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Hong Kong has Prospects for Developing as a Global Hub for Family Offices

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With the continuous increase of high-net-worth individuals, family office businesses have become an important part of private wealth management. In recent years, family offices in Asia have entered a high-growth stage. The growth of family offices and private trust businesses in Hong Kong has been remarkable, with a 76% increase in assets under management (AUM) over the past 6 years. As a highly developed international financial centre, Hong Kong has unique geographical advantages, free capital flow, international laws and regulations, and a business-friendly environment, making it an ideal location for high-net-worth individuals to establish family offices. With the support of comprehensive government policies, the prospects for family offices and wealth management in Hong Kong are promising.

I. Current status and features of family offices

Family offices aim to assist ultra-high-net-worth families in achieving long-term wealth management, growth, and intergenerational wealth transfer. Their services encompass asset allocation, portfolio management, and risk management. They also assist family affairs such as tax planning, estate succession, family trusts, family education, and charitable donations. Family offices usually are composed of experts from various fields, including finance, taxation, and law. They provide comprehensive and customized services for the overall management of family wealth and affairs, ensuring its preservation, growth, and succession.

There are two main types of family offices, single-family offices and multi-family offices. Single-family offices exclusively serve a single family and provide customized services. The high-net-worth family in control enjoys comprehensive tailored services. According to the regulations of the U.S. Securities and Exchange Commission (SEC), a single-family office requires a minimum investment threshold of US\$100 million. Multi-family offices, on the other hand, serve multiple families, and the SEC specifies that the combined assets under management should be above US\$20 million. Multi-family offices lower the entry barriers and operational costs through shared service platforms and professional teams. Additionally, interaction and communication among families from different industries facilitate resource sharing and increase investment opportunities. However, multi-family offices may lose some functionality in terms of customization, privacy protection, and control.

Family offices emerged in Europe in the 19th century and experienced rapid development in the United States in the 1980s. The rapid growth of family wealth has contributed to the rapid development of family offices. The influence of family offices continuously expanding. According to estimates from The Economist, EY, and Campden Research, there were approximately 7,000 to 10,000 family offices globally in 2019, managing around US\$5.9 trillion in assets, making them significant participants in the global financial market. The United States has the highest number of family offices, with

approximately 6,000 to 7,300 family offices in 2019, according to the Family Office Exchange. The development of family offices in the Asia-Pacific region started relatively late but is currently in a rapid growth stage.

Family offices have four advantages. First, they provide comprehensive planning for family wealth and increase investment opportunities. Family offices can centralize and optimize the management of family wealth through collaboration and coordination among teams of experts from various fields, after fully considering factors such as risk, investment returns, taxation, and legal aspects. Family offices have a wide range of investment options and can match appropriate investment products from various financial institutions such as banks, insurance companies, funds, securities, and trusts. They can also engage in real estate, venture capital, equity investments, and other alternative investments. Second, they offer customized services to maximize the value of family wealth. Unlike traditional sales-oriented services, family offices can fully integrate internal and external resources, taking the family's specific needs and goals into account. They establish effective investment evaluation mechanisms and provide comprehensive and customized services, ensuring long-term management, growth, and intergenerational wealth transfer. Third, they provide global tax services. Family offices can engage in cross-border tax planning to achieve more effective tax planning for family business income, personal income tax, property-related taxes, and other tax matters. Fourth, they meet the privacy requirements of high-net-worth families. High-net-worth families generally prefer not to disclose detailed internal information publicly, and family offices can avoid unnecessary information disclosure.

II. Hong Kong's advantages and opportunities for developing family office businesses

Family offices and private trust services in Hong Kong have experienced remarkable growth in recent years. Despite facing various challenges, the overall assets under management in Hong Kong's asset and wealth management industry have maintained steady growth. According to the Securities and Futures Commission (SFC) of Hong Kong, the total assets under management in Hong Kong's asset and wealth management industry exceeded HK\$31 trillion in 2023, representing a growth of 2.1%. This growth was mainly driven by private banking and private wealth management businesses, which saw a three-fold increase in net fund inflows compared to the previous year. Within the private banking and private wealth management sector, the assets under management from family offices and private trust clients reached HK\$1.45 trillion in 2023, a 76% increase from HK\$825 billion in 2017. This growth rate was significantly higher than the overall growth rate of 29% in the asset and wealth management industry. According to the BCG Global Wealth Report 2023, Hong Kong is the largest cross-border wealth management centre in Asia, with a cross-border private wealth management scale of US\$2.2 trillion in 2022, ranking second globally after Switzerland. It is projected that Hong Kong's wealth management scale will continue to grow at a compound annual growth rate of 7.6% over the next five years, surpassing Switzerland by 2027 to become the world's top cross-border wealth management centre.

