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香港信託人公會
Hong Kong Trustees' Association

Hong Kong Trust Industry Spotlight:

Taking centre stage

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Contents

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Head of Securities & Asset Management, Hong Kong, KPMG China

Foreword (KPMG China)

KPMG China, together with the Hong Kong Trustees' Association (HKTA), is pleased to present the third edition of the Hong Kong Trust Industry Report, following on from our last publication in 2017.

The report aims to provide insights into the Hong Kong trust market, discuss the current landscape and explore how the industry might look in the future. It also aims to provide some recommendations to drive the industry forward and increase Hong Kong's attractiveness and competitiveness as a trust centre.

The trust industry remains a crucial part of Hong Kong's financial services sector. There have been numerous changes to Hong Kong's trust industry and broader financial services sector since the issuance of the previous report, driven by developments such as the introduction of a licensing regime for trust or company service providers (TCSPs), initiatives to attract family offices to Hong Kong, and the launch of the Limited Partnership Fund and Open-ended Fund Company regimes.

The implementation of the eMPF platform, the Securities and Futures Commission's proposed new licensing regime for depositaries of collective investment schemes, as well as the Hong Kong Monetary Authority's proposed Code of Practice for Trust Business are also on the horizon, signalling a period of ongoing change in the near future.

The report also identifies – through a survey of HKTA member institutions and in-depth interviews with senior industry executives – a number of growth opportunities for the trust industry in Hong Kong, such as the development of the Greater Bay Area (GBA), the rise of private wealth in the region, and benefits arising from increasing investment and focus on technology and innovation.

We would like to thank all of the survey respondents for taking the time to provide their input, and the senior industry executives – including numerous government bodies and regulators – who kindly agreed to be interviewed and shared their valuable insights on the industry.

Jacqueline Shek
Chairperson, HKTA

Foreword (HKTA)

The Hong Kong Trustees' Association is pleased to have joined with KPMG China again to present the 3rd edition of the Hong Kong Trust Industry Report. The Report provides an overview of Hong Kong's diverse trust market. Based on surveys and interviews, the Report includes taking key snapshots of the trust industry's characteristics, wide range of participants, latest developments, challenges and issues, and offers insights into the trends and developments in the coming years.

As this Report goes to print, the world has been living with Covid-19 for almost 18 months. Lockdown measures have pushed our "prudent trustees" to embrace technological solutions to the extent that would have been beyond the imagination 3 years ago. Paradoxically, the global pandemic has created growth opportunities for the trust industry; trustees in the private wealth sector are seeing High Net Wealth clients giving more focus to their wealth and succession plans, whilst trustees in both the institutional and private sectors have witnessed the heightened interest in Environmental, Social and Governance investment opportunities.

This Report canvases the key developments specifically for the trust industry in Hong Kong over the years since the last Report was published in 2017. Looking back, Hong Kong introduced a completely new Registry for Trust and Company Service Providers in 2018. The HKTA has launched an Accreditation Program that holistically raises industry standards and develops talents in the trust sector. To date, 400 people have partaken in our Trust Training Certificate Course and 60 industry professionals have been awarded the CTP (Certified Trust Practitioner) designation. Trustees in the pension and funds industry are witnessing significant development in the MPF/ORSO regime (with eMPF being the landmark initiative) and regulatory reforms in the funds space which have helped to further promote Hong Kong's attractiveness as a fund domicile. Looking forward, the push for Hong Kong as an Asset and Wealth Management centre and as a Family Office Hub, along with opportunities in the Greater Bay Area, and in China at large, will continue to be key drivers for growth.

HKTA's active participation in various initiatives reinforces our position as an important representative body that deals with the government, the regulators and the international community to steer the direction of the trust industry. Our collaboration with KPMG on this Report reflects our continued commitment to facilitate the growth and development of the trust and fiduciary services industry.

I would like to express our sincere appreciation for the excellent team of professionals at KPMG for the dedication in putting this Report together. Thank you also goes to the many groups and individuals who have contributed to this Report – to the HKSAR Government and regulators, to the Executive Committee of the HKTA, to our members, industry practitioners and professional bodies for providing useful information to the survey and for sharing their insights in interviews with the KPMG team.

We hope that you will find this Report interesting and useful in understanding how the diverse trust industry in Hong Kong has been evolving and developing, and that you will continue to support us in promoting this important sector of the Hong Kong economy. The trust and fiduciary services industry is entering an increasingly complex phase with dynamic market opportunities and new regulatory developments. By facing it with vigour and commitment to professionalism and excellence, we can strengthen Hong Kong's role as a modern trust jurisdiction and make a much bigger contribution the city's position as a major financial and trust centre.

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Ben Lumley-Smith	Head of Corporate Trust Services, Computershare Asia
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Michael Shue	Managing Director – Trust Services, Tricor Services Limited
Kitty Tsui	Registrar of Companies
Prairie Wong	Associate Director, Investment Products, Securities and Futures Commission
Pamela Yuen	Consultant, Overseas Custody Services Center, China Merchants Bank

Note: All titles as at the date of interviews, which were conducted from November 2020 to January 2021.

