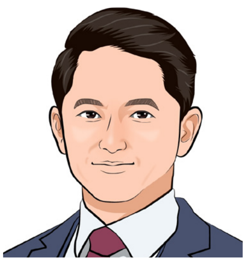
Setting up a Family Office: Considerations, Issues, Hurdles and Opportunities

The November 24 Hubbis Digital Dialogue focused on the 'dos and don'ts' and the 'whys and wherefores' of setting up a family office, focusing largely on key jurisdictions such as Singapore, Hong Kong and possibly even further afield in Dubai/the UAE. We have reviewed, filtered and summarised some of the key observations and advice from the panel of experts, hopefully serving as a broad introductory guide to key issues potential principals should address.

SPEAKERS



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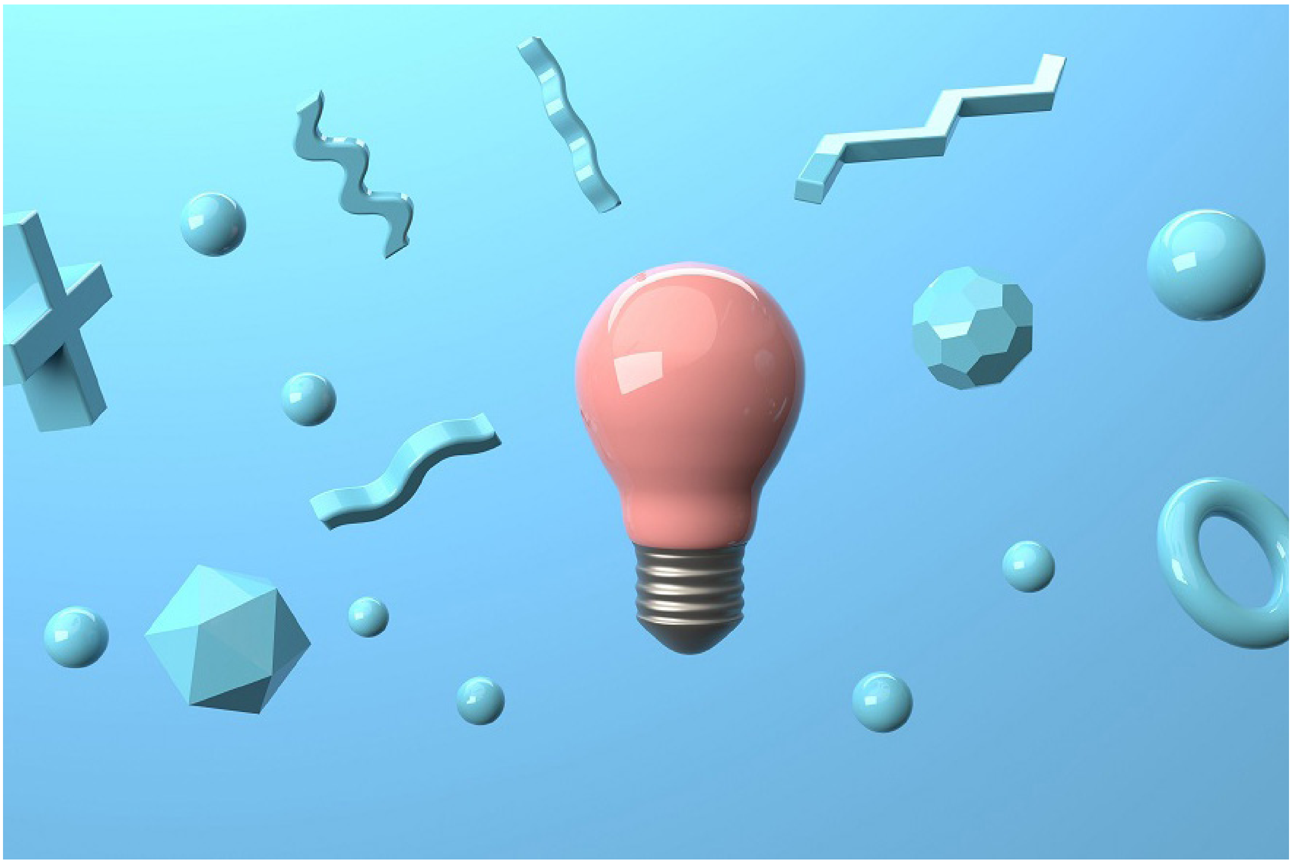
THE KEY QUESTIONS THE PANEL ADDRESSED INCLUDED:

