

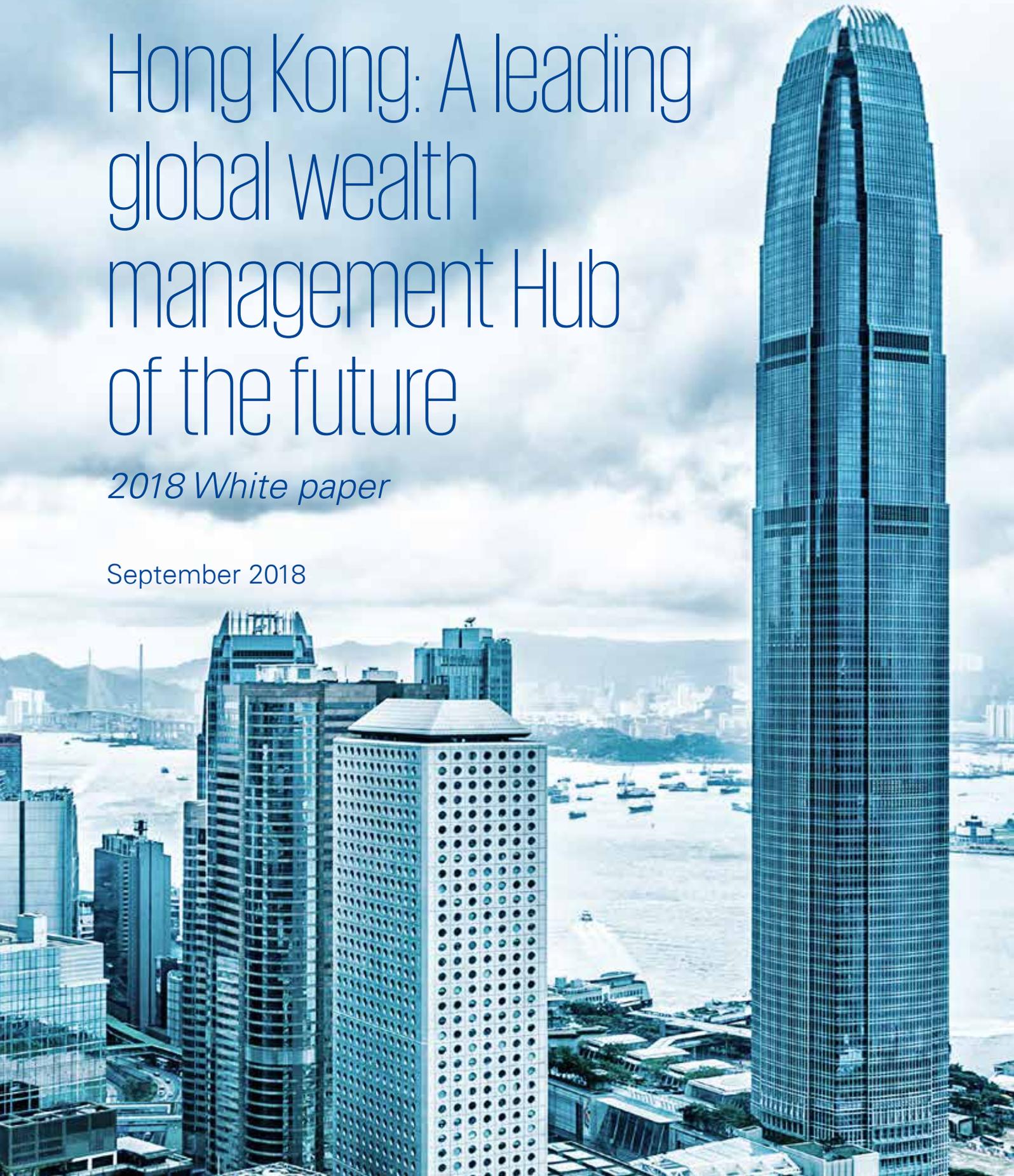


Private Wealth  
Management  
Association

# Hong Kong: A leading global wealth management Hub of the future

*2018 White paper*

September 2018





# Contents

---

## **1 Executive summary**

## **2 Importance of the industry to Hong Kong**

- 2.1 Economic impact
- 2.2 Current state of the industry

## **3 Vision**

- 3.1 A window of opportunity for Hong Kong
- 3.2 Building on existing foundations
- 3.3 Understanding the competition
- 3.4 Vision: From Regional Hub to Global Leader

## **4 Driving the next phase of growth**

- 4.1 Realising the vision
- 4.2 Topic 1: Enhancing promotion
- 4.3 Topic 2: Setting the right tax environment
- 4.4 Topic 3: Building an appropriate regulatory environment
- 4.5 Topic 4: Enhancing connectivity with mainland China
- 4.6 Topic 5: Nurturing the right talent
- 4.7 Topic 6: Enhance the access to KYC information for onboarding
- 4.8 Topic 7: Driving the future of the industry

## **5 Implementation approach**

- 5.1 Implementation principles
- 5.2 Prioritisation of initiatives
- 5.3 Initial view on ownership

## **6 Appendix**

- 6.1 Interviewee list
- 6.2 Economic impact assessment methodology
- 6.3 International comparison of funds tax regimes and trusts regimes



# 01

## Executive summary

**Hong Kong is home to a well-established private wealth management industry (PWM) that has deep experience in serving high net worth individuals (HNWIs) from China and the rest of Asia. With this strong foundation, the city is at a point where it could develop into something larger – a leading global wealth management hub that sets international standards for both service and innovation, thus attracting significant assets from across the world. Such a development would be beneficial to the PWM industry itself, as well as to Hong Kong as a whole, since the industry is already an important contributor to the local economy.**

The PWM industry has already made significant progress in recent years, growing in the face of a wave of regulatory change and adapting to an increasingly demanding technological environment. But to make the leap from a regional to global PWM player, Hong Kong needs to address a range of issues that are critical for the future development of the industry.

It is in this context that the Private Wealth Management Association (PWMA) commissioned KPMG to develop a white paper to estimate the economic contribution of the industry, identify growth opportunities, define a vision for the future of the industry and develop recommendations to



enhance Hong Kong's position as a PWM hub. At its core are 13 recommendations that, if realised, will put the city on a par with the world's most highly regarded wealth management centres.

### Key findings

The PWM industry is an important contributor to Hong Kong's GDP. This study found the PWM industry and its associated supply chain contributed between HKD24.6 billion to HKD30.0 billion of value added<sup>1</sup> in 2017, accounting for 1.0 to 1.2 percent of GDP and provides at least 10,000 jobs supporting Hong Kong people and their families<sup>2</sup>. The industry manages HKD7.8 trillion of assets (USD1 trillion), which accounts for 32 percent of Hong Kong's total asset and wealth management industry<sup>3</sup>. The industry plays a key role as a conduit of finance for the financial services sector and actively supports the development of Hong Kong as a global funds centre.

Today, the PWM industry has a window of opportunity to benefit from several macro-opportunities. Wealth growth in nearby Asian countries, global wealth looking to Asia for investment, the rise of family offices, Brexit and certain global regulations levelling the global playing field all present an opportunity to move Hong Kong from a regional hub to a global leader in terms of scale, diversity, innovation and talent.

Other hubs are not sitting idle and are aggressively pursuing these opportunities and Hong Kong will need to play to its existing strengths as well as transform to compete. The city's clear advantages as the gateway to mainland China, a leading financial centre and positioning as a hub of many different industries need to be capitalised on.

The consultation identified thirteen recommendations grouped into seven topics to drive the PWM industry towards the future vision. Of these, three areas are likely to have the highest impact based on discussions with stakeholders

1. Value added is the same as GDP less taxes and subsidies. It is commonly used by the Hong Kong government to assess economic impact
2. PWMA Economic Impact Survey 2018, KPMG analysis note: total value added is made up of: Direct impact of HKD14.5 billion (0.61-0.50% of GDP), Indirect impact of HKD8.4 billion (0.35-0.29% of GDP) and Induced impact of HKD5.7 billion (0.24-0.20% of GDP)
3. SFC, Asset and Wealth Activities Survey 2017

and these three areas align with the results of the 2018 PWMA annual survey.

1. **Attracting family offices:** This requires active promotion of Hong Kong as a wealth management centre (recommendations 1 and 2) and setting the right tax environment to be competitive (recommendations 3-5)
2. **Mainland China:** Managing wealth from mainland China has been identified as the biggest growth opportunity for the PWM industry. Enhancing Hong Kong's position as the premier offshore wealth management centre is therefore crucial (recommendation 9)
3. **Regulation:** An industry specific code of conduct would provide greater clarity on regulatory requirements and maintain levels of investor protection (recommendation 8)

## Topic 1: Enhancing promotion

Hong Kong has many strengths as a PWM centre but it cannot assume that HNWIs, Ultra-High Net Worth Individuals (UHNWIs) and family offices will recognise these benefits on their own and come to Hong Kong to manage their wealth. Interviewees noted that Hong Kong is less active than its peers in promotion. Competition from other financial centres is strong and Hong Kong needs to be active in encouraging private wealth clients to come here.

For other industries or initiatives such as the Belt and Road Initiative (BRI) or RMB internationalisation there has been a proactive, co-ordinated approach to promote the benefits of Hong Kong and encourage interested parties to set up here. This approach should be extended to the PWM industry and include the facilitation of private wealth clients setting up in Hong Kong.

- **Recommendation 1: Regulator and/ or government led effort to coordinate industry business development in targeted geographies.** Interviewees suggest that Hong Kong is falling behind peers in terms of actively promoting its PWM industry externally. A promotion strategy needs to be developed and executed that attracts offshore wealth to be managed in

Hong Kong that is consistent with the FSTB's aim to consolidate and enhance Hong Kong's positions as a premier international asset and wealth management centre. In order to send a clear message of support and align a diverse group of stakeholders, such efforts should be led by the government or a regulator as it is in other competing jurisdictions such as Singapore.

- **Recommendation 2: Set up an Investment Office Liaison Centre to help promote Hong Kong and guide family offices through the set-up process in Hong Kong.** Family offices have been identified as a key engine of growth. Attracting a family office to Hong Kong creates employment, assets to be managed by the wider financial services industry and has a positive impact on attracting HNWIs to come to Hong Kong to manage their wealth. To address the current lack of information and guidance to help family offices set up in Hong Kong an Investment Office Liaison Centre should be established. This should articulate the benefits of Hong Kong, provide guidance on set-up, facilitate interactions with regulators and provide lists of service providers to prospective family offices.

## Topic 2: Setting the right tax environment

The tax environment is an important consideration for anyone assessing where they should manage their wealth. Hong Kong has long had a tax environment which was generally attractive to the PWM industry and compared favourably to other regimes, in part due to a lower tax rate and the scope of income subject to tax. Other jurisdictions however, are eroding this advantage and using tax policy as a means to promote themselves as wealth management hubs.

Hong Kong has used tax policy as a means to encourage certain industries. This approach should be extended to the PWM industry and there are a range of tax policy options that should be considered to allow Hong Kong to compete on a level playing field with other wealth management hubs - in particular, Singapore.

- **Recommendation 3: Promote family offices through the expansion of the Offshore Funds Exemption or the introduction of a new exemption.** Tax policies are needed to encourage family offices to set up in Hong Kong without exposing their offshore investments to Hong Kong tax. Singapore has exemptions that can apply to ensure a family office's investments are not subject to tax in Singapore where the relevant conditions are fulfilled. Similar rules should be considered in Hong Kong to further encourage family offices to establish operations in the city and to ensure that it remains competitive as a PWM hub.
- **Recommendation 4: Ensure that non-resident HNWIs remain exempt from Hong Kong tax.** Similar to family offices, non-resident investors such as non-resident HNWIs should not be exposed to tax in Hong Kong in relation to investment transactions simply because investments are managed in Hong Kong by portfolio managers, investment managers or other Hong Kong-based investment advisers. Either a new exemption is required, or legislative fine-tuning with respect to existing exemptions must not inadvertently expose such investors to tax in Hong Kong.
- **Recommendation 5: Reform taxation treatment of Hong Kong trusts.** The tax treatment of trusts in Hong Kong should be reviewed as to whether the current regime is fit for purpose. Currently, the use of Hong Kong trusts to hold investments is uncommon as the tax treatment can give rise to adverse Hong Kong tax implications. Under existing Hong Kong law, trusts are effectively taxed as separate persons at the trustee level, instead of at the beneficiary level. The taxation rules for trusts in Hong Kong need to be modified in order to encourage their use as an investment holding option for HNWIs and family offices.
- **Recommendation 6: Introduce a concessionary tax rate for fund management and advisory.** A concessionary tax rate could be considered to encourage portfolio managers and family offices to conduct their management operations from Hong Kong. This would be in line with concessionary tax rates for other encouraged industries, as determined by the government.

### Topic 3: Building an appropriate regulatory environment

Appropriate levels of investor protection are an important factor for any financial centre, and this is especially true for a PWM hub such as Hong Kong. Hong Kong has a strong reputation, regionally and globally, in terms of investor protection and conduct risk.

Interviewees agreed that investor protection is critical but highlighted that the sophistication, experience and knowledge of PWM clients often cannot be considered in the investment process, causing frustration for both the Relationship Managers (RMs) and clients.

The regulations in Hong Kong around investor protection already have many of the building blocks necessary to help facilitate a better experience for PWM clients. There is an opportunity for the industry to collaborate with the regulator to streamline some requirements, clarify the application of certain regulations to PWM clients and ultimately develop an industry specific Code of Conduct.

- **Recommendation 7: Streamline existing disclosure requirements to ensure they are appropriate to a PWM client's level of sophistication and experience.** Current disclosure requirements may not be appropriate to the level of sophistication and knowledge of PWM clients. Given the bespoke understanding that RMs build up with their clients, it may be more appropriate to alter the approach for disclosures to increase certain disclosures at the beginning of a client-advisor relationship and periodically thereafter reduce trade-by-trade requirements. There is also the potential to give some choice about whether to opt-out of certain trade disclosures for clients meeting certain criteria.
- **Recommendation 8: Develop a Code of Conduct for the PWM industry.** The PWM industry is significantly different from other industries in the way that institutions and investors operate. Given the strategic importance of the segment, a separate Code of Conduct aligned with the principles of the existing Codes of Conduct should be developed jointly by the industry and

regulators. This would streamline and improve the process of compliance with guidance laid out in a number of circulars from the HKMA and SFC. It should include such topics as conduct, Know Your Customer (KYC), suitability, marketing, training, and operations.

#### Topic 4: Enhancing connectivity with mainland China

Mainland China was identified as the main growth opportunity for the PWM industry in Hong Kong in the recent PWMA annual survey. There is a clear benefit to the industry in Hong Kong to enhance the connectivity with mainland China, particularly through the Greater Bay Area (GBA) initiative. This could allow better access to the increasing numbers of HNWIs and UHNWIs in the GBA.

The enhanced connectivity will also benefit mainland China. It will help achieve policy goals for Hong Kong set out in the 13th Five Year and the Greater Bay Area Framework Agreement. Secondly it will provide mainland institutions with exposure to leading practices to learn from their approach and develop a stronger onshore wealth management industry. A more connected Hong Kong and mainland China will also facilitate greater investment of private wealth, an important source of capital, into mainland China.

- **Recommendation 9: Implement a new mutual wealth management scheme in the Greater Bay Area.** Cross border schemes help both the Central Government in their goal of internationalisation of the renminbi and to differentiate Hong Kong as an international financial centre. The GBA represents a large potential area for PWM activity with approximately half a million HNWIs<sup>4</sup>. Reciprocal initiatives to create a mutual wealth management scheme have the potential to support both mainland China and Hong Kong in their objectives and be a significant boost to the industry.

#### Topic 5: Nurturing the right talent

Talent remains a key challenge for the industry, with the most pressing issue being the number of RMs and other private wealth practitioners needed. This is exacerbated to an extent by the rapid changes that technology has brought and will continue to bring. The skills required in the future are likely to be different from the skills a private wealth practitioner has required in the past. As a result, Hong Kong needs to have the right talent and infrastructure to allow for product and service innovation.