Hong Kong has advantages that make it an ideal location for high-net-worth individuals to establish family offices. Hong Kong is an international financial centre with highly developed financial markets, offering unrestricted capital flow, a simple and low tax regime, international laws and regulations, and a business-friendly environment. Hong Kong is home to the largest number of ultra-high-net-worth individuals globally. According to the Altrata World Ultra Wealth Report 2023, Hong Kong has 12,615 ultra-high-net-worth individuals (with a net worth of over US\$30 million), which is 6.5% higher than the second-ranked city, New York. With the continuous increase in high-net-worth individuals, family office services have become an important part of the private wealth management industry. According to Deloitte's Market Study on the Family Office Landscape in Hong Kong, as of the end of 2023, Hong Kong had approximately 2,700 single-family offices (with assets under management of US\$10 million or more), nearly twice as many as Singapore. Over half of these family offices have assets under management exceeding US\$50 million. If the asset threshold is set at US\$100 million, as defined by the U.S. SEC, there are nearly 900 family offices in Hong Kong.

Hong Kong has the unique geographical advantage of being "backed by the mainland and influencing across the Asia-Pacific region". Hong Kong has prospects for growth in wealth management and family offices. China's economy has shown resilience in recent years, and it remains one of the fastest-growing economies. According to the China Private Wealth Report 2023, the assets and number of high-net-worth families in China had an average annual growth rate of 10% from 2020 to 2022. The number of high-net-worth individuals with investable assets above CNY 10 million reached 3.16 million, an increase of 540,000 compared to 2020. It is projected that the number of high-net-worth individuals in China and their investable assets will continue to grow rapidly at a double-digit rate in the coming years. Hong Kong, with its unique advantages, can meet the diverse needs of high-net-worth individuals, such as wealth succession, education for children, identity planning, and medical services. According to Invest Hong Kong, more than 60% of family offices already established or preparing to set up in Hong Kong are from mainland China. It is expected that Hong Kong will continue to benefit from the rapid wealth growth in mainland China. The KPMG Hong Kong Private Wealth Management Report 2023 predicts that mainland China's contribution to the total assets under management in Hong Kong's private wealth management industry will increase from 36% in 2023 to 46% in 2028.

The entry requirements for establishing a family office in Hong Kong are more competitive. The asset threshold for setting up a single-family office in Hong Kong is US\$10 million, which is much lower than the US\$100 million threshold in the United States. Additionally, Hong Kong enjoys favourable tax treatment, and the threshold for tax-exempt management assets is HK\$240 million, lower than other international financial centres such as Singapore and Dubai. The United States and the United Kingdom do not have specific tax incentives for setting up family offices. Furthermore, setting up a family office in Hong Kong does not require reporting the asset size and operational expenses to the government, nor are there any local investment requirements or substance requirements, making Hong Kong quite competitive.

Table: Family office setting up requirements

	Hong Kong	Singapore (13U)	Dubai
Advance approval	not required	required	required
AUM for tax concessions	HK\$240 million	S\$50 million (around HK\$280 million)	US\$50 million (around HK\$390 million)
Local investment requirement	not required	10% AUM or S\$10 million, whichever is the lower	not required
Substantial activities requirement	At least 2 qualified full-time employees and HK\$2 million annual operating expenditure	At least 3 investment professionals; S\$500,000 (around HK\$2.8 million) or S\$1 million (around HK\$5.6 million) annual business spending subject to AUM	The local registration office needs to confirm that the family has a substantial presence, and has designated a corporate service provider as the registered agent for the family

Sources: Hong Kong Legislative Council, Singapore's Income Tax Act, DIFC, BOCHK Financial Research Institute

III. The government has implemented multiple initiatives to support the development of family offices in Hong Kong

Promoting the development of family offices has become one of the key focuses of the Hong Kong government in recent years. As early as the 2020 Policy Address, the Hong Kong government mentioned that family offices are an important growth area in the wealth and asset management sector, and the government will introduce further measures to promote their development. The 2022 Policy Address proposed providing tax exemptions for qualified family offices and setting a target of establishing or expanding the operations of at least 200 family offices in Hong Kong between 2022 and 2025. In March 2023, the government released the Policy Statement on Developing Family Office Businesses in Hong Kong (referred to as the Policy Statement), which introduced a series of policy measures. Currently, Hong Kong's policies and measures regarding family offices are mainly reflected in the following aspects.