Glossary

AEOI	Automatic Exchange of Financial Account Information
AML	Anti-Money Laundering
AMLO	Anti-Money Laundering and Counter-Terrorist Financing Ordinance
API	Application Programming Interface
AUM	Assets Under Management
CIS	Collective investment schemes
CR	Companies Registry
CRS	Common Reporting Standard
CTF	Counter-Terrorist Financing
CTP	Certified Trust Practitioner
DIS	Default Investment Strategy
DNFBP	Designated non-financial businesses and professions
ESG	Environmental, social and governance
ETF	Exchange-Traded Fund
FATF	Financial Action Task Force
FSDC	Financial Services Development Council
FSTB	Financial Services and the Treasury Bureau
GBA	Greater Bay Area
HKEX	Hong Kong Stock Exchange
HKSI Institute	Hong Kong Securities and Investment Institute
HKTA	Hong Kong Trustees' Association
HKTO	Hong Kong Trustee Ordinance
HNWI	High-net-worth individual
IA	Insurance Authority
IRD	Inland Revenue Department
LPF	Limited Partnership Fund
MPF	Mandatory Provident Fund
MPFA	Mandatory Provident Fund Schemes Authority
MPFSO	Mandatory Provident Fund Schemes Ordinance
MRF	Mutual Recognition of Funds
NAV	Net Asset Value
OFC	Open-ended Fund Company
ORSO	Occupational Retirement Schemes Ordinance
PBOC	People's Bank of China
PIC	Personal investment company
PRF	Pooled Retirement Fund
RA 13	Type 13 regulated activity
Regtech	Regulatory technology
REIT	Real Estate Investment Trust
SFC	Securities and Futures Commission of Hong Kong
SFO	Securities and Futures Ordinance
STEP	Society of Trust and Estate Practitioners
TCSP	Trust or Company Service Provider
TTC	Trust Training Certificate
TVC	Tax deductible voluntary contributions
UT Code	Code on Unit Trusts and Mutual Funds
VCC	Variable Capital Companies

Executive Summary

Amid a challenging environment brought about by Covid-19, and geopolitical and macroeconomic uncertainty, Hong Kong's trust industry has remained resilient. Assets under management continue to increase, and there are a number of significant growth opportunities which, if capitalised on, will paint a bright picture for the future of the industry.

This report, jointly authored by the HKTA and KPMG China, aims to provide insights into the Hong Kong trust market, and discuss the current landscape and opportunities for growth. It also aims to provide some recommendations to drive the industry forward and increase Hong Kong's attractiveness and competitiveness as a trust centre. As the only full-fledged Hong Kong trust industry report to date, this report follows on from the previous editions issued in 2013 and 2017.

The report is largely based on an online survey of HKTA member institutions as well as interviews with more than 30 senior industry executives and regulatory officials. The survey was conducted from October to November 2020, and interviews were held from November 2020 to January 2021.

Survey and interview insights show that the mainland China market remains a key growth driver for the trust industry in Hong Kong, with the continued opening up of mainland China's financial services sector, the ongoing development of the GBA and the rise of private wealth in the region presenting significant opportunities.

A number of recent and ongoing developments in Hong Kong – such as the launch of a licensing regime for TCSPs, initiatives to attract family offices to set up in Hong Kong, and the pending implementation of the eMPF platform continue to change the landscape of the city's trust industry. Furthermore, the introduction of the Limited Partnership Fund regime and the launch of and amendments to the Open-ended Fund Company regime have helped to promote Hong Kong's attractiveness as a fund domicile. With trusts and their ancillary services being key to supporting the asset and wealth management sector, these developments will also bring benefits to Hong Kong's trust industry.

In addition, the report finds that the accelerating digitalisation of the industry presents a significant opportunity for the trust industry to innovate and invest in technology not only to enhance regulatory reporting and compliance, but also to engage more effectively with clients and provide an improved customer experience.

The growing awareness and importance of environmental, social and governance (ESG) issues further presents an opportunity for the trust industry to play a more prominent role in exercising its fiduciary duty to enhance corporate governance and push clients to integrate ESG factors into their overall strategy.

Despite regulatory reforms and the strong growth prospects for the industry, a number of challenges remain, such as a fragmented regulatory regime for trustees, the need for greater tax clarity, and increasing compliance costs.

The ability of all industry stakeholders to work together to address these challenges will help to encourage the industry's growth and promote the attractiveness and credibility of Hong Kong as a trust centre. Furthermore, the ability of trust companies to continue to embrace technology and digitalisation, prioritise innovation, upskill their workforce, transform and future-proof their business models will be critical to the successful growth of the industry.

Key findings

Hong Kong as a trust centre continues to be an attractive proposition. 44% say that the proportion of asset value held by Hong Kong law trusts compared to offshore trusts has increased over the past three years. Only 9% say that the proportion has decreased.

88% say the mainland China market remains a key growth driver for the trust industry in Hong Kong.

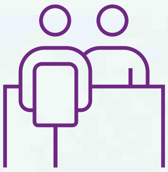
54% have a strategic plan for the GBA, while another 23% plan to formulate a strategy in the next 12 months.

Recent developments in Hong Kong aimed at further raising the bar for the trust industry have been well received.

60%

view the introduction of the TCSP licensing regime as having had a positive impact, compared to only 7% claiming that it has had a negative impact.

55%



say that the HKTA's Certified Trust Practitioner Accreditation Program, launched in July 2018, has had a positive impact on their organisation's ability to find, hire and nurture the right talent and skills.

71% agree that their organisation's technology/digital offering is able to meet customer expectations.

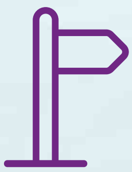
61% agree that sustainability and ESG are increasingly important to clients, while only 16% disagree.

A fragmented regulatory regime for trustees, increasing compliance costs, talent shortages, and the need for greater regulatory and tax clarity remain key historical challenges for the trust industry.

85% say that their compliance costs have increased in the last 12 months.

The overall outlook for Hong Kong's trust industry remains positive.

61% believe that the outlook of Hong Kong as a trust centre remains promising in the short to medium term, while only 5% disagree.



Current state of the Hong Kong trust industry

Hong Kong's trust industry is intricate and diverse, providing an array of services to local and international clients that range from retail products and wealth and estate planning, to fund and pension administration and sophisticated trust structures (Figure 1). The trust industry also encompasses a variety of market players and regulators from different segments of the financial services sector.

In addition, Hong Kong stands as a renowned international centre for trust-related businesses such as legal, tax, accounting and professional services. Users of trust services range from high-net-worth individuals (HNWIs) and wealthy families, to corporates, pension scheme providers and charities.

Significant steps were taken in 2013 to amend and modernise the Hong Kong Trustee Ordinance (HKTO) – which was introduced in 1928 – to boost the city's standing as a trust jurisdiction. The 2013 amendments have helped to generate interest in Hong Kong trusts, while also prompting industry discussion around the next steps to be taken to further enhance Hong Kong's competitiveness and attractiveness as a trust centre.