The challenges around talent is where the industry needs to take a leading role with support from universities, governments in mainland China and Hong Kong and other stakeholders.

- **Recommendation 10: Develop a flagship taught postgraduate degree to position Hong Kong as a hub for PWM learning and innovation.** Postgraduate degrees help to train the next generation of leaders, share international best practice, improve professionalism and enable innovation in products and services. A flagship wealth management postgraduate degree would help to position Hong Kong as a hub for PWM learning and innovation. To make it a success the PWM industry should play an active role in its development.
- **Recommendation 11: Reform professional training reimbursement under the 'Pilot Programme to Enhance Talent Training for the Asset and Wealth Management Sector' (WAM Pilot) to boost number of mid-career joiners.** The WAM Pilot scheme provides training reimbursement for professionals employed in related industries for several courses relevant to the PWM industry such as the Certified Private Wealth Professional (CPWP) qualification and Certificate in Compliance & Risk Management for Private Wealth Management Professionals<sup>5</sup>.

4. KPMG China, 'A lens on the Greater Bay Area' 2018, <https://assets.kpmg.com/content/dam/kpmg/cn/pdf/en/2018/04/a-lens-on-the-greater-bay-area.pdf> note a HNWIs defined as those with financial assets of over USD1 million

5. Pilot Programme to Enhance Talent Training for the Asset and Wealth Management Sector website

However, the eligibility criteria mean that only people employed by institutions regulated by the Securities and Future Commission (SFC), Insurance Authority (IA) and Hong Kong Monetary Authority (HKMA) are eligible. It is recommended that the criteria be widened to increase the uptake for relevant but currently excluded professionals.

## Topic 6: Enhance the access to KYC information for onboarding

Improving the onboarding of clients has been a focus for financial institutions, regulators and government in Hong Kong for many years now. The potential introduction of a KYC Utility as part of an initiative spearheaded by the Hong Kong Association of Banks (HKAB) was identified as a step in the right direction. However, it is also recognised that this does not provide a cure for all of the specific onboarding issues that the PWM industry faces.

- **Recommendation 12: Ensure any future developments involving a KYC Utility or electronic IDs include HNWI in order to improve client experience.** Lengthening onboarding times are impacting the client experience. A KYC Utility or electronic identity scheme which stores client ID data and allows clients to share it with participating PWM institutions can reduce duplication of effort and speed up onboarding. Any KYC Utility introduced into Hong Kong would ideally be designed so that it could be expanded to cover HNWI shortening onboarding times and improving client experience.

## Topic 7: Driving the future of the industry

This white paper was developed through the industry reflecting on its current state, defining a vision, identifying the issues in meeting that vision and setting out options to move the industry forward. It also reflects the point in time at which it was written.

The challenge going forward is that the overall environment the PWM industry is operating in is becoming more global and more dynamic. The issues and challenges will shift and change. The

process of identifying actions to move the PWM industry forward needs to become more frequent and more integrated with wider stakeholders to continually drive the industry forward.

- **Recommendation 13: Create a PWM industry forum to keep focus on the long-term future of the industry and track progress against the white paper.**

Across this white paper there are a range of recommendations involving stakeholders from varied groups including industry, regulators, government and PWM clients. These stakeholders need to come together to allow for cross functional dialogue and track progress of initiatives coming out of this white paper. This forum should be led by the PWMA and it is suggested for it to be effective that a senior official from the FSTB is appointed to co-ordinate and be accountable for government support of PWM industry initiatives.

Successful implementation of the recommendations will rely on ensuring the appropriate support and governance is in place to drive the recommendations forward in the coming months and years; this should be the initial focus. Once set up, suitable ownership will need to be allocated to drive each initiative with monitoring and reporting structures put in place.

With the successful implementation of these recommendations, we hope that Hong Kong can fulfil a vision to become a leading global wealth management hub; one with a leading share of assets sourced from across the world and recognised for service and product innovation.



# 02

## Importance of the industry to Hong Kong

### 2.1 Economic impact

The PWM industry is an important contributor to the Hong Kong economy. It is not only a key component of the city's financial services sector, but also has a positive impact on a range of related areas such as tourism and other corporate services.

We set out below an estimate of the economic contribution of the wealth management industry in Hong Kong. The results are based on an anonymised online survey of PWMA members carried out from May to July in 2018 and accompanying interviews with a range of stakeholders from the PWM industry. A detailed account of the methodology can be found in the appendix. The main findings are summarised as follows:



**The PWM industry is an important contributor to Hong Kong's economy.**

- The PWM and its associated supply chain contributed HKD24.6 billion to HKD30.0 billion of value added in 2017, accounting for 1.0 to 1.2 percent of GDP<sup>6</sup>.
- The PWM industry directly provides 10,000 jobs, supporting Hong Kong people and their families; this is supplemented by an additional 5,000 jobs in supporting sectors<sup>7</sup>.

**The PWM industry is a key component of the overall financial services sector, which as a whole made up 18 percent of Hong Kong's GDP in 2016 and employed 253,100 people<sup>8</sup>.**

- The industry manages HKD7.8 trillion of assets, which accounts for 32 percent of Hong Kong's total asset and wealth management industry and is a key part of the development of Hong Kong as a global funds centre<sup>9</sup>.

- Locally managed assets account for 45 percent of the total, which comprises a wide range of assets – such as equities, bonds, structured products and alternatives<sup>9</sup>.
- Hong Kong is a one-stop shop for HNWIs, able to service both their personal wealth management and business needs in one place. Universal banks benefit from strong synergies that arise from providing wealth management services to wealthy families, and offering corporate and investment banking services to their companies.

**The PWM industry helps drive the local tourism industry, investment in human capital and wider benefits for service providers.**

- The estimated spend of HNWIs coming to Hong Kong for wealth management activities generated an additional HKD1.3 billion to HKD1.5 billion of value added in 2017<sup>10</sup>. Hong Kong's retail, hospitality and entertainment industries are the main beneficiaries.

6. PWMA Economic Impact Survey, note: total value added is made up of Direct impact of HKD14.5 billion (0.61-0.50% of GDP), Indirect impact of HKD8.4 billion (0.35-0.29% of GDP) and Induced impact of HKD5.7 billion (0.24-0.20% of GDP)

7. Note: supporting sector employment of 5,000 is made up of 3,000 indirect employment and 2,000 induced employment

8. Hong Kong Census and Statistics Department, Hong Kong Monthly Digest of Statistics, The Financial Services Sector in Hong Kong, 2018

9. SFC, Asset and Wealth Activities Survey 2017

10. KPMG analysis based on PWMA Economic Impact survey and Hong Kong Tourism Board multipliers for tourism spend by region of origin. This may be an underestimate given the higher disposable incomes of HNWIs

- The industry invested over 195,000 hours in professional training in 2017<sup>11</sup>.
- Wealthy individuals also require a range of legal, tax, trustee, accountancy and other advisory services in Hong Kong.

## 2.2 Current state of the industry

**In the most recent PWMA annual survey, the overall sentiment is that the PWM industry in Hong Kong is in a good position, although some challenges remain. The growth outlook for the local PWM industry remains strong, with Assets Under Management (AUM) expected to double in five years. Regulation remains a key focus area, while investment in talent and technology is needed for the industry to adapt and grow.**

In the past year, the number of US dollar billionaires in Hong Kong has increased by 29 percent year-on-year from 72 to 93, placing it behind only New York globally<sup>12</sup>. The number of HNWI in Hong Kong also increased by 15 percent over the same period, from 148,000 to 170,000. Offshore clients make up an important part of the industry, and the number of HNWI in nearby locations in Asia Pacific (excluding Japan) increased by 11 percent year on year from 1.8 million to 2 million<sup>13</sup>.

Many of the world’s leading PWM companies operate in Hong Kong, along with prominent regional and local players, as well as firms from mainland China. More than 26 percent have over 100 RMs in Hong Kong, with the reported number of RMs from respondents increasing by 12 percent from 2,500 in 2016 to 2,800 in 2017<sup>14</sup>.

11. PWMA Economic Impact Survey  
 12. Wealth-X, Billionaire Census 2018  
 13. Capgemini, World Wealth Report 2018, KPMG analysis  
 14. PWMA annual survey, note: RM numbers on a like-for-like response basis increased 4 percent



The majority of respondents expect the industry's AUM to double over the next five years. To achieve this they believe mainland China and family offices serviced from Hong Kong will be the leading growth opportunities for the industry.

Technology is a major force driving change in the industry. Clients increasingly expect a seamless omni-channel experience, where they are able to decide how and when they engage with their wealth managers. Fifty-eight percent of respondents expect that 10 to 30 percent of today's face-to-face interactions will occur via digital channels by 2023, fundamentally changing the role and required skills of RMs.

The survey found that challenges in onboarding and compliance with regulation is having a significant impact on client experience, which could lead some wealthy individuals to invest

elsewhere. This is in evidence in the average number of days required to onboard a client; which has increased to 40 days this year – compared to 30 days two years ago – negatively impacting the client experience.

With the industry expected to grow significantly over the coming years, there will be increased demand for PWM professionals, leading to a greater focus on talent recruitment and retention. In fact, two-thirds of the survey's respondents note a "limited talent pool" as the biggest supply-side constraint. The greatest talent gap identified by respondents is RMs. Furthermore, in order to respond to and meet the demands of increasingly sophisticated clients and address the increasing use technology noted before, the skillset of RMs will need to evolve.





# 03

## Vision

Hong Kong has a window of opportunity to take advantage of its pre-existing strengths and capitalise on several global macro-opportunities. Successfully addressing these opportunities will allow Hong Kong to fulfil its **vision to become a leading global wealth management hub with a leading share of assets sourced from across the world and recognised for service and product innovation.**

### 3.1 A window of opportunity for Hong Kong

#### 3.1.1 Advantageously located next to key growth locations

Hong Kong is well located in a geographically advantageous position close to the world's leading centres of wealth creation. This creates a

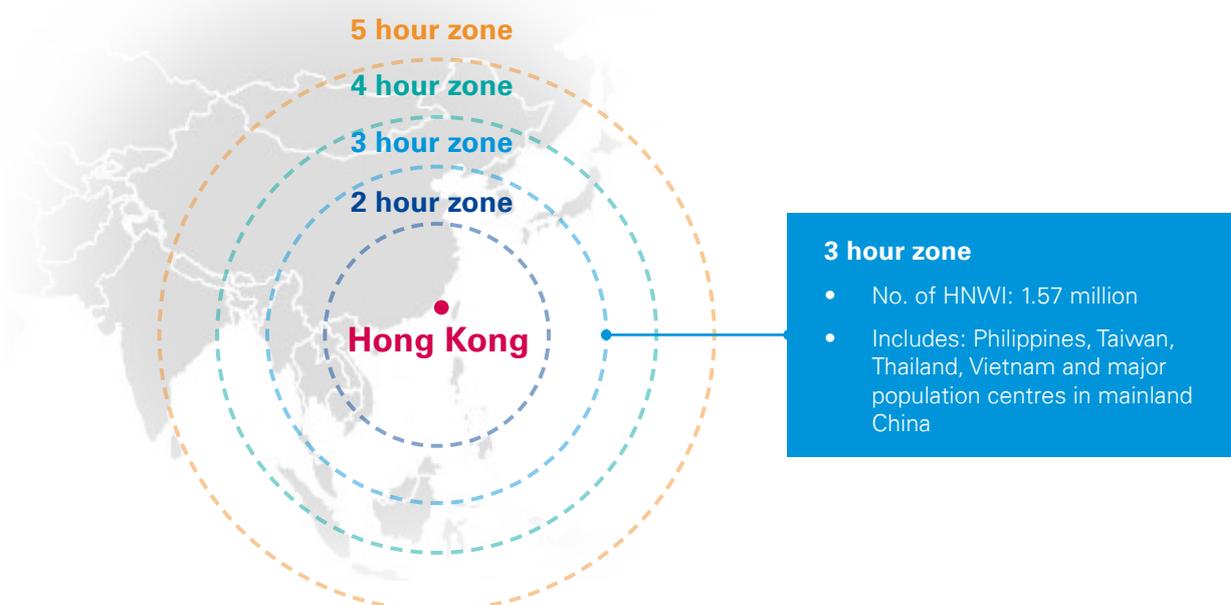


substantial opportunity for Hong Kong to position itself as the premier offshore hub for wealthy families in key markets.

There are already 1.6 million HNWI's that can fly to Hong Kong within three hours or less. From 2016

to 2017, 30 percent of the world's wealth creation was in Asia<sup>15</sup>, with mainland China a particular highlight, as the country creates a new US dollar billionaire<sup>16</sup> every three days and 305 US dollar millionaires<sup>17</sup> every day. The outlook for wealth growth in the medium term appears strong with

**Figure 1: Proximity of HNWI's in relation to Hong Kong**



Source: Capgemini, KPMG analysis

15. World Bank, Statistics 2018

16. Wealth-X, Billionaire Census 2018

17. Capgemini, World Wealth Report 2018, KPMG analysis

robust GDP growth forecasted in most of Hong Kong's nearby countries over the next five years.

It is important that the next cohort of billionaires and millionaires select Hong Kong as their first choice of offshore wealth management hub.

### 3.1.2 The attractiveness of Asia as an investment destination is creating opportunities for global wealth to move to Hong Kong

Asia is increasingly important as an investment location, supported by a younger working population, growing income levels and relative political stability versus other regions. As a result GDP has grown at 7 percent CAGR over the last 10 years, above the global average of 3 percent<sup>15</sup>.

These demographic and economic trends are further supported by the ability to invest in Asian assets. Asia is the largest region for Foreign Direct Investment (FDI)<sup>18</sup> globally and has increasing representation in global indices. For example, in May 2018 MSCI added 226 Chinese A-shares to its Emerging Markets Index<sup>19</sup>. According to World Federation of Exchanges statistics, Asia-Pacific made up 38 percent of domestic equity market capitalisation, 38 percent of equity trading value and 63 percent of equity trading volume in 2017. Furthermore it is emerging as an important centre for currency trading; in the latest triennial survey conducted by the Bank of International Settlements<sup>20</sup> in 2016, APAC made up 23 percent of global foreign exchange trading value, up from 18 percent in 2013.

Global investors are increasingly looking to mainland China for investment returns and diversification opportunities. It has the world's second largest stock market capitalisation, the third largest bond market, and both can be conveniently accessed via Hong Kong. Its currency is the fifth most used payment currency and it is already the world's largest trader in certain commodities<sup>21</sup>.

Despite the considerable size of its markets, mainland China tends to be underrepresented in many global portfolios – a situation that is expected to change as the country continues to open up its financial system to the world. To capture the benefits of this process, it is important that global wealth selects to invest in mainland China through Hong Kong rather than via other jurisdictions.

### 3.1.3 Significant opportunities from both new and existing family offices

Although family offices are increasingly popular among UHNWI<sup>22</sup> in Europe and North America, they are still relatively rare in Asia, suggesting that family-run investment units could be a significant growth area in the future. A family office can take a range of structures, but it typically involves the appointment of professional managers to look after family wealth who are often, but not always, independent of the family.

Attracting family offices to locate to Hong Kong would bring significant benefits both from direct spend and to the wider wealth management ecosystem. In 2017, the global average family office employed 12 people with an annual spend of USD10.3 million<sup>23</sup> on operating expenses, asset management and administration. Anecdotal evidence from interviews with PWMA members suggests that the location of a family office in a city helps to attract other family offices as well as HNWIs. Family office location selection is based on a number of factors and tends to be a one-time choice as once family offices are established barriers to moving are high and they don't consider a second location unless they reach significant scale.

