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Recent world events & the Family Office

The COVID-19 pandemic and present world tensions have forced many of us to take stock and re-evaluate our priorities. We have had more time to reflect on our relationships with family, friends and colleagues. It seems now that we have to also grapple more directly with not only those relationships but also health concerns, succession planning and wealth preservation. For those families with members across the globe, due to decreasing mobility from various restrictions (and impositions), new dynamics are introduced which the family office needs to help manage and address.

This publication considers the impact of COVID-19 and the areas of increased focus which we are observing for both principals, family members and their family offices.

ACQUISITION OF TAX RESIDENCE

International lockdowns, border closures and in some cases forced moves have found many individuals inadvertently acquiring tax residency in more than one jurisdiction resulting in potentially significant tax liabilities both personally and for their structures.

The Statutory Residence Test in the UK means that where the applicable number of days spent in the UK are breached, UK tax residency is automatic. Although the UK tax authorities consider “exceptional days” the reading of what constitutes an exceptional day is restricted and there is a maximum number of 60 days available in the very best case scenario.

Treaty protection may be available to some extent, however, our observation is, more significantly, there is a lost opportunity to plan. UK pre-arrival planning (and, conversely, exit planning) is crucial for principals, with a focus on succession, operating jurisdictions and structures.

GOVERNANCE & FAMILY OFFICE CONTINUITY PLANNING

Current global uncertainties have shone a light on business continuity. The torrent of uncertainty brought about by the pandemic was a warning that, to the extent possible, businesses should be prepared for anything and everything. For a family office its preparedness is borne from its structure of governance.

The governance and professionalism of a family office should be appropriate for the size and complexity of the family and their office. A strong and well documented governance structure written around the mission, vision and values of the family sets out the approach to risk, roles & responsibilities, philanthropy, internal controls, and the decision making infrastructure. A governance structure provides for the avoidance of disagreement and the path to dispute resolution should it be required. Well considered governance gives flexibility where pivots may be made whilst continually operating within the bounds of the family's shared ethos, established according to the core principles of the family. The pandemic has taught us to expect the unexpected. In establishing governance structures, a project management ethos may be employed to assess a wide range of scenarios, from the unavailability of a decision maker, to the event of a fast paced global market crash or an IT failure.

CYBER

In the early stages of the pandemic, IT departments across the globe were required to get businesses established in a brand new working format in a matter of days, potentially increasing the risk of cyber attack of what may have previously been a highly secure system.

Family offices are vulnerable to cyber attacks and cyber fraud, with criminals attuned to a the high levels of wealth managed, and the sensitivity of information to which employees have access. Changing working patterns can leave email accounts vulnerable and personnel impersonation possible with open doors for cyber criminals given increased email traffic, home distractions and limited conversational and physical interaction with colleagues.

For family offices, the ramifications are significant. Any data theft or interception of flow of funds (especially in investment transactions) can result in very material consequences. As well as the large transaction values at stake, stolen and encrypted files could be held for ransom.

IT security has never been more important. Family offices must ensure it is given due consideration and resource and that staff are well trained to avoid and deal with incidents. This is especially true for new staff, training is paramount to ensure there is no drop off in the level of security procedures taking place.

INVESTING

It is not news that impact investing is on the increase globally and family office investing is no exception. A family's philanthropic ventures and their approach to environmental, social and governance criteria has intensified in the midst of the global pandemic and current events in Europe. The focus of the younger generations on ESG in particular, plays increasingly into the family's investment strategy and diversification of risk. A clear line of communication around investment strategy should be maintained.

With greater time available to assess their existing portfolio and their long term objectives, we have observed an increase in self-management of assets by family members and their office staff. Crucial to this endeavour is receipt of impartial information, full knowledge of the costs and true performance and risk metrics, with the ability to fairly compare portfolios across brokers. With boundaries shifting too on responsible investing, for those with set ESG criteria and an actively engaged family, current events are driving a need for more agile investment and divestment decisions.

FAMILY SUCCESSION & PLANNING

It may be obvious that certain families can be well rewarded by considering the passing of assets to future generations in the way they desire, with a clearly established will, trust structures and letter of wishes, individuals can be comforted in the knowledge that the family wealth will transition as intended. We have observed clients who have considered making a settlement on to trust for, in some cases, many years now taking action.

Taxation and forced heirship rules will clearly be key players in establishing the structures through which wealth passes, but preparations for the administration events and future of the family office following the passing of the principal are often overlooked.

The family office and its advisers will have been established around the principal but these professionals need to work for and with the next generation. The next generation may be in receipt of significant wealth and responsibility but can be under equipped to manage such change unless educated in advance.

Preparations may include the formal or informal education of the next generation via involvement in family business decision making, philanthropic endeavours and formal fiduciary roles with consequent responsibilities. The focus should also be on the next generation's roles and responsibilities within the

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succession structure. Albeit experienced professionals, family office employees and advisers should be prepared for the change in their roles and their principals as well as the shift in focus of those new principals into new areas. Development of relationships between employees, professionals and family members early is likely to be beneficial to all parties.

CONCLUDING THOUGHTS

With events as fluid as they are, and the pace of change for everyone accelerating, versatility, flexibility and agility are key attributes in successfully navigating the family through present and future challenges. Whilst a family's core values will not likely alter dramatically, the structures (and sometimes personnel) need to be reviewed regularly to ensure that they are delivering on those core values, successfully achieving succession objectives and preserving family wealth and harmony.

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