The Big Picture: Trends in Wealth Structuring and Legacy Planning in Asia

The first panel discussion of the Hubbis Asian Wealth Management set the scene for the day, looking at a wide range of topics from Hong Kong's and the impact on the wealth management sector, to the impact of new regulations on structures and the choice of jurisdictions. The panel debated the rise of family offices in Asia and how advisers are positioning themselves to serve that segment. And the panellists discussed legacy planning and the effect on their use of structures and offshore financial centres.

These were the topics discussed:

- *Is the turmoil in Hong Kong a game changer in the Hong Kong vs Singapore debate? Will it have different impacts on fiduciary services providers (trustees, etc) relative to asset management services?*
- *Where is money moving in the context of rising global social geopolitical risks?*
- *What is the key driver for structures in Asia today?*
- *Are clients seeking to make their structures simpler or more complex? Why?*
- *How well prepared are Asian clients for wealth transition? Is time of the essence?*
- *In which jurisdictions do Asia's wealthy prefer to house their structures? Why?*
- *Why is Asia witnessing a proliferation of single-family offices (SFOs) and multi-family offices (MFOs)?*
- *Are more Mainland Chinese investors seeking to keep or to move assets offshore?*

PANEL SPEAKERS

- **Mark Smallwood,** CEO, Rapier Consulting
- **John Shoemaker,** Registered Foreign Lawyer, Butler Snow
- **Kevin Lee,** Partner, Stephenson Harwood
- **Gerard Gardner,** Global Head Wealth Solutions, EFG Wealth Solutions
- **Laurence Lancaster,** Barrister-at-law,Group Head of Tax, Sovereign Group
- **Desmond Teo,** Partner, Financial Services Tax, Growth Markets & International Tax Services EY
- **Marcus Leese,** Partner, Ogier
- **Jaydee Lin,** Chief Operating Officer & Managing Partner, Raffles Family Office

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THE KEY TAKEAWAYS

In the new world of compliance, HNWIs need to keep it real

The Common Reporting Standard (CRS), the fight against base erosion and profit shifting (BEPS) and the automatic exchange of information (AEOI) all mean Asia's wealthy investors and families must henceforth be transparent, and if they hold structures, there must be substance behind them.

There are many who remain in denial

There is still a great number of people who do not appear to accept that things have changed fundamentally.

Service providers need to refocus

There is likely to be a consolidation of assets of Asia's HNWIs amongst fewer providers, who can offer the expertise and attention they require to solve these issues, especially as the complexity of creating solutions is rising inexorably.

The Singapore and Hong Kong push-and-pull

The troubles in Hong Kong and the remarkable efforts Singapore is making to attract wealthy investors to establish funds and family offices are combining to create a strong push-and-pull in favour of Singapore.

Diversification increasingly important

As the world of compliance becomes more convoluted, and jurisdictional risks rise, clients are increasingly diversifying into a variety of booking centres. For example, multifamily offices are tending to work through multiple booking centres with different banks and different custodians around the world, to enhance the flexibility for clients.

But consolidation is also taking place

At the same time, BEPDS and other initiatives are encouraging more wealthy investors and families to consolidate their structures in one or two locations, for example, mid-shore Singapore combined with a well-reputed international financial centre (IFC), for example in the Channel Islands. The result will be greater consolidation of family wealth from a corporate and personal perspective and greater alignment.

Hong Kong can still play a major role

But Hong Kong's proximity and links to Mainland China, combined with its capital markets depth and expertise, means that the IPO, for example, remains a viable route for Chinese wealth to migrate offshore.

Beneficial ownership register - watch out, here they come

The arrival of beneficial ownership (BO) registers will further drive more activity mid-shore, again helping jurisdictions such as Singapore and Hong Kong, which have accommodative regulations, and can, therefore, open the door to greater transparency.

Education is essential

There is no doubt that client education is vital in all these matters. And the panel maintained that the wealth management community has an obligation to enhance its own expertise, as well as that of its clients. The industry needs to add value to the clients far beyond simply managing their assets.