Once this scale is reached as is the case with some of the more established North American and European family offices, there is an opportunity for Hong Kong to act as a regional headquarters for these family offices as they seek to diversify their

18. United Nations Conference on Trade and Development, World Investment Report 2018

19. MSCI website

20. Bank for International Settlements, Triennial Central Bank Survey of foreign exchange and OTC derivatives markets in 2016

21. SSE, SZSE, CFETS, CSRC, China Central Depository & Clearing, Bloomberg, KPMG analysis

22. Ultra high net worth individuals are defined as those with more than USD30 million of financial assets

23. UBS / Campden, Global Family Office Report 2017

**Figure 2: CRS and FATF key dates**

Jurisdiction	CRS first exchange	FATF Most recent / next onsite visit
BVI	2017	Jan. 2019
Cayman Islands	2017	Dec. 2017
Hong Kong	2018	Oct./Nov. 2018
Luxemburg	2017	Jun./Jul. 2020
UK	2017	Mar. 2018
Singapore	2018	Nov. 2015
Switzerland	2018	Feb. 2016

Source: CRS website, FATF website, KPMG analysis

portfolios towards Asia. From interviews, several established family offices are moving to set up in the region to benefit from greater proximity to these opportunities. The scale and sophistication of these family offices mean that any benefits of attracting them will be substantial.

### 3.1.4 Certain regulations are levelling the global playing field

The Common Reporting Standard (CRS) / Foreign Account Tax Compliance Act (FATCA) and global standards on Anti-Money Laundering (AML) / Combating the Financing of Terrorism (CFT) are levelling the global playing field, creating new opportunities for wealth management hubs. The identical tax reporting requirements of CRS have been adopted by more than 100 countries including many significant wealth centres, such as: Luxembourg, British Virgin Islands, Cayman Islands, Singapore, UK, and Switzerland<sup>24</sup>.

Similarly on AML/CFT, the scope of activity for the Financial Action Task Force (FATF) was broadened since the financial crisis and it is increasingly driving compliance across all major wealth management hubs.

This means PWM hubs increasingly have to compete for AUM on the basis of global standards on tax transparency and anti-money laundering. This presents an opportunity for Hong Kong which has never sought to attract AUM through secrecy

or tax avoidance. It will now be able to challenge other PWM centres based on its strengths such as depth of products and quality of service.

### 3.1.5 Brexit presents an unexpected windfall

The United Kingdom's decision to leave the European Union may represent an unexpected windfall for the wealth management industry in Hong Kong. Many surveys and commentators have suggested that the major beneficiaries of Brexit will not be Europe, but New York and Asian hubs such as Hong Kong and Singapore. Uncertainty is leading many institutions to consider relocating their operations, to the benefit of other financial centres. There is also the possibility that London falls out of favour with global wealth due to reputational damage and weaker performance of sterling-denominated assets.

## 3.2 Building on existing foundations

Hong Kong has several existing strengths as a PWM hub that have developed over many decades: a stable regulatory environment; simple tax regime; reliable legal system; deep pool of PWM providers and strong financial infrastructure.

However, three unique strengths have been identified that are not shared by its competitors: (1) its role as a gateway to mainland China; (2) its

24. Organisation for Economic Co-operation and Development (OECD)



position as a leading financial centre and (3) its status as a hub for a range of industries; these should be capitalised on to help differentiate Hong Kong's PWM industry.

- **Gateway with mainland China:** As a special administrative region within China, Hong Kong is well placed to become the gateway to mainland China. It is the key intermediary for mainland Chinese trade with 90 percent of mainland trade, settled in RMB, being intermediated through the city. It is a key conduit for foreign and mainland investments with USD1.8 trillion and USD1.7 trillion of inward and outbound direct investment respectively<sup>25</sup>. This will continue to be supported by cross-border trade initiatives include the BRI and GBA. Hong Kong also benefits from a range of cross-border capital markets programmes – most notably the

Stock and Bond Connect schemes, as well as the Mutual Recognition of Funds scheme. English and Chinese are both legal languages under the Hong Kong Language Ordinance. The use of Chinese is particularly attractive for Chinese clients, as it is not commonly used as a legal language in most wealth management hubs. This puts Hong Kong at a clear advantage when it comes to capturing opportunities from mainland China. This creates investment opportunities for HNWIs based in Hong Kong and offers a convenient centre for the investable assets of HNWIs operating through Hong Kong in the mainland, boosting the PWM industry.

- **Leading financial centre:** Hong Kong is a leading financial centre in Asia and the third most important globally according to the Global Financial Centres Index behind

25. FSDC, Overview of Hong Kong Financial Services Industry 2018

New York and London. It is consistently the biggest venue for Initial Public Offering (IPO) fundraising<sup>26</sup>, as it has been ranked number one for the last five years and has recently changed its rules to attract more new economy pre-revenue companies. It is a thriving fund management centre and is the second largest Private Equity (PE) funds centre in Asia after mainland China. It is also a regional insurance hub, with 65 percent of the world's top 20 insurers present in the city<sup>27</sup>. The Hong Kong dollar peg to the US dollar helps to reassure investors of the stability of locally denominated assets. Hong Kong's status as a global financial centre gives Asian HNWI's a global product portfolio to invest in and for HNWI's outside Asia offers the best base to invest into Asia contributing to the PWM industry.

- **Hub of hubs:** Hong Kong is considered a hub for many different industries and sectors including: finance, trade, transport and logistics, luxury goods, and cultural industries. All of these help to drive wealth creation and attract wealth to Hong Kong, which taken in aggregate are difficult to replicate. This helps to attract a wide range of companies to Hong Kong – to raise money in the capital markets or to engage in international trade. Furthermore, Hong Kong's role as a centre for the Belt and Road Initiative will cement its position as a trade hub. Effectively communicating the diverse benefits of Hong Kong can improve the image of Hong Kong in the eyes of global wealth to boost the PWM industry.

### 3.3 Understanding the competition

Hong Kong is facing increasingly aggressive competition from regional and global rivals. The PWMA annual survey found that 97 percent of respondents highlighted Singapore as a wealth management centre that poses a threat to Hong Kong, followed by Shanghai (32 percent), Switzerland (24 percent) and London (22 percent).

**Singapore** is the most direct competitor to Hong Kong. The Monetary Authority of Singapore (MAS) has taken an active approach to developing Singapore into a wealth management hub, most recently through the 'Transformation Map for Financial Services' aiming to make Singapore 'a centre of excellence for wealth management technology and innovation'<sup>28</sup>. MAS has led action in partnership with the industry across four dimensions: regulatory innovation, talent supply, demand stimulation and active business development.

Firstly, on regulatory innovation, Singapore was one of the first jurisdictions to set up a Private Banking Code of Conduct with significant industry involvement in 2011, which was subsequently updated in 2017. Our industry interviews indicate this has been highly effective in streamlining the implementation of regulations.

Secondly on talent supply, the Government of Singapore Investment Corporation (GIC) and Temasek established the Wealth Management Institute in 2003. 15 years on, the associated Masters in Wealth Management course has helped the Singapore Management University (SMU) achieve a number one ranking in Asia, third globally in post-experience masters degrees<sup>29</sup>.

Thirdly, on demand stimulation, respondents state anecdotally that the Singapore authorities have been strategically investing to build talent and technical capability in specific asset classes in Singapore. Examples include, issuing government debt to be sold to institutional investors which is then repackaged for HNWI's and retail clients. In doing this, Singapore is supporting a broader asset class ecosystem for the wealth management industry.

Lastly, bringing all of the supply and demand side initiatives together is the MAS business development function. Respondents to our survey and interviews suggest it is as strong as the enforcement arm, takes an active role in going abroad to encourage institutions and clients to set

26. Hong Kong was #1 to year end 2017 (according to the FSDC) in Q1 2018 it is fourth behind New York, Frankfurt and Shanghai; data from Bloomberg, KPMG analysis

27. FSDC, Overview of Hong Kong Financial Services Industry 2018

28. MAS, Roadmap for a Leading Global Financial Centre in Asia

29. FinancialTimes, Ranking in post-experience masters 2018

up in Singapore and maintains an active dialogue with the industry to overcome common problems.

**Shanghai** has grown in importance due to the growth of the Chinese onshore market and Shanghai's position as a financial innovator within mainland China. Recent developments such as deregulation of foreign ownership restrictions and the planned Shanghai-London Stock Connect are expected to strengthen Shanghai's position as mainland China's leading onshore wealth destination.

**Switzerland** has long been considered the world's leading wealth management hub, having built its hard-earned reputation on service quality and banking secrecy. While its global position has been impacted by recent banking secrecy concessions to the US, it is still the number one location for offshore assets by AUM and remains a powerful draw for global HNWIs. Recently leading figures in the Swiss Banking Association have talked about a pivot to China and becoming a leading offshore hub for RMB settlement.

**London** has a long tradition of wealth management based on a broad financial services sector. As the second largest wealth management hub after Switzerland, the UK is facing headwinds due to Brexit, which presents opportunities for Hong Kong. The UK Government recently launched the 'UK Investment Management Strategy II'<sup>30</sup>, aiming to enhance dialogue between the government, regulators and the industry, to promote the UK's competitive and stable tax and regulatory environment, strengthen the skills pipeline, advance leaders in innovative investment strategies and continue an international trade promotion plan.

### 3.4 Vision: From Regional Hub to Global Leader

Hong Kong has the chance to use the various opportunities presented to make the transition from its current status as a regional hub to become a leading global wealth management

hub with a leading share of assets sourced from across the world and recognised for service and product innovation. This will not only be a significant achievement for the PWM industry, it will also create positive benefits for the wider economy.

No set definition exists for being a global leader in the wealth management space, however it is expected to have reached a significant size, attracted a wide range of service providers, while at the same time excelling in innovation and talent. These elements are not exclusive and together can create a virtuous cycle of growth that is mutually supporting and challenging to replicate.

- **Scale:** Figures vary by provider, but Hong Kong currently ranks from fifth to seventh in terms of the scale of its offshore assets<sup>31</sup>. Switzerland is generally accepted to be three times larger. Global leadership would mean at least breaking into the top three, which includes the likes of Switzerland and the UK. This would require doubling or even tripling its current AUM to account for growth in other wealth management centres.
- **Diversity:** A global leader should be able to attract wealth from all over the world. Switzerland has historically been able to attract wealth from all continents, while a majority of Hong Kong's wealth is either local or from mainland China. It should therefore broaden its appeal to new markets to encourage growth.
- **Innovation:** Innovation can take many forms, and it can be present in products, services, technology and academic literature. To become a global leader, Hong Kong needs to start producing academic literature and thought leadership on wealth management similar to the Swiss Finance Institute's collaboration with Centro di Studi Bancari (Swiss cross-border wealth management academy). Furthermore, financial technology

30. HMTreasury, UK

31. Deloitte, BCG, KPMG analysis

will also be integral to the future development of the industry, and a true global leader will be home to leading start-ups and more established technology players.

- **Talent:** Hong Kong already has at least 10,000 people directly employed in the industry<sup>32</sup>. But leadership takes more than scale. The international reputation of Swiss bankers for professionalism is well known and continues to act as a differentiator. Becoming a global hub entails attracting the world's best talent as well as being a global hub for training for other centres.
- **Providers:** A holistic eco-system requires a diversity of providers to meet the wealth needs of every individual and institutionalised PWM investors. Despite retrenchment by some global players, Hong Kong maintains a strong offering of PWM institutions and supporting firms.
- **Regulatory and tax:** A global leader requires a supportive regulatory and taxation regime that ensures integrity of the financial system, generates appropriate client protection while maintaining ease of doing business and creates an environment that fosters innovation and growth.



32. PWMA Economic Impact survey, KPMG analysis



# 04

## Driving the next phase of growth

### 4.1 Realising the vision

To become a leading global wealth management hub, Hong Kong needs to make progress in a number of areas. In this report, 13 recommendations are presented that, if realised, will make the city a leading global wealth management hub with a leading share of assets sourced from across the world, while at the same time being recognised for both service and innovation.

The recommendations have been identified based on benchmarking with other wealth management hubs, issues identified in the PWMA annual survey and discussions with a number of PWM stakeholders carried out as part of this consultation. They are grouped around a number of topics and are summarised in the following chart.



**Figure 3: Summary of recommendations**

Scale & diversity	1	Enhancing promotion	<ul style="list-style-type: none"> <li>— <b>Recommendation 1:</b> Regulator and/or government led effort to coordinate industry business development in targeted geographies</li> <li>— <b>Recommendation 2:</b> Set up an Investment Office Liaison Centre to help promote Hong Kong and guide family offices through the set-up process in Hong Kong.</li> </ul>
	2	Setting the right tax environment	<ul style="list-style-type: none"> <li>— <b>Recommendation 3:</b> Promote family offices through the expansion of the Offshore Funds Exemption or the introduction of a new exemption</li> <li>— <b>Recommendation 4:</b> Ensure that non-resident HNWIs remain exempt from Hong Kong tax.</li> <li>— <b>Recommendation 5:</b> Reform taxation treatment of Hong Kong trusts.</li> <li>— <b>Recommendation 6:</b> Introduce a concessionary tax rate for fund management and advisory.</li> </ul>
	3	Building an appropriate regulatory environment	<ul style="list-style-type: none"> <li>— <b>Recommendation 7:</b> Streamline existing disclosure requirements to ensure they are appropriate to a PWM client's level of sophistication and experience.</li> <li>— <b>Recommendation 8:</b> Develop a Code of Conduct for the PWM industry.</li> </ul>
	4	Enhancing connectivity with mainland China	<ul style="list-style-type: none"> <li>— <b>Recommendation 9:</b> Implement a new mutual wealth management scheme in the Greater Bay Area</li> </ul>
Talent	5	Nurturing the right talent	<ul style="list-style-type: none"> <li>— <b>Recommendation 10:</b> Develop a flagship taught postgraduate degree to position Hong Kong as a hub for PWM learning and innovation.</li> <li>— <b>Recommendation 11:</b> Reform professional training reimbursement under the WAM Pilot to boost number of mid-career joiners.</li> </ul>
Innovation	6	Enhance the access to KYC information for onboarding	<ul style="list-style-type: none"> <li>— <b>Recommendation 12:</b> Ensure any future developments involving a KYC Utility or electronic IDs include HNWIs to improve client experience</li> </ul>
Future	7	Driving the future of the industry	<ul style="list-style-type: none"> <li>— <b>Recommendation 13:</b> Create a PWM industry forum to keep focus on the long term future of the industry and track progress against the white paper</li> </ul>

## 4.2 Topic 1: Enhancing promotion

### 4.2.1 Hong Kong is falling behind peers in terms of actively promoting its PWM industry externally

Feedback from discussion with stakeholders identified a view that Singapore is more active in communicating its benefits and chasing opportunities for wealth managers, family offices and other related parties to set up operations. One interviewee highlighted that the Monetary Authority of Singapore was actively promoting the benefits of Singapore in Shenzhen.

Singapore's promotional efforts target specific groups through channels including: seminars and conferences, regulator promotion, mobilising the media and marketing material that articulates the benefits of the jurisdiction.

An anecdotal example is the targeting of RMs in mainland China to train in Singapore. This enables Chinese RMs to build connections to Singapore as a wealth management hub that could benefit the city after they return home.

MAS is also vocal in its aim to help Singapore become a leading international wealth management hub. It is listed as the first aim in the latest financial services 'Industry Transformation Map'. Anecdotally, examples were given of initial meetings where eight people attended to the client's one with representation from both business development and enforcement functions. Interviewees said that this helps to reassure wealthy individuals and gives managers confidence about where to set up operations.

### 4.2.2 Hong Kong runs a number of successful promotional campaigns in other industries with lessons that are applicable to the PWM industry

The RMB Internationalisation initiative led by the HKMA ran roadshows across three continents. Representatives from a wide range of industries attended the events – regulators, bankers, accountants, lawyers, tax advisors, and other

service providers from the jurisdiction. Attendees were able to see the depth of expertise in Hong Kong and the Hong Kong government's deep commitment to the initiative. The events managed to attract representatives from relevant organisations - such as local banks, fund managers, corporates and government agencies. The roadshow in South America for example, had over 500 participants<sup>33</sup>.

The BRI has also been successful in reaching a global audience through events, trade missions and through online channels. Firstly, an annual flagship summit is held in Hong Kong which is strongly supported by Hong Kong government agencies (HKTDC, CEDB<sup>34</sup>) and the HKMA and has attracted a wide variety of international attendees. Secondly, trade missions organised by HKTDC facilitated the meetings of Hong Kong and mainland companies with potential projects in BRI investment countries. There is further support from an online portal offering information and a directory of investment projects.

