sector

The reports of suspicion (SARs/STRs) received by the FIU in the years 2017 to 2021 came from the following sectors:

Sector	2017	2018	2019	2020	2021
Banks	163	309	540	844	862
Virtual asset service providers				640	1'175
Professional trustees/ trust companies	48	82	132	102	84
Electronic money institutions		2	1	29	4
Insurance undertakings	26	31	22	15	30
Public authorities	12	7	13	13	24
Fund companies/AIFMs			2	7	0
FIU/non-reg. FIs/unknown			4	7	11
Life insurers		6	5	4	6
Casinos			9	4	11
Asset managers/ management companies	2	2	1	2	6
Auditors/ audit firms	0	1	5	2	1
Investment firms		3	2	1	2
PSPs (payment service providers)	5	3	5	1	5
Precious metal dealers	0	0	0	0	0
Dealers in high-value goods/ auctioneers	0	0	1	0	0
Investment undertakings	0	0	0	0	0
Lawyers/ law firms	1	0	0	0	2
Insurance brokers		2	0	0	0
Total	259	448	742	1671	2223

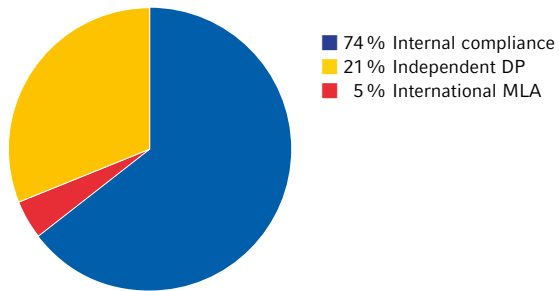
2.2 Reasons for submission

The reports of suspicion (SARs/STRs) are classified according to whether they:

- were submitted pursuant to an institution’s own clarifications of unusual or conspicuous transactions (internal compliance),
- were submitted on the basis of knowledge gained by the person subject to due diligence pursuant to international requests for mutual legal assistance (MLA), or
- originated in independent domestic investigative proceedings (DP).

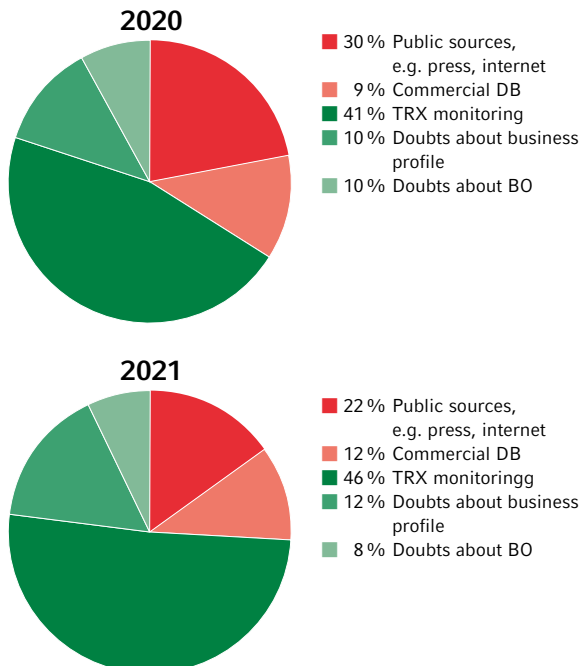
The FIU would like to take this occasion to emphasise the indispensability of including information that can be found in public sources. Open-source intelligence (OSINT) refers in this context to the use of freely available, open sources such as print media, television, or the

Reasons for submission 2021



internet to compile information for the purpose of gaining insights. A wide range of tailor-made techniques and tools exist for this purpose, but even simply practice and experience in using internet search engines can bring valuable results to light. The use of OSINT as part of compliance processes is now one of the very basic skills that a compliance officer must necessarily master. Moreover, company-internal processes must provide for this aspect of research. In the view of the FIU, it is clearly unacceptable to justify non-submission of a report of suspicion on the grounds that the name-matching system employed did not produce a hit, while freely available public information was not taken into account. Such non-submission is reported to the law enforcement authorities.

