The Role of IFCs in the Brave New World of Global Regulation and Compliance

The extraordinary escalation in global and local regulation and the dramatic increase in liaison between onshore jurisdictions has led to a major re-think amongst the wealth management community as to which international financial centres are today professional and reputable, and therefore fit to work with. A panel of experts at the Asian Wealth Solutions Forum deliberated the roles of Singapore, Hong Kong, the Channel Islands and discussed the viability, or lack of, amongst the other, more exotic IFCs.

These were the topics discussed:

- *Is the MAS likely to enhance the Trust Laws in Singapore to enable perpetuity of Singapore Law trusts and to enable the use of non-charitable purpose trusts as the holders of PTC structures?*
- *Hong Kong vs Singapore, what is the state of play? Is it all about tax breaks? Or?*
- *What roles are Singapore and Hong Kong likely to have in the future?*
- *Hong Kong is favoured as a jurisdiction for life insurance solutions. Will that continue?*
- *Why are there more and more SFOs and MFOs and which jurisdiction is winning their favours, why and how?*
- *Is Singapore becoming the 'go-to' centre in Asia for HNWIs and ultra-HNW families?*
- *Is the Singapore Variable Capital Company (VACC) a game-changer?*

PANEL SPEAKERS

- **Mark Smallwood,** Chief Executive Officer, Rapier Consulting
- **Anuj Kagalwala,** Partner, Asset & Wealth Management Tax, Leader, PwC
- **Marcus Hinkley,** Head of Private Client Services - Asia, Hawksford
- **Woon Shiu Lee,** Managing Director & Regional Head of Wealth Planning Family Office & Insurance Solutions, DBS Private Banking
- **Desmond Teo,** Partner, Financial Services Tax, Growth Markets & International Tax Services, EY
- **Yong Sheng Hon,** Senior Associate, Withers KhattarWong
- **Angie Han,** Senior Wealth Planner, Pictet

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THE KEY TAKEAWAYS

Alignment is a new buzzword

The choice of an IFC is far more than about privacy or tax mitigation. In the brave new world of global regulatory intrusion, HNWIs the world over must more closely align their business activities, their personal wealth, their 'apparent' location, their physical presence, their tax residency, and so forth.

Mid-shore is the new offshore

Singapore, Hong Kong and other mid-shore centres - in other words, those that offer onshore and offshore economics and solutions - are benefiting from trend. Clients re-housing their corporate HQs and their personal assets to such mid-shore jurisdictions can still work through vehicles in other IFCs, including the Channel Islands, or the Cayman Islands, or the BVI, but the need to demonstrate economic substance is proving a boon for mid-shore.

Simplicity is a panacea

HNWIs who want sleepless nights worrying about their structures, or their compliance ignore the trend towards what one guest called 'onshorisation' of vehicles and structures. The consolidation of the activities of an HNWI or family office housing UHNW family wealth into one jurisdiction improvise transparency, efficiency, it reduces costs, and it enhances compliance.

Within Asia, Singapore is the go-to jurisdiction

Panellists observed a significant pick up in this 'onshorisation' of funds, private investment companies and all sorts of vehicles. One expert reported that some 80% of the structures his firm helps establish nowadays are Singapore structures, drawn in by the welcoming ecosystem of tax mitigation and other incentives.

The VCC beckons

Another fillip to Singapore's rising power in the world of wealth management is the arrival of the Singapore Variable Capital Companies (VCC) legislation, which some argue is a game-changer as a new legal entity and structure for investment funds to set up in Singapore.

Hong Kong - still attractive, under more normalised conditions

Hong Kong remains very attractive as a competitor to Singapore, were it not for the ongoing social and political unrest there, which is naturally causing concern amongst HNWIs and UHNW families. In normalised conditions, Hong Kong has a remarkable wealth of features to attract clients to its shores.