MARK SMALLWOOD
Rapier Consulting

THE MAJOR THRUST IN THE WORLD OF WEALTH MANAGEMENT GLOBALLY CONTINUES TO BE ON TRANSPARENCY, driven by the Common Reporting Standard (CRS) and the implementation of initiatives to fight back against base erosion and profit shifting (BEPS). An expert opened the discussion by explaining that CRS and BEPS in the world of wealth management were all about tackling the concealment of the identity of the beneficial owner.

"The world is shifting to transparency," he stated, "and by implication, it takes more time, more care and more detail to structures wealth these days, with the need to create more substance behind structures and to be able to substantiate that." Structures, he added, therefore increasingly need to be for commercial reasons rather than specifically because there is no tax in a particular jurisdiction.

Head in the sand?

"Agreed," said another guest, "and the issue that concerns me most just right now I think there is still an awful lot of self-denial and people not accepting that this is a fundamental change. To dismiss it as a fad or dismiss as something that won't impact us deeply is very risky. As to wealth succession, wealth transition, UHNW clients, the reality in my view is that there isn't enough of that business to go around to support the scale of our industry. So, to survive we need to change; we need to adapt to the messages we are being sent."

JOHN SHOEMAKER
Butler Snow

KEVIN LEE
Stephenson Harwood

A result, he added, is likely to be a consolidation of assets of the wealthy Asian market amongst fewer providers, to ensure they then receive the service and attention they will need. "If you are not talking to your clients about engaging more deeply with your firm," he commented, "then somebody else will be, and those clients that you think you have captured are at serious risk of migrating, and actually if you haven't begun this yet you are behind the curve."

Tailor-made essentials

Another panellist agreed with these observations, adding that as an offshore practitioner, he sees a far greater complexity in terms of the structures in order to address the regulatory requirements. Off-the-shelf, he said, will not work.

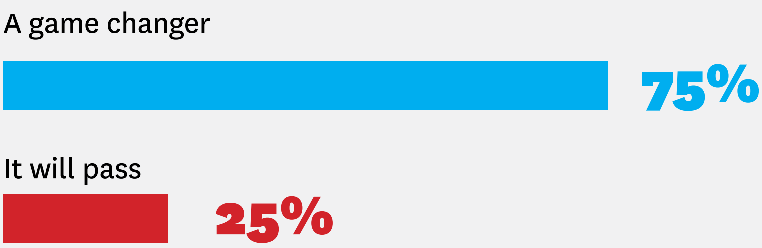
Moreover, tax mitigation is no longer the driving force, whereas transparency and accountability are. "No one is looking to pay more tax," he remarked, "but there are other issues in their structuring that they are prioritising whether succession planning or asset protection or legitimate privacy to the extent that is available."

Singapore a magnet...

An expert who is based in Singapore noted that the troubles in Hong Kong combined with the huge efforts Singapore has for years been making to attract HNW and UHNW asset management to its shores

GERARD GARDNER
EFG Wealth Solutions

IS THE HONG KONG SITUATION A GAME CHANGER IN THE HK/SNG DEBATE OR WILL IT PASS BY?



Source: Asian Wealth Solutions Forum 2019

are both driving the Singapore market forward. "Our government is trying to attract and improve funds coming here through various schemes to entice foreign investors to invest in Singapore, and at the same time getting a good tax rebate and also getting the employment passes as well."

Another guest concurred, observing that these two push-and-pull factors are impacting the behaviour of Mainland Chinese clients that might otherwise comfortably work through Hong Kong.

"Clients are looking at diversification," another panellist remarked, "so they are not just looking at one booking centre but multiple booking centres, which is why we have booking centres in Hong Kong, Singapore, Switzerland and Liechtenstein, and potentially soon Luxembourg." A mission for a multifamily office, he added, is to work through multiple booking centres with different banks and different custodians around the world, to enhance the flexibility for clients.