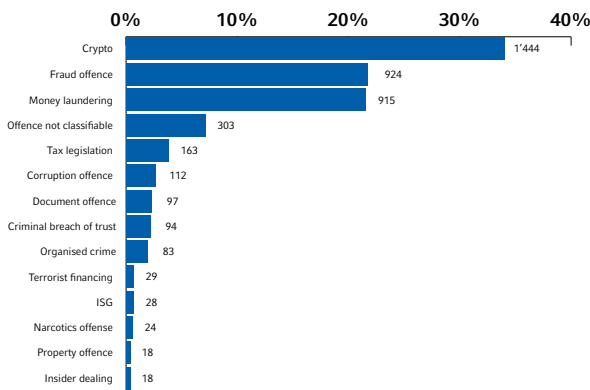
Distribution of internal compliance



2.3.1. Predicate offences

A predicate offence is the offence from which the assets originate or might originate or through which the assets have been generated. For the statistics, the predicate offences are relevant that are ascertained by the FIU’s analysis of the reports of suspicion (SARs/STRs) pursuant to the Due Diligence Act, even where these results are only preliminary. This assessment may change over the course of any criminal proceedings that might be conducted.

Predicate offences

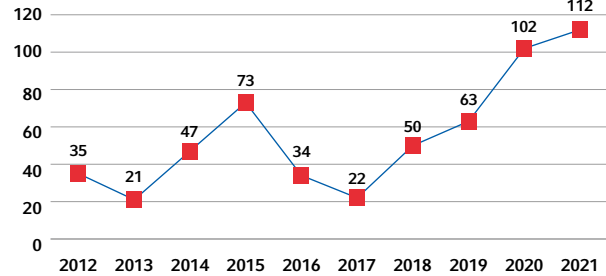


What cannot be seen from these statistics is the workload attributable to the various categories. It seems obvious that, for example, the analysis of a simple case of fraud to the detriment of a person who was induced to invest in a promising cryptocurrency is not comparable to acts of corruption relating to the award of construction contracts paid for from public funds using multi-layered corporate structures.

Moreover, the figures to the right of the bars do not correspond to the reporting figures. This is because persons subject to due diligence do not necessarily know which specific predicate offence may be at issue when a suspicion arises. It is the task of the FIU and the prosecution authorities to identify these predicate offences.

This chart does, however, give an impression of the perception of persons subject to due diligence with regard to predicate offences committed in connection with money held in the Liechtenstein financial centre. The focus continues to be on fraud in its various forms. Corruption offences are also still frequently identified as such, and once again open-source intelligence can play a crucial role in this regard. It also becomes clear that with respect to fraud in particular, many criminal acts occur in combination with virtual assets.

Corruption offences/year

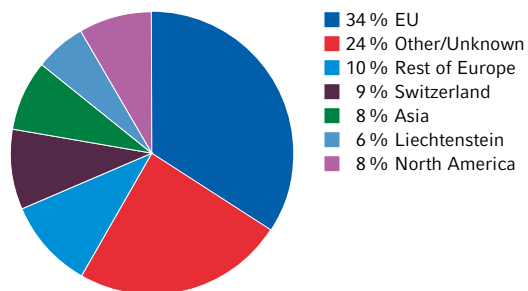


2.3.2. Corruption offences

This view illustrates the increase in corruption offences or, more precisely, suspicions that the constellation in question may constitute a corruption offence from the perspective of the person subject to due diligence.

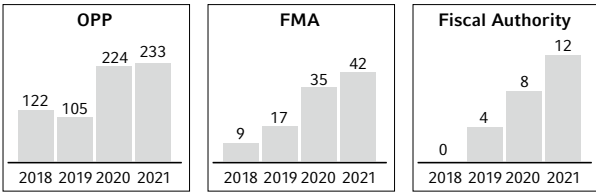
Indicators of corruption offences can be found in particular in legal transactions that take place in the context of government contracts or that involve state-owned companies. Moreover, the involvement of politically exposed persons may be an indicator of corruption, as can the payment of unusually high commissions. The acceptance of gifts – also occurring as mixed gifts – plays a significant role, bearing in mind that the benefits may not be exclusively in physical form (for further indicators, please refer to Annex 3 of the Due Diligence Ordinance).

