FSDC Paper No.45

Family Wisdom:
A Family Office Hub in Hong Kong

July 2020

Index

Executive Summary	1
I. Background	3
II. Current Landscape of Family Offices	5
III. Opportunities for Hong Kong to Develop as a Family Office Hub	7
IV. Benefits to Hong Kong in developing as a Family Offices Hub	8
V. Policy Recommendations	9
VI. Conclusion	26

Executive Summary

Family offices comprise a high-end subset of the private wealth management business. They have become increasingly important to the whole financial services industry, not just because of the business potential inherent in the massive amount of asset under management ("AUM") belonging to these family offices, but also as evidence of the financial centre's overall wealth management capabilities.

There has been robust growth in family offices in recent years. According to Campden Research, there were some 7,300 single family offices worldwide as of July 2019, 38% more than end 2017.[1] Within that total, Asia has recorded growth of 44% during the same time period, higher than anywhere else in the world. Hong Kong can leverage this strong growth momentum in Asia and further develop into a regional hub for family office business.

Hong Kong already has an excellent starting point when it comes to attracting family offices. Financial markets in Hong Kong are mature and sophisticated, allowing it to satisfy the specific investment needs of wealthier families. The city's close ties with the Mainland have long enabled it to act as an investment gateway into and out of the Mainland China. In addition, the strong professional services and an abundant supply of skilled employees in Hong Kong can provide excellent support to family offices' operations. Moreover, as the city offers a broad spectrum of green and alternative investment opportunities popular among family offices Hong Kong is well placed to accommodate the diversified investment needs of family offices.

[1] Campden Research: http://www.campdenfb.com/article/global-family-office-growth-soars-manages-59-trillion

These unique advantages of Hong Kong should already make it a natural choice for family offices looking to establish a presence in the Asia-Pacific region. That said, other jurisdictions, recognizing the value that family offices can bring to their economies, have become increasingly competitive in this space. However, it is recognised that this should not be addressed at the expense of lowering regulatory standards in Hong Kong simply to attract new market participants. In fact, the maintenance of a robust regulatory regime continues to serve Hong Kong well and is a factor in attracting new entrants to our market. The FSDC believes that a concerted effort is warranted to create a more conducive operating environment for family offices and to enhance the ecosystem in which they operate without seeking to lower the regulatory bar. Such changes would not only benefit the financial services industry in Hong Kong, but also serve as a new growth driver for professional services, eventually benefiting the Hong Kong economy as a whole. With the above position in mind, the FSDC puts forward recommendations concerning the following four key areas:

Regulatory Requirement:

A more flexible regulatory regime, coupled with a higher degree of clarity on the applicability of potential licensing exemptions from the SFC, would be beneficial to Hong Kong's position as an attractive jurisdiction for the establishment of SFOs and MFOs.

Tax Considerations:

Introduce a more competitive tax treatment for family offices to retain and attract UHNW families to set up and run their operations in Hong Kong.

Talent Development:

Provide more tailored training programmes meeting the needs of family offices can be offered to practitioners and university students in preparation for them to serve these employers

Inter-disciplinary Cooperation:

The establishment of a one-stop liaison and services centre will help facilitate the establishment and operation of family offices in Hong Kong

I. Background

Family offices comprise a high-end subset of the private wealth management business. They have become increasingly important to the whole financial services industry, not just because of the business potential inherent in the massive amount of AUM belonging to these family offices, but also as evidence of the financial centre's overall wealth management capabilities. As such, there has been much fiercer competition among jurisdictions to attract wealthy families interested in establishing family offices.

Hong Kong already has an excellent starting point when it comes to attracting family offices. Financial markets in Hong Kong are mature and sophisticated, allowing it to satisfy the specific investment needs of wealthier families. The city's close ties with the Mainland have long enabled it to act as an investment gateway into and out of China. In addition, the strong professional services and an abundant supply of skilled employees in Hong Kong can provide excellent support to family offices' operations.

In addition to traditional investment opportunities, the city also offers a range of high-end, alternative investments popular among family offices in Asia, including green investments, and investment in wine and fine art. For instance, Hong Kong was the top export destination for high-end wine from Bordeaux in 2018, illustrating vibrancy of wine investments in the city.[2] Hong Kong hosts the largest art fair in Asia on an annual basis, and is a key hub in art investment; during the first half of 2019, Hong Kong was the largest market in Asia, in terms of auction sales, and the third in the world.[3] As green finance continues to garner more attention among family offices, the comprehensiveness of the ecosystem (e.g. regulators and regulations, asset owners, product owners, brokers, civil society and NGOs), government support (e.g. Government Green Bond Programme and Green Bond Grant Scheme), as well as the active market activities in Hong Kong cater to the growing demand among family offices.

The FSDC believes these unique advantages of Hong Kong make it a natural choice for family offices looking to establish a presence in the Asia-Pacific region. We believe additional measures can be undertaken to create a more conducive operating environment for family offices and enhance the ecosystem. Such changes would not only benefit the financial services industry in Hong Kong, but also serve as a new growth driver for professional services, eventually benefiting the Hong Kong economy as a whole.

What is Family Office?

In its simplest form, a family office is a private office for a family.[4] While the definitions of family differ across jurisdictions, family members are generally defined as the lineal descendants of a common ancestors, spouses of the descendants as well as stepchildren and adopted children[5]. With the expansion of the family tree, the structure of a family can become quite complex, and this complexity will also often be reflected in the structure of the family office. This is often especially the case with families of UHNW individuals, usually defined as people with a net worth of at least US$30 million in investible assets.

---

2 SCMP, Hong Kong reclaims crown as global hub for high-end Bordeaux wine https://www.scmp.com/business/money/investment-products/article/3011880/hong-kong-reclaims-crown-global-hub-high-end

3 Figures as at first half of 2019. Deloitte and ArtTactic, "Art and Financial Report 2019" (2019) https://www2.deloitte.com/content/dam/Deloitte/lu/Documents/financial-services/artandfinance/lu-art-and-finance-report-2019.pdf

4 UBS/ Campden Wealth, "Global Family Office Report 2019" (2019) https://www.ubs.com/global/en/wealth-management/uhnw/global-family-office-report/global-family -office-report-2019.html

5 SEC, "Family Office: A Small Entity Compliance Guide" (2011) https://www.sec.gov/rules/final/2011/ia-3220-secg.htm ; MAS "FAQs on the Licensing and Registration of Fund Management Companies" https://www.mas.gov.sg/-/media/MAS/Regulations-and-Financial-Stability/Regulations-Guidance-and-Licensing/Securities-Futures-and-Fund-Management/Regulations-Guidance-and-Licensing/FAQs/SFA_FAQs-on-the-Licensing-and-Registration-of-Fund-Management-Companies_8-Oct-2018.pdf?la=en&hash=F1EEF2514AD03F7FC16AA486743991965D46617F

In principle, family offices can be broadly defined as Single Family Offices ("SFOs") and Multi-Family Offices ("MFOs"). SFOs are set up by one single family and only serve the needs of that family and its members. In contrast, MFOs serve multiple families where sometimes these families may not be related to each other; some MFOs are owned by third parties with commercial interest and run as a business, and such MFOs may operate like asset management companies and can serve more than 100 UHNW families.[6]

Main functions of Family Offices

While a key function of a family office is to be the steward of a family's wealth, their functions are not confined to investment management. Market participants tend to agree that there are four main functions of family offices, namely:

Investment and financial management. A family office usually takes up the role as the family's investment manager for its wealth, which would often involve the set-up of proper investment guidelines, procedures, asset allocation strategies, as well as monitoring investment performance. Family offices also usually provide financial planning services to each family member, which would help them achieve their lifetime goals, including philanthropic ideas and initiatives.