Figure 1: The Hong Kong trust industry

- Corporate trusts, pension schemes, private trusts and charitable trusts
- Custodians, fund and pension administration, professional trustees, wealth management, wealth and estate planning, family office services
- Retail and universal banks, independent trust companies, insurers, private banks, legal, tax, accounting and professional service providers, company service providers

- Trusts formed under Hong Kong law
- Trust service providers based in Hong Kong
- Offshore trusts set up by Hong Kong service providers
- Offshore trusts managed or administered in Hong Kong

Current regulatory regime for the Hong Kong trust industry

A number of regulators have jurisdiction over the portfolio of products and services being offered and managed in the Hong Kong market. The regulators and the areas they cover are:

Mandatory Provident Fund Schemes Authority (MPFA)	Regulates and supervises the operations of mandatory provident funds (MPF) and occupational retirement schemes (ORSO) in accordance with the Mandatory Provident Fund Schemes Ordinance (MPFSO). It registers provident fund schemes, approves trustees of registered schemes, regulates the affairs and activities of approved trustees and formulates relevant rules or guidelines.
Securities and Futures Commission of Hong Kong (SFC)	Regulates the securities and futures markets in accordance with the Securities and Futures Ordinance (SFO) and subsidiary legislation. Its responsibilities include setting and enforcing market regulations, licensing and supervising intermediaries seeking to conduct regulated activities for which the SFC has regulatory responsibility, supervising market operators, authorising investment products and/or offering documents prior to their distribution.
Hong Kong Monetary Authority (HKMA)	Regulates financial institutions (including banks, deposit-taking companies and money lenders) and aims to keep the Hong Kong dollar stable through the management of the Exchange Fund and monetary policy operations in accordance with the Exchange Fund Ordinance and the Banking Ordinance.
Insurance Authority (IA)	The IA came into operation on 26 June 2017, replacing the Office of the Commissioner of Insurance (OCI). The IA oversees insurance companies and on 23 September 2019, took over the regulation of insurance intermediaries from the three Self-Regulatory Organisations: Insurance Agents Registration Board established under The Hong Kong Federation of Insurers, The Hong Kong Confederation of Insurance Brokers and Professional Insurance Brokers Association.
Companies Registry (CR)	The CR administers and enforces most parts of the Companies Ordinance. It registers local and non-Hong Kong companies and statutory returns, and provides the public with services and facilities for inspecting and obtaining company information kept in the Companies Register. Since 1 March 2018, the CR has taken up a new role as the licensing authority for TCSPs.

Size of the Hong Kong trust market

The trust industry in Hong Kong continues to grow. According to the SFC's latest Asset and Wealth Management Activities Survey, assets held under trusts in Hong Kong amounted to HK$3,844 billion (US$494 billion) as at the end of 2019, up 11% from a year earlier.[1]

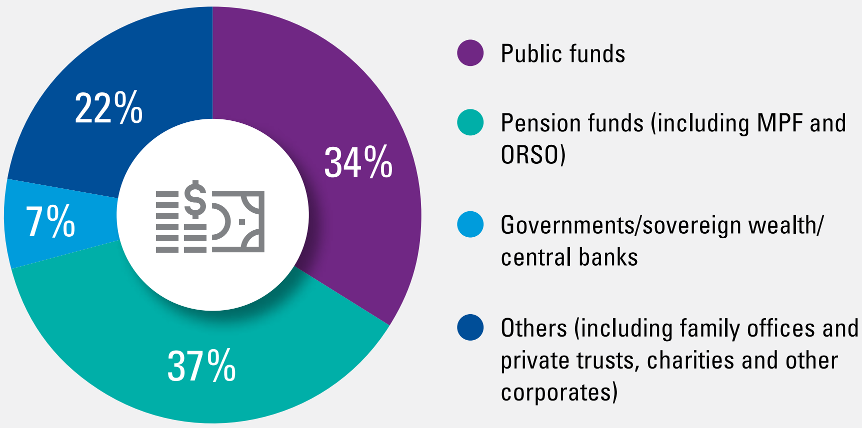
Of this total, in terms of the geographical distribution of investments, 48% was located in mainland China and Hong Kong. Hong Kong investors represented a large source of funding for assets held under trusts, accounting for 79% of assets under management (AUM).

Public funds and pension funds such as MPF and ORSO schemes accounted for 71% of the assets held under trusts (Figure 2). Assets held under trusts by pension funds increased by 19% from 2018 to 2019, while those held by others like family offices and private trusts, charities and other corporates increased by 31% year-on-year (Figure 3).

The SFC's Asset and Wealth Management Activities Survey also shows that the AUM of private banking and private wealth management business increased significantly by 19% year-on-year to HK$9.1 trillion in 2019, indicating strong signs of market growth and demand for private and charitable trusts.

In addition, as at the end of 2020, the number of Hong Kong-domiciled SFC-authorized funds increased by 6.2% year-on-year to 810, and their net asset value (NAV) increased by 17.8% year-on-year to US$184 billion.[2] Exchange-Traded Funds (ETFs) remain a popular product in the corporate trust space. According to the Hong Kong Stock Exchange (HKEX), the market capitalisation of ETFs and Leveraged & Inverse Products at the end of December 2020 was HK$393 billion.[3]