More structures into fewer structures

Not only is there the trend towards consolidation to fewer, or even one jurisdiction, but there is also increasing consolidation of multiple structures towards single structures.

Jostling for position in the new world of IFCs

There is still a solid rationale for working through reputable IFCs such as Liechtenstein, or the Channel Islands jurisdictions, but clients should be circumspect about quality and reputation. Wealth management advisers want to offer their clients choice but should help clients make analytical assessments of the options available.

Channelling HNWI clients towards quality

The panel was strongly supportive of the role of the Channel Islands jurisdictions, such as Guernsey and Jersey, noting that they not only have a long history, but offer quality services, a range of trust alternatives, and have a depth of expertise and experience that clients can rely on.

MARK SMALLWOOD
Rapier Consulting

WHEN SELECTING AN OFFSHORE JURISDICTION, there is an increasing realisation that it is more than about tax, more than about obtaining alternative residence or citizenship and nowadays must include the consideration of alignment between their activities, their apparent location, their physical presence, their tax residency, and so forth. That is why Singapore is benefiting as a hub for exempt vehicles, family offices, funds. Yes, there might be links to vehicles in the Cayman Islands, or the BVI that may still be relevant, but where there is actual activity in terms of carrying out management, should clearly henceforth be located in a jurisdiction where the party has substance.

Another guest said he calls this the 'onshorisation' of vehicles and structures. First, there is more exposure to the media and other parties seeking to uncover or unravel offshore vehicles, as most clearly evidenced in the Panama Papers denouement. Secondly, the quest for simplicity means that one entity in one jurisdiction is dramatically easier to contemplate, for all parties concerned. Thirdly, the onshorisation reduces costs, not only in the most obvious fees, but also in the reduction of travel, the reduction in offshore advisers, and so forth.

Onshore waves

So," he observed, "we are certainly seeing a significant pick up in this 'onshorisation' of funds, private investment companies and all sorts of vehicles. I would say 80% of structures we set up

ANUJ KAGALWALA
PwC

MARCUS HINKLEY
Hawksford

now are Singapore structures and 80% of these structures don't pay any tax in Singapore. We can, therefore, achieve the same outcomes but have a more robust and lower cost structure."

Singapore is working efficiently to make sure that wealthy investors are attracted to the jurisdiction. For fund managers are managing those assets in Singapore, there are various tax exemption schemes that are available to these funds, so having a Singapore onshore vehicle offers all the tandem benefits of being able to actually establish residence, establish substance in Singapore. Singapore offers a fairly deep talent pool, and the quality of life is very good. The trend is very much toward this centre.

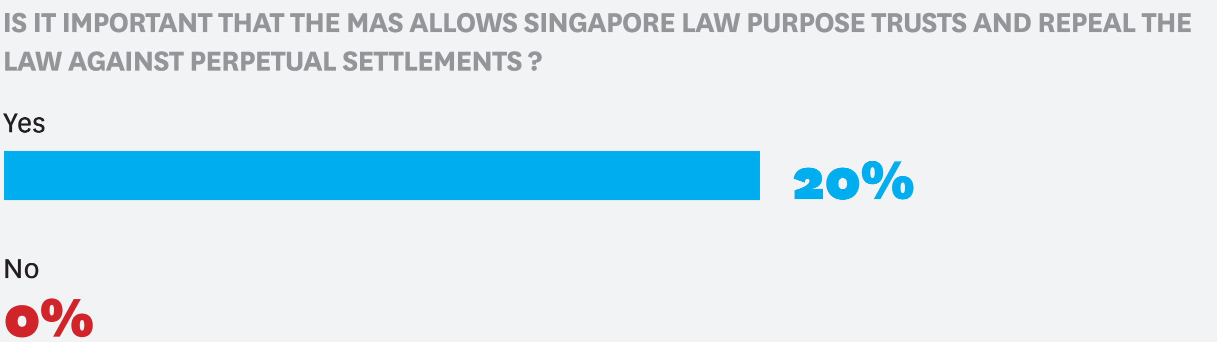
Singapore's new weapon

The arrival of the Singapore Variable Capital Companies (VCC) legislation, which is a game-changer for the fund management industry, is offering a new legal entity structure for investment funds to set up in Singapore, therefore potentially drawing in funds from across the region and indeed globally.