Establishment of the FamilyOfficeHK team. In June 2021, Invest Hong Kong established the FamilyOfficeHK team, to facilitate the establishment and expansion of global family offices in Hong Kong. In the 2023-24 Budget, the government announced a provision of HK\$100 million over the next three years to Invest Hong Kong to attract more family offices to Hong Kong. The Policy Statement further proposed expanding the role of the FamilyOfficeHK team at Invest Hong Kong to assist in promoting philanthropic activities and meeting the educational needs of families, thereby enhancing the provision of one-stop and tailor-made services. In 2023, the team organized over 150 investment promotion activities of various formats worldwide, effectively accelerating the development of family offices in Hong Kong. As of March 2024, the team has assisted 64 family offices in establishing or expanding business in Hong Kong, and a total of 136 family offices are underway or decisions made to establish in Hong Kong.

Introduction of highly competitive tax concessions. According to the Inland Revenue (Amendment) (Tax Concessions for Family Investment Vehicles) Ordinance 2023 that took effect on May 19, 2023, family investment vehicles managed by

qualified single-family offices and meeting the minimum asset threshold of HK\$240 million and substantial activity requirements are exempted from paying profits tax on qualifying transactions. The asset management scale threshold under the tax concession measures for Hong Kong family offices is lower than that of Singapore's HK\$280 million and the United Arab Emirates' HK\$390 million (Table). After the tax incentives took effect, the FamilyOfficeHK team assisted 38 family offices in coming to Hong Kong, accounting for 60% of the total. Going forward, the Government will review the existing preferential tax regime for funds and carried interest, including examining the scope of application of the tax exemption regime and increasing the types of qualifying transactions to create a more favourable tax environment.

Resuming the investment immigration program to attract high-net-worth families to Hong Kong. The New Capital Investment Entrant Scheme was launched on March 1, 2024. Applicants are required to invest a minimum of HK\$30 million (or equivalent in foreign currencies) in permissible investment assets, of which at least HK\$27 million must be invested in permissible local financial assets. This aims to attract high-net-worth individuals to allocate and manage wealth in Hong Kong and explore diverse local investment opportunities. The threshold of the new investment immigration program has significantly increased from HK\$10 million before 2015, further enriching the talent pool and attracting ultra-high-net-worth families to settle and conduct business in Hong Kong. Since the launch of the new program, Hong Kong has received over 340 applications, of which 117 have been approved.

Providing market facilitation measures for family offices. Hong Kong SFC has issued a simplified reference guide for the licensing requirements of family offices, clarifying the requirements for license applications in practical operations. It reiterates that if a single-family office does not engage in regulated activities in Hong Kong, it does not need to apply for any licenses under the SFC. Meanwhile, the SFC stated that it will closely cooperate with the wealth management industry to simplify the suitability assessment and disclosure processes for intermediaries serving high-net-worth clients, based on a risk-based approach that ensures appropriate investor protection. Soon, the government plans to introduce more market facilitation measures, including streamlining the assessment procedures for high-end professional investors and enhancing flexibility in handling incidental transactions.

Multiple policy measures from different sectors to promote the development of family offices. The Policy Statement introduces multiple policy measures in areas such as talent, art industry, charity, and promotional channels to facilitate the business development of family offices in Hong Kong. These measures include establishing the Hong Kong Academy for Wealth Legacy to enrich the pool of relevant professionals and provide talent training; promoting art storage facilities to support the art auction and trading industry; expanding the extent of beneficial interest that an exempted charity may hold in family-owned investment holding vehicles; enhancing promotional channels through collaboration with chambers of commerce, professional associations, and industry organizations.

IV. Continuously increase Hong Kong's competitive advantages as a global family office hub

Accelerating the implementation of cross-border wealth management measures in Qianhai. The Qianhai's 30 Financial Support Measures allow private banks and family wealth management institutions to establish specialized institutions in the Qianhai Co-operation Zone. In the future, with the implementation of relevant detailed measures, Hong Kong's family offices can leverage the financial connectivity platforms between the two regions to engage in cross-border wealth management businesses, better serving and expanding their presence among high-net-worth clients in mainland China.