Inheritance management. A family office is usually tasked with supporting the family's inheritance management, which includes but is not limited to estate planning and customised estate settlement services. Also, family offices may be involved in succession planning of the family business to ensure smooth transition of the business from a generation to another. As UHNW families tend to value family heritage and give high priority on education, family offices would often be asked to provide trainings and education seminars in such areas as wealth management, business knowledge, life planning, and others.

Advisory and governance services. Family offices offer optimised and tailored professional advice when needed, including tax and legal advice. Another important function of a family office is record-keeping, where good practises from the earlier generations will be recorded and followed and thereby maintain good family governance.

Other family affairs. From bill payments, expenses management, organising family meetings, to other types of concierge services, family offices may be tasked to handle such matters for principals and beneficiaries of the family.

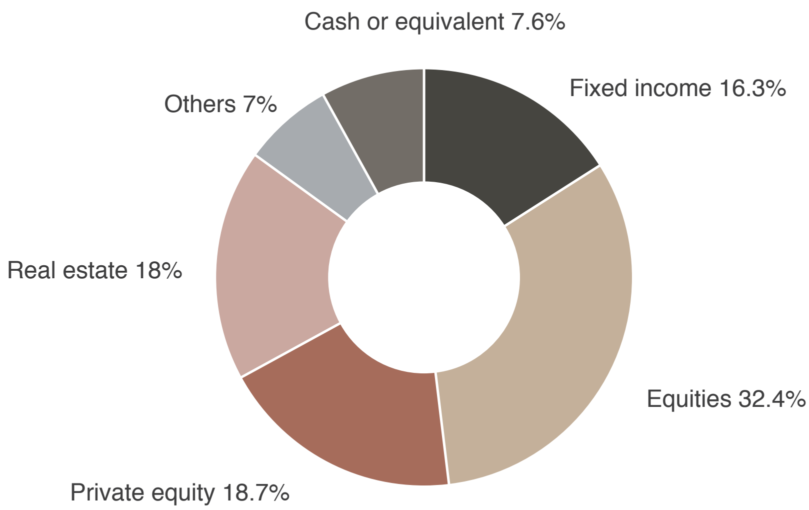
In order to perform these functions well – besides choosing a location that is close to the family – both SFOs and MFOs have shown tendency to establish presence and operations in matured financial markets, as they would look for efficient access to different investment opportunities, comprehensive financial services, robust regulatory and legal frameworks for asset protection purposes, predictable tax system, and a deep talent pool.

[6] UBS, "Global Family Office Report 2018" (2018) https://www.ubs.com/global/en/wealth-management/uhnw/global-family-office-report/global-family-office-report-2018.html

II. Current Landscape of Family Offices

The establishment of family offices has gathered much momentum globally in recent years. According to Campden Research, there were some 7,300 single family offices worldwide as of the July 2019, 38% higher than end-2017. The same research showed that in terms of geographical distribution, 42% of the family offices were based in the North America, 32% in Europe and 18% in Asia. The estimated total AUM of USD 5.9 trillion attributable to family offices is equivalent to approximately 7.9% of all the AUM for the world's asset management businesses as of end-2018.[7] With an average AUM of USD 808 million per family office, family offices are an attractive class of asset owners to financial services providers.

In addition to traditional asset classes – such as plain vanilla equities or bonds - family offices are showing increasing interest in alternative, sustainable and impact investments and indirectly contribute to the development of these sectors. According to a research paper published by UBS, in terms of asset allocation, family offices allocated 32.4% of their asset to equities investment, 18.7% to private equity, 17% to real estate and 16.3% to fixed income products while keeping 7.6% in cash or equivalent and 8.7% in other assets on average.[8] With almost 40% of the assets of family offices devoted to alternative investments, it is clear that family offices often look for more sophisticated and complex investment products going beyond the traditional investments. In which, 28% of the asset allocation of these family offices are through direct investments, either on private equity or real estate. One should also note that family offices are increasingly interested in sustainable and impact investments, with one-third of family offices currently involved in sustainable investments and one-fourth of family offices having invested in impact investments.



Sources: UBS "Global Family Office Report 2019"

[7] BCG estimates that the total AUM in the world worth USD 74.3 trillion https://www.bcg.com/publications/2019/global-asset-management-will-these-20s-roar.aspx

[8] UBS/ Campden Wealth, "Global Family Office Report 2019" (2019) https://www.ubs.com/global/en/wealth-management/uhnw/global-family-office- report/global-family-office-report-2019.html

With their exposure to different investment products and solutions, family offices can optimise the risks and returns of their portfolios. According to the UBS report, the average return of all family offices was 5.4% from Q2 2018 – Q2 2019 (For reference, MSCI World Index grew 4.7% in the same period).[9] Comparing to the other regions, the performance of family offices in Asia-Pacific is relatively better, achieving an average return of 6.2%, whereas that in North America and Europe were 5.9% and 4.3% respectively. In terms of costs, the total average cost of family offices for services stood at USD 11.8 million in 2018, or 117bps of the AUM. This included USD 6.8 million in operational costs and USD 5.1 million in external investment management administration and performance fees.

In Hong Kong, although there is no available figure regarding the number of family offices operating in Hong Kong, the wealth of total UHNW families is estimated at USD 1,179 billion.[10] This in part explains why the FSDC, in a recent survey report, found that "family office was agreed to be a fast-rising subset of the PWM sector, both in terms of the number of establishments and AUM".[11]

[9] Ibid.
[10] Wealth X, "World Ultra Wealth Report 2019"
[11] FSDC, "Hong Kong as the Regional Wealth Management Hub – Sector Survey Paper"

III. Opportunities for Hong Kong to Develop as a Family Office Hub

Given the city's position as the leading international financial centre in Asia, the FSDC sees a strong case for Hong Kong to further develop itself as the preferred destination for family offices serving local families, as well as those from Mainland China and the rest of the world.

Concentration of family wealth in Hong Kong. A study in 2018 showed that Hong Kong had the highest density of UHNW individuals (i.e. with wealth above USD 30m) among all countries and areas in the world, with the second largest population of UHNW individuals among cities around the world (only behind New York).[12]

Strong growth of family office establishments in Asia. According to Credit Suisse, around 39% of the global wealth was from Asia, and around 28% of UHNW individuals were living in Asia as of 2019.[13] In comparison, in terms of family office establishments, family offices located in Asia only represented around 18% of the total number of family offices (i.e. 21 percentage points and 10 percentage points lower than total wealth and total number of UHNW individuals, respectively). Such differences, as explained in a report by Forbes[14], are largely attributed to the fact that many of these UHNW individuals are still in their first generation, while waves for intergenerational wealth transfer can be expected; market practitioners believe that such waves may lead to high potential demand growth for family offices in Asia.

Development of the Guangdong-Hong Kong-Macao Greater Bay Area ("GBA"). The Outline Development Plan for the Guangdong–Hong Kong-Macao Greater Bay Area, published in February 2019, contains several policy initiatives with regard to facilitating cross-boundary financial services; some follow-on directives have been announced since the publication. In November 2019, after the meeting of the Leading Group for the Development of the Guangdong-Hong Kong-Macao Greater Bay Area, the Central Government introduced various measures, including "exploring the establishment of a cross-boundary wealth management scheme" in the GBA. As one of the most prosperous and wealthiest regions in the Mainland, 19,300 of the 84,000 UHNW families in the country were based in the GBA (i.e. 23% of total).[16] With growing demand for cross-boundary asset allocation and policy breakthroughs in the region, market participants envisage strong demand for family offices services from GBA's UHNW families in Hong Kong. The FSDC has recently published a relevant report on this subject.