- What should principals and advisors be looking for in a family office jurisdiction, and why?
- What are the key appeals of Singapore for Single-family offices (SFOs) and perhaps also multi-family offices (MFOs) today?
- What does Hong Kong have to offer the regional and indeed global UHNW community and is Hong Kong able to compete head-to-head with Singapore as a go-to jurisdiction for family offices?
- What about Dubai and more broadly the UAE?
- Wherever a family establishes its SFO or MFO, what are the key regulatory and compliance developments and challenges?
- How long does it take and what are the key pitfalls to avoid?
- How should these family offices be staffed efficiently, comprehensively, yet also cost-effectively? Mostly family members? Or external experts? Or both? And what about outsourcing?
- What scale of assets do you really need to make creating an SFO worthwhile?
- How do the private clients identify the right wealth advisory firms and the right legal, accounting, personnel and fiduciary experts to work with?
- What do you need to think about next after you have successfully created and opened the family office?



Setting the Scene

The background for the discussion was the growing ranks of UHNW and HNW individuals and families in recent years have increasingly been selecting Singapore as the jurisdiction of choice for their single-family offices and at the same time, more and more multi-family offices are also making use of the remarkably advanced infrastructure to establish and/or expand their client base in the region and indeed across the globe.

But the panel also acknowledged that such clients are also increasingly looking across to the growing appeals of Dubai and the attempts to improve the proposition on offer in Hong Kong, despite the various headwinds there emanating largely from China.

As to Singapore itself, not only is the island state now almost ideally set up for the creation of such family offices due to the structures available (including the 2020 arrival of the VCC), the accommodating regulatory ecosystem, and the wide range of government incentives available.

And Singapore offers a deep and wide range of wealth management, legal, accounting, consulting and other services, as well as great flexibility and quality for such families regarding immigration/residence, education, healthcare, security, housing, and lifestyle. And now as we return to more normalised times in the post-pandemic world, the travel infrastructure is again showing itself to be second to none.

Similarly, in Asia Hong Kong has been fighting back. Hong Kong is, of course, the well-known traditional epicentre of the offshore wealth management industry in North Asia, serving not only clients in that region but also having over many decades carved out a formidable reputation in the global wealth management universe, with clients from the world over, and with a totally international approach, an advanced regulatory environment and a highly developed wealth management infrastructure and ecosystem. And nowadays, Hong Kong is increasingly interconnected with both Mainland China and with the Greater Bay Area, which many deem to be a plus point from the business perspective, but less so from the geopolitical aspects.

The proposition that Dubai and indeed more broadly the UAE can offer families considering a family office is improving and diversifying, and our panel of experts also looked broadly at the competitive situation there and analysed what type of regulatory and other improvements are taking place to appeal to more UHNWIs and families.

But whatever any of these jurisdictions might offer, UHNWIs and their families must take the right steps to establishing their family office on firm footings, with appropriate licensing and compliance, and achieve the appropriate scale and staffing to make the whole effort worthwhile. And this was the core focus of the November 24 Hubbis Digital Dialogue, as our chosen experts drilled down to the practical details of setting up a solid, enduring family office.

Expert Opinion

HANNAH BISSON, Director - Business Development, Trident Trust

"A key appeal of Singapore as a family office jurisdiction of choice is the high-quality network of professional service providers that support and uphold the family office ecosystem."

There are several key stages that need to be considered and approached judiciously

There are several key steps that are vital for any family considering setting up a family office. First, they need to research and then decide on a jurisdiction. Second, they need to find the right banks, lawyers, and other professional advisors in their chosen jurisdictions. Thirdly, they must make the right set of applications and filings. And as time moves on towards approvals, they need to consider how to structure the operation, staff it and what external partners they need to work with.