There are several key features of the legislation which, this expert explained, brings Singapore a lot closer to the offshore jurisdictions such as the Caymans and the BVI. The VCCs are not designed for the exempt fund managers, mostly the single-family offices, but are of great appeal to the multifamily offices and licensed fund managers, which will result in the continuing 'onshoring' of fund vehicles into Singapore.

Although another expert noted that Hong Kong's

WOON SHIU LEE
DBS Private Banking



Source: Asian Wealth Solutions Forum 2019

ongoing troubles are leading to further migration of vehicles and assets to Singapore currently, the reality is that in more normalised conditions, Hong Kong would be attractive as an alternative as investors can, in fact, achieve a similar level of tax neutrality there as in Singapore. "But Singapore continues to boost the broad range of appeals to bring those types of funds onshore here," he remarked."

"As to the VCC," another expert added, "there are privacy attractions, for example the financial statements of VCCs are not publicly available, and the shareholder list is also not publicly available. Secondly, the flexibility in return in capital is there under the VCC framework, and the final matter is around segregation of the VCC, which is the single vehicle, into various sub-funds, so the assets and the liabilities of the VCC can be separated within the VCC from one sub-fund to the other. We expect considerable growth of the VCC from the first launch this December."

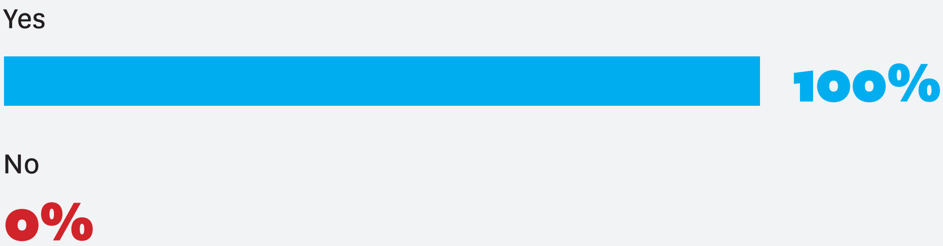
DESMOND TEO
EY

The MAS takes measured steps

He noted that the MAS had taken a very measured and balanced approach in its pilot programme prior to the official launch. "There are many who prefer not to be in the first wave, both significant fund managers as well as private clients, and we expect far more activity in the second wave," he reported. "The one wish we have is that the VCC is also open to exempt fund managers, and if so, we would expect strong interest from single-family offices."

"Yes, came another opinion, "if in the future VCCs are available to single-family offices it will be very appealing for the very large families with different branches within to pool resources together, and there might indeed also be different pools of assets, for example a pool for succession planning, another for education, perhaps another for philanthropy. That would be a powerful appeal, so we are hoping the MAS will take this course."

DO CLIENTS PREFER HONG KONG OR SINGAPORE AS A PLATFORM FOR THEIR SINGLE FAMILY OFFICE?



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IFCs in the spotlight

Looking broadly at the world of IFCs, another guest observed that IFCs generally are still sought after, still required, but it is now less clear as to which will struggle in the years ahead. Singapore, he noted, does not necessarily want to compete in the typical BVI company space, for example, but it is going head to head for the discretionary trust, whereas Hong Kong has always been much more willing to use offshore, and that appears still to be the case.

The consolidation of multiple structures towards single structures was another key trend underscored by a panellist. "People are in recent years reviewing all these multiple structures and consolidation has been taking place," they observed.