Vibrant investment opportunities attracting family offices. With Mainland China remaining one of the fastest growing economies and many families from Europe, North America and the Middle East seeking exposure to that growth, Hong Kong will continue to serve its role as the gateway for overseas capital investing into the vibrant market. The fact that Hong Kong is the largest private equity (PE) market outside Mainland China and the largest hedge fund hub in Asia[17] shows that investors see potentials in benefitting from direct investment opportunities in start-ups via their operations in Hong Kong. With steady pipelines for investment projects, which would in turn attract family offices who are looking for long-term investment opportunities. Furthermore, the rapid growth in UHNW families in the Mainland presents Hong Kong with significant opportunities to service such family office ecosystem, which has much potential to grow, serving as the premier investment gateway for the management and diversification of their capital.

---

[12] Wealth X, "World Ultra Wealth Report 2019"
[13] Credit Suisse, "Global Wealth Report 2019" (2019) https://www.credit-suisse.com/about-us/en/reports-research/global-wealth-report.html
[14] Forbes, "How Asian Family Businesses Respond To Three Global Family Office Challenges" (2019) https://www.forbes.com/sites/francoisbotha/2019/02/28/how-asian-family-businesses-respond-to-three-global-family-office-challenges/#52559d3233a7
[15] HKSARG Press Release https://www.info.gov.hk/gia/general/201911/06/P2019110600764.htm
[16] Hurun: http://www.hurun.net/CN/Article/Details?num=37EBE4E643FC; UHNW Families are defined as owing wealth more than USD 30m
[17] HKMA, "Opening Remarks at Asian Financial Forum Family Office Symposium" (2019) https://www.hkma.gov.hk/eng/news-and-media/speeches/2020/01/20200114-1/

IV. Benefits to Hong Kong in developing as a Family Offices Hub

The FSDC considers the overall financial services industry in Hong Kong will benefit from the city's enhanced role as a family office hub. Growth of AUM and investment activity would create further demand for other high value-added professional services, providing more job opportunities for relevant financial professionals, and further consolidating Hong Kong's role as a leading international financial centre.

Family offices setting up in Hong Kong would serve as a new engine of growth for a spectrum of financial and professional services providers in the city. The positive influence would benefit wealth management professionals, banks, custodians and administrators, legal and tax advisory services, accounting, business advisory and education services as well as other sectors that are directly or indirectly related to the lifestyle of such family members, principals and beneficiaries - such as investing in environmental protection, sponsoring promotion of arts and other philanthropical investment, among others.

The FSDC estimates that there are quantifiable benefits resulting from more family offices choosing Hong Kong as its operational hub. According to Campden Research, around 200 new family offices were set up in Asia per year between 2017 and 2019, and it was projected that this trend would continue. Assuming that Hong Kong can attract 30% of the new family offices to be set up in the city, it can potentially bring an additional AUM of US$48.7 billion in total[18], which is roughly 1.6% of the total AUM of Hong Kong as of 2018. That growth is expected to generate additional spending in Hong Kong of as much as US$600 million[19], or 0.2 percentage point of GDP as in 2019, the impact of which would compound over time. At the same time, its impact on the economy could be far more significant, assuming that Hong Kong could attract a larger share of new family offices in the region.

With the expected enhanced growth of relevant industries, the cemented position of Hong Kong as a family office hub will also create new job opportunities. For instance, a survey in 2017 has shown that, each family office would directly hire 11.3 employees on average, while offices with larger AUM tend to have more staff[20]. In addition, according to industry practitioners, it is expected that the new job opportunities will go beyond the hiring of family offices, creating magnified impact through the multiplier effect as it would lead to increases in manpower demand along the whole value chain, from banking professionals servicing these family offices, to tax and legal advisors and others. Along the same line, assuming that Hong Kong can attract 30% of the new family offices to be set up in the city, some 680 high value adding job opportunities can be created every year.

Family offices are considered the jewel in the crown for the wealth management businesses, and further developing Hong Kong into the family office hub will signify Hong Kong's capability in wealth management. Indeed, according to a recent survey report by the FSDC, private wealth management practitioners and customers considered Hong Kong's professional expertise, product diversity and market access to both the Mainland and the rest of the world as some key attributes for Hong Kong's wealth management sectors.[21] Such qualities should support further development of Hong Kong as a family office hub, thereby reinforcing the city's status as the leading wealth management centre. Against this backdrop, the FSDC hopes that, through implementing the following suggestions, the city's strengths as a leading family office hub can be further consolidated.

[18] Estimate based on the average AUM of family office (US$808 million) from Campden Research's report in 2019
[19] Estimate based on the average cost per AUM (117 bps) from "Global Family Office Report" by UBS and Campden Research, please see note 8 for further details
[20] Fidelity Family Office Services and Botoff Consulting, "2017 Single Family Office Compensation Trend Survey" (2017) https://static1.squarespace.com/static/5bfd628e2487fdb33ce50d5e/t/5cc88dcd472daa000177e780/1556647373961/2017+SFO+Compensation+Trends+Survey.pdf
[21] See Supra note 11

V. Policy Recommendations

The FSDC and the financial services industry at large are firm believers of the growth opportunities arising from developing Hong Kong into a family office hub. In light of such opportunities and the intensifying global competition for family offices, the FSDC believes that concerted effort in enhancing the ecosystem for family offices and building a more conducive operating environment for the relevant sectors are warranted. Recommendations concerning four key areas have been identified, namely regulatory requirements, tax considerations, talent development and interdisciplinary coordination.

Area 1: Regulatory Requirement

> *A more flexible regulatory regime, coupled with a higher degree of clarity on the applicability of potential licensing exemptions from the SFC, would be beneficial to Hong Kong's position as an attractive jurisdiction for the establishment of SFOs and MFOs.*

i. Hong Kong's Existing Licensing Regime

The primary legislation governing the licensing and subsequent conduct of persons involved in carrying on a business involving securities and futures, is the Securities and Futures Ordinance (the "Ordinance"). This is supplemented by subsidiary legislation and regulations as well as codes, circulars and FAQs issued by the SFC from time to time.

Pursuant to Section 114 of the Ordinance, it is an offence for any person to carry on a business in a "Regulated Activity" (as defined in Schedule 5 to the Ordinance) in or from Hong Kong or to hold himself as doing so, unless such person is appropriately licensed with SFC.[22]

From an SFC licensing perspective as well as ongoing compliance obligations under the Ordinance and SFC codes, **no distinction is drawn between the licensing and regulation of a family office established to serve family members versus an independent asset management organisation established to serve a diverse client base.**

Accordingly, there is currently **no specific licensing regime for family offices.** The issue of whether such arrangements need to be licensed by the SFC requires detailed legal analysis of the operational structure and nature of activities being undertaken in order to determine whether they fall within one or more of the definitions of Regulated Activity thereby triggering a licensing obligation.

Certain Regulated Activities have been defined in a manner which carves out certain structures and activities ("Carve-Outs"). This, in effect, takes such activities outside of the scope of "Regulated Activities", thereby negating the requirement to be licensed with the SFC. The question of whether a Carve-Out applies is a matter of legal interpretation and effectively requires a family office to seek and rely upon legal advice as to whether an SFC licence is required. Appropriate structures, activities and operational parameters must at all times be maintained in order to ensure that the activities remain within the applicable Carve-Outs.

[22] There are currently twelve types of Regulated Activity for which an SFC licensed is required. The more relevant for SFOs and MFOs being: Type 1 (Dealing in Securities), Type 4 (Advising on Securities) and Type 9 (Asset Management). A typical family office arrangement will invariably involve the establishment and thereafter discretionary management of one or more investment vehicles. In the event a licensing obligation is triggered in relation to such arrangements it is likely to require a Type 9 licence. The SFC licensing regime is aimed at ensuring that entities and their representatives who carry on a business in a Regulated Activity are fit and proper, thereby protecting the interests of clients for which such entities act, as well as the overall integrity of Hong Kong's financial markets. The licensing process and subsequent ongoing requirements impose stringent compliance, regulatory and ongoing reporting obligations on both licensed representatives as well as the licensed entity and effectively requires the establishment and maintenance of an operational structure in full compliance with the Ordinance, subsidiary regulations, codes, circulars and FAQs issued by the SFC.