The family office as consolidator, focal point, risk mitigator and wealth preserver

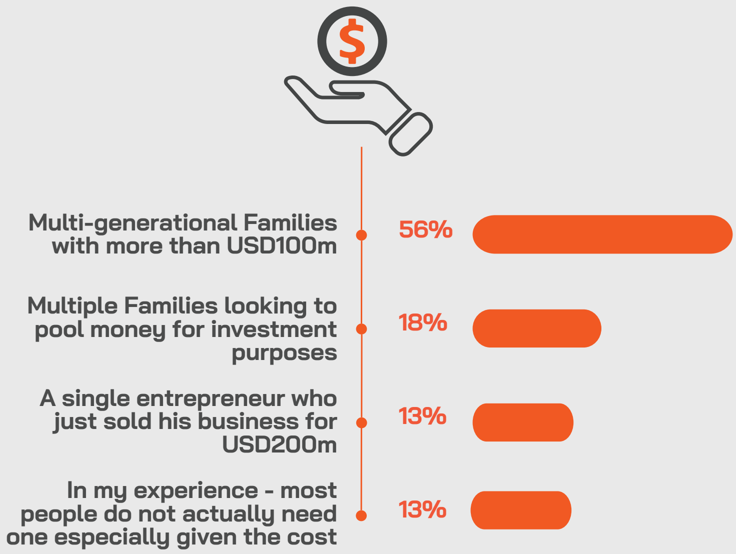
Experts report that family offices basically divide into two when it comes to the Singapore market.

One type is what can be considered bona-fide family offices where you have multiple generations, multiple branches, and where the extended families are pooling resources, spending time working out how to govern and structure this correctly, where there is true hope and expectation that this will be another arm to the family business empire, and maybe even a transitional arm where they exit businesses into a family office environment.

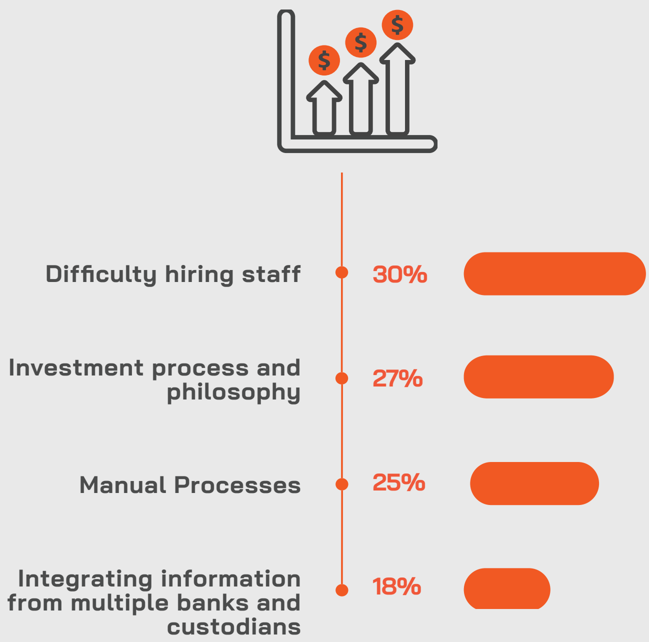
Such families definitely need a family office because they are transitioning wealth, they are transitioning from business management to wealth management. To some extent, it is a major risk management and wealth preservation exercise as they look to the future.

The Hubbis Post-Event Survey

WHO ACTUALLY NEEDS A FAMILY OFFICE?



WHEN A FAMILY OFFICE IS ESTABLISHED AND RUNNING – WHAT ARE THE BIGGEST PAIN POINTS?