Nationality of involved persons by region



2.3.3. Nationality/domicile of contracting party

This statistic provides information on the origin (for natural persons) or registered office (for legal persons) of the contracting parties of the persons subject to due diligence indicated in the report of suspicion.

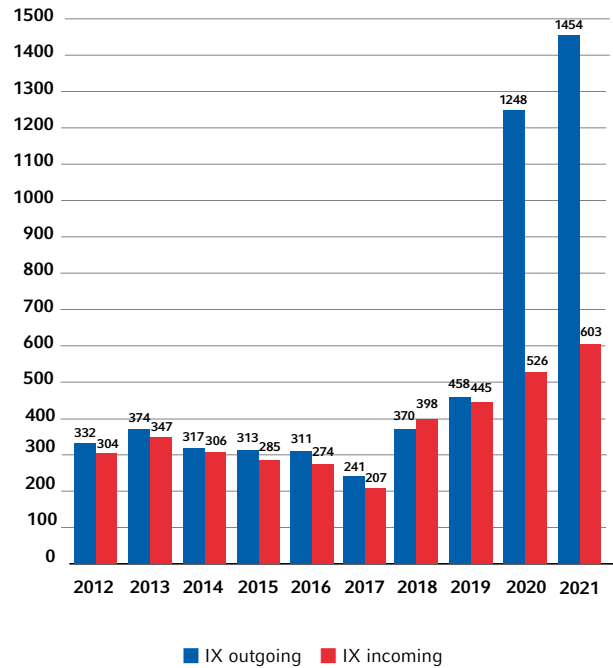


2.4 Analysis reports

2.5 International cooperation

With the introduction of the Token and TT Service Provider Act (TVTSG), the number of reports of suspicion surged, as discussed above. In a large number of cases, the reported fact patterns have in common that both the perpetrator and the victim are domiciled or resident outside Liechtenstein. The only nexus with our jurisdiction is usually the processing of the transaction in question via the domestic provider of the relevant services. For the work of the FIU, this means it is imperative and urgent in these cases that contact be made with the relevant partner authority, which must at least be informed of the fact pattern by way of an information report.