The FSTB states that one of its key focuses is to seek to "consolidate and enhance Hong Kong's role ... as a premier asset and wealth management centre". One example of this is the 'Pilot Programme to Enhance Talent Training for the Asset and Wealth Management Sector' or 'WAM Pilot'; this aims to 'facilitate the long-term development of the sector' promoting asset and wealth management together<sup>35</sup>.

Enhancing the promotion of the PWM industry is entirely consistent with promoting asset management. The 2018 PWMA annual survey shows that the PWM industry provides 32 percent (HKD7.8 trillion) of the total AUM within Hong Kong (HKD24.3 trillion). In addition, the industry is a large source of private capital which is then invested with the Hong Kong asset management industry. A strong PWM industry will benefit the asset management industry.

33. HKMA website

34. HKTDC: Hong Kong Trade and Development Council, CEDB: Commerce & Economic Development Bureau

35. FSTB website

## Recommendation 1: Regulator and/or government led effort to coordinate industry business development in targeted geographies

The PWM industry is an important contributor to the Hong Kong economy and should receive similar attention as other headline grabbing themes such as Fintech, Belt & Road and the Greater Bay Area. To do this Hong Kong needs an aligned promotion approach and programme to promote the PWM industry based on the following dimensions:

- **Leadership and stakeholders:** Given the cross-section of the target audience, only government or regulator leadership has sufficient gravitas to send the right signal about the importance of the industry. HKTDC, Invest HK or the HKMA External Department are examples of departments with the resources to coordinate the various parties and stakeholders that are necessary to promote the industry. The full ecosystem of stakeholders should be involved to help with promotion including PWM institutions, regulators, lawyers, accountants, and other advisors. These can provide specialist expertise as well as having significant channels of their own through which messages can be distributed. There are also opportunities to collaborate with other promotional activities being driven in Hong Kong such as around the BRI, Fintech and making Hong Kong a global funds centre.
- **Approach:** It is recommended that the body responsible for promotion has the following responsibilities at a minimum:
  - Material development: Preparing and monitoring publications, industry updates and other material which sets out the benefits of Hong Kong for interested parties.
  - Roadshows and seminars: Arrange delegations to target markets to educate wealthy clients and private bank clients on topics of interest, whilst promoting Hong Kong at the same time. These outbound visits should comprise representatives from regulators, the PWM industry and other stakeholders and should be a regular occurrence
  - Trade press: Actively promote thought leadership and other articles through specialised media channels to raise the profile of Hong Kong for global wealth advisors.
  - One-on-one events: Closed door events for larger target clients - for example, visits to prominent family offices who have expressed interest in setting up in Hong Kong. The purpose of these visits would be to address concerns from clients and sell the benefits of Hong Kong.
- **Target markets:** The industry's profile needs to be raised across its target markets based upon target client groups. This includes areas of wealth creation in Asia and the Middle East as well as areas of established wealth such as North America and Western Europe which will focus on attracting larger family offices to locate their Asian operations in Hong Kong.
- **Measurement:** The body charged with promotion should be set clear Key Performance Indicators (KPIs) to measure success at two levels. 'Output KPIs' measure the impact of promotional activities on the industry such as the number of family offices attracted to Hong Kong, net new money and growth in total AUM. These are supported by 'input KPIs' which measure operational activities directly such as the number of seminars / conferences held, attendance at these events and the number of one-on-one meetings organised.

#### 4.2.3 There is an opportunity to attract more family offices by explaining the benefits of Hong Kong, family office structures and providing guidance through the set-up process

As discussed in recommendation 1 there is a lack of promotion, as well as readily available material, on the benefits of Hong Kong to family offices considering where to locate.

There are a range of family office types from funds within businesses to multi-family offices. Different types have different requirements for: licensing, governance, staffing and reporting and with these it is often not clear to clients which type is most appropriate to their circumstances.

Interviews with PWM institutions and family offices identified a lack of guidance through the set-up process. The potential benefits of guidance on set-up and potentially reducing existing administration burden are shown in the PWMA annual survey, where 'streamlining set-up administration red-tape' was highlighted as the number one initiative that could help in attracting more family offices to Hong Kong.

#### 4.2.4 'Hong Kong Fintech' offers specific services to help make it easier for Fintech companies to set up in Hong Kong and offers a blueprint for promoting family offices

HK Fintech, part of InvestHK, is the promotion body for Fintech in Hong Kong. It has a team of seven people with overseas representatives, involvement of all three financial regulators and a clear mandate to promote and attract Fintech companies to come to Hong Kong<sup>36</sup>.

In order to facilitate the often complex task of setting up and running a new operation in Hong Kong, HK Fintech has a defined service set that is offered freely to facilitate planning, set-up, launch and expansion. This includes ready guidance on such topics as incorporation procedures, tax, regulations, and immigration requirements that can be hard to decipher otherwise. It also provides contacts and connections to service providers and regulators for more information. HK Fintech also supports the wider fintech ecosystem in Hong Kong through organising seminars and roundtables, promoting events such as corporate and consultancy run hackathons, and working closely with industry bodies such as the Fintech Association of Hong Kong.

---

36. HK Fintech website



## Recommendation 2: Set up an Investment Office Liaison Centre to help promote Hong Kong and guide family offices through the set-up process in Hong Kong

An Investment Office Liaison Centre should perform several key functions for family offices:

- Clearly articulate the benefits for family offices to operate in Hong Kong and promote through relevant channels in conjunction with the efforts suggested in recommendation 1
- Provide advice and guidance on how to set up in Hong Kong including set-up considerations and structures, facilitating the immigration process and tax considerations
- Maintain points of contact with relevant regulators and help facilitate interactions, such as licencing applications, as required
- Maintain points of contact with relevant service providers and connect them to prospective family offices
- Promote best practice in family offices operations
- Collect feedback from family offices on why they did or did not set-up in Hong Kong, which can then be addressed by the relevant party e.g. immigration incentives

Given the role of the Investment Office Liaison Centre is to attract foreign investment, HK Invest is logically positioned to lead on this effort. The Investment Office Liaison Centre should be given clear targets that support the goal of attracting more family offices to Hong Kong.

### 4.3 Topic 2: Setting the right tax environment

#### 4.3.1 Tax is an important tool to promote a jurisdiction as a PWM hub. Hong Kong is currently well positioned, but is facing intense competition

Tax, although not the sole consideration, is an important factor for any country wanting a successful and flourishing wealth management sector. Countries use tax policy as an effective means to promote their jurisdictions as a PWM hub. Hong Kong needs to have a level playing field with other wealth management centres, notably Singapore, in order to remain competitive.

Hong Kong's tax regime provides a solid foundation to attract PWM institutions to Hong Kong as it contains many of the key features that industry proponents look for. Hong Kong has a low-tax territorial regime whereby offshore sourced profits are generally not subject to tax. In addition, there is no tax on dividends and capital gains and there are no indirect taxes such as a VAT on goods

and services. Hong Kong has also been actively expanding its network of comprehensive double taxation agreements with other countries, which operate inter alia, to mitigate the incidence of foreign taxes on profits repatriated to Hong Kong.

Although the current Hong Kong tax regime lends itself to supporting a successful PWM hub, there is a concern that it may not be enough. The competition for such business both regionally and globally is intense, and Hong Kong needs to ensure that, when it comes to taxes, it remains competitive as a regional and international hub for the PWM sector.

Hong Kong has been looking to refine some of the existing tax rules and to introduce new tax exemptions with respect to fund management businesses to further promote Hong Kong as a leading asset management hub. Some of the changes have been enacted, e.g. the introduction of a new tax exempt Open-ended Fund Regime, whilst other recent proposals such as the changes to the existing Offshore Funds Exemption are

under consultation. Whilst these developments designed to promote the asset management industry in Hong Kong are viewed favorably by the wider financial services sector, there are concerns that changes to the existing rules could have unintended consequences that may adversely impact the PWM sector. In particular, some aspects of the changes could inadvertently expose foreign investors to tax in Hong Kong merely because their investments are managed by investment managers in Hong Kong.

Hong Kong continues to face considerable competition from Singapore in attracting PWM business. Singapore offers a range of tax incentives to promote itself as a financial and asset management hub and these incentives are used by the PWM industry to also promote Singapore as a regional PWM hub. To remain competitive, Hong Kong must use tax policies as a tool to attract PWM business to Hong Kong, or face the risk that such business will continue to be centred in other locations.

These tax policy recommendations will require more detailed consideration, including consultation with the wealth management sector and the Government's Tax Policy Unit.

A comparative analysis of the differences in tax treatment in Hong Kong and Singapore for the key issues is included. This analysis highlights the need for action to maintain a competitive position for Hong Kong versus Singapore.

The tax policy recommendations contained in this topic should have a positive impact on the tax base as they seek to encourage, amongst other things, foreign investors such as family offices and HNWI's to consider using Hong Kong as a location from which to conduct business or manage their investment holdings. This should lead to increased tax revenues from the increased employment that would be created from the operations established in Hong Kong as a result and from the management fees earned from undertaking such activities within Hong Kong.

Further and more importantly, the tax policy proposals should not have a negative effect on existing overall tax revenues as Hong Kong is currently not collecting significant revenues from

offshore family offices, non-resident HNWI's and from the use of Hong Kong trusts.

Such offshore family offices and non-resident HNWI's would not consider Hong Kong if their investments activities were exposed to tax in Hong Kong merely because their investment management operations were performed in Hong Kong. Currently, Hong Kong is not collecting tax revenues from such investors because they would be either specifically exempt under the existing Offshore Funds Exemption or their investment activities are indeed managed offshore.

There is little tax revenue collected from the use of Hong Kong trusts as such vehicles are not common as the tax framework currently exposes the trustee to Hong Kong tax if the trustee performs such functions in Hong Kong. As such, reforming the tax rules to encourage the use of Hong Kong trusts in the private wealth management sector should not result in any meaningful loss of current tax revenues in Hong Kong.

#### 4.3.2 Other jurisdictions use tax policy to encourage asset and wealth management activities within their jurisdiction

As previously discussed in Topic 1, family offices have become increasingly popular and sophisticated over recent years, especially in Asia. A family office could take the form of a sole proprietor, a simple private company investing a pool of capital, or a more sophisticated investment holding corporation with a multitude of investment holding and operating companies.

The tax implications in Hong Kong of a family office will ultimately depend on its legal form, the type of investment it makes, and hence profits it earns, and whether the family office activities are performed in Hong Kong.

There is an increasing trend for family offices to use the services of an asset manager or private wealth manager to manage and oversee investments. However, in the absence of a specific exemption, the profits that arise from activities carried out by such asset managers in Hong Kong on behalf of the family office could be exposed to tax in Hong Kong. If such an exposure existed, this would act as a significant disincentive

for family offices to consider coming to Hong Kong to establish their management operations or even to make use of the private wealth management expertise that exists in Hong Kong.

In contrast, Singapore is often seen as a favorable jurisdiction for setting up a family office as it has an extensive number of exemptions and incentives that could apply to a family office. For example, family offices in Singapore use the Singapore fund regimes to ensure that the investments managed locally are not subject to taxation merely because the assets are managed out of Singapore by investment or portfolio managers in Singapore.

Under the tax incentives offered under Singapore's Resident Corporate Fund Exemption, the Non-resident Corporate Fund Exemption and the

Enhanced Tier Fund Exemption Scheme<sup>37</sup>, income and gains from both offshore and onshore funds managed by Singapore-based fund managers are exempt from Singapore tax. The exemptions require compliance with specific qualitative and quantitative conditions, but in all cases they require the assets to be managed from Singapore.

The tax neutrality of the Singapore regime has indeed proven to be attractive in promoting asset management out of Singapore and family offices have been able to avail themselves of these exemptions. Hong Kong should therefore look to replicate aspects of Singapore's rules as they apply to family offices so that the tax implications of setting up in Hong Kong are similar to that of its main competitor in the region.

### **Recommendation 3: Promote family offices through the expansion of the Offshore Funds Exemption or the introduction of a new exemption**

Hong Kong could further promote the establishment of family offices in Hong Kong by either expanding the Offshore Funds Exemption to introduce some of the features of Singapore's funds regime, or consider introducing a new exemption specifically applicable to family offices so that the management of a family office in Hong Kong will not expose their offshore investments to tax.

In this regard, Hong Kong is currently looking to amend the Offshore Funds Exemption but based on the details set out in the FSTB's

Consultation on the Offshore Funds Exemption ('Consultation Paper')<sup>38</sup>, these proposed changes would not go far enough to exempt a typical family office set-up. For example, the proposed new exemption would not apply to an arrangement where the family office is not considered to be a qualifying fund or the offshore investment holdings of the family office are managed by an associate in Hong Kong. Any proposed changes to the existing rules, or new rules need to apply to typical family office structures in order for family offices to consider setting up operations in Hong Kong.

37. Income Tax Act (Chapter 134): Section 13CA: Non-resident fund exemption; Section 13R: resident corporate fund exemption; and Section 13X: Enhanced tier fund incentive schemes

38. FSTB Consultation Paper dated 4 April 2018, proposing amendments to the Offshore Funds Regime

### 4.3.3 HNWI's should be encouraged to manage their investments from Hong Kong

The Hong Kong tax issues facing HNWI's are similar to those of a family office. Currently, if a non-resident HNWI appoints a Hong Kong-based investment manager to manage assets under a managed or discretionary account, typically a PWM institution would outsource this to an asset manager, and that non-resident can avoid exposure to Hong Kong tax if the relevant conditions of the Offshore Funds exemption are satisfied. Having a tax exemption for these arrangements is important to the private wealth management industry as it provides the certainty needed to HNWI's in order for them to consider using an asset manager in Hong Kong. It is equally important for the industry as a whole in order to promote itself as a leading wealth management hub to HNWI's.

However, as noted earlier, the Offshore Funds Exemption is subject to ongoing consultation

and is likely to be amended. As set out in the Consultation Paper, the proposal is to amend the IRO such that the benefits of the profits tax exemption for offshore funds will be accorded to a 'fund' and not a non-resident person. This means that non-resident individuals that are currently covered by the Offshore Funds Exemption may no longer be included in the ambit of the new exemption and this would cause considerable concern to the private wealth management industry in Hong Kong.

This would make Hong Kong uncompetitive vis-a-vis Singapore, with respect to PWM business. Accordingly, for Hong Kong to remain competitive as a private wealth management hub for HNWI's, it is imperative that Hong Kong does not expose non-resident HNWI's to tax in Hong Kong in relation to investment transactions simply because investments are managed in Hong Kong by portfolio managers, investment managers or other Hong Kong based investment advisers.



#### Recommendation 4: Ensure non-resident HNWI remain exempt from Hong Kong tax

Non-resident investors such as non-resident HNWIs should not be exposed to tax in Hong Kong in relation to investment transactions simply because investments are managed in Hong Kong by portfolio managers, investment managers or other Hong Kong based investment advisers.

Tax policy either by way of the introduction of a new exemption or changes to the existing Offshore Funds Exemption to clearly exempt non-resident HNWIs from tax in Hong Kong, should help to encourage non-resident HNWIs to appoint a Hong Kong based investment or fund manager.

#### 4.3.4 Other jurisdictions are able to attract trusts through tax treatment

In many countries, trusts are an important tool for succession planning and wealth protection as they allow for a separation of legal and beneficial interests in the trust fund and trust assets. Trusts also provide flexibility as to how trust funds can be applied and enjoyed. As such they are a key element of a successful PWM hub.

While the private trust industry has been successful in Hong Kong and has significant potential for growth, many of the trusts administered in Hong Kong are trusts governed by offshore laws, rather than trusts governed by the laws of Hong Kong. The use of Hong Kong trusts are not as common because of the potentially adverse tax implications that can arise from their use. Under Hong Kong tax law, a “trustee” is expressly defined as a taxable person and the general consensus is that trust profits are chargeable to profits tax in the hands of the trustee. The effect of treating the trustee as a person for tax purposes is that the trust can be taxed on profits recorded in the trust, if the trustee manages the trust from Hong Kong.