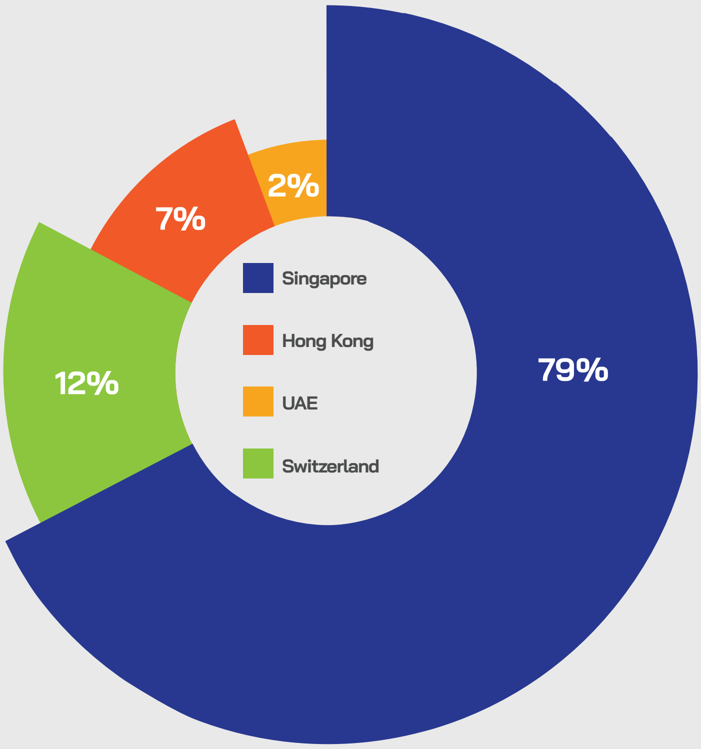
This type of approach ideally suits clients from Indonesia, Malaysia and other markets, which want to prove that control of their businesses and assets is vested through Singapore in order to prove substance, and then obtain the appropriate tax and other regulatory status they might seeks. Experts point to the rising numbers of such families from Europe and the US, also from South Africa and other parts of APAC also looking carefully at Singapore for this first family office establishment rationale.

There is also the migration-driven family office model, particularly for Singapore and also the UAE

The second key family office model is what some experts refer to as the 'migration office'. This is where members of extremely wealthy families establish family offices, very often in Singapore, for investment migration purposes. They go through the normal hoops and hurdles of establishing a family office, but their primary goals are more around obtaining settled status and residence, and potentially later citizenship for their key members.

An expert reported that in his view, this is the bulk of the Singapore market today, and that most of such clients are Mainland Chinese, often with younger children, and these flows continue and are increasing. In these cases, the principals are less concerned about structuring, fiduciary input, family governance and charters, in short, their operations are more rudimentary, and the mission is mostly Singapore as a safe harbour.

WHICH JURISDICTION IS THE BEST IN WHICH TO LOCATE A FAMILY OFFICE?



Key decision - are you heading for a single-family office (SFO) or a multi-family office (MFO)?

In very simplistic terms, the SFO manages the assets and wealth (including perhaps controlling the family businesses) of one family, and ins generally ultimately controlled by that family, along with trustees if there are overlaying or underlying structures required. There is usually a team of professionals, such as lawyers, investment professionals, tax advisers that manage the assets and also oversee other aspects like philanthropy, training, development, succession planning, insurance and a host of other matters around the family.

The MFO is like a single-family office, except that it serves more than one family. The owners of the MFO might be some of the families whose assets the MFO manages, or not at all. In Singapore, the MFO requires the Capital Market Services License (CSML), of RMFC status as a Registered Fund Management Company from the Monetary Authority of Singapore. In short, the MFO is an entity that manages assets or wealth of several or perhaps multiple families.