Regularized forums and related activities to expand influence. The "Wealth for Good in Hong Kong Summit" has been successfully held twice, showing the advantages and potential of Hong Kong as a hub for family offices. In the future, the summit can be regularized, and forums or promotional activities can be jointly organized with major source regions of family offices in Hong Kong, such as mainland China, Europe, and the Middle East, to expand the global influence of Hong Kong's wealth management.

Expansion of FamilyOfficeHK team's overseas offices network. Currently, the FamilyOfficeHK team has established offices in Beijing, Brussels, Dubai, and Singapore. In the future, additional offices can be set up in other potential source regions for Hong Kong to expand the promotional network and establish close connections with relevant institutions and individuals locally.

Overall, as a highly developed international financial centre, Hong Kong possesses extensive potential and unique advantages to become a global hub for family offices. In recent years, the Hong Kong government has implemented multiple measures to facilitate and support the establishment of family offices in Hong Kong. In the future, Hong Kong is expected to accelerate its development as a global family office hub, consolidating and enhancing its position as a global wealth management centre.

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主要經濟指標 (Key Economic Indicators)

一. 本地生產總值 GDP	2021	2022	2023	2024/Q1
總量 (億元) GDP(\$100 Million)	28,680	28,090	29,816	7,697
升幅 (%) Change(%)	6.5	-3.7	3.3	2.7
二. 對外貿易 External Trade			2024/1-5	2024/5
外貿總值 (億元) Total trade(\$100 Million)				
總出口 Total exports	52,360	48,138	18,119	3,759
進口 Total imports	52,113	48,586	19,173	3,881
貿易差額 Trade balance	247	-448	-1,054	-121
年增長率 (%) YOY Growth(%)				
總出口 Total exports	18.7	-13.9	12.5	14.8
進口 Imports	17.2	-13.2	7.4	9.6
三. 消費物價 Consumer Price				
綜合消費物價升幅 (%) Change in Composite CPI(%)	1.6	1.9	1.6	1.2
四. 樓宇買賣 Sale & Purchase of Building Units				
合約宗數 (宗) No. of agreements	96,133	59,619	22,483	9,880
年升幅 (%) Change(%)	31.1	-38.0	-9.2	71.7
五. 勞動就業 Employment			2024/2-2024/4	2024/3-2024/5
失業人數 (萬人) Unemployed(ten thousands)	20.3	16.3	11.4	11.6
失業率 (%) Unemployment rate(%)	5.2	4.3	3.0	3.0
就業不足率 (%) Underemployment rate(%)	2.6	2.3	1.1	1.2
六. 零售市場 Retail Market			2024/1-5	2024/5
零售額升幅 (%) Change in value of total sales(%)	8.1	-0.9	-6.0	-11.5
零售量升幅 (%) Change in volume of total sales(%)	6.5	-3.4	-7.7	-12.9
七. 訪港遊客 Visitors				
總人數 (萬人次) arrivals (ten thousands)	9.1	60.5	1,801.9	339.8
年升幅 (%) Change(%)	-97.4	561.5	77.8	20.2
八. 金融市場 Financial Market			2024/4	2024/5
港幣匯價 (US\$100=HK\$)				
H.K. Dollar Exchange Rate (US\$100 = HK\$)	779.8	780.8	782.4	781.9
貨幣供應量升幅 (%) change in Money Supply(%)				
M1	8.0	-20.7	-3.0	-1.9
M2	4.3	1.6	5.5	7.8
M3	4.3	1.6	5.6	7.8
存款升幅 (%) Change in deposits(%)				
總存款 Total deposits	4.6	1.7	2.2	1.1
港元存款 In HK\$	1.4	0.7	0.5	0.3
外幣存款 In foreign currency	7.9	2.6	3.7	1.8
放款升幅 (%) in loans & advances(%)				
總放款 Total loans & advances	3.8	-3.0	-1.0	-0.4
當地放款 use in HK	4.7	-0.2	-0.6	-0.3
海外放款 use outside HK	1.7	-10.0	-2.3	-0.7
最優惠貸款利率 (%) Best lending rate (%)	5.0000	5.6250	5.8750	5.8750
恒生指數 Hang Seng index	23,398	19,781	17,763	18,080