In other jurisdictions, a ‘trust’ is commonly treated as a look-through entity for tax purposes, whereby trust profits or trust funds retain their character and are generally taxed in the hands of the beneficiary, rather than at the trust or trustee level.

In Singapore for instance, the tax law has codified the tax rules concerning trusts and provides for express statutory exemptions for tax structures for both foreign trusts and domestic trusts. Generally speaking, income derived by trusts will be taxed either at the trustee level or in the hands of beneficiaries if they are resident in Singapore and entitled to trust income. Distributions received by the beneficiaries will be deemed to retain the nature of the underlying trust income, and be accorded the same concessions, exemptions and foreign tax credits as if they had received the trust income directly.

Also in Singapore, Qualified Foreign Trusts are exempted from tax on specified income, and corporate trustees that are approved





trust companies of qualified foreign trusts are taxed at a concessionary rate. Distributions to beneficiaries of qualifying foreign trusts are exempted from tax.

In Switzerland, although there are no express provisions governing the taxation of trusts, there is broad agreement at the cantonal and federal tax levels<sup>39</sup> that there is no taxation of a trust itself, or of the trustee in connection with trust assets. Trusts are considered to be tax transparent, and thereby capital gains and income derived from trust assets are attributed directly to either the settlor or beneficiaries, depending on whether the trust is considered to be a revocable or irrevocable trust.

A comprehensive review of the taxation of trusts in Hong Kong is arguably overdue with the aim of such a review to consider alternative tax rules for the taxation of trusts in Hong Kong that would, amongst other things, further promote the use of Hong Kong trusts in the PWM sector. The PWM industry would encourage the use of Hong Kong trusts if their use did not give rise to adverse tax implications to the trustee, settlor or the beneficiary.

#### Recommendation 5: Reform taxation treatment of Hong Kong trusts

Hong Kong could look to other jurisdictions where trusts are commonly adopted to comprehensively review the taxation of trusts and consider the necessary tax policy changes required with respect to the taxation of trusts in Hong Kong.

Furthermore, Hong Kong could consider adopting some of the trust features utilised in Singapore such as the income of the trust retaining its character upon distribution to beneficiaries, taxing income in the hands of the beneficiary as opposed to the trust or offering concessionary rates of tax for trustee companies. This may also include whether to establish a comprehensive tax code for the taxation of trusts, as is currently the case in jurisdictions like Singapore, and a Hong Kong trust could be viewed as tax transparent vehicle, whereby the trust income is taxed at the beneficiary level, rather than at the trust or trustee level.

39. Circular Letter No. 30 and Circular Letter No. 20

#### 4.3.5 A concessionary tax rate for fund management and investment advisory services

In other financial hubs, investment advisory and asset management services are encouraged through tax policies that specifically incentivise investment or asset managers to be based or domiciled in that jurisdiction. A strong and innovative asset management sector strengthens the PWM sector, providing a diverse range of investment opportunities for clients.

In order for Hong Kong to stay competitive, Hong Kong could look to introduce a concessionary rate of tax to promote fund management and investment advisory activities by taxing fund managers and investment advisors at a reduced rate.

There are many examples in Hong Kong where the Government has offered a concessionary tax rate in order to promote a business or sector of the economy. Recent legislative changes to the tax policy for encouraged industries in Hong Kong have seen the introduction of concessionary tax rates to enhance sector-specific initiatives (e.g. corporate treasury centre initiatives, aircraft leasing, captive insurance regimes), and therefore this could be a feasible option to help enhance the PWM industry. The concessionary tax rates are generally half of the standard profits tax rate of 16.5 percent.

The Financial Sector Incentive (“FSI”) scheme in Singapore, aims to enhance financial intermediation and deepen capabilities in key financial services in Singapore, by incentivising licensed financial institutions by providing concessionary tax rates on income from qualifying activities. Specifically, Singapore’s Financial Sector Incentive - Fund Management, (“FSI-FM”) scheme aims to promote fund management activities and investment advisory activities in Singapore by providing a concessionary tax rate of 10 percent to certain qualifying fund managers and investment advisors.

If a concessionary rate of tax was introduced for the fees earned from certain designated activities, this would help to position Hong Kong as a leading wealth management hub and should

certainly lead to an expansion of wealth and asset managers establishing operations in Hong Kong as part of the aim to be a global funds centre.

#### **Recommendation 6: Introduce a concessionary tax rate for fund management and advisory services**

A concessionary tax rate should be considered to encourage portfolio managers and family offices to conduct their management operations from Hong Kong. This would be in line with concessionary tax rates for other encouraged industries, as determined by the Government

### 4.4 Topic 3: Building an appropriate regulatory environment

#### 4.4.1 PWM clients have different characteristics to other client types, which should be reflected in how they transact in a private banking environment

Adequate levels of investor protection are an important factor for the success of any international wealth management hub. It is also important that the level of sophistication and experience of PWM clients be taken into account so that regulatory requirements and the resulting ease of transacting are appropriate for them.

PWM clients have a higher level of wealth and do not necessarily need to rely on savings to maintain a certain standard of living, and to prepare for future retirement. They also tend to have a greater understanding of financial products, with multiple private banking relationships, often in several jurisdictions, and can select different providers for each product. At the wealthier end are family offices, where wealth is managed by a professional manager, often from the financial services industry with deep product knowledge.

To protect investors and allow for their unique characteristics Hong Kong currently operates

a three-tier professional investor regime with Individual, Corporate and Institutional classes. However, interviewees highlighted that in general Hong Kong's requirements for PWM clients, for trade disclosures and suitability requirements, do not fit well with their level of sophistication and experience.

This is also important in an international context whereby global wealth can select which jurisdiction it can do business in. One example was given whereby execution of a structured product trade for an individual professional investor takes 18 steps in Singapore compared to 28 in Hong Kong within the same PWM organisation. In addition, Singapore's use of a single Private Banking Code of Conduct is cited widely within the PWM industry as less complicated and easier to follow versus multiple circulars issued by the two Hong Kong regulators. This contributes to the general feeling of it being easier to transact in Singapore, which may result in wealthy individuals moving jurisdictions.

#### 4.4.2 Comparative analysis demonstrates Hong Kong has more a prescriptive and retail banking-based approach to private banking disclosures

There are a number of disclosure topics required to be discussed and disclosed when a client trades. The below table shows a list of disclosure topics in-scope for discussion between the RM and the client for an advisory trade. Depending on the product type and client's unique suitability circumstances, the number of disclosure topics can change, therefore the table indicates a high level comparison between the level of regulatory requirements for Hong Kong and Singapore.

In Hong Kong, all of the below disclosure topics need to be discussed and disclosed for a client to trade based on the recommendations of a RM. Interviewees stressed that given the disclosure requirements in Hong Kong, it can take a RM up to half an hour to fulfil disclosure requirements before a trade is booked. The impact of this can be significant especially for a client who may be an active trader. Figure 4 shows that of the ten

**Figure 4: Disclosure comparison for HNWI's under Individual PI in Hong Kong and Accredited Investor in Singapore<sup>40</sup>**

Disclosures	Hong Kong	Singapore
1 Trade economics	Yes	Yes
2 Risk mismatch	Yes	Yes
3 Investment objective mismatch	Yes	Yes
4 Time horizon mismatch	Yes	Yes
5 Knowledge and experience mismatch	Yes	Yes
6 Concentration mismatch	Yes	No
7 Product special features	Yes	Yes
8 Investment alternative	Yes	No
9 Investment rationale	Yes	No
10 Monetary benefits	Yes	Yes

Source: SFC website, MAS website, KPMG analysis

40. The 'accredited investor' scheme in Singapore is broadly similar to Hong Kong's PI regime in that investors meeting a certain asset threshold have access to a broader range of products

potential disclosure topics included for discussion when purchasing a product, the Singapore regulatory requirement is lighter (only seven required) compared to that of Hong Kong.

In addition to the lighter coverage of disclosure categories in Singapore versus Hong Kong, Singapore also offers more flexibility to its version of PI 'Accredited Investors' through an opt-out system<sup>41</sup>. This enables sophisticated high frequency investors to opt-out of disclosures facilitating ease of transaction and could be appropriate in Hong Kong for certain disclosures.

Together the lighter requirements and client choice in managing disclosures contribute to the general feeling of it being easier to transact in Singapore.

**Recommendation 7: Streamline existing disclosure requirements to ensure they are appropriate to a PWM client's level of sophistication and experience**

Given the bespoke understanding that RMs build up with their clients, it may be more appropriate to alter the approach for disclosures to increase the stringency of certain disclosures at the beginning of a client-advisor relationship and periodically thereafter reduce trade-by-trade requirements. There is also the potential to give some choice about whether to opt-out of certain trade disclosures if the client meets certain criteria.

41. MAS, Consultation paper 2018



#### 4.4.3 The industry needs a separate Code of Conduct that recognises the needs of PWM clients

Beyond recommendation 7 there are a range of dimensions where special attention should also be given for the unique circumstances of the PWM industry, including such issues as suitability, sales conduct, KYC, training and client confidentiality. There is a longer term opportunity to develop a Code of Conduct for the PWM industry.

A Code of Conduct is a principles based set of standards which are typically developed and owned by both the industry and the relevant regulators in a jurisdiction. Other leading wealth centres have successfully adopted Codes of Conduct for wealth and asset management with varying degrees of coverage (see Figure 5).

**Figure 5: Comparison of relevant codes of conduct**

Dimensions	Singapore	Switzerland
<b>Name</b>	Guidelines on Standards of Conduct for Financial Advisers and Representatives Private Banking in Singapore Code of Conduct	SAAM Code of Ethics and Professional Conduct for the Practicing of Independent Asset Management
<b>Author</b>	MAS	Swiss Association of Asset Managers (SAAM)
<b>Mandatory/ Voluntary</b>	Mandatory	Mandatory
<b>Coverage</b>		
Disclosures	Yes	Yes
KYC	Yes	No
Client needs assessment	Yes	Yes
Conduct (including confidentiality)	Yes	Yes
Fee transparency	Yes	Yes
Communication with clients	Yes	Yes
Technical procedures	Yes	No
Performance reporting measures	No	Yes
Training	Yes	Yes
Internal operational procedures	Yes	No

Source: KPMG analysis

#### 4.4.4 Opportunities to build on existing work

Hong Kong has made progress in this area with the PWMA Code of Ethics and Conduct. The code is binding on members of the PWMA and Certified Private Wealth Professionals and addresses topics in professionalism, employee conduct, risk management, confidentiality and conflicts of interest.

Additionally the PWMA, working with the HKMA in 2017, developed the 'Treating Customers Fairly Charter' which combines domestic and international best practice to lay out high-level principles with supporting examples for implementation.

### Recommendation 8: Develop a Code of Conduct for the PWM industry

In deciding whether a separate Code of Conduct is required for the PWM industry, consideration needs to be given to whether that industry/segment is significantly different from other industries, in the way both investors and institutions operate. Consideration also needs to be given to the importance of the segment and the extent to which stakeholders wish to promote and grow it. For the PWM industry at the current time, the segment is sufficiently different, should be promoted and a separate Code of Conduct is warranted.

The Code of Conduct would include previous PWMA issued guidelines and should include guidance on such topics as:

- Conduct (including confidentiality)

- Know Your Customer (KYC)
- Suitability
- Marketing
- Training
- Operations
- Incentives

This Code of Conduct should meet the principles of the existing applicable Codes of Conduct but give specific guidance relevant to the PWM industry to be followed by qualifying institutions, as such the Code of Conduct would replace current circulars applicable to PWM institutions issued by HKMA and SFC. This should be developed in consultation with regulators and be approved or endorsed by them.

## 4.5 Topic 4: Enhancing connectivity with mainland China

### 4.5.1 Cross-border programmes help both the industry and the Central Government in its efforts to internationalise the RMB

The recent PWMA annual survey found that 79 percent of respondents identified mainland China as the primary growth opportunity for the PWM industry in Hong Kong. The degree that the opportunity can be addressed will depend on capital controls imposed by the Central Government.

China's long-term ambition for the RMB is clear: the currency will become freely convertible and will one day be a major international trading and reserve currency. However, this is likely to be a multi-year or multi-decade project. Cross border schemes play a key part of this process because they enable gradual experimentation, incrementally exposing mainland institutions to global best practice and enabling clients a degree of global exposure.

There are a number of cross border schemes in operation of which Stock, Bond and Gold Connect schemes and Mutual Recognition of Funds are exclusive to Hong Kong. These cross border

schemes benefit Hong Kong, with 81 percent of respondents to the PWMA annual survey believing Stock Connect to be the most beneficial to the PWM industry (see Figure 6).

4.5.2 It is an appropriate time to consider a new wealth management scheme leveraging the Greater Bay Area

There is an opportunity for a cross border wealth management scheme to be focused on the GBA, which is a China national strategic priority. Creating a combined wealth zone of 68 million people across 11 cities and an estimated 480,000 HNWI, the GBA would be a significant game changer for Hong Kong<sup>42</sup>. The Shenzhen Qianhai Free Trade Zone could be used as a smaller pilot zone depending on the appetite of regulators.

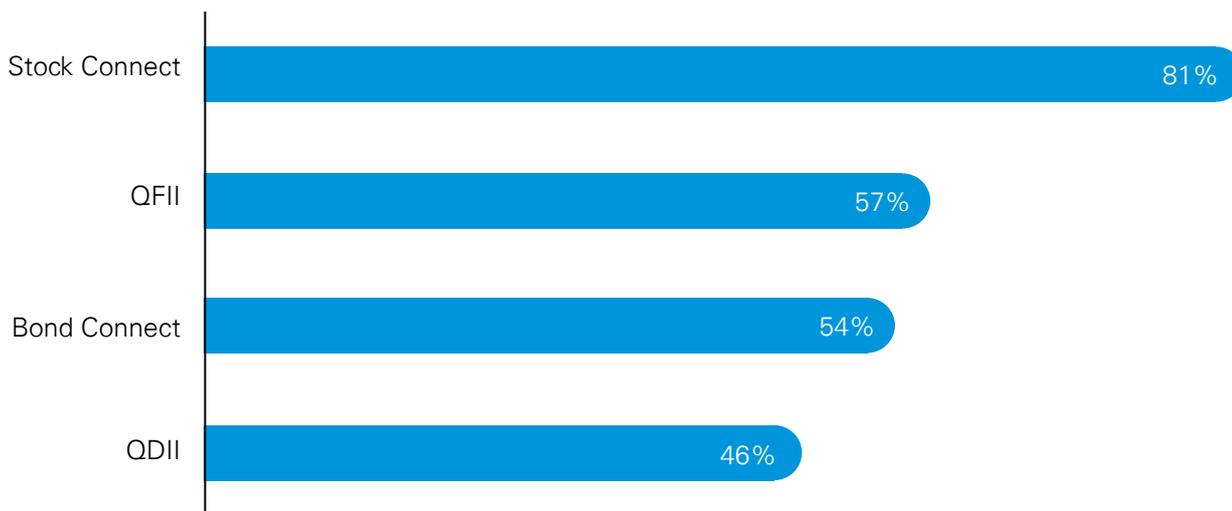
Although it was never implemented, there was a previously announced wealth orientated scheme that could be used as a basis. In 2015, the QDII2 programme announced by the CSRC permitted qualified individuals with over RMB1 million of assets in six trial cities to invest in overseas financial assets<sup>43</sup>.

The benefits to Hong Kong’s PWM industry of better connectivity to mainland China are clear: more access to the HNWI and their wealth being created in China. For mainland China, there are also benefits to greater connectivity.

A key goal of both the 13th Five Year Plan and the Greater Bay Area Framework Agreement is to strengthen Hong Kong’s position as an international asset management centre. Greater connectivity through the wealth orientated scheme recommended below will make a significant contribution to the achievement of that national policy goal.

It also provides intangible benefits to the onshore wealth management industry in China. Many Chinese financial institutions are coming to Hong Kong to improve their knowledge of private wealth management and develop their wealth management offerings. A vibrant PWM industry in Hong Kong will assist that development and enable a more sophisticated onshore wealth management industry in mainland China in the future.