The inability to seek a formal licensing exemption from the SFC means that unlicensed family offices need to rely upon legal advice and conduct their activities in a manner so as to remain within the applicable Carve-Outs. An incorrect assessment as to the applicability of a Carve-Out or a failure to remain within it, exposes a family office to potential regulatory action and at worst prosecution should it subsequently transpire that a licensing obligation has been breached.

ii. Hong Kong Regulatory Approach to Family Offices

On 7 January 2020, the SFC issued a circular on "The licensing obligations of family offices" (the "Circular")[23] providing some formal guidance on the SFC's approach to regulating family offices intending to carry out asset management or other services in Hong Kong. This represents the first circular the SFC have issued directed at family offices.

The Circular comprises the following sections: (A) General licensing requirements; (B) Single family offices; and (C) Multi-family offices.

As regards the general licensing requirements, the SFC acknowledges that there is no specific licensing regime for family offices. The SFC states that whether or not a family office requires to be licensed by the SFC will depend on whether the activities being undertaken constitute a Regulated Activity or whether they fall within any of the available Carve-Outs.

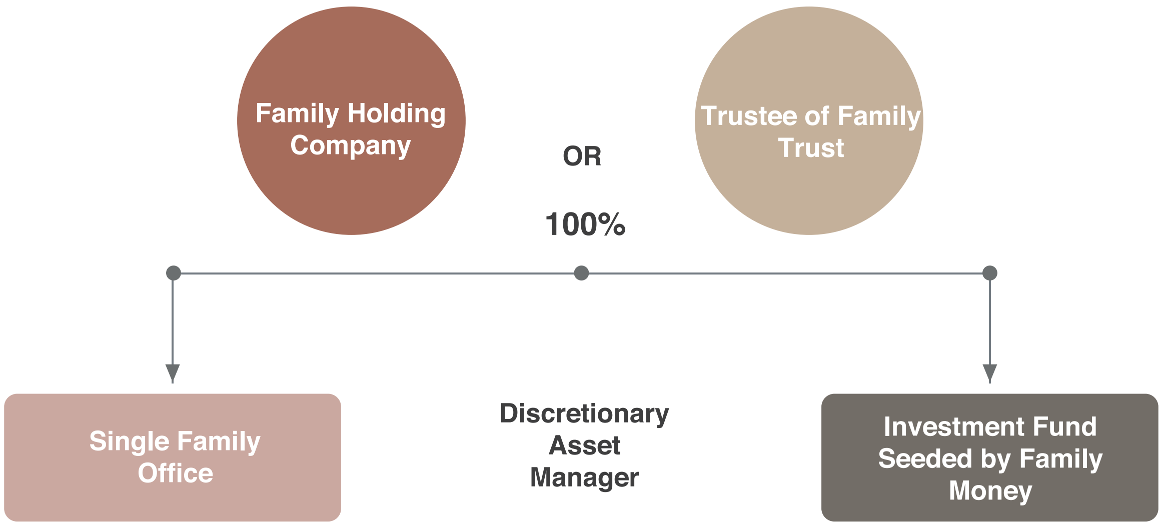
The SFC indicates that a company or family office set up as a business to manage securities or futures may be required to be licensed for Type 9 Regulated Activity (asset management). It reiterates that the licensing implications do not hinge on whether clients are families and hence other factors need to be taken into account.

As regards the licensing obligations of SFOs, the Circular only provides some qualified regulatory guidance. Rather than seek to clarify what the SFC considers to be a SFO and then confirm that it is not the SFC's intention to regulate such arrangements, the SFC comments that: "The way in which a single family office operates can lead to different consequences under the licensing regime". This statement seems to imply that a SFO could require an SFC licence depending on how it has been structured and operates.

The SFC then go on to state that: "For example, in cases where a family appoints a trustee to hold its assets of a family trust, and the trustee operates a family office as an internal unit to manage the trust assets, the family will not need a licence because it will not be providing asset management services to a third party. Similarly, if the family office is established as a separate legal entity which is wholly owned by a trustee or a company that holds the assets of the family, it will not need a licence as it will qualify for the intra-group Carve-Out as a full discretionary investment manager of the securities or futures contracts portfolio. The family office is not required to be licensed for Type 9 regulated activity if it provides asset management services solely to related entities, which are defined as its wholly owned subsidiaries, its holding company which holds all its issued shares or that holding company's other wholly-owned subsidiaries."

[23] Securities and Futures Commission, "Circular on the licensing obligations of family offices" (Jan 2020) https://www.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=20EC1

Based on the above SFC commentary, where a single family office is established as a separate legal entity the SFC have now confirmed that the following structure under which the single family office exercises investment management discretion will fall within the intra-group Carve-Out in the definition of Type 9 Regulated Activity and hence no SFC licensing will be required:



However, where a SFO adopts another structure, additional analysis will be required to ascertain whether a licensing obligation might arise.

As regards to MFOs, the SFC did not seek to define such arrangements other than to state that by definition such arrangements serve more than one UHNW family. The SFC stated that if a MFO provides services to clients who are not related entities as discussed in the context of SFO, such arrangement will not be able to rely upon the intra-group Carve-Out and hence an SFC licensing obligation would likely be triggered.

There has been no discussion from SFC on the different types of multi-family offices in a licensing context in the Circular. No distinction is drawn between a multi-family office structured by a small number of families for the purposes of sharing operating and administrative overheads versus a commercial family office established and resourced as a fully operating asset management entity for the purposes of serving multiple unconnected families and other third-party investors as well.

iii. Additional Regulatory Challenges for Unlicensed Family Offices

Pursuant to the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (the "Code"), SFC licensed intermediaries who wish to deal with a single family office are required to undertake a know your client / investor characterization assessment, the outcome of which determines to what extent certain provisions of the Code can be disapplied in the event that the single family office qualifies as a corporate professional investor.

The Code provides that intermediaries must assess whether a corporate professional investor satisfies all of the following criteria:

(i) Has an appropriate corporate structure and investment process and controls;

(ii) The persons responsible for making investment decisions have sufficient investment experience and background; and

(iii) The persons making the investment decisions are aware of the risks involved.

The SFC issued an FAQ dated 22 January 2015 providing guidance to intermediaries as to how to undertake the assessment of corporate professional investors. However, such guidance and in particular the following FAQ have resulted in intermediaries being reluctant or unable to classify the investment holding vehicles within the SFO structure as a corporate professional investor:

FAQ 5. Can a Corporate Professional Investor be assessed to meet the Assessment Criteria on the premise that the investment decision is made by its shareholder(s) who is(are) financially experienced individual(s)?

A: An intermediary should assess whether the Corporate Professional Investor has the appropriate corporate structure, investment process and controls of a corporation. If the necessary substantive investment processes and controls are lacking in a corporation and the corporation is effectively controlled by a single individual or a small number of individuals such as married couples, it is unlikely to be able to satisfy the CPI Assessment even though they themselves are financially experienced. In general, a Corporate Professional Investor established primarily for tax planning or property or investment holding purposes with investment decisions being made by its shareholder(s) is less likely to be able to satisfy the CPI Assessment."

The consequences of not being able to classify the investment holding vehicles within the SFO structure as a professional investor means that the intermediary is required to treat such vehicles as a retail investor for the purposes of the Code and comply with more onerous client on-boarding obligations including:

(i) An assessment of the client's financial situation, investment experience and investment objectives;

(ii) The need to ensure the suitability of investment recommendations;

(iii) The need to assess the client's knowledge of derivatives and to characterise the client based on their derivative knowledge.