Figure 2: Assets held under trusts, by client type



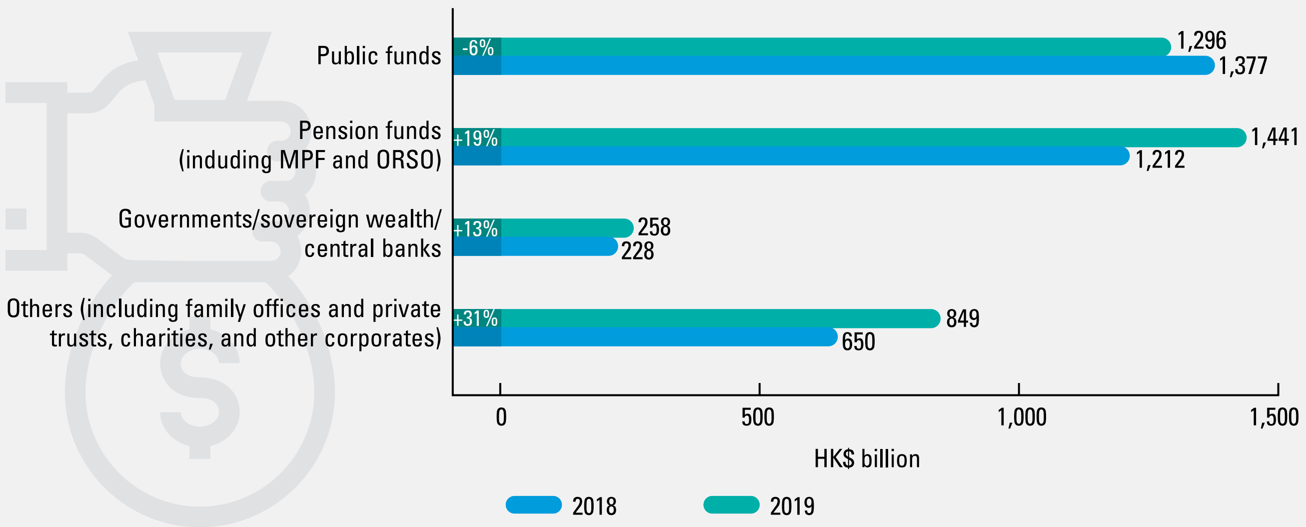
Source: SFC Asset and Wealth Management Activities Survey 2019

[1] 'Asset and Wealth Management Activities Survey 2019', SFC, August 2020, https://www.sfc.hk/web/files/ER/Reports/AWMAS_2019_EN.pdf

[2] 'Quarterly Report (October-December 2020)', SFC, https://sfc.hk/-/media/EN/files/ER/Reports/QR/202010-12/0-SFC-Quarterly-Report-OctoberDecember-2020E.pdf

[3] 'ETF Perspective', Hong Kong Stock Exchange, December 2020, https://www.hkex.com.hk/-/media/HKEX-Market/Products/Securities/ETP/ETF-and-L-and-I-Product-Market-Perspective/2020/ETFLIProductMarketPerspective_202012_en.pdf

Figure 3: Assets held under trusts (HK$), by client type (year-on-year)

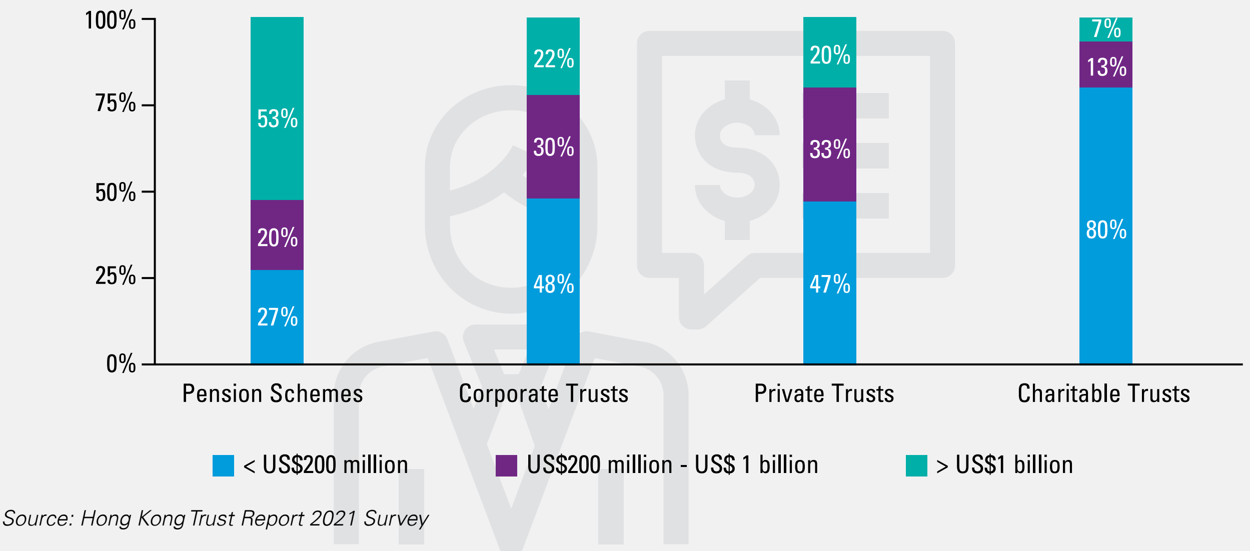


Source: SFC Asset and Wealth Management Activities Survey 2019

Sector analysis

In line with the categorisation adopted in our 2013 and 2017 reports, the Hong Kong trust industry can be divided into four main segments – pension schemes, corporate trusts, private trusts and charitable trusts.

Figure 4: Respondent organisations' approximate total asset values



Source: Hong Kong Trust Report 2021 Survey

Pension schemes

The introduction of the MPF system in 2000 and the continued operation of ORSO schemes – which are set up by employers voluntarily – provide the primary retirement protection for employees in Hong Kong. According to the MPFA, about 88% of Hong Kong's working population have some form of retirement protection via MPF, ORSO, statutory pension or provident fund schemes.

The value of surveyed organisations' MPF and ORSO assets in Hong Kong is high relative to the other trust segments. 53% of survey respondents note that the approximate value of their organisation's MPF and ORSO assets is greater than US$1 billion (Figure 4). This is in line with the SFC's Asset and Wealth Management Activities Survey data in Figure 2, which shows that the pension fund segment (including MPF and ORSO) has the largest proportion of assets held under trust. This is understandable due to the continued growth in overall MPF AUM as the system remains in the accumulation phase, and as consolidation in the MPF market continues.