Figure 6: Cross-border initiatives that deliver the most value to the PWM industry



Source: PWMA annual survey

42. KPMG China, A lens on the Greater Bay Area 2018 <https://assets.kpmg.com/content/dam/kpmg/cn/pdf/en/2018/04/a-lens-on-the-greater-bay-area.pdf>

43. CSRC

## Recommendation 9: Implement a new mutual wealth management scheme in the Greater Bay Area

Considerable time will need to be invested to develop a reciprocal cross border scheme that meets the needs of all parties. A potential three stage approach has been outlined below. It is recommended that the stage one is looked at immediately. Stage two, which involves cross border flow of funds, should be studied after this and is subject to discussion between relevant parties over the longer term. Stage three would be subject to an evaluation of the results from stage two.

- **Stage 1: Mutual sales access**

Onshore solicitation and marketing for PWM institutions based in Hong Kong (and vice versa) should be allowed. At present there are restrictions on offshore Hong Kong PWM institutions soliciting business in the mainland, which means that mainland Chinese clients of Hong Kong PWM institutions must come to Hong Kong to conduct wealth management activities. This is inconvenient for clients and means that they cannot respond rapidly to market opportunities.

The first stage could be to permit solicitation and marketing within the GBA for clients meeting certain thresholds for funds already offshore and would involve **no additional outflows of capital**. This would also allow solicitation for mainland based RMs into Hong Kong.

- **Stage 2: Develop a mechanism for freer cross border fund transfer whilst maintaining sufficient controls**

Following this, in the long term, a second stage could allow residents who meet certain criteria to more freely transfer funds within the GBA subject to appropriate quotas. This could involve

several layers of restrictions to enable control. An initial pilot scheme could have the following features, similar to the principles of the proposed QDII2 scheme:

- A quota for the overall scheme
- A limit on the amount to be invested by each qualifying individual
- Criteria for qualifying individuals (e.g. residency in the pilot city, investable funds held in the GBA for a prior period e.g. 3 years)

This would allow regulators to ‘test the water’ as well as retaining a degree of control to stop or reverse the scheme if required.

- **Stage 3: Widen/deepen the scheme**

The final stage could involve widening the scheme to other areas in mainland China or deepening the scheme to permit the free fund transfer for eligible individuals within the GBA (or both).

Past cross-border schemes show that it takes considerable time to develop both the regulatory framework as well as the physical infrastructure to implement. Even the first stage allowing cross border solicitation would take significant effort to align on regulatory standards to ensure that each side is comfortable and that investors are appropriately protected. Therefore all relevant stakeholders including the regulators need to be engaged early to determine the long term roadmap. This will take dedicated commitment from the appropriate departments on both sides of the border. However, the gains as part of this initiative are likely to outweigh the costs.

## 4.6 Topic 5: Nurturing the right talent

### 4.6.1 Preparing for the future, the RM talent pool needs to grow, with evolving client and product trends demanding a more tailored skillset

With the industry expected to grow significantly in the coming years, demand for PWM professionals is also expected to increase, leading to a greater focus on talent recruitment and retention. According to the latest PWMA annual survey, the biggest supply side constraint identified is a "limited talent pool" (66 percent). While RMs are considered to be the most critical gap (76 percent), the industry is also looking for compliance personnel (53 percent) and product specialists (53 percent). These roles do not only support RMs in driving growth, but also help to mitigate business risks.

Technology will lead to a fundamental shift in the role and associated skills of RMs. Respondents estimate that RMs spend around 42 percent of their time on administration and execution activities today. However, a number of PWM senior executives expect that with technology enablement, at least three-quarters of an RM's time should be spent servicing clients in five years' time.

The skills of RMs will also need to be further tailored towards future client and product trends.

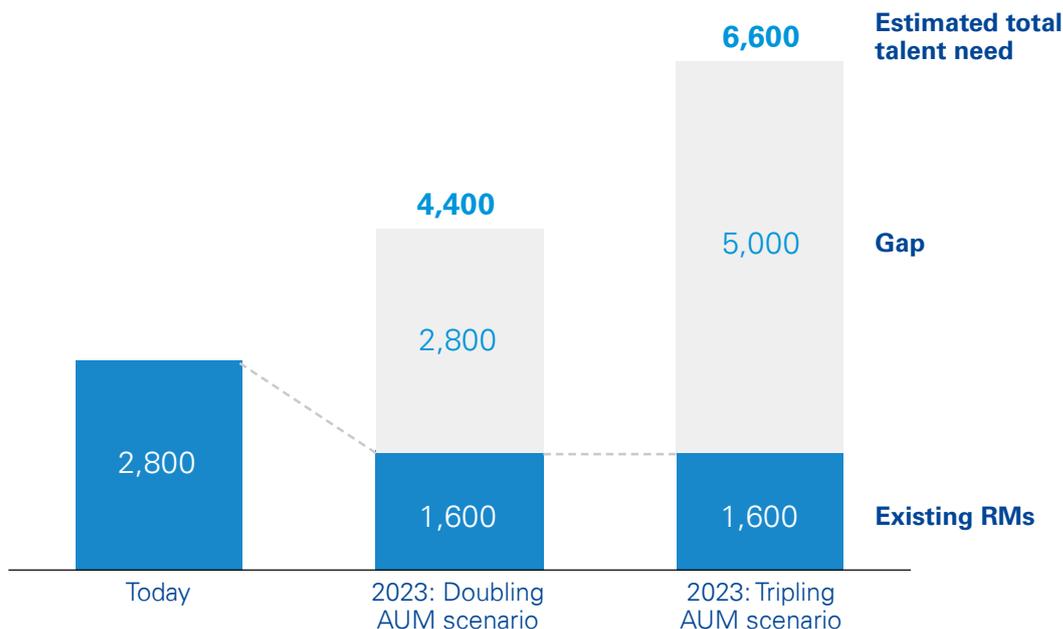
With family offices expected to be an increasing focus, RMs will need to be equipped to deal with these more demanding investors. Furthermore, the increasing importance of mainland China and a younger generation of HNWIs will also change the RM focus. The role of the RM is expected to change to one of 'conductor', 'connector' and 'coordinator', orchestrating various client-related activities.

These interrelated trends mean that it is critical for the PWM industry to scale up and enhance the expertise of the talent pool with a long term approach. This is hindered by current hiring practices in which recruiting from peers is the most common way of recruiting RMs among survey respondents.

### 4.6.2 The industry needs 2,800-5,000 new RMs over the next five years

According to the latest PWMA annual survey, industry AUM is anticipated to double over the next five years. Making assumptions for attrition and productivity improvements linked to technology enablement, the industry would need around 2,800 new RMs under a scenario of AUM doubling or 5,000 under a scenario of AUM tripling. Under a scenario of AUM doubling this equates to hiring of as many RMs as there are currently in the industry today.

**Figure 7: Estimated industry talent need<sup>44</sup>**



Source: KPMG analysis

44. Assumes 10 percent annual attrition rate and 20 percent productivity improvement from investments in new technology



Many interviews pointed to the issues in hiring talent and that the current approach of recruiting from competitors is unsustainable. This is because such practices do not increase the overall number of qualified individuals and pushes up the industry's costs.

Recruiting experienced hires from other industries is seen as the next best way to grow the talent pool in the short term. Interviewees suggested that there are a wide range of professions which can act as feeders for PWM roles. There are significant potential talent pools in the wider banking (100K), insurance (80K), accountancy (30K) and legal (10K) professions in Hong Kong which could meet some of this demand<sup>45</sup>. However, interviewees also mentioned that this typically has a higher failure rate, anecdotally as high as 30-40 percent for RM roles. This is largely attributed to poor selection of candidates as well as insufficient training for new lateral hires. Best practice involves extending use of shadowing and mentorship to help new joiners become effective in their roles. The issue of lateral hires should be investigated further by institutions in the PWM industry to reduce this failure rate.

#### 4.6.3 Good progress has been made in addressing the long-term talent pipeline through graduate recruitment

To complement lateral hiring from other industries, there is currently a large pool of 4,200 graduates

each year with business related degrees in Hong Kong who can be recruited for roles within the PWM industry.

PWM graduate programmes are well regarded by institutions that offer them due to their ability to train well rounded talent as they are typically rotational in nature and allow graduates to gain experience in a range of functions and roles. This can help graduates discover which areas they prefer, helping to fill gaps across a PWM business.

There are currently two industry wide internship programmes serving the PWM industry in Hong Kong (1) The Internship Programme under the 'Pilot Programme to Enhance Talent Training for the Asset and Wealth Management Sector' (WAM Pilot) and (2) The joint HKMA and PWMA Apprenticeship Programme.

These programmes have helped to raise the profile of the industry on campus and given students direct experience of working in the industry and both are enjoying growing success. The WAM Pilot programme was launched in 2016 had 61 students in 2017 and 55 in 2018<sup>46</sup>; the Apprenticeship Programme was launched in 2017 and has grown from 29 to 50 students in 2018<sup>47</sup>.

45. Hong Kong Census and Statistics Department, Statistics 2018

46. FSTB

47. PWMA

#### 4.6.4 Postgraduate qualifications offer opportunities to develop talent and for innovation and are being used effectively in other jurisdictions

A full-time taught postgraduate programme can boost Hong Kong through training of the next generation of leaders, sharing international best practice and improving the image of Hong Kong for PWM innovation and professionalism. It can also act as an enabler of innovation in services and products.

Singapore has a well-regarded postgraduate degree, the MSc in Wealth Management, which contributes to Singapore Management University's global top three position in post-experience finance degrees. It has recently

launched a second postgraduate degree at Nanyang Technological University, the MSc in Asset and Wealth Management.

These courses which include technical, managerial and innovation focused topics are developed in partnership with industry, the Singapore government and universities in other wealth management centres and have had success attracting talent from across Asia and beyond.

There may be opportunities to build on the existing undergraduate Bachelor of Finance in Asset Management and Private Banking at University of Hong Kong (HKU). This could be made full-time and supplemented with more advanced modules.

#### Recommendation 10: Develop a flagship taught postgraduate degree to position Hong Kong as a hub for PWM learning and innovation

In order to boost Hong Kong's reputation as centre for professionalism and innovation, a leadership focused advanced degree should be developed. The format should be a full time taught degree taking 12-18 months, hosted at a leading Hong Kong institution with links to peer institutions in other global

wealth management centres. This should be similar in level to an MBA degree targeted at experienced industry professionals. The PWM industry should play an active role in course design, including visits/exchanges with foreign wealth management hubs, and promoting the degree to practitioners.

#### Recommendation 11: Reform professional training reimbursement under the WAM Pilot<sup>48</sup> to boost the number of mid-career joiners

To address the skills gap for joiners the WAM Pilot scheme, with funding of HKD100 million from the Hong Kong Government, is providing reimbursement for PWM specific professional training courses that are not fully covered by the Continuing Education Fund<sup>49</sup>.

Funding is limited to professionals currently employed within institutions in specific financial services sectors, mainly banks and

insurers. This leaves a large potentially well-qualified group, notably those currently unemployed or those in other relevant industries unable to access funding. The WAM Pilot applicant eligibility criteria should therefore be reviewed with a view to attract more applications from outside the wealth and asset management industry, who are then attractive to PWM institutions to hire.



48. 'WAM Pilot' refers to 'Pilot Programme to Enhance Talent Training for the Asset and Wealth Management Sector'

49. Continuing Education Fund, List of approved financial services courses 2018



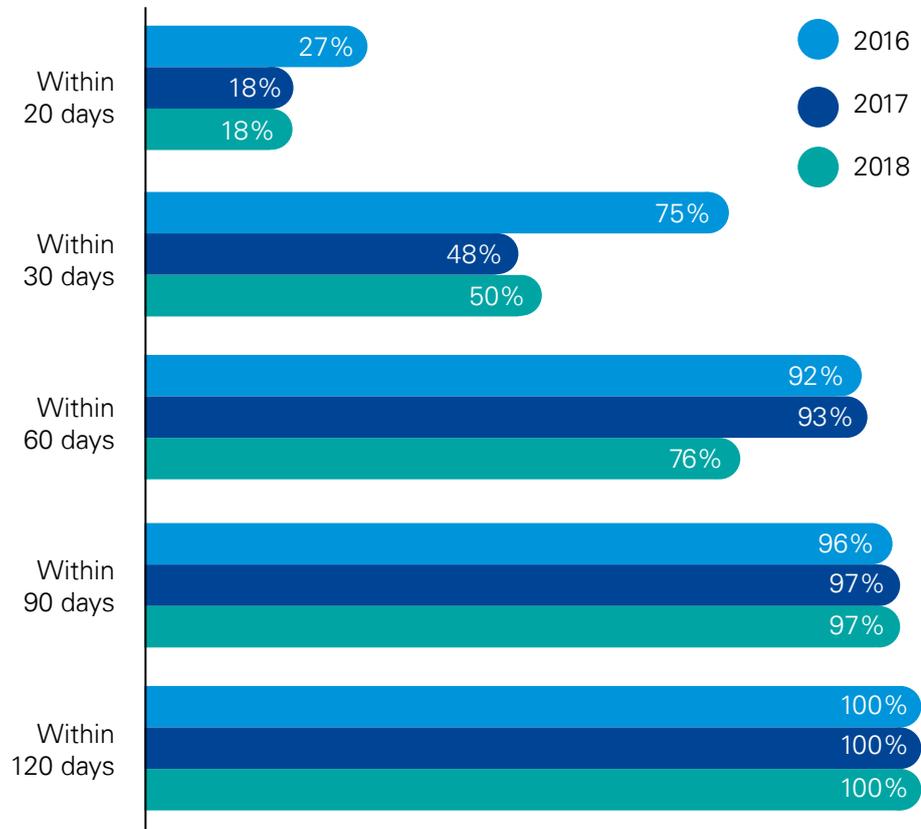
## 4.7 Topic 6: Enhance the access to KYC information for onboarding

4.7.1 There is a clear need to improve client experience in the industry by reducing onboarding times

In the PWMA annual survey, the average number of days to onboard

a client has increased from 30 days in 2016 to 40 days in 2018 with a significant reduction in the numbers of clients being onboarded within 60 days from the previous year (see Figure 8). KYC/AML was also identified as the second most significant regulatory investment area for PWM institutions, after sales conduct and suitability.

**Figure 8: Percentage of PWM institutions able to onboard a client within stated time periods**



Source: PWMA annual survey 2016-18, KPMG analysis

#### 4.7.2 A KYC Utility can shorten onboarding times and help position Hong Kong as a global innovator

There are a range of definitions for what a KYC Utility could be. Generally client information is submitted to the utility, validated and then shared across institutions, potentially making use of blockchain technology. This sharing means that clients do not need to repeatedly provide the same data to different institutions, accelerating onboarding and improving the client experience.

There are a number of KYC Utility pilots underway globally - in Singapore, Abu Dhabi and the Nordics - with other countries also rumoured to be investigating the technology<sup>50</sup>. Singapore has been developing a KYC Utility since July 2017, spearheaded by the Info-communications Media Development Authority and three banks<sup>51</sup>. The platform uses central Singapore resident data stored in the 'MyInfo' database which has been verified by the government. This uses blockchain technology allowing information to be shared across the closed network of institutions using secure cryptography. Clients control their own data which the banks can then use to validate KYC records more rapidly.

In Hong Kong there are two initiatives currently being considered. Firstly, HKAB is currently exploring the possible introduction of a KYC utility. While it is understood the focus may not be relevant for PWM at first, this could potentially

be extended to HNWI clients. Secondly, the government is planning to provide every Hong Kong resident with an electronic identity (eID) under the Hong Kong Smart City Blueprint<sup>52</sup> which will centralise and unify relevant data for onboarding.

There is strong support from the industry to implement such an initiative in Hong Kong, with 82 percent of respondents to the PWMA annual survey either agreeing or strongly agreeing that the industry should pool resources & information (KYC/AML) to reduce the cost of compliance. This would help to improve the client experience, garner positive media attention which may attract clients, and reinforce Hong Kong's position as an innovator in the wealth space.

However, it is important to understand that such an initiative is not a panacea. The ability to reduce time on initial onboarding depends on which databases the utility has access to. If it is just Hong Kong information it will be of more limited use for clients from other jurisdictions. Therefore, most of the benefit comes when clients move between institutions.