The categorisation of the investment holding vehicles within the SFO structure as a retail investor is not reflective of the true nature of such investment structures nor the regulatory obligations that ought to be imposed on intermediaries when dealing with such investment structures.

iv. Policy Recommendations on Regulatory Requirements

Hong Kong, as a leading international financial centre with a highly regarded regulatory regime and rule of law, is well positioned to benefit from the growth of family offices in Asia. The ability of family offices to operate within a regulatory framework that affords as much regulatory certainty as possible is fundamental to attracting family offices to set up in Hong Kong. In addition, in the event a licence is required, market participants believe there should be a more flexible approach to compliance and ongoing reporting obligations that distinguish family arrangements from commercial third-party ventures. Accordingly, the FSDC recommends consideration of the following regulatory initiatives in order to increase Hong Kong's competitiveness as a family office hub for the Asian region.

(i) Provide Further Certainty on When A Licensing Obligation Arises

The FSDC appreciates that the SFC has set up a designated email enquiry account for family offices, while noting that some remaining uncertainty arising from the Circular should be addressed. It is recommended that the SFC should consider the issuance of further guidance ("Further Guidance") and FAQ to provide more certainty on the potential licensing obligations for family offices. It would be welcomed if the SFC reiterated the position that the requirement to be licensed to undertake a Regulated Activity arises only when a person is "carrying on a business" in such Regulated Activity. Although the issue of whether a person is "carrying on a business" will inevitably be determined by the facts of each case, it is unlikely that a SFO operating in the normal course would be considered to be "carrying on a business" for the purposes of SFC licensing.

(ii) Clarify the Definition of "Single Family Office" for Potential Licensing Exemption

In light of the SFC's regulatory intent and to provide better clarity to market participants, it is recommended that the SFC can take reference from regulators of other jurisdictions, such as SEC[24], and set out what would qualify as a single family office and, in particular, whether the "term" family may refer to individuals who are lineal descendants from a single ancestor, as well as the spouses, ex-spouses, adopted children and step children of these individuals.

[24] See Supra note 5

(iii) Clarify the Regulatory Regime Applicable to Certain Multi-family Offices Arrangements

The SFC could explore the possibility of clarifying the regulatory environment applicable to non-commercial multi-family offices established by a limited number of families (e.g. no more than 3 families) for the purposes of sharing a common operating infrastructure and sharing expenses and overheads. It is recognised that some of these arrangements may stray into the licensing regime when for example they seek to manage monies for third parties outside of the families. In such a case, the SFC could consider adopting a more flexible approach in determining whether the SFC's licensing criteria can be fulfilled by such structures. Furthermore, when issuing the appropriate license (where one is required), we believe the SFC could consider specifically exempting such non-commercial structures from complying with some of the more onerous compliance and reporting obligations both at the level of the licensed entity as well as its senior management and managers in charge imposed on commercial asset managers. Such an approach could be undertaken within the SFC's existing licensing framework without the need for legislative changes.

(iv) Set Out A More Flexible Regulatory Regime for Multi-family Offices

The FSDC recommends that the SFC consider issuing a specific Code of Conduct for Family Offices (when such arrangements trigger an SFC licensing requirement) setting out a more flexible ongoing compliance and reporting regime tailored for SFC licensed multi-family offices.

(v) Explore the Feasibility of Granting A Specific Licensing Exemption to Family Offices

If it is not the intention for the SFC to license and regulate SFOs and certain non-commercial MFOs, it is worth exploring the feasibility of issuing a specific exemption to such structures. This could be implemented through the establishment of an exemption application process, and possibly the requirement to formally renew such exemption on an annual basis. It is understood that the recommendation may involve amendments to the existing Securities and Futures Ordinance and be beyond the purview of the SFC. Noting that such arrangement would put Hong Kong on a more equal footing with other jurisdictions, it is suggested that the Government can consider taking the lead in driving such exemption regime for family offices.

(vi) Clarify the Application of the Corporate Professional Investor's Qualification for Family Offices

There are challenges currently faced by unlicensed family offices as a result of not fulfilling the assessment requirement for the exemption from certain provisions from the Code as corporate professional investors, leading them to be treated similar to individual professional investors. This could be addressed by the SFC updating its FAQ to make a specific reference to family offices and clarifying that such structures can qualify as a corporate professional investor, provided certain minimum standards (e.g. the existence of key investment personnel with sufficient investment experience) are met.

Area 2: Tax Considerations

Introduce a more competitive tax treatment for family offices to retain and attract UHNW families to set up and run their operations in Hong Kong.

i. Tax considerations for family offices of Hong Kong

Market participants consider that further enhancing measures could be introduced to the current taxation regime to maintain Hong Kong's attractiveness as a hub of family offices. This is of particular importance in view of the favourable tax regimes offered by other wealth management markets targeting the family office segment. Attention may be drawn to the following three areas:

(i) Hong Kong does not impose tax on capital gains. Hence, the Hong Kong Inland Revenue Department ("IRD") generally does not tax individuals on personal investment income (except for trading profits of landed properties which would be subject to profits tax liabilities).[25] On the other hand, if individuals invest through corporate entities, such as personal investment companies ("PICs", which is a commonly adopted structure for family offices due to commercial and confidentiality considerations),[26] such investment income may be subject to profits tax in Hong Kong absent any specific exemption if the investment activities are managed in Hong Kong. Given PIC is a common investment structure adopted by UHNW individuals (in addition to the family trust structure), market participants are of the view that if the tax policy on PICs can be aligned with that applied on individuals' personal investment income, this can incentivise the development of Hong Kong as a family office hub.

(ii) As it stands, the current tax exemption regime does not cover the family office spectrum in entity. Specifically, the current profits tax exemption regimes (i.e. Unified Funds Exemption ("UFE")[27] and Non-Fund Investor Exemption ("NFIE")[28]) in Hong Kong provide tax exemption to funds and non-funds entities respectively, which are either managed by SFC licensed entities or regarded as qualifying funds. In practice, family offices – and especially SFOs managing assets solely for specific families – may not need to apply for SFC licenses given their business nature; however, without such SFC licenses, these family offices would not be able to enjoy the tax exemption. It is noteworthy that the investment holding structures of families (which are commonly in the form of family trusts and/or PICs) would unlikely qualify as qualifying funds as well.

[25] Inland Revenue Department, https://www.ird.gov.hk/eng/tax/sdu.htm#a17b
[26] Inland Revenue Department, "Automatic Exchange of Financial Information" (Sep 2017) https://www.ird.gov.hk/eng/pdf/2016/chapter3.pdf
[27] Section 20AN of the Inland Revenue Ordinance ("IRO")
[28] Section 20AC of the IRO

(iii) Even if the SFC licensing issues could be resolved (e.g. for multi-family office which may hold SFC licenses) and the investment vehicles of the family offices are exempt from tax under the above stated exemption regimes, these regimes have put in place an anti-avoidance provision. Such a provision has empowered the IRD to tax back the shareholders if they are Hong Kong residents (including individuals), and hold more than 30% interests in the investment vehicles or are regarded as associates of the investment vehicles. Hence, the current exemption regimes may not be applicable to family offices' investments that are primarily owned by Hong Kong resident individuals (and their relatives) as shareholders or beneficiaries of the family trust. This may discourage UHNW families currently based in Hong Kong or those intended to move to Hong Kong to set up family offices, or conduct investment activities, in Hong Kong.

ii. International references on tax regime for family offices

Market participants consider that further enhancing measures could be introduced to the current taxation regime to maintain Hong Kong's attractiveness as a hub of family offices. This is of particular importance in view of favourable tax regimes offered by other wealth management markets targeting the family office segment. Attention may be drawn to the following areas:

- *Using Switzerland as a point of reference*

  Switzerland generally does not tax individuals for their private capital gains on movable assets (e.g. shares) as long as the individual does not qualify as a professional securities dealer.[29] In addition, Swiss companies generally can get tax relief (i.e. participation relief) on qualifying dividend income from, and qualifying capital gains on the disposal of, a participation interest of not less than 10% of the share capital of the investee companies.[30] These favourable tax features allow family offices set up in Switzerland to structure their investments in a tax efficient manner.