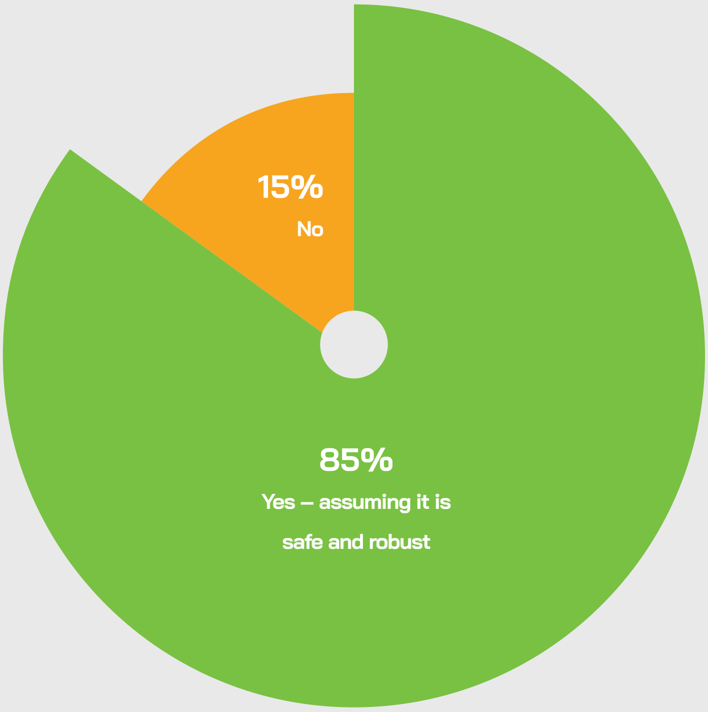
Choosing the right jurisdiction requires sound advice and careful analysis and consideration

It is best to obtain objective advice about jurisdictions, rather than simply taking the less impartial guidance of anyone wanting specifically to pull you to a specific jurisdiction. This type of holistic, objective advice is tough to locate, but extremely helpful for principals in arriving at informed decisions.

Key considerations should include geopolitics and political stability; regulations and government tax/fiscal incentives; residence status vis-à-vis their own home jurisdictions (it is not at all easy to extract yourself fully from certain countries' domicile, tax and other regulatory nets and further structures on top of the family office might be needed, such as trusts or foundations); qualifying criteria in terms of AUM required (Singapore is far more demanding in this than for example Dubai and other markets in the UAE); the availability of the right professional advice and support across all areas of finance, advisory, legal, accounting, fiduciary and so forth; lifestyle, education, security; ease of communication and transportation infrastructure; as well as housing and healthcare.

Hong Kong's appeals remain significant, even if Singapore has eclipsed them in terms of immediate appeals. Experts covering Hong Kong observe that there are specific advantages in terms of Hong Kong's capital markets infrastructure and capabilities, but that for Mainland Chinese families it does not tick the box of investment migration, as it is part of China. Nevertheless, the ongoing pandemic related restrictions in Hong Kong and the proximity geographically and jurisdictionally to China are all viewed as negatives by many families considering a family office operation.

SHOULD A FAMILY OFFICE OUTSOURCE THE MIDDLE AND BACK-OFFICE FUNCTIONS TO A THIRD PARTY?



Some of the key issues to consider once the decisions have been made to proceed

Costs – Singapore is expensive, but so too are any of the major global financial centres, including Zurich, London, New York, Tokyo and so forth.

Access to talent – there is a reasonable base of professional and administrative talent, but perhaps it is more difficult than many might imagine hiring those staff, as they are in direct competition with any entity from the banks and private banks, insurers, independent wealth managers and plenty of others. Moreover, staff retention is difficult, as the demand for talent means moving ship is relatively easy.

Structures – must be comprehensive, tailored and should avoid control being too concentrated in one set of hands, in case of death, illness or incapacity. Experts also advise clients again what they consider to be 'putting the cart before the horse', especially the inclination not to look far beyond the key government incentives, for example the '13' suite of fiscal, tax and other appeals in Singapore.