Key challenges around providing adequate documentation to prove source of wealth, a particular issue for mainland Chinese HNWIs, will remain. This is due to challenges finding complete documentation going back many decades (e.g. original property deeds).

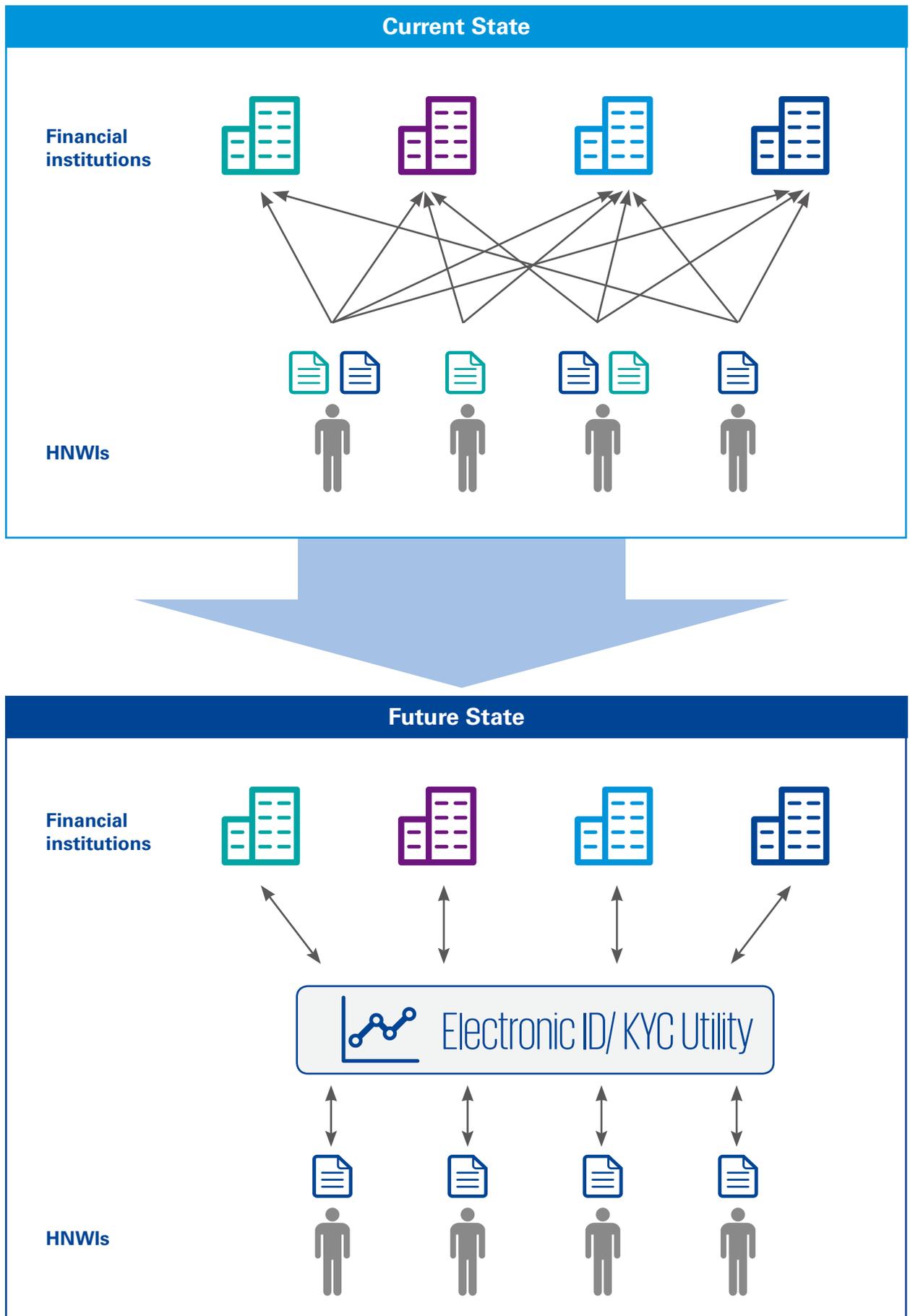
50. Fintech.global; GlobalTrade Review

51. MAS, website

52. Innovation and Technology Bureau website



Figure 9: Current onboarding to future state onboarding



Source: KPMG analysis

### Recommendation 12: Ensure any future developments involving a KYC Utility or electronic IDs include HNWI to improve client experience

If Hong Kong does move forward with a KYC utility or use of electronic IDs as an approach to onboard for banking, the PWM industry has the opportunity to see how they could be adapted to fit the needs of the PWM industry.

As per a recent FSDC paper, the involvement of government in such a scheme is important. This gives reassurance that they

explicitly support the scheme and will help to overcome regulatory barriers and provides an important role in providing access to government databases for verification<sup>53</sup>.

There are a number of implementation challenges that need to be overcome such as the ownership model (public, private and hybrid), pricing, maintaining data quality, cybersecurity, data ownership and protection.

## 4.8 Topic 7: Driving the future of the industry

Across this white paper there are a range of recommendations involving stakeholders from various groups including the PWM industry itself, regulators, governments and clients. All contribute to change in the industry and will have their own view on how best to achieve the long term vision of making Hong Kong a leading wealth management hub.

Interviewees consistently highlighted that there is a need to bring these stakeholders together to allow for cross functional dialogue, track the progress of initiatives coming out of this white paper, maintain a strategic view on the state of Hong Kong's PWM industry and take further action as the environment changes.

Firstly, regular formalised meetings which allow dialogue between regulators, government and the industry can help to share and resolve some of the operational issues involved in the implementation of regulation. Additionally it allows for the sharing of experience of cutting edge developments in the industry between those regulating in new areas and those implementing, for example in robo-advisory.

Secondly, there is a need to prioritise, allocate resources against and report on the progress of

specific recommendations coming out of this white paper. A regular reporting cycle with agreed owners and deadlines increases impetus in achieving goals and allows issues to be discussed in a timely regular forum.

Lastly, survey respondents highlighted the speed of which the industry is changing. A forum where new industry-wide developments or changes in the environment can be assessed and appropriately incorporated can allow Hong Kong to remain at the forefront of PWM best practice.

The PWMA plays a key role facilitating engagement between the PWM industry and the regulators in Hong Kong. However, up to this point these exchanges have not evolved into regular formal meetings. There are then a number of areas which would benefit from regular close dialogue between government, regulators and industry including: talent, technology, market changes and new products and services.

The UK's 'Asset Management Taskforce' is an example of how Hong Kong could achieve better industry, government and regulator dialogue. It is a quarterly meeting of CEOs from a range of asset management companies, UK government departments, investor groups and the regulator.

53. FSDC, Building the Technological and Regulatory Infrastructure of a 21st Century International Financial Centre: Digital ID and KYC Utilities for Financial Inclusion, Integrity and Competitiveness 2018



**Recommendation 13: Create a PWM industry forum to keep focus on the long term future of the industry and track progress against the white paper**

To share best practice, stay at the cutting edge of the PWM industry and track progress against the white paper Hong Kong needs regular dialogue and coordinated action through a PWM industry forum.

The PWM industry forum would identify risks and trends relevant to the PWM industry, sponsor ad hoc research on topics impacting the industry through academic institutions in Hong Kong and facilitate further action to continue to drive the PWM industry forward.

This forum should be led by the PWMA. For this forum to be effective, it is recommended that a senior official from the FSTB is appointed to support and be accountable for the government support of PWM industry

initiatives. The role of the senior official is to drive change and coordinate with other relevant government departments around specific actions relating to white paper recommendations, as well as any actions required to address future industry challenges and opportunities. This individual will need clear KPIs that align to the overall development of the industry.

The benefits of this would be that it would send a clear signal to HNWIs, global wealth managers and institutions on Hong Kong's commitment to the PWM industry. This new body could also be launched in coordination with recommendations under Topic 1: Enhancing Promotion.



# 05

## Implementation approach

### 5.1 Implementation principles

Effective implementation of the recommendations is critical in order to support the PWM industry to achieve its vision of being a leading global wealth management hub with a leading share of assets sourced from across the world, while at the same time becoming and being recognised for service and product innovation. To aid this implementation a number of principles have been outlined:

- **Steering committee:** Overall accountability for execution of the recommendations will
- **Recommendation ownership:** Each recommendation should have a clear owner accountable for implementation. Agreeing ownership should be the first step.
- **Monitoring and reporting:** Progress of each initiative needs to be monitored and reviewed to ensure progress. This should include

lie with the PWM industry forum outlined under recommendation 13. A cross-functional steering committee should be set up to monitor and lead the initiatives.



indicators aligned to high-level objectives, e.g. industry AUM, as well as indicators showing progress on individual recommendations, e.g. whether an initiative is launched to agreed timescales.

## 5.2 Prioritisation of initiatives

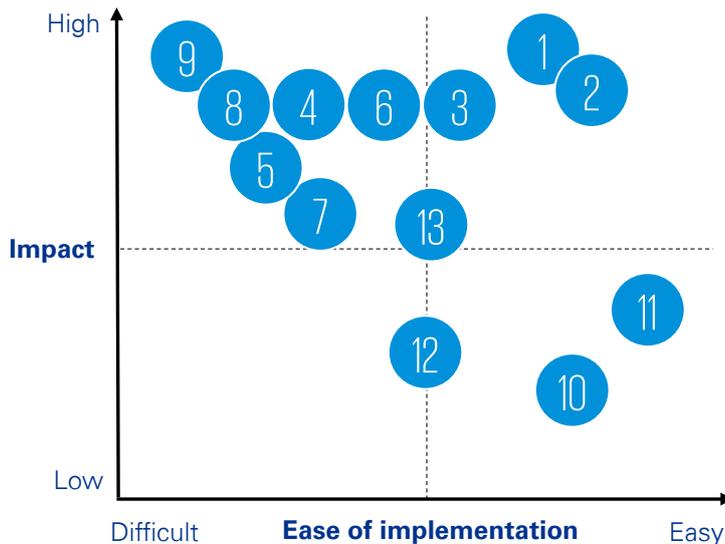
All of the recommendations are important to enable Hong Kong to achieve its vision. However, to aid with prioritisation, a preliminary analysis was undertaken to identify the relative impact and implementation ease of each initiative.

- **Impact** measures the degree to which the recommendation will contribute to achieving the goal of making Hong Kong a leading wealth management hub
- **Ease of implementation** is based upon: relative resource requirements, degree of change and coordination of different

stakeholders required to realise each recommendation

The recommendations with high ease of implementation should be executed first in order to build momentum behind the other recommendations with the more complex recommendations coming later.

**Figure 10: Indicative impact and ease of implementation by recommendation number**



Source: KPMG analysis

## Recommendation

- 1 Regulator and/or government led effort to coordinate industry business development in targeted geographies
- 2 Set up an Investment Office Liaison Centre to help promote Hong Kong and guide family offices through the set-up process in Hong Kong.
- 3 Promote family offices through the expansion of the Offshores Funds Exemption or the introduction of a new exemption.
- 4 Ensure that non-resident HNWI remain exempt from Hong Kong tax.
- 5 Reform taxation treatment of Hong Kong trusts.
- 6 Introduce a concessionary tax rate for fund management and advisory.
- 7 Streamline existing disclosure requirements to ensure they are appropriate to a PWM client's level of sophistication and experience.
- 8 Develop a Code of Conduct for the PWM industry.
- 9 Implement a new mutual wealth management scheme in the Greater Bay Area
- 10 Develop a flagship taught postgraduate degree to position Hong Kong as a hub for PWM learning and innovation.
- 11 Reform professional training reimbursement under the WAM Pilot to boost number of mid-career joiners.
- 12 Ensure any future developments involving a KYC Utility or electronic IDs include HNWI to improve client experience
- 13 Create a PWM industry forum to keep focus on the long term future of the industry and track progress against the white paper

### 5.3 Initial view on ownership

Suggested owners and an indicative timeline for completion has been identified. Setting up of the PWM industry forum needs to be completed first as a forerunner to other activities. The suggested

owner of each recommendation is also subject to discussion and agreement with all relevant stakeholders.

**Figure 11: Suggested owners and implementation horizon**

#	Recommendation	Suggested owner	Horizon
1	Regulator and/or government led effort to coordinate industry business development in targeted geographies	HKMA/HKTDC	<1 year
2	Set up an Investment Office Liaison Centre to help promote Hong Kong and guide family offices through the set-up process in Hong Kong	HKTDC (InvestHK)	<1 year
3	Promote family offices through the expansion of the Offshore Funds Exemption or the introduction of a new exemption	PWMA/FSTB	<1 year
4	Ensure non-resident HNWI remain exempt from Hong Kong tax	PWMA/FSTB	<1 year
5	Reform taxation treatment of Hong Kong trusts	PWMA/FSTB	1-2 years
6	Introduce a concessionary tax rate for fund management and advisory	PWMA/FSTB	1-3 years
7	Streamline existing disclosure requirements to ensure they are appropriate to a PWM client's level of sophistication and experience	PWMA/ HKMA & SFC	1-3 years
8	Develop a Code of Conduct for the PWM industry	PWMA/ HKMA & SFC	>3 years
9	Phase 1: Implement a new mutual wealth management scheme in the Greater Bay Area	PWMA	<3 years
	Phase 2 & 3: Implement a new mutual wealth management scheme in the Greater Bay Area	PWMA	>3 years
10	Develop a flagship taught postgraduate degree to position Hong Kong as a hub for PWM learning and innovation	Universities/ PWMA	1-3 years
11	Reform professional training reimbursement under the WAM Pilot to boost number of mid-career joiners	FSTB	<1 year
12	Ensure any future developments involving a KYC Utility or electronic IDs include HNWI to improve client experience	PWMA	1-3 years
13	Create a PWM industry forum to keep focus on the long term future of the industry and track progress against the white paper	PWMA/FSTB	<1 year



# 06

## Appendix

### 6.1 Interviewee list

In writing this report, interviews were conducted with industry participants, service providers and regulators. We would like to thank all of those involved in both the survey and the interviews for their kind participation.

1 Bank of China: Wendy Tsang Kam-yin, Managing Director, Head of Private Banking

2 BMO Private Bank: Selwyn Au Yeung, Managing Director

3 BMO Private Bank: Steven So, Managing Director

4 Citibank: Vivian Lee, Managing Director

5 Citibank: Vivian L. K. Kwok, Managing Director

6 Clifford Chance: Mark Shipman, Partner

7 Clifford Chance: Viola Lu, Consultant

8 Clifford Chance: Lena Ng, Partner



9 Clifford Chance: Sheena Teng, Senior Associate

10 Credit Suisse: Lawrence Cheung, Chief Operating Officer, Private Banking Greater China Market and Hong Kong Location

11 Credit Suisse: Francois Monnet, Chief Executive Hong Kong Branch, Head Greater China, Private Banking Asia Pacific

12 Deutsche Bank: Louisa Ng, Head of Executive & Lateral Recruitment, WM APAC

13 Hong Kong Trustees' Association: Michael Shue

14 Hong Kong Trustees' Association: Jacqueline Shek, Chairman

15 Hong Kong Trustees' Association: Ka Shi Lau

16 Hong Kong Monetary Authority (HKMA): Vincent Lee, Executive Director

17 Hong Kong Monetary Authority (HKMA): Enoch Fung, Head (Market Development) External Department

18 HSBC: Ambar Mitra, Head of Human Resources, Operations, Services & Technology Asia-Pacific

19 Junson Capital: Kevin Liu, CEO

20 Noah: Kenny Lam, Group President

21 Prive Wealth: David Lee, Managing Director

22 Securities & Futures Commission of Hong Kong (SFC): Julia Leung, Deputy Chief Executive Officer and Executive Director, Intermediaries

23 Securities & Futures Commission of Hong Kong (SFC): Linda Yiu, Director, Intermediaries Supervision

24 Society of Trustees and Estate Practitioners (STEP): Richard Grasby, Branch Chair

25 The University of Hong Kong: Anna Wong, Professor of Practice in Finance, BFin (AMPB) Programme Director



26 UBS: Amy Lo, Chairman and Head of Greater China of UBS Wealth Management, Chief Executive of UBS Hong Kong Branch

27 UBS: Connie Hui, Managing Director, Compliance & Operational Risk Control, Head of C&ORC Asset Management APAC, Group Head of Hong Kong C&ORC

28 UBS: Jason Wong, Director, Group Regulatory & Governance

We would also like to thank the range of regional and technical experts from around KPMG involved in this white paper including: Abhijit Rawal, Allwyn Barretto, Ayesha Lau, Bonn Liu, Chris Brown, Christian Hintermann, Darren Bowdern, Grace Tan, Howhow Zhang, Jacqueline Hughes, Jeffrey Hau, Justain Bracken, Karen Jordan, Karmen Yeung, Malcolm Prebble, Michael Olesnick, Paul McSheaffrey, Peter Outridge, Simon Topping, Tom Wilson and Vivian Chui.