- *Using Singapore as a point of reference*

  Like Hong Kong and Switzerland, Singapore does not impose taxes on individuals for investment income made by individuals; such investment income would however be taxed in other jurisdictions such as United Kingdom and United States.

  Family offices in Singapore may also apply for tax exemption on the investments that they manage under various regimes in accordance with their investment holding structures and residence of family members (including Singapore).[31] Those regimes include Section 13CA (Offshore Fund Tax Exemption Scheme), Section 13R (Onshore (Singapore Resident Company) Fund Tax Exemption Scheme), Section 13X (Enhanced Tier Fund Tax Exemption Scheme),[32] Section 13Z (Capital Gains Safe Harbour Exemption)[33], and Section 13G (Qualifying Foreign Trust Exemption)[34].

[29] PwC, " Switzerland: Individual-Income Determination" (Nov 2019) http://taxsummaries.pwc.com/ID/Switzerland-Individual-Income-determination
[30] PwC, " Switzerland: Corporate-Income Determination" (Dec 2019) http://taxsummaries.pwc.com/ID/Switzerland-Corporate-Income-determination
[31] Deloitte, "Fund Management in Singapore: A summary of the regulatory and tax framework" (2019) https://www2.deloitte.com/content/dam/Deloitte/sg/Documents/tax/sg-tax-publications-fund-management-in-sg.pdf
[32] Singapore Statutes Online, https://sso.agc.gov.sg/Act/ITA1947?ProvIds=pr13X-#pr13X-
[33] Singapore Statutes Online, https://sso.agc.gov.sg/Act/ITA1947?ProvIds=pr13Z-#pr13Z-
[34] Singapore Statutes Online, https://sso.agc.gov.sg/Act/ITA1947?ProvIds=pr13G-#pr13G-

iii. Policy Recommendations on Tax Considerations

According to FSDC's discussions with market practitioners, a jurisdiction's taxation regime is one of the most important considerations to the choice of operation base for family offices. An ideal tax regime should allow both resident and non-resident families to manage their investment and non-investment affairs effectively in the jurisdiction, which would give way to seamless succession planning, as well as to provide good governance and protection of family assets. Among other factors, the location of where investment decisions and operations are carried out, the residency of stakeholders (such as shareholders, and trustees and beneficiaries of family trusts), as well as the type of income should be considered.

Whilst Hong Kong's existing tax regime has already got many attractive features in place, the FSDC considers it appropriate for the Government to consider a few additional enhancement measures, which should bring further clarity and benefits to family offices and their stakeholders. Such recommendations are as follows:

(i) Apply Same Tax Treatment for Investment by PICs as Individuals'

The FSDC believes it will give further flexibility to family offices if the IRD can recognise investments of PICs as investments of individuals and apply the same tax treatments, provided that certain commercial conditions were fulfilled (e.g. more than 90% of assets of PICs must be financial assets, PICs cannot have control over investee companies, PICs cannot conduct other trades or businesses, PICs need to be owned by an individual or a trust with all beneficiaries as individuals and that these relevant individuals are not engaged in the business of securities trading or dealing, etc.). This may be achieved through a more liberal interpretation of the existing law and guidelines on "carrying on a trade or business" via a look-through approach (by making reference to the exemption regime on special purpose entities under the UFE regime). In addition, measures can be put in place to avoid inadvertent abuse by individuals (including UHNW individuals) setting up PICs to carry on other trades or businesses.

(ii) Expand the Current Tax Exemption Regimes to SFOs

As it currently stands, investments managed by local SFOs may not benefit from the existing tax exemption regime as the SFOs may not be required to have a SFC licence. Since FOs may enjoy such benefits in other jurisdictions, this may hinder the competitiveness of Hong Kong being a family office hub. It is recommended that the IRD can consider expanding the definition of "specified person" under the UFE and NFIE regimes to include SFOs that fulfil certain commercial conditions (e.g. size of AUM, number of employees, sources of family funds managed, etc). Through this mechanism, the asset holding entities managed by the SFOs could enjoy the same tax concession as other participants in the asset and wealth management industry. Appropriate tax reporting requirements by the SFOs on those asset holding companies can be considered to avoid any abuse.

(iii) Align Tax Treatment for Local and Overseas Family Offices

The FSDC believes that local UHNW families, as well as new UHNW families who intend to move to Hong Kong, may be incentivised to set up their family offices locally by excluding Hong Kong individuals who are not in the business of securities trading or dealings from the anti-avoidance provision under the UFE and NFIE regimes. This can enable the current exemption regimes to be equally applicable to family offices of both Hong Kong and non-Hong Kong residents, and also align the policy to not impose taxes on individuals' investment income (which has been consistently applied by the Government for all the past years). Such exclusion can be done through providing clarity in the relevant Departmental Interpretation & Practice Notes.

While there is no available data to quantify or estimate the potential revenue impact arising from the above proposals, the FSDC believes that the impact on tax revenue should not be significant. This is because family offices operating in Hong Kong, who are sophisticated investors, may have arranged their investment activities to be conducted outside Hong Kong in light of the current tax regime in Hong Kong on family offices' investments. On the contrary, we believe that the above proposals, if adopted, can help to attract new family offices to set up in Hong Kong and encourage the existing family offices in Hong Kong to move their investment activities back to Hong Kong. Such development will be beneficial to the local job market and, in turn, tax revenues.

The FSDC is fully cognisant of the international tax developments and work being done by the Organisation for Economic Cooperation and Development (OECD), especially related to proposals to address the tax challenges on digital economy[35]. The above recommendations may need to be refined to take into account the potential impact of the evolving international tax developments on tax rates and tax incentives before implementation.

[35] Organisation for Economic Cooperation and Development (OECD), Programme of Work to Develop a Consensus Solution to the Tax Challenges Arising from the Digitalisation of the Economy: Inclusive Framework on BEPS (2019), Pillar One and Pillar Two. https://www.oecd.org/tax/beps/programme-of-work-to-develop-a-consensus-solution-to-the-tax-challenges-arising-from-the-digitalisation-of-the-economy.pdf

Area 3: Talent Development

Provide more tailored training programmes meeting the needs of family offices can be offered to practitioners and university students in preparation for them to serve these employers

i. Current family office-related talent development landscape in Hong Kong

Having an abundant and sustained supply of high-quality professionals to serve different sectors in the industry is a key factor that will allow Hong Kong to remain as an international wealth management hub.

Private wealth management industry practitioners in the city suggest that family offices, including SFOs and MFOs, have been facing challenges of recruiting high quality talent. This can be attributed to the fact that these family offices have to compete with global investment and private banks, among other financial institutions, for top talent. The competition is not only limited to pay and perks, but also prestige of the employer brand and company culture, among others.

SFOs tend to operate only with a handful of employees, while the number of employees varies among MFOs. Most of the employees in family offices are expected to have some form of training and experience in the financial services industry. According to an article published by Bloomberg, given the size of a traditional family office, the working environment and culture would be quite different from that in large, established banking institutions.[36] These employees should ideally be "personable, likable, with high emotional intelligence" in general, and they should also possess the capability to handle frontline work (e.g. deal assessment), as well as work that what others could consider mundane (e.g. dealing with family administrative matters).