Corporate trusts

Corporate trust providers offer core trustee services and other key associated activities, such as setting up and administering trusts, and acting as custodians. These service providers are an integral part of Hong Kong's fund management industry, with trustees holding a fiduciary role for wholesale and retail investment products.

The value of corporate trust assets held by individual organisations in Hong Kong is sizeable. Among the surveyed respondents for this report, 52% say that the approximate value of their organisation's corporate trust assets is more than US$200 million, with 22% of these reporting asset values in excess of US$1 billion. The retail fund sector and corporate trust segment continue to grow, leading to a surge in new industry entrants. According to the SFC's Asset and Wealth Management Activities Survey, the number of Type 9 licensed corporations (which are licenced to carry out asset management activities) increased by 10% year-on-year to 1,808 as at the end of 2019.

The lower barrier to entry in the public and private fund space compared to the pensions market is also reflected in Figure 4, with the pension fund segment having generally larger asset values (likely due to the smaller and more entrenched pool of players) than the other segments (where there may be a number of new and smaller new entrants).

Private trusts

There is increasing demand for private trust services from the growing number of wealthy individuals and families in Hong Kong, mainland China and the broader Asian region. This includes wealth and estate planning, succession planning, wealth management and family office services.

53% of survey respondents say that the approximate value of their organisation's private trust assets is greater than US$200 million, of which 20% reported asset values of greater than US$1 billion. This breakdown is similar to that in the corporate trust segment, which is in line with the SFC data that shows that assets held under trusts by family offices and private trusts, charities and other corporates have been the fastest growing segment.

Charitable trusts

There has been growing interest in philanthropy and the set-up of charitable trusts in Hong Kong. As at the end of March 2020, there were 9,217 charities recognised as exempt from tax by the Inland Revenue Department (IRD).[4] This compares with 9,096 from a year earlier, and 6,380 from March 2010.

The value of charitable trust assets represents a smaller proportion of the wider Hong Kong trust industry. 20% of survey respondents note that the approximate value of their organisation's charitable trust assets is greater than US$200 million. However, as previously mentioned, this segment has shown significant growth, as evidenced by the SFC's latest Asset and Wealth Management Activities Survey data.

[4] Inland Revenue Department Annual Report 2019-20, https://www.ird.gov.hk/dar/2019-20/table/en/ar_1920.pdf

The impact of Covid-19

The trust industry has remained resilient in the face of Covid-19

It is impossible to explore recent developments in any industry without first discussing the impact of Covid-19. The pandemic was undoubtedly a major disruptor across all sectors in 2020, including the trust industry. However, interviewees highlight that despite some initial disruption from an operational standpoint and some uncertainty due to short-term market volatility, Hong Kong's trust industry has remained resilient. The HKTA and MPF trustees, as good citizens, also rendered advice and support to the Government within tight timeframes to work out the parameters and workflow of the "Employment Support Scheme", which provides time-limited financial support to employers to help them retain employees who may otherwise be made redundant as a result of the pandemic.

Interviewees for this report note that the pandemic has in fact led to a number of positive outcomes, such as spurring trust organisations to foster innovation, invest in technology and accelerate existing digital initiatives, explore new ways of working, enhance client engagement and upskill their workforce. For many organisations, Covid-19 led to a heightened awareness of employee well-being and the need to focus on connectivity.

This is not to say that Covid-19 has not created some difficulties. Several interviewees note that the lack of face-to-face engagement with wealth management clients based outside of Hong Kong posed a significant challenge, especially around the ability to perform Know Your Customer (KYC) and anti-money laundering (AML) due diligence. "Furthermore, from a retail fund industry and corporate trust segment perspective, while the increasing use of technology has helped to drive online investing and transactions, Covid-19 has disrupted the preparation and launch of new funds and investment products for investors in general."[5]

The pandemic has also prompted individuals to pause and think about their own livelihood and personal affairs, which has led to an increasing focus on wealth and succession planning, and therefore a significant increase in demand for private trusts. "Covid-19 has prompted families to seriously consider trusts as a means to protect family wealth and for succession planning. The pandemic has also triggered people to consider things like the failure of businesses and to seek out basic asset protection."[6]

At the same time, clients, investors, regulators and industry bodies alike are focusing more on the livelihood of the planet – with ESG and sustainability issues coming to the fore. The increasing focus on ESG also presents an opportunity for the trust industry to place greater emphasis on its fiduciary duty to enhance corporate governance and push clients to integrate ESG factors into their overall strategy.

Although economies around the world are expected to gradually recover as the impact of large stimulus packages is felt and the rollout of vaccines continues, Covid-19 has likely permanently altered certain ways of working and client engagement in the business world, including those in the trust industry.

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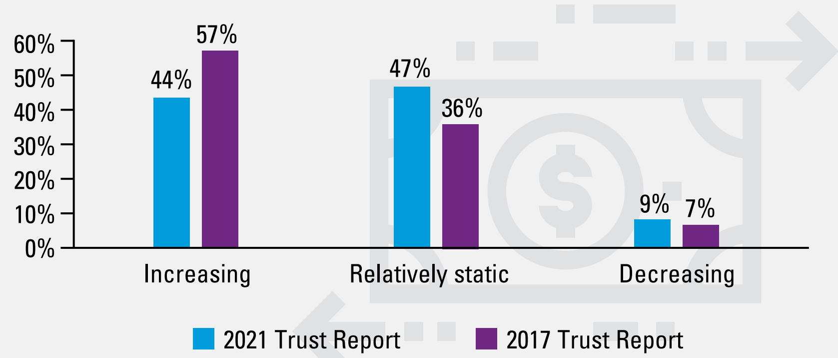
[5] Pamela Yuen, Consultant, Overseas Custody Services Center, China Merchants Bank
[6] Michael Shue, Managing Director – Trust Services, Tricor Services Limited

Key industry developments

Industry outlook and milestone developments

Hong Kong as a trust centre continues to be an attractive proposition. 44% of survey respondents say that the proportion of asset value held by Hong Kong law trusts compared to offshore trusts has increased over the past three years (Figure 5). While a smaller percentage of respondents report increasing AUM compared to the 2017 Hong Kong Trust Report (44% in 2021 versus 57% in 2017), interviewees point to a number of recent reforms and growth opportunities that have helped to create an optimistic outlook for Hong Kong's trust industry.