An expert pointed to the impact of BEPS on wealthy families and, for example, where they might headquarter their companies to help them manage both the governance and the substance on both their private wealth and also their corporate wealth.

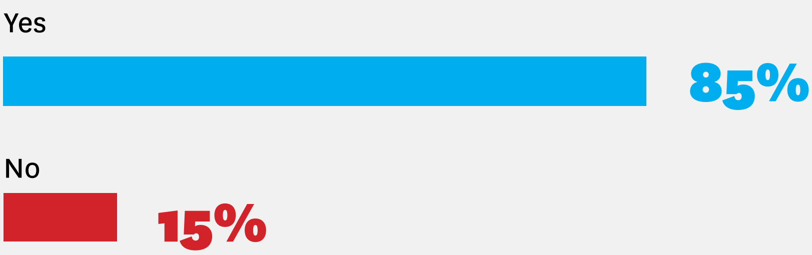
"Because of the enhanced focus on substance," said one adviser, "and also wanting to be more efficient from a tax perspective, the selection of jurisdiction is important and quite often people then focus on value creation. That has been evolving for some years and is being further driven by BEPS 2.0, which will result in global minimum tax, then the question becomes is it worthwhile then to save tax in a local jurisdiction only to top up tax back in the home country."

LAURENCE LANCASTER
Sovereign Group

Consolidating assets and entities

The result, he predicted, will then be greater consolidation in jurisdictions that combine the corporate and the personal wealth perspectives, therefore achieving greater alignment.

IS THE INCREASE IN TRANSPARENCY WITH CRS AND ECONOMIC SUBSTANCE GOING TO LEAD TO MORE FOCUS ON MID-SHORE JURISDICTIONS LICENSING?



Source: Asian Wealth Solutions Forum 2019

So, said another guest, the discussions might be about where the family office might be established for their private wealth and also whether they can also coordinate that from the point of view headquarters and the family corporations in the same jurisdiction, thereby centralising in mid-shore locations such as Singapore or Hong Kong.

Another expert commented that it is almost a perfect script for Singapore. In the aftermath of the global financial crisis of 2007-9 Asia has benefitted from migration of assets to the region from Europe and perhaps an over-regulated market in Australia and New Zealand, driving wealth from there as well. "And now with the troubles in Hong Kong," he noted, "Singapore is enjoying another forward thrust."

But the major concern today, he added, is the impact of BEPS and strongly advised wealth advisory practitioners to engage in dialogues with the regulators to ensure that Asia is well-positioned to benefit, or not be corroded, by these major changes.

A lawyer highlighted just how many mainland Chinese want to move their wealth offshore, but with tight restrictions on that, the Hong Kong IPO market is an even more highly valued route. "In terms of international financial centres and liquidity," he stated, "Hong Kong remains very attractive to these mainland Chinese clients. Clearly, they will not put everything through Hong Kong, they will also hedge through Singapore and elsewhere, including Canada, where so many

MARCUS LEESE
Ogier

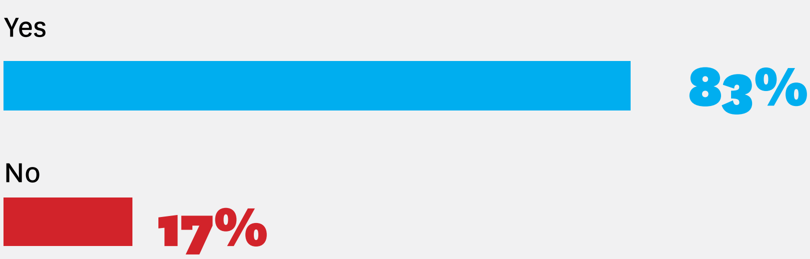
wealthy have connections. Clients are going to be increasingly multi-jurisdictional."

Don't say boo to BO

Another added that public beneficial ownership registers alarm some wealthy clients, especially those with serious privacy concerns, and this will drive more activity towards the mid-shore centres, again helping Singapore, but also Hong Kong, which has regulations that are favourable, for example no requirement for a resident director for a company.