A banker remarked that in conversations with its clients, it has no preconceived jurisdiction in mind. "Actually, we ask the clients what they want to achieve and then make recommendations, after a thorough analysis of all the possible options. We have trustees here in Singapore, but we can also offer Jersey, Guernsey, the Caymans, or BVI. But to keep things simple from a CRS perspective, it makes sense to select a jurisdiction in which to place all the structures and minimise exposure, minimise reporting in due course, and that is certainly possible here, especially if you become a Singapore tax resident."

Deep and meaningful

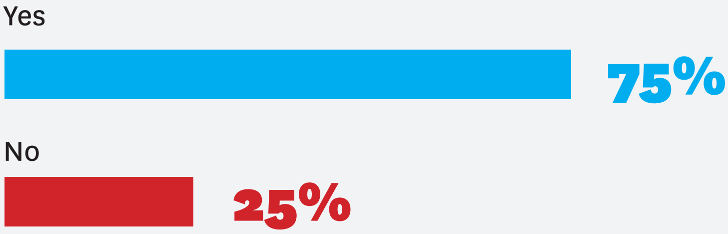
He added that it is also essential to have meaningful conversations with clients regarding the demographic vicissitudes of the family generations, in terms of tax exposures, in terms of exposure of the assets, and so forth.

YONG SHENG HON
Withers KhattarWong

Where can Singapore further improve? "The authorities here clearly understand the family office space is very attractive now and they are therefore identifying any other areas to make it more attractive for families to relocate here," hey observed. "The Monetary Authority of Singapore has a business-friendly approach, they appear willing to actually tweak the laws to make sure that we can even be more effective in targeting these families, particularly in special vehicles such as trusts."

Another guest noted that Singapore also needs to have foundations as a legal structure. "It is not only about trust, as the immensely wealthy families with billions of dollars are going to set up a foundation. All the significant families that we work for have foundations in Liechtenstein or somewhere else, so that's an area we are encouraging the authorities to develop here."

ARE CLIENTS MOVING STRUCTURES TO SINGAPORE AND HONG KONG (ASIA) FROM THE CARIBBEAN?



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Islands of excellence

The panel then considered the role of the Channel Islands jurisdictions, such as Guernsey and Jersey.

"We for example, are still using Jersey for clients who want philanthropic trust structures, and for those who want to do PTC structures," one banker reported. "Jersey has a reputation for being well established, their advisers and lawyers are well tried and tested, they have more experience of disputes, for example, than we have in Singapore, and we know that such disputes arise within families. So, Jersey is still a very attractive proposition for many of our clients. And even if Singapore changes its trust laws, I think we will remain open-minded to direct clients to the best jurisdictions, those that offer solidity and expertise."

A fellow panel member concurred, also noting that despite the trend for clients to simplify and to consolidate in one jurisdiction, from a trust perspective the clients can still have the trustee in Singapore for example, but using the trust laws of another jurisdiction which may be more suitable for the client's purpose.

ANGIE HAN
Pictet

More plaudits for Singapore

The final word went to a panellist who highlighted the movement towards re-domiciliation. "That is the low hanging fruit for this industry," he remarked, "because everything we have mulled over today is all about alignment, trying to be in the place where you are located, substance, well, all that is achieved with re-domiciliation and it is not a very complex exercise. To conclude, basically, I think this is probably the sweetest spot for the wealth management industry in the next decade. We will see an explosion of family offices and wealth managers here in these 725 square kilometres that is Singapore."

Finally, it was noted that the MAS is clearly pulling ahead of the competition. "They have even introduced 'Deal Fridays' when they get families together to talk to each other about deals that are going to come their way," they remarked. "The family office circle is expanding, and there is a skills roadmap to make sure that everyone who is involved in this space is able to upgrade themselves to better serve the needs of those family offices. The MAS is reaching out to the industry experts to listen to their wish lists, so we do hope for the trust law changes we discussed, maybe hopefully the foundation is also coming here. All these enhancements to the ecosystem are making Singapore a magnet for funds, advisers and expertise from the world over." ■