Figure 5: Change in the proportion of asset value held by trusts domiciled in Hong Kong compared to offshore trusts in the past 3 years



Source: Hong Kong Trust Report 2021 Survey

> *Historically we were always the silent partner behind the fund manager and structures, and were viewed as purely middle and back office. Now the government has realised, through promoting Hong Kong as an asset and wealth management centre, the importance of trust structures and trustees. It is a positive sign that the industry is becoming more visible.*[7]

Survey respondents and interviewees note that following the amendments to the HKTO in 2013, a number of recent and planned developments in Hong Kong are helping to further raise the bar for the trust industry and increase Hong Kong's attractiveness and credibility as both a funds and trust centre.

These initiatives include, but are not limited to, the launch of the TCSP licensing regime, the HKMA's proposed 'Code of Practice for Trust Business', the implementation of eMPF, the SFC's plan to introduce a new Type 13 regulated activity (RA 13) under the SFO, the introduction of the Limited Partnership Fund (LPF) regime, and the launch of and amendments to the Open-ended Fund Company (OFC) regime. In addition to raising the standards of the trust industry, several of these regulatory reforms are also aimed at encouraging more funds to domicile in or re-domicile to Hong Kong, which would be a significant boost to the city's asset management and trust industries.

Furthermore, there have been a number of recent initiatives to create a more attractive environment for family offices in Hong Kong, such as the SFC's updated guidance on investment vehicles owned by family trusts or family offices, the HKMA and InvestHK's launch of a one-stop information site, and the creation of a dedicated unit within InvestHK to assist family offices.

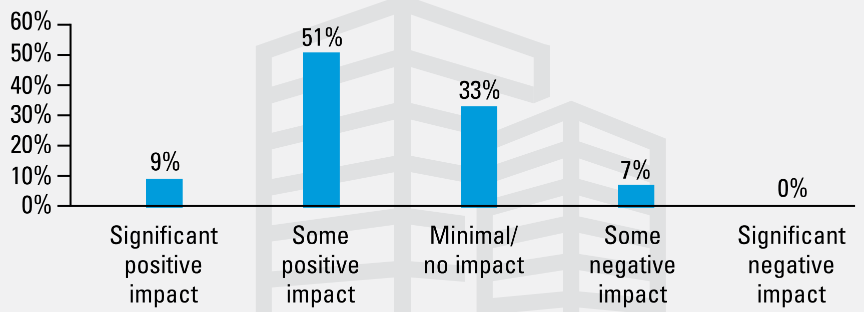
Introduction of the TCSP licensing regime

In an effort to enhance Hong Kong's anti-money laundering and counter-financing of terrorism (AML/CFT) regulatory regime, and in line with the recommendations set out by the Financial Action Task Force (FATF), the licensing regime for TCSPs commenced on 1 March 2018, bringing a significant change to the TCSP sector. Previously, there had been no licensing or registration requirement for companies operating as TCSPs in Hong Kong, and there was no available complete list of TCSPs in the industry. In addition, the compliance of TCSPs, as designated non-financial businesses and professions (DNFBPs), under Hong Kong's Anti-Money Laundering and Counter-Terrorist Financing Ordinance (AMLO) was under the auspice of the Narcotics Division of the Security Bureau.

The licensing regime was introduced under AMLO and requires TCSPs to apply for a licence from the Registrar of Companies. Applicants, as well as their ultimate owners and partners or directors, need to satisfy a fit and proper test, which examines, among matters that the Registrar considers relevant, their conviction and non-compliance records. TCSPs must also comply with statutory customer due diligence and record-keeping requirements under AMLO.

The introduction of the TCSP licensing regime has been well received by the trust industry, with 60% of survey respondents stating that it has had a positive impact, and only 7% claiming that it has had a negative impact (Figure 6).

Figure 6: The impact of the TCSP licensing regime on the industry



Source: Hong Kong Trust Report 2021 Survey

[7] Ka Shi Lau, Managing Director & CEO, BCT Group, and Vice Chairperson, HKTA

Whenever investors or fund managers approach service providers, the first thing they ask about is whether they have a licence. Having a TCSP licence will help trustee companies give comfort to fund managers during their due diligence process.[9]

While the regime is raising the bar for the industry overall in terms of AML compliance, it is likely to have different implications for each service provider. For well-established global trust companies, the TCSP requirements may not have had much of an impact as they already have stringent internal KYC and AML procedures. But for smaller trust companies, the new regime may have created a number of changes to their policies and procedures, which added significantly to their compliance costs.

Nonetheless, interviewees note that the licensing regime has added to the credibility of trustees in Hong Kong, while instilling much confidence to clients and the international financial community. "The TCSP licensing regime was introduced in Hong Kong in accordance with FATF's recommendations. The fact that Hong Kong was able to set up and implement the regime in 2018 meant that Hong Kong's AML/CFT regime was able to obtain an 'overall effective' assessment in the FATF 2019 Mutual Evaluation Report."[8]

As at 30 September 2020, the CR has received 8,109 applications for a TCSP licence and granted 7,353 licences (Figure 7), and has also conducted more than 3,000 site inspections since the launch of the licensing regime.

Figure 7: Statistics relating to the TCSP licensing regime

	Number			
	2018 (since March)	2019	2020 (up to 30 September)	Total
Applications for TCSP licences received	7,061	689	359	8,109
TCSP licences granted	6,150	824	379	7,353
Site inspections conducted	1,272	1,504	272	3,048
Interviews conducted	672	963	252	1,887
Warning/ advisory letters issued	267	389	155	811

Source: Companies Registry

Licence applications were rejected often due to the applicants failing the fit and proper test. According to the CR, licences would not be granted to unscrupulous practitioners and those who fail the fit and proper test. The CR adopts a risk-based approach for the supervision of TCSP licensees to ensure their compliance with the statutory requirements under the AMLO.