## 6.2 Economic impact assessment methodology

Section 2.1 of this report discusses the results of the economic impact modelling of the PWM industry. In measuring economic impact we apply the production method which is consistent with Hong Kong Government approaches and is generally considered international best practice. In this method we calculate the net output or Gross Value Added (GVA) which is produced as a result of the PWM industry. GVA means the value of goods and services produced minus the cost of inputs used in production. GVA plus taxes on products less subsidies on products is equal to GDP. To estimate these figures the primary source was a survey of PWMA members. We then applied the most relevant statistics released by the Hong Kong

Census and Statistics Department (C&SD) and KPMG past experience to determine ratios between spend categories and value added for a range of activities.

The primary impact of the wealth management industry on the Hong Kong economy comes through wealth management operational activities. This is spend on a range of products and services by private wealth businesses. Typically these include: people, facilities and technology spend amongst others.

We have also separately estimated economic impact of the spend of foreign HNWIs coming to Hong Kong to conduct wealth management activities. Amount of spend by category is taken from Hong Kong Tourism Board (HKTB) statistics and includes spend on: hotels, meals, shopping, tours etc. It should be noted that spend figures have not been adjusted for income levels and so these estimates are likely an underestimate given HNWIs higher disposable income.

As a result of these two impact types there is value added created at three levels in the economy:

- 1. Direct impact:** accounts for the primary activity's impact, in this case wealth management services and spend by HNWIs
- 2. Indirect impact:** accounts for activity of the suppliers to the primary activity, for example third party research companies and telecoms companies providing services to wealth managers
- 3. Induced impact:** accounts for the impact of increased spending by employees in the economy as wages increase from increased economic activity of direct and indirect companies

It is important to note that this study was limited by results of the PWMA economic impact and annual survey. Some PWM institutions were unable to share data on the financial inputs required to calculate economic impact e.g. operational spend. As a result the findings are likely an underestimate of the true impact.

Finally, one metric the total number of employees in the PMW industry, has been estimated applying a multiple of the number of relevant practitioners based on industry benchmarks provided by PWMA members.

### 6.3 International comparison of funds tax regimes and trusts regimes

The following appendix sections detail the tax analyses which supports recommendations 3-6 of the white paper; the relevant recommendations are shown at the beginning of the sections.

**Note:** Foreign tax information is only general information based on desktop research performed by KPMG Hong Kong as at the date of publication and has not been confirmed by the relevant overseas KPMG member firm(s). Accordingly, confirmation should be obtained from the relevant overseas KPMG member firm(s) should you wish to rely on the representations in this report.

#### **Recommendation 3: Promote family offices through the expansion of the Offshore Funds Exemption or the introduction of a new exemption**

#### **Recommendation 4: Ensure non-resident HNWIs remain exempt from Hong Kong tax**

Singapore has a range of tax incentive schemes that are specifically targeted at funds managed from or domiciled in Singapore, by Singapore-based fund managers. In the absence of such incentives, there is a risk that funds managed by Singapore-based fund managers would be subject to tax in Singapore due to the activities of the fund manager in managing the investments of the fund.

Singapore's fund exemption regime covers all income and gains in respect of designated investments unless they fall within an exclusion list. The list of designated investments applies to all the fund exemption regimes.

Accordingly, these tax incentives have helped to promote tax neutrality, and attract fund sponsors, HNWIs and family offices to manage their investments from Singapore.

A summary of the conditions of Singapore's fund exemption regime, a comparison with Hong Kong's existing regime as well as our recommendation is as follows:

	Singapore			Hong Kong – status quo	Hong Kong – recommendation
Regime	Resident Corporate Fund Exemption (13R)	Non-Resident Fund Tax Exemption (13CA)	Enhanced-Tier Fund Exemption (13X)	Offshore Funds Exemption	Extend the offshore fund exemption to cover family offices and ensure non-resident HNWLs are not subject to tax in Hong Kong
Commonly used			Most commonly used	Not commonly used due to stringent qualification criteria.	
Legal form	Company	Company Trust Individual	No restriction	Company Partnership Trust Individual	Must not restrict the range of funds currently able to avail of the exemption.
Residence of the Fund	Singapore	Offshore	No restriction	Offshore	
Fund Manager	Singapore based and registered			No restriction	
Fund Manager incentives	A fund manager that has been approved as a financial sector incentive company can enjoy a concessionary rate of 10% on income derived from qualifying activities			None	Concessionary tax rate (recommendation 6)
Fund Administrator	Singapore	No restriction	Singapore	No restriction	
Scope of fund exemption	Tax exemption covers all income and gains in respect of “designated investments” unless they fall within an exclusion list <sup>54</sup> .			Specified Transactions <sup>55</sup>	
Approval requirement	Monetary Authority of Singapore (MAS) approval	No approval needed	Monetary Authority of Singapore (MAS) approval	None	
Minimum spending requirements	Annual local minimum spend (S\$200k)	None	Annual local minimum spend (S\$200k)	None	
Assets under management	N/A	N/A	Minimum capital commitment S\$50M	N/A	

	Singapore			Hong Kong – status quo	Hong Kong – recommendation
Treaty benefits	Access to Singapore’s DTA network	N/A	May have access to Singapore’s DTA network if the fund is a resident fund	N/A	
Investor restrictions	Cannot be 100% owned by Singapore tax resident investors	Cannot be 100% owned by Singapore tax resident investors	No investor restrictions	Funds that wish to avail themselves of the “Qualifying Funds” definition need more than four investors	Reconsider investor requirements – ideally no investor restrictions

54. Designated investments covers a list of investments, including but not limited to: stocks and share of any company; debt securities; real estate investment trusts, exchange traded funds or any other securities which are denominated in foreign currency issued by foreign governments, listed on any exchange, issued by supranational bodies or issued by any companies; futures contracts, immovable property situated outside Singapore; foreign currency deposits with financial institutions outside Singapore; foreign exchange transactions; financial derivatives that relate to any designated investment or financial index, subject to certain conditions and counterparty restrictions, unit trusts investing in designated investments. Designated investments does not include securities issued by unlisted companies that are in the business of trading or holding Singapore immovable properties (other than the business of property development)
55. Specified transactions are listed in Schedule 16 of the Inland Revenue Ordinance



## Hong Kong's existing Offshore Funds Regime

Recent proposals put forward in the Consultation Paper to remove the existing ring-fencing features from the tax regime for funds, and the introduction of a tax regime for onshore privately offered open-ended fund companies, have helped identify the practical limitations of existing tax rules and have helped highlight concerns from the asset management industry.

For the private wealth management industry, it is imperative that legislative fine tuning does not inadvertently create a restriction on the industry, and that future amendments to the Offshore Funds Exemption should focus on broadening the types of persons or investment structures that are able to avail of the tax incentive.

It is also important for the rules to be clearly drafted and for greater clarity to be provided to the industry on the application of the Offshore Funds Exemption.

The limitations in the practical application of the existing Offshore Funds Exemption has been voiced by the industry. For example:

- The exemption status will be tainted if the investment vehicle carries on specified as well as non-specified transactions. This investment restriction is difficult to satisfy.
- Where investments are not managed by a 'specified person', there is a requirement for more than four investors in order to meet the 'qualifying funds' definition. Many non-resident individuals and family offices may not have more than four investors and therefore will not fall within the ambit of a qualifying fund in certain circumstances.

As a result, the private wealth management industry cannot easily avail itself of the Offshore Funds Exemption as currently drafted.

## UK

The UK has historically sought to encourage asset and investment managers, wealth advisers and other professionals to establish business in the

UK, without seeking to tax the specific fund or HNWI being advised. Accordingly the tax system has not historically sought to purely attract assets under management to the UK, but instead to position itself as a hub for the management of such assets and sought to attract the managers and advisers of those assets.

From a taxation perspective, the defining feature of the UK's personal tax regime for non-resident HNWI is the UK's remittance basis for taxation whereby only income and capital gains arising in or remitted to the UK are subject to tax. Although the remittance rules have become more stringent in recent years, this has been attractive for asset managers working in the UK, but are considered to be domiciled outside of the UK.

For individuals who are UK resident, but domiciled outside the UK and elect for the remittance basis for taxation, UK tax is only payable on overseas investment income, capital gains and other type of offshore earnings if these amounts are remitted to the UK (subject to certain exceptions). For individuals who are UK resident and domiciled in the UK, capital gains tax is payable on worldwide taxable gains.



If a taxpayer is a UK non-resident, they will not pay tax on gains even if the asset is situated in the UK (unless the gain arises on a UK trading asset, or residential property).

From a broader funds management perspective, UK tax treatment of foreign investors will depend on a number of factors including such as the type of fund, whether the fund is reporting or non-reporting in nature, the circumstances of the investor concerned, and whether the fund is tax-transparent or not.

From a fund management perspective, when a fund is established outside of the UK, it may still employ a UK-based investment manager without the risk of bringing the overseas fund into the UK tax net. There is no UK tax risk unless the fund is trading for tax purposes in the UK.

## Switzerland

Switzerland has always been an attractive destination for HNWIs and private wealth due to a number of factors. Although taxation is not a key driving factor, and Switzerland is not ordinarily considered to be a low-tax jurisdiction, Switzerland has certain incentives such as a tax low rate in certain municipalities and an exemption on capital gains in certain circumstances.

Generally speaking, non-residents are only subject to personal income tax if they own businesses or Swiss real property, or if they receive employment income or directors fees from a Swiss company.

From a funds perspective, many investment vehicles are considered to be tax transparent, and do not constitute an independent taxable entity in their own right. As a result assets and income are only taxed directly at the level of the investor on the basis of the provisions applicable in the investor's tax domicile.



### Recommendation 5: Reform taxation treatment of Hong Kong trusts

A high level comparison of the incidence of tax on the trust tax regimes in Singapore and Hong Kong is outlined below. Please note that the table below greatly simplifies the Singapore trust tax regime, and therefore the comments are general in nature.

Attributes	Singapore	Hong Kong (status quo)	Hong Kong – (recommendation)
Codified trust tax law	Yes	No	Yes
Trustee – administrator fees	Taxable at CIT of 17% Approved trust companies of QFT (QFTs) <sup>56</sup> are taxed at concessionary rate 10% on income derived from business of administering the trust	Taxable at CIT of 16.5%	
Trustee – trust income	The trustee can be taxed on trust income where income is attributed to non-resident beneficiaries, or where resident beneficiaries are not entitled to the income. Trust income from QFTs are not taxed at the trustee level.	Trust income is taxable at the Trustee level, if the Trustee is considered to be ‘carrying on business’ in Hong Kong.	Potentially taxable (if non-resident beneficiaries)
Resident beneficiaries	Where the beneficiaries are entitled to trust income, income is taxable at the beneficiary level.	Not taxable – no tax transparency or look through status	Potentially taxable if tax transparency is accorded
Non-resident beneficiaries	Non-resident beneficiaries entitled to trust income are taxed at the trustee level Distributions to beneficiaries of QFTs are exempted from tax.	Not taxable	
Settlor	Not taxable	Not taxable	

### Recommendation 6: A concessionary tax rate for fund management and investment advisory services

	Singapore	Hong Kong - status quo	Hong Kong – recommendation
Specific fund manager tax rate concession	Yes – Financial Sector Incentive scheme 10%	No	Consider 50% of headline profits tax rate 16.5%, 8.25%

56. A Qualifying Foreign Trust (QFT) is broadly a trust created by deed, where all the settlors and beneficiaries are not Singapore nationals or residents of Singapore, and the trust is administered by an approved trustee company. Subject to conditions, certain sources of income are exempted from tax

---

# About the PWMA

PWMA is an industry association whose mission is to foster the growth and development of the private wealth management industry in Hong Kong. PWMA members are authorized institutions and licensed corporations in Hong Kong with dedicated private wealth management businesses providing personalized banking and portfolio management services. Established in 2013, PWMA is incorporated as a company limited by guarantee.

The main objectives of PWMA are:



to better position Hong Kong as the private wealth management hub in the region by promoting and encouraging the growth and development of the PWM industry in Hong Kong and to help maintain Hong Kong's status and competitiveness as a major financial centre;



to promote proper conduct, integrity and high standards of professional competence on the part of PWM practitioners;



to provide a forum for members to discuss and exchange views on trends and challenges faced by the PWM industry and how to strategically position for these trends and challenges;



to provide industry representation and consultation in Hong Kong on PWM related matters; and



to provide a channel for the private wealth management industry to maintain ongoing dialogue with government officials, regulators, trade bodies and non-governmental organizations.

---

# About KPMG

KPMG China operates in 19 cities across China, with around 12,000 partners and staff in Beijing, Beijing Zhongguancun, Changsha, Chengdu, Chongqing, Foshan, Fuzhou, Guangzhou, Hangzhou, Nanjing, Qingdao, Shanghai, Shenyang, Shenzhen, Tianjin, Wuhan, Xiamen, Xi'an, Hong Kong SAR and Macau SAR. With a single management structure across all these offices, KPMG China can deploy experienced professionals efficiently, wherever our client is located.

KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. We operate in 154 countries and territories and have 200,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

In 1992, KPMG became the first international accounting network to be granted a joint venture licence in mainland China. KPMG China was also the first among the Big Four in mainland China to convert from a joint venture to a special general partnership, as of 1 August 2012. Additionally, the Hong Kong office can trace its origins to 1945. This early commitment to the China market, together with an unwavering focus on quality, has been the foundation for accumulated industry experience, and is reflected in the Chinese member firm's appointment by some of China's most prestigious companies.



---

# Contact us

## PWMA

---

### **Peter Stein**

Managing Director  
PWMA  
+852 2537 1661  
peter.stein@pwma.org.hk

## KPMG

---

### **Ayesha Lau**

Managing Partner  
Hong Kong  
KPMG China  
+852 2826 7165  
ayesha.lau@kpmg.com

### **Paul McSheaffrey**

Partner, Head of Banking & Capital Markets  
Hong Kong  
KPMG China  
+852 2978 8236  
paul.mcsheaffrey@kpmg.com

### **Vivian Chui**

Head of Securities & Asset Management  
Hong Kong  
KPMG China  
+852 2978 8128  
vivan.chui@kpmg.com

### **Bonn Liu**

Partner, Head of Financial Services  
Hong Kong  
KPMG China  
+852 2826 7241  
bonn.liu@kpmg.com

### **Darren Bowdern**

Partner, Head of Financial Services Tax  
Hong Kong  
KPMG China  
+852 2826 7166  
darren.bowdern@kpmg.com

### **James Harte**

Director, Global Strategy Group  
Hong Kong  
KPMG China  
+852 2140 2822  
james.harte@kpmg.com



## **Acknowledgments**

---

This report was written by Paul McSheaffrey, Darren Bowdern, James Harte, Kasheen Grewal and Chris Cattermole. Christine Feng and Natalie Yip provided support.





[kpmg.com/cn/socialmedia](https://kpmg.com/cn/socialmedia)



For a list of KPMG China offices, please scan the QR code or visit our website:  
<https://home.kpmg.com/cn/en/home/about/offices.html>.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2018 KPMG, a Hong Kong partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in Hong Kong.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

© Private Wealth Management Association

<http://pwma.org.hk/>

Publication date: September 2018