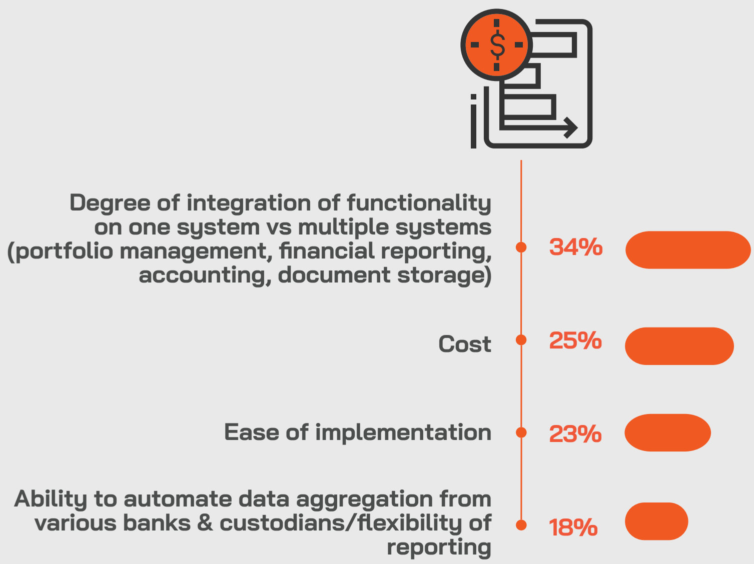
Access to the right advice - family offices are not a product, so when it comes to choosing the right firms to partner with and for advice, do not just go for the cheapest, as this is an expensive venture and must be correctly implemented, hence quality of service is essential. As one expert explained - do the homework, look for experienced advisors who will get to know families and their needs and want to support them and help them to meet their objectives over the long-term, and be prepared to pay proper fees for proper guidance.

Understanding key ramifications - moreover, clients often misinterpret advantages and requirements. For example, if they are interested largely in the investment migration type mission for the family office, they need to appreciate that the 13O offering is a tax incentive and does not help towards obtaining residence. Moreover, 13O would not remove the client from CRS obligations in other jurisdictions.

The small print - additionally, clients need to understand the fine print, again for example in Singapore. Becoming a Permanent Resident (PR) is not actually quite so permanent, because it needs to be renewed every three to five years, according to one lawyer, and the renewal will generally require evidence of a certain number of days residency and other economic contributions and social contributions.

Future obligations (often overlooked) - and do not forget about associated obligations, such as the need to do National Service for young adult males in Singapore. Clients need to also think about the implications of PR for male children, who would be required to complete national service for two years in Singapore on reaching 18 years old, unless there are medical exemptions or other extenuating circumstances.

IN LOOKING FOR A TECHNOLOGY SOLUTION FOR A FAMILY OFFICE, WHAT ARE THE PRIMARY CONSIDERATIONS?



Look to the future - experts report there are usually some major gaps in some families' knowledge when it comes to the 'what next' covering areas such as control, administration, corporate governance, tax filings, global reporting, multi-jurisdictional compliance, so on and so forth.

Be patient - the time needed to complete a family office incorporation project will usually be at least 6 to 12 months, unavoidably, and often longer.

'Substance' is another important issue to address

Experts point to the importance of establishing economic substance, for example in Singapore when a family sets up a family office, something that has further advanced the appeals of midshore jurisdictions as more clients shun the most exotic offshore markets for their primary layers of structures. Indeed, clients are increasingly wary of being seen to be involved in offshore tax havens, and they increasingly want to move to a more mature environment where there is clarity of regulation, transparency, tax treaties, and the proper professional environment.

Experts warn of more and more scrutiny, more tax audits, more mutual cooperation between authorities in different jurisdictions, and so forth. Clients must consider the tax compliance requirements, not just the tax exemptions, they need to take a holistic view of their obligations and exposures. Experts also warn that this type of 360-degree view is often missing, as principals and often their advisors do not forget or adopt any form of central plan.

Privacy is another central issue for very wealthy families, especially those most in the public eye

Family offices can also help wealthy families consolidate information and maintain a better control over priYy families to remediate their structures and to consolidate control of their businesses and wealth to better reputed and better regulated midshore jurisdictions such as Singapore.

As an aside, perhaps the decision of the European Court of Justice only recently [in November] will redress things somewhat, as the ECJ held that granting public access to the identity and personal data of beneficial owners would infringe the right to respect for private and family life, and the right to the protection of personal data enshrined respectively in Articles 7 and 8 of the Charter of Fundamental Rights of the European Union. But experts argue that while this is a rare recent positive for privacy, it is not likely to alter the course of families consolidating towards more apparently reputable jurisdictions and remediating older structures and approaches.