One of the reasons for conducting site inspections and interviews is to assess the fitness and properness of ultimate owners, partners or directors of licensees. "Through site inspections and interviews, deficiencies were found in licensees' compliance with the AML/CFT requirements. Common deficiencies that we have identified include inadequate AML/CFT procedures, lack of an AML/CFT policy statement, failure to conduct adequate customer due diligence on new customers, failure to perform proper ongoing monitoring of customers, and failure to submit supplementary information sheets to the Companies Registry for review."[10]

8 Jacqueline Shek, Executive Director, Zedra (Hong Kong) Limited, and Chairperson, HKTA

9 Pamela Yuen, Consultant, Overseas Custody Services Center, China Merchants Bank

10 Kitty Tsui, Registrar of Companies

A new regulated activity – RA 13 – on the horizon

A key regulatory development for corporate trustees on the horizon is the SFC's proposed new licensing regime for depositaries – trustees and custodians – of collective investment schemes (CIS). In its consultation paper issued in late 2019,[11] the SFC said that in order to better align with international practice and enhance the protection of investors in public funds, it proposes to introduce a new regulated activity under the SFO – RA 13 – acting as a depositary of an SFC-authorized CIS.

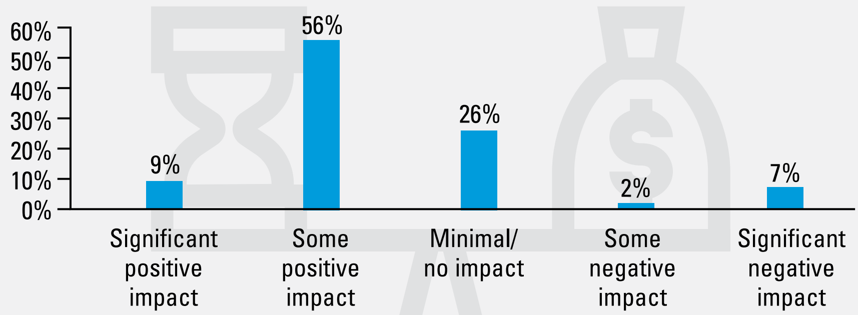
A relevant CIS includes SFC-authorized unit trusts, mutual fund companies, real estate investment trusts (REITs), pooled retirement funds (PRFs) authorized under the SFO and OFCs registered and authorized under the SFO, but does not include MPF products. A depository that is licensed for RA 13 will be subject to the same requirements as other SFC-licensed corporations, including the appointment of responsible officers and compliance with SFC codes and circulars.

The SFC plans to issue its consultation conclusions together with a second consultation paper on proposed amendments to subsidiary legislation in 2021.

The proposed introduction of RA 13 would have a positive impact on the trust industry, according to two-thirds of survey respondents, with only 9% stating that it would have a negative impact (Figure 8). Interviewees highlight that the SFC has been transparent in its intention to align regulatory standards in Hong Kong with other major financial services centres, and that the industry generally understands the background and logic of RA 13. "It will become a more regulated environment, responsible officers will be required, and there will be compliance costs that come with that. The industry itself is in the process of consulting with regulators to understand more about the requirements, and starting to plan for the future to embed any requirements into the new operating model."[12]

Indeed, the HKTA has been working closely with its fund trustee and custodian group members on the RA 13 consultation. It has also been liaising with and providing information to the SFC to help facilitate the regulator's formulation of the respective regulatory requirements, taking into consideration the current market practices and operations of the various authorized CIS products.

Figure 8: What impact do you think RA 13 would have on the trust industry?



Source: Hong Kong Trust Report 2021 Survey

[11] 'Consultation Paper on the Proposed Regulatory Regime for Depositaries of SFC-authorized Collective Investment Schemes', SFC, September 2019, https://apps.sfc.hk/edistributionWeb/api/consultation/openFile?lang=EN&refNo=19CP3

[12] Glenn Kennedy, Chief Executive Officer & Head of Trustee & Fiduciary Services – Asia Pacific, HSBC Institutional Trust Services (Asia) Limited

A proposed Code of Practice for Trust Business

The HKMA is also driving a regulatory initiative in the trust industry. The regulator intends to introduce a Code of Practice for Trust Business,[13] which will govern conduct of trust business in Hong Kong and apply to authorized institutions (AIs) and subsidiaries of locally incorporated AIs. It is proposed that other trustees will be encouraged to adopt the Code as well. The HKMA's primary objectives are to enhance protection of customers and their assets held on trust, promote treating customers fairly and a customer-centric culture in trust business, and better align Hong Kong's regime with international standards. "Importantly, the HKMA is not doing regulation for the sake of regulation. We aim at enhancing confidence of customers in entrusting assets to trustees in Hong Kong, thereby reinforcing Hong Kong's position as a leading asset and wealth management centre."[14]

Interviewees for this report agree that the introduction of the Code would help to uplift the standards in Hong Kong's trust industry, but it should also provide clarity to clients. Although AIs in the trust business are required to meet the HKMA Code, some independent trust companies and trust service providers are exempt, albeit they can adopt the HKMA Code voluntarily. "As a result, a lack of HKMA authorisation does not necessarily mean that a trust company has not met the appropriate standards, particularly multinationals who align with equivalent regulation in other parts of the world."[15]

Proposed reforms to the Pooled Retirement Funds Code

On the horizon are regulatory reforms that will affect PRFs, which are offered by banks, trustees, asset managers and insurance companies. PRFs enable multiple ORSO schemes to gain exposure to underlying investment portfolios. As at 30 September 2020, there were 33 PRFs and 409 investment portfolios, with total AUM of HK$73 billion, in which 2,962 ORSO schemes and 74,819 members participated.

In December 2020, the SFC launched a consultation to amend the Code on Pooled Retirement Funds to enhance the regulator's requirements for the operation of PRFs and clarify the obligations of key operators including product providers, trustees, management companies and insurance companies. The consultation notes that although PRFs are not offered directly to retail investors, given the wide participation in Hong Kong by employers and employees in ORSO schemes which invest in PRFs, appropriate investor protection should apply.