The panel discussed the views from a survey during the Forum where delegates stated just how important political stability is for the choice of jurisdictions. However, said an expert, there are many places that are not so stable today, look

ARE INTERNATIONAL FAMILY OFFICES MORE LIKELY TO MIGRATE/ESTABLISH IN SINGAPORE AND HONG KONG?



Source: Asian Wealth Solutions Forum 2019

at the UK, for example, or look at the US with its impeachment actions and Trump's tweets. He noted that the wealth gap that has been exacerbated in the past decade or more is driving increased social unrest worldwide.

Are you serious?

"Are we seeing clients taking it seriously enough or are you seeing them still trying to find a way around things?", a guest asked the panel. "The short answer is we are seeing an increasing number of clients who are not in denial, who are sophisticated and are aware of the way the world is moving," came an answer. "However, there remains a significant client group who still think primarily about tax avoidance entirely or secrecy or both. Nevertheless, the reality is this second group is dwindling in numbers."

Client education in all these matters is vital, the panel concurred and debated whether the private banks are doing enough in this regard.

"Everybody in this room that deals with private clients in the private wealth arena," opined one expert, "has a responsibility to ensure that those clients understand the environment that they now operate in.

And that there are no simple, quick fixes, no simple relocations or juggling, or moving from pocket to pocket."

Watch out for the conflicts of interest

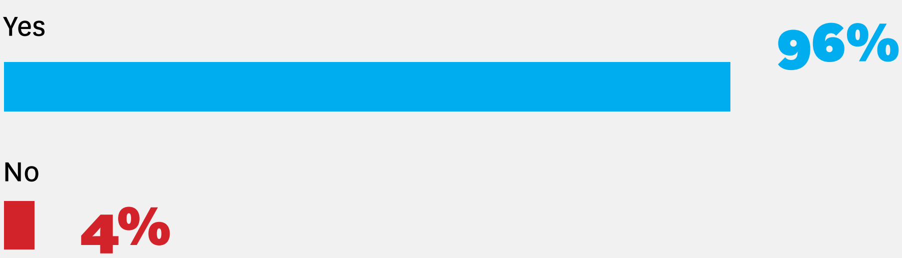
He also observed that some of the major institutions all too often have conflicts of interest.

JAYDEE LIN
Raffles Family Office

"When they help the client understand and plan for the long-term," he remarked, "they are also at the same time trying to meet the short-term institutional objectives that they are given by their firms." But looking ahead, he advised, it is ever more crucial for true client relationships to be built on clear and precise information. "There are plenty of horror stories nowadays to service as clear and frightening warnings to HNWIs if they do not address these issues."

The final issue was the appeals of the US, which has throughout all these changes become rather more attractive as a jurisdiction. "We see a huge number of advisers travelling throughout Mainland China now, on the EB-5 Investor Visa programme," said one expert.

IS WEALTH PLANNING A KEY TO PROVIDING ADDED VALUE AT PRIVATE BANKS?



Source: Asian Wealth Solutions Forum 2019

"They are saying, 'go get a green card, the kids can go to the US', and they tell those people that the US is not participating in CRS, so open up a structure in the US," he continued. "However, they are forgetting that if they take that route, there are massive background checks, and their whole lives are going to be opened up and dug into. Those clients aren't expecting that. Data is potentially reciprocal, so we recently saw here in Singapore that data is going to flow from the US back to Singapore about Singaporeans who have accounts in the US. Actually, that data has no relevance to a Singaporean's tax bill, but they are going to get it."

Moreover, he warned that things can change overnight, so the US might suddenly make an announcement after the next election that they are in CRS. "People need to be realistic and cautious, so don't think that the US is just a nice tidy place where you can now park your money."

The final comment was from an expert who concluded that everything henceforth revolves around transparency. "While some clients understand this," he said, "not all do yet. The industry needs to add value to the clients far beyond simply managing their assets." ■

DESMOND TEO
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