Advisors should spend proper time working with the principals to understand their motivations and their individual situations

Lawyers advise spending significant time and making the effort to fully understand the clients, their family situations and their objectives. Only then can advisors start to devise the right solutions and structures.

Quite often, experts report that founders in their 70s and even 80s initiate family offices, despite the time, cost and effort needed. Why? Because they see the importance and value of consolidating and coordinating control, of creating an entity that can reflect and also drive family consistency, togetherness and values, as well as vehicles to help manage financial and other wealth. They see the importance of having such a focal point, of creating a legacy beyond pure wealth , which serves as an inspirational body not just for the family but for the broader community.

The value of outsourcing depends on scale &family resources, as well as intent & approach

There are more outsourcing alternatives than ever in the world of corporate and wealth management. Whether a family office opts to outsource some of many of its functions depends partly on the resources the family has at its disposal, with the larger principals able to deploy human capital at ease. If the family has the scale, many will maintain it is better to manage in house, as this also allows family members to build their knowledge of and expertise in the family's financial capital and social capital.

But of course, not all families have those levels of resources, and perhaps the family members will not want to move to Singapore from their current home bases, and accordingly those families will tend to look to outside providers.

Another factor centres on intent or approach. The family office to

Expert Opinion

HANNAH BISSON, Director - Business Development, Trident Trust

"When it comes to identifying the right professional service providers, quality of service is essential. Real value comes from experience, from understanding that families all have bespoke needs and from taking a long-term, multi-generational approach in helping each family achieve their business objectives and collective family vision."

Expert Opinion

HANNAH BISSON, Director - Business Development, Trident Trust

"Families may also wish to consider the benefits of establishing a trust to own their family office, which include efficient and customisable wealth transfer, asset protection, wealth consolidation and perpetuating family values throughout generations."

many is like the brain of the entire family body, coordinating family wealth and legacy, and should therefore encompass corporate and family governance, well beyond the remit of investments, which are of course also vital components of the entity. In these types of cases, control from within the family, by family members, and supported by selected external and professional hires is the optimal strategy.

Attracting the right types of external talent can be difficult if there is no defined career path but for the largest family offices is easier due to the scale of their wealth and business empires

The very largest family offices tend to farer better in attracting high quality talent, due to the scope of the family's wealth and their business empires. Talent joining such entities will have a far more diversified role and potential Moreover, such operators tend to find it easier to attract like-minded individuals who share similar expertise and values, and that talent will not only be handling investments, they might oversee corporate decisions, they might handle the family and business governance, perhaps help out in expediting foundations or other philanthropic efforts.

For those family offices that are able to really amplify the values that they stand for, and drive through on social and environmental impact, they will find it easier to attract the more creative and forward-thinking talent.

Remuneration will naturally need to be competitive, and experts report in Singapore that such family offices are highly competitive in their compensation and in nurturing family and external human capital.

And of course, in terms of more financial returns, top-flight personnel will perhaps be able to participate in the performance of the family investment portfolio, offering additional incentives as well as helping encourage longevity of tenure.

Take the right advice from professionals, so that you take the right missteps. Getting it wrong will waste a lot of time and money

Whether the family office is to be incorporated in the UAE, Singapore, Hong Kong or further afield, it is vital to know the options and the requirements for each choice. Each jurisdiction has different requirements and packages, and indeed within the UAE there are several family office offerings, different rules, different incentives, different residence and other options, and so forth.

Family office principals and leaders also need to think about and plan properly around legacy, control and succession issues

Wealth and legacy planning are core issues in Asia these days, especially as literally trillions of dollars of wealth is set to transition from the older and founder generations. The same rigorous and urgent focus needs to be applied to the family office entities, to ensure continuity. These issues are naturally more complex for the largest families and where there are trusts involved as well, as there needs to be continuity of decision making, of control and also access to liquidity. The succession planning should take into account key areas of impact and governance, as well perhaps as philanthropic structures, with the aim of trying to ensure the founders' vision continues into the future. ■