FIU information exchange

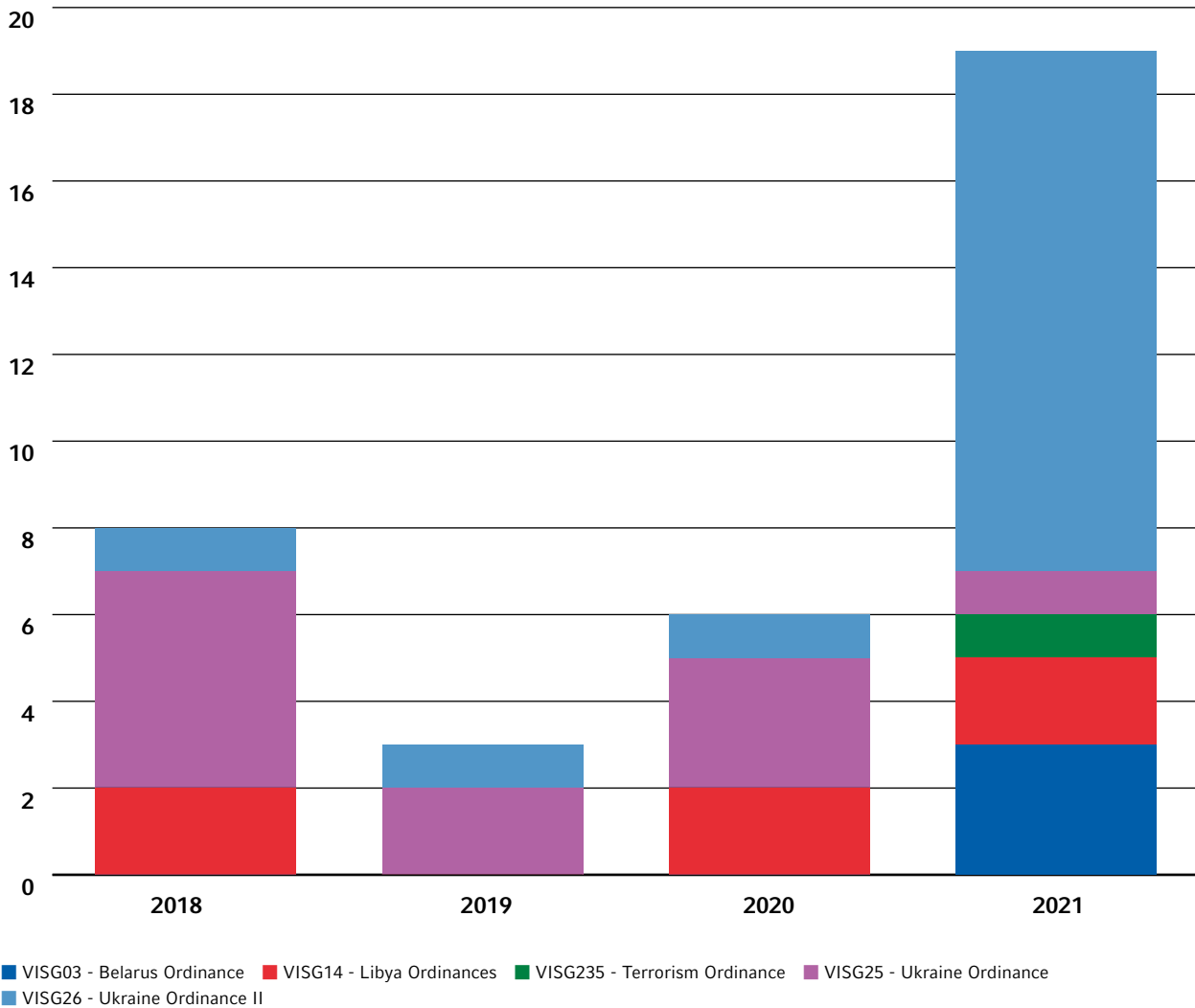


3 Approvals and reports under the ISG

This heading covers all reports and applications for approval transmitted to the FIU pursuant to an ordinance on coercive measures. Persons with their place of residence, registered office, or a branch in Liechtenstein are required to submit a report or an application for approval.

In the reporting period, applications for approval under the ISG were primarily submitted by persons subject to due diligence (in particular trust companies) which managed business relationships affected by ISG asset freezes from the previous reporting period. At the request of the FIU, the Government decides whether to approve the payment of administrative costs, fees, and tax liabilities in such cases.

During the reporting period, the FIU was especially pleased to note that the risk awareness of persons subject to due diligence in general and in the banking sector in particular has increased with regard to the issues relating to 'indirect control' under the ISG. On the one hand, this can be seen from the fact patterns described in the reports of suspicion as well as from evaluation meetings held directly with market participants. The FIU deliberately highlighted these issues in its casebooks during the reporting period and discussed it intensively with market participants on a multilateral basis using case studies during several public-private partnership events.



V. Abbreviations

14	DP	Domestic proceedings	ISG	Liechtenstein Law of 10 December 2008 on the Enforcement of International Sanctions (International Sanctions Act)
	EEA	European Economic Area; Liechtenstein became a full member of the EEA on 1 May 1995	MG	Liechtenstein Law of 24 November 2006 against Market Abuse in the Trading of Financial Instruments (Market Abuse Act)
	EU	European Union	MLA	Mutual legal assistance
	FATF	The Financial Action Task Force is an expert group established by the G7 and the European Commission in 1989 with the mandate to analyse methods of money laundering and to develop measures to combat it. It currently consists of 36 members, including 34 jurisdictions and two international organisations (the European Commission and the Gulf Cooperation Council).	MONEYVAL	Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
	FIU	Financial Intelligence Unit (of the Principality of Liechtenstein)	SPG	Liechtenstein Law of 11 December 2008 on Professional Due Diligence for the Prevention of Money Laundering, Organised Crime and Financing of Terrorism (Due Diligence Act)
	FIUG	Liechtenstein Law of 14 March 2002 on the Financial Intelligence Unit	TRX	Transaction
	FMA	Financial Market Authority Liechtenstein	SAR	Suspicious activity report (report of suspicion not involving a transaction)
	IMF	International Monetary Fund	STR	Suspicious transaction report (report of suspicion involving at least one transaction)