In order to maintain its status as a competitive family office hub, Hong Kong cannot be complacent and will need to ensure that there are adequate high-quality professionals to serve these family offices. With the unique job requirements and the fierce competition for talent due in part to the relatively low unemployment rate, further talent development strategies must be designed and deployed. This is of high priority given the evolving client demands; with the emergence of the second- and third-generations of beneficiaries who may be seeking more than just financial returns, professionals serving family offices would need to be equipped with appropriate skills.[37] Given overlapping qualifications between those suited to work in family offices and in private wealth management firms, global investment banks and asset management firms, it is worth seeing how some talent development initiatives can cover all these areas.

[36] Bloomberg, https://www.bloomberg.com/news/articles/2019-06-12/-sexy-access-lures-younger-bankers-to-family-office-jobs
[37] Financial Times, https://www.ft.com/content/972adac6-d928-11e9-9c26-419d783e10e8

ii. International reference on talent development for family offices

- *Using Luxembourg as a point of reference*

Luxembourg is one of the biggest asset management centres in the world and ranked second globally in attracting talent.[38] Luxembourg for Finance, a public-private partnership between the Luxembourg Government and local industry associations, has recently published a strategy paper detailing on the future development plan for the financial sector in Luxembourg[39]. One of the sections in the paper focused on talent development. Its main recommendations are as follows:

(i) Ensuring access to talents

Around 40% of the workforce in Luxembourg are residents in neighbouring countries. Luxembourg aims to continue to be open to, and strengthen its attractiveness to, the talent pool of people living within a one-hour travelling distance to its capital, with an estimate population of 4 million;

(ii) Enhancing the coordination of government, academic and industry's talent development efforts

A House of Training and the Competence Centre have been set up at the University of Luxembourg for professional training of financial services industry. The Luxembourg government and local industry associations will work closely with the University of Luxembourg on refining its curricula for better adaptation to the rapidly changing needs of the financial service industry.

(iii) Increasing Luxembourg's attractiveness for expats

The paper recommends boosting Luxembourg's attractiveness for expats in various areas, including enhancing quality of life, adapting a more favourable legal and fiscal frameworks for expats, increasing the number of international schools and improving infrastructure such as public transport and IT.

[38] INSEAD Business School, "The Global Talent Competitiveness Index 2020" (Jan 2020) https://www.insead.edu/sites/default/files/assets/dept/globalindices/docs/GTCI-2020-report.pdf
[39] Luxembourg for Finance, "Ambitions 2025: Shaping a Sustainable Future" (Jan 2020) https://www.luxembourgforfinance.com/wp-content/uploads/2020/01/LFF_AMBITIONS_2025.pdf

- *Using Singapore as a point of reference*

Singapore has introduced some talent development initiatives for its private wealth management industry in recent years. Its key initiatives are summarized as follows:

(i) Developing skills map to align market needs and training curricula

The Monetary Authority of Singapore ("MAS") is working with the Institute of Banking and Finance ("IBF") and the local industry to develop a skills map, laying out skills expected to be equipped by family office professionals. The skills map can serve as a framework for banks and external asset managers, other financial institutions, training service providers and other stakeholders to map out what training courses would be needed for the segment.

(ii) Establishing compulsory competency assessment for practitioners

In Singapore, the MAS supported the establishment of the Private Banking Advisory Group comprising industry practitioners of leaders in 2010, which has issued the Private Banking Code of Conduct (the "PB Code").[40] Led by the banking industry, the development of the PB Code was to "enhance the competency of private banking professionals and foster high market conduct standards",[41] thus enhancing investor confidence in the industry. Under the PB Code, relationship managers are required to take a common competency assessment, known as the Client Advisor Competency Standards ("CACS"), before they are eligible to provide advices to clients[42]. MAS showed that 8,500 professionals in Singapore have undertaken the CACS as of mid-September 2019. In short, the MAS, together with the IBF, has designed a programme and competency assessment and made it an essential requirement for junior relationship managers.

(iii) Creating talent development schemes

Singapore set up the Wealth Management Institute ("WMI") in 2003 to drive the city's development as a competitive wealth management centre. The WMI works closely with the MAS, IBF as well as the industry to educate and equip relevant professionals through a suite of practice-based programmes.

At the same time, the MAS is focusing on equipping Singaporean professionals with essential skillsets to serve family offices and other sectors through launching various continuing education programmes. The Singaporean Government upskills its talent through offering financial support (e.g. subsidies on training costs) to employees who may want to take up these jobs.[43]

The MAS and IBF also partner with external parties, to provide support to firms that are already or expected to be severely impacted by the emerging trends (e.g. HR technologies, RegTech) through the Professional Conversion Programmes, which would re-skill affected or potentially affected staff members to help them get ready for taking on new or different roles.

[40] The Association of Banks in Singapore, https://abs.org.sg/docs/library/pb-code-of-conduct--8-jan-2019.pdf
[41] The Association of Banks in Singapore, https://abs.org.sg/docs/library/pb-code-of-conduct-faqs---4-jan-2019.pdf
[42] Monetary Authority of Singapore, https://www.mas.gov.sg/news/speeches/2019/developing-wealth-management-talent-of-the-future-what-and-how
[43] ibid

iii. Policy Recommendations on talent development

The ongoing and steady supply of professionals is vital to the success of Hong Kong as a family office hub. Practitioners shared the view that, as compared to large financial institutions, family offices often face challenges in enticing both top and mid-tier managers from the market. This is in part because family offices would require professionals with different skillsets, and also because of the tight labour market conditions.

In order to maintain our strengths as a family office hub, Hong Kong should consider gearing up the supply of talent and foster the ongoing development of professionals. In this regard, the FSDC proposes the following measures:

(i) Develop Courses and Seminars Catering to Family Offices' Needs

The Government and regulators, together with industry and professional associations, should put in place a comprehensive suite of training programmes for talent development, catering to the needs of junior associates all the way to senior executives. Such training should not be limited to purely financial skill set (e.g. financial statement analysis, tax planning, trust setup), but also encompass the management of more personal family affairs ranging from children's education to succession planning. Professionals with such skillset are much sought after by family offices. Market participants are also of the view that family offices are facing a shortage of professionals with skills and practical experience in sustainable investment. It is, therefore, suggested that training programmes centred around these areas would ensure Hong Kong is well positioned to serve the growing family office infrastructure.

While Hong Kong is a leading wealth management hub in the region, the concept of family office is still relatively new to the Asia-Pacific region and international experience will also be instrumental the development of local talent. The Government and/or other stakeholders may consider inviting seasoned international experts to Hong Kong and share such experience with the industry. This can be done in conjunction with the industry players, as well as industry and professional associations. Such a joint-effort would be conducive to creating awareness, focus, and commitment to developing Hong Kong as a family office hub.

While there are a few existing training courses on family offices available in the market, the current Enhanced Competency Framework ("ECF") developed by the Government and industry associations has no specialised stream or content on the differentiated needs of family offices. The Pilot Programme to Enhance Talent Training for the Asset and Wealth Management Sector ("WAM Pilot Programme"), which is funded by the Government and provides subsidies for in-services practitioners' trainings, does not cover training courses specializing for family offices as well. The FSDC recommends that the Government can enhance cooperation with industry practitioners to develop training courses catering to the needs of family offices (e.g. private investment and philanthropy management). Subsidies can also be provided for participants of those courses through the WAM Pilot Programme. This can equip Hong Kong with the most suitable talent pool for family offices and enable seamless conversion of talents from other private wealth management segments to family offices.

