

FAMILY OFFICES

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Introduction

Family offices typically are entities which assume day-to-day management and administration of the assets and wealth of high net worth individuals or families.

There is a distinction between a Single Family Office and Multi-Family Office. The former consists of an entity serving the needs of a single high net worth family. The latter involves an entity providing asset management services to multiple high net worth families.

The reasons for having family offices vary, but generally they relate to managing the affairs of high net worth families to preserve (and increase) their wealth for their future generations and for succession planning. Capital preservation is one of the primary objectives, and the investment framework is generally geared towards deploying a large part of the assets under management in safe strategies.

If a high net-worth person sets up an office to manage his own monies and hires employees to do so, the activity does not require a licence as the person is essentially managing his own finances. However, if professional advisers enter into arrangements with wealthy individuals to manage their monies, it would amount to fund management business, and a person conducting such activity would need to hold a licence or be exempted from doing so.

Fund Management Companies (“FMC”)

A corporation which intends to conduct the regulated activity of fund management may operate as a Licensed FMC (“**LFMC**”) or without a licence, either as a Registered FMC (“**RFMC**”) or, if the assets it manages are limited to being held within the same corporate group structure as the FMC, with no third-party participation in beneficial ownership of the fund, as an FMC exempted from licence under the exemption for managing funds of a related corporation (the “**related corporation exemption**”).

The LFMC can be further sub-divided into the Retail LFMC (which permits the carrying on of the business of fund management with all types of investors) and A/I LFMC (which permits the carrying on of business of fund management with accredited/institutional investors only, without restriction on the number of investors). As family offices manage monies for high net worth persons only, we will not go into the details for the Retail LFMC requirements, which are geared towards licensing of persons who manage monies on behalf of retail investors.

An RFMC is allowed to carry on business in fund management for no more than 30 qualified investors (of which no more than 15 may be funds) AND provided the total value of the assets under management does

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not exceed S\$250 million. The leveraged deployed in managing the monies can be excluded while calculating the value of the assets under management.

Base Capital

A RFMC or an A/I LFMC is required to have a minimum of S\$250,000 in base capital. There should also be a sufficient buffer to ensure that the base capital does not fall below the minimum threshold.

Staffing

A RFMC and A/I LFMC is required to have at least 2 relevant professionals and 2 representatives residing in Singapore. Relevant professionals refer to persons who have at least 5 years of work experience in the regulated activity of fund management, depending on the type of funds that are to be managed.

Representatives are essentially front-office employees who may have less than 5 years of relevant work experience. The entity is also required to have at least 2 directors who have 5 years of experience. If there are 2 senior professionals with sufficient skills and experience, the same 2 persons can qualify as the relevant professionals, representatives and directors.

Physical Office

The RFMC or A/I LFMC is required to operate from a physical office in Singapore. If the company wants to use a serviced office in the initial phases, the office should be segregated from the offices of other users of the serviced office, and the information and documents of the RFMC or A/I LFMC should be kept in a secured manner.

Compliance and Risk Management

If the RFMC or the A/I LFMC can employ a dedicated compliance officer to take care of all compliance and anti-money laundering requirements, that is ideal. However, in the initial stages, if there is no full-time compliance officer, then the Chief Operations Officer or other senior employee who is independent of the front office can perform the functions of a compliance officer, and an external compliance consultant can be engaged to conduct regular checks and provide a report on the compliance issues at the FMC. An A/I LFMC that has assets under management of more than S\$1 billion is however expected to have an independent compliance officer and other suitably trained staff to perform back office functions.

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A RFMC and A/I LFMC is also required to have detailed compliance, risk and KYC Manuals in place to ensure that all policies and procedures are properly documented. These documents would need to be customised based on the business and operations of each FMC and the risks that are associated with certain trading strategies etc.

Audit function, custodian and administrator

The RFMC or A/I LFMC is required to appoint an external auditor who has sufficient experience in audit of FMCs. An internal audit function is also put in place to ensure that there are sufficient checks.

The custodian and administrator appointed for the assets under management should also be reputable entities.

Professional Indemnity Insurance

While it is not compulsory for RFMCs or A/I LFMCs to have professional indemnity insurance, many procure the same as a matter of good practice and comfort to their investors. A disclosure is required to be made to the investors on the professional indemnity insurance arrangements or absence of the same.

A family office should carefully consider its business and determine whether its business falls under the purview of fund management which would require either a Capital Markets Services (“CMS”) licence in fund management to be obtained or for it to be registered with the Monetary Authority of Singapore (“MAS”) as an RFMC, in which case the FMC will need to fulfil certain prescribed requirements, or if the FMC may be exempted from licence under the related corporation exemption.

Tax Incentives for Management of Funds

There are various schemes which a family office fund managed by a Singapore-based fund manager may avail itself of in order to obtain the benefit of Singapore income tax exemption on specified income from designated investments. These can be available if the fund manager is licensed or registered with MAS, and also for an FMC exempted from licence under the related corporation exemption, where the FMC’s activities are limited to managing solely group funds and the MAS is satisfied as to matters such as the level of staffing of the FMC.

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Section 13CA (Non-Resident Fund Exemption)

This scheme applies to funds that are located offshore but managed by a Singapore-based fund manager. Foreign investors in the offshore fund are exempt from Singapore income tax on income arising from the fund.

Singapore investors which hold more than a prescribed percentage in the fund will be liable to pay a financial penalty to the Inland Revenue Authority of Singapore (“**IRAS**”) as Section 13CA is not intended to allow Singapore tax residents to avoid Singapore tax.

Section 13R (Resident Corporate Fund Exemption)

There are also incentives similar to Section 13CA which are applicable to fund vehicles incorporated in Singapore. Specific approval from the MAS is required to enjoy incentives under this scheme.

Singapore investors which hold more than a prescribed percentage in the fund are still required to pay a financial penalty.

Section 13X (Enhanced Tier Fund Incentive Schemes)

This incentive covers both offshore and onshore funds. There is no restriction on the ownership of the funds by Singapore investors and no financial penalty is payable. Specific MAS approval is required to enjoy incentives under this scheme.

There are certain conditions relating to fund size, investment strategy, business spending etc. which have to be fulfilled before the incentives under Section 13X become applicable.

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