(ii) Develop University-based Training and Degree Courses

The Government may consider encouraging universities to put stronger emphasis on the wealth management industry. The universities in Hong Kong are highly ranked globally, and their business programmes are among the world's best[44]. It is, therefore, sensible for these universities to be utilised as important channels to nurture the future talent for the industry.

The FSDC proposes launching practice-based learning for the training of wealth management professionals at both undergraduate and postgraduate levels. It is worth exploring the set-up of a designated task force, led or appointed by the Government, to work with industry partners and universities to continuously reviewing and provide high-level comments on programme design of relevant courses to ensure its training aligns the evolving market needs. These undergraduate and postgraduate degree programmes should closely integrate classroom learning with structured on-the-job training to help students acquire deep, work-relevant skills to ensure that they are work-ready upon graduation.

Meanwhile, as the demand for talent evolves over time, the Government should also encourage universities to devote further resources to such emerging areas as data analytics and cybersecurity. The same designated task force, led or appointed by the Government, may also provide industry insights on the design and delivery of the curriculum.

[44] According to
- o Quacquarelli Symonds (QS) World University Rankings 2020
  - •The University of Hong Kong (25th; 2nd)
  - •The Hong Kong University of Science and Technology (32th; 7th)
  - •The Chinese University of Hong Kong (46th; 9th).
- o Times Higher Education World University Rankings 2020/ Asian University Rankings 2019:
  - •The University of Hong Kong (35th/4th)
  - •The Hong Kong University of Science and Technology (47th /3rd)
  - •The Chinese University of Hong Kong (57th/7th)
- o In 2018, The Economist rated the HKU's MBA programme No.1 in Asia for the ninth consecutive year

Area 4: Interdisciplinary Coordination

The establishment of a one-stop liaison and services centre will help facilitate the establishment and operation of family offices in Hong Kong

According to industry practitioners, the set-up process is one of the pain points for family offices in different economies, due in part to the differences in regulatory requirements and tax regimes in various markets. The uniqueness in structure and demand for the UHNW families adds to the complexity. Besides, after the establishment of their offices, family offices would at times appreciate dialogue with government officials and regulators to understand new developments, in addition to the access to market experts which they may gain from their service providers such as wealth management firms and professionals. With this in mind, family offices with the backing of UHNW families would often need to reach out to different human resources consultants, legal advisors, regulators, government departments, financial institutions and others to sort out procedures and requirements for their operation.

i. Policy recommendations on Interdisciplinary Coordination

The FSDC believes Hong Kong can further advance its competitiveness as a family office hub if a collaborative body can be set up to provide one-stop services with an aim to lowering tangible or non-tangible transaction costs for family offices as they operate in Hong Kong. This collaborative body should be a partner of different public bodies, such as the Hong Kong Monetary Authority ("HKMA") and Invest Hong Kong ("InvestHK"), who currently respond to demands and requests of organisations of different natures and sizes, and should set out a clearer mandate of serving family offices. Noting that there are already some initiatives and forms of cooperation among government bodies, regulators and industry organisations, the establishment of such a body can lead to a more collaborative approach toward serving family offices and can create synergies and bring additional efficiency to the city as a family office hub.

In this regard, the FSDC recommends the Government to consider fully funding the set-up of a one-stop liaison and services centre ("The Centre") to serve such purposes. On top of providing necessary information to family offices, it should aim at providing connections to service providers, as well as explaining and directing them to conducive government incentives, among others. The Centre should also work hand in hand with other government and non-government agencies to consistently and constantly enhance Hong Kong's pro-business environment, which can be achieved by ensuring that family offices are supported by an internationally competitive workforce through ongoing talent development. Key functions are as follows:

(i) One-stop liaison office with Government bodies

The Centre should serve as the designated one-stop office for family offices with potential or existing establishments to liaise with different Government bodies on relevant issues, including but not limited to bank account opening requirements, licensing requirement, and the local taxation regime. The Centre should become the central contact point between the Government and family offices, responsible for arranging and hosting meetings between the parties, which will facilitate the smooth set-up and operation of family offices in the city. In order to serve such purposes, the Centre should build and maintain strong relationships with relevant regulators and government bodies, such as the Financial Services and Treasury Bureau, HKMA, InvestHK, IRD, SFC, and others.

(ii) Centralised directory of professional services providers

With an aim to becoming the "family office of family offices" in Hong Kong, the Centre should serve as the centralised directory of local professional service providers in various areas, which would be instrumental to family offices as they set up and operate in Hong Kong. The range of professional services should cover legal, tax and accounting, banking, advisory and luxurious concierge, among others. One should be mindful that exercising such functions would need to take into account various factors, including the effectiveness and neutrality of the referral mechanism. The Centre can also serve as a central point of contact to organise networking sessions, allowing family offices to meet their peers and line up potential investment opportunities.

(iii) Coordinator of Government promotion efforts

While both the hardware and software of Hong Kong are at the core of its advantage as a family office hub, market practitioners are of the view that such advantages can be coordinated and disseminated more consistently and effectively in overseas markets. With that in mind, the Centre should launch concerted efforts together with the HKMA and InvestHK to strengthen its promotional outreach in external markets, potentially in collaboration with other stakeholders. The FSDC, with market promotion being a key mandate, will stand ready to be involved in such efforts.

(iv) Opinion exchange between public and private sectors

The Centre can also serve as a communication gateway between the public and private sectors on issues relevant to the operation of family offices. A regular communication mechanism can be formed among market participants, industry organisations and the Centre in order to collect up-to-date market insights and opinions on family offices related matters. In relation to the earlier recommendation on talent development, the Centre may host seminars on topics of interest to relevant stakeholders.

By setting up the Centre, Hong Kong can become one of the most welcoming economies for family offices. Noting that there has been a quest for a central unit to coordinate communication between the public and private sectors to facilitate inbound investments, the setup of the Centre may be replicated in other emerging areas, such as FinTech, should it be proven practicable and successful.

VI. Conclusion

The growing trend of family offices worldwide, especially in Asia, has provided Hong Kong an unprecedented opportunity to develop into the family office hub for Asia-Pacific. The city can leverage its advantages in its established and sophisticated financial markets, close connection with the mainland market, common law tradition and comprehensive professional services to attract UHNW families to set up their family offices here.

The FSDC believes that Hong Kong's financial services industry will benefit from the city's enhanced role as a family office hub. Such initiative would result in further accumulation of AUM and wealth management businesses into the local market, thus creating further demand for various high value-added professional services, leading to more job opportunities for relevant financial professionals. From that, Hong Kong's role as a leading international financial centre can be further consolidated.

Furthermore, the growth of a family office infrastructure in Hong Kong would also serve to bolster Hong Kong's involvement in sustainable investment and green finance which are becoming an increasingly important element of the family office investment process.

Against this backdrop, the FSDC believes that, on top of the concerted effort of different parties, the recommendations set forth in this paper will result in a more conducive operating environment for the relevant sectors. In particular, the FSDC has identified four key areas that warrant attention, namely regulatory requirements, tax considerations, talent development and interdisciplinary coordination, and made recommendations concerning them accordingly.

The FSDC hopes that the recommendations will provide clarity, flexibility and support to family offices and eventually make Hong Kong more attractive to them as a base of operation. This would not only benefit the financial services industry in Hong Kong, but also serve as a new growth driver for professional services.

About the FSDC

The FSDC was established in 2013 by the Hong Kong Special Administrative Region Government as a high-level, cross-sectoral advisory body to engage the industry in formulating proposals to promote the further development of the financial services industry of Hong Kong and to map out the strategic direction for the development.

The FSDC has been incorporated as a company limited by guarantee with effect from September 2018 to allow it to better discharge its functions through research, market promotion and human capital development with more flexibility.

Contact us

Email: enquiry@fsdc.org.hk
Tel: (852) 2493 1313
Website: www.fsdc.org.hk