From a trustee perspective, the consultation also aims to enhance the annual independent internal control review requirements in the PRF Code by making reference to paragraph 4.5 and Appendix G of the Code on Unit Trusts and Mutual Funds (UT Code). It essentially proposes to require trustees to submit an internal control review report to the SFC that complies with Appendix E of the PRF Code (unless the trustee is also currently submitting an internal control review report under Appendix G of the UT Code).

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13 'Consultation Paper on Enhancing the Regulation and Supervision of Trust Business', HKMA, July 2020, https://www.hkma.gov.hk/media/eng/regulatory-resources/consultations/Consultation_paper_on_enhancing_the_regulation_and_supervision_of_trust_business.pdf

14 Alan Au, Executive Director, Banking Conduct, HKMA

15 Ben Lumley-Smith, Head of Corporate Trust Services, Computershare Asia

The launch of and amendments to the Open-ended Fund Companies regime

A number of regulatory reforms were introduced in 2020 to encourage local market growth and reaffirm Hong Kong's position as an international asset and wealth management centre, which in turn will have a positive impact on the trust industry and generate demand for trust services.

In an effort to promote Hong Kong as a preferred fund domicile, the OFC regime was introduced in July 2018 to provide an option for Hong Kong-domiciled funds to be structured in a corporate form, providing an alternative to the unit trust structure. Following a consultation paper issued by the SFC in December 2019, amendments to Hong Kong's OFC regime took effect in September 2020. The major changes include the lifting of all investment restrictions for private OFCs, the expansion of eligibility requirements for OFC custodians, and the introduction of a statutory mechanism for the re-domiciliation of overseas corporate funds to Hong Kong. Interviewees note that the changes have made Hong Kong a more attractive destination for setting up private OFCs, and have enhanced Hong Kong's status as an international asset management hub.

Furthermore, in the latest Hong Kong Budget announced on 24 February 2021, the Government announced subsidies of up to 70% of expenses paid to local professional service providers of OFCs set up in or re-domiciled to Hong Kong in the coming three years, subject to a cap of HK$1 million per OFC.

Several interviewees have observed that a growing number of clients have registered OFCs and are inquiring about setting up new funds under the LPF regime. The SFC also notes that it has received encouraging feedback from the industry on the set-up of OFCs. "We expect to see more interest because from a cost perspective, especially for Cayman funds which operate in Hong Kong, the OFC structure would offer greater savings and efficiency. We have also allowed securities brokers to be custodians for private OFCs and removed all investment restrictions for private OFCs, which have also helped to generate more interest. I hope with all these enhancements that we can further encourage the set-up of more private OFCs."[16]

The launch of a Limited Partnership Fund regime

The LPF regime, which took effect from 31 August 2020, enables asset managers to raise capital through an onshore domestic limited partnership fund structure. The hope is that the new regime will enhance Hong Kong's standing as an alternative location for asset managers and private equity firms to domicile their funds. This is important given the growing trend of asset managers and general partners looking to bring their fund structures onshore. "In particular, we expect that the LPF regime will be an increasingly attractive option for mainland Chinese asset managers looking to raise offshore capital."[17]

The launch of the OFC regime and its subsequent amendments, as well as the introduction of the LPF regime, have helped to further promote Hong Kong's attractiveness as a fund domicile. Importantly, trusts and their ancillary services such as fund administration are key to supporting the asset and wealth management sector. These regulatory developments will therefore have a positive impact on Hong Kong's trust industry, especially for fund trustee service providers.

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[16] Christina Choi, Executive Director, Investment Products Division, SFC

[17] Vivian Chui, Head of Securities & Asset Management, Hong Kong, KPMG China

> *The MPF System is perceived by many to have high administration fees. Through the eMPF Platform, we are trying to create room for cost reduction and bring multi-faceted benefits to stakeholders. There are three key aspects of the eMPF Platform, namely centralisation of scheme administrative processes, automation to reduce paper transactions, and streamlining workflow for greater operational efficiency.*[18]

Pension fund developments and MPF advancements

Since its establishment in 2000, the MPF system continues to develop and the market continues to grow. In July 2020, the MPF market hit a milestone NAV of HK$1 trillion. According to MPFA data, as at the end of 2020 there were a total of 14 trustees, 27 schemes and 408 constituent funds in the MPF market.

There have been a number of developments in the pension space since the issuance of the last edition of the Hong Kong Trust Report in 2017. In April 2017, the Default Investment Strategy (DIS) was launched to provide scheme members with a ready-made investment solution that seeks to balance long-term risk and returns. According to the MPFA, as of the end of September 2020, around 2.4 million accounts (23.3% of total MPF accounts) were fully or partly invested according to the DIS or invested in the two DIS constituent funds, totalling HK$61.4 billion (6% of total MPF assets).

Furthermore, the introduction of tax incentives in April 2019 for MPF scheme members to make tax deductible voluntary contributions (TVC) have helped boost voluntary contributions. As of November 2020, there were around 43,000 TVC accounts with total MPF contributions of HK$2.6 billion.

The eMPF platform moves closer to implementation

eMPF Initiative background

A landmark development on the horizon is the eMPF Platform, which aims to streamline, standardise, centralise and automate the scheme administrative processes of MPF schemes, thus increasing efficiency, lowering costs and enhancing the MPF system. The eMPF Platform is expected to be launched in 2022 with onboarding of schemes in phases from 2nd quarter 2023-2024.

According to the MPFA, the second phase of legislative amendments will reflect the streamlined MPF scheme administration workflow and reduced relevant regulatory burden on trustees as a result of the implementation of the eMPF Platform.

Possible impacts of eMPF

The launch of the eMPF platform will undoubtedly have a significant impact on trustees and sponsors in the MPF space. Ultimately, eMPF as a centralised electronic platform for scheme administration processes will be good for members and employers. Operating models of trustees/sponsors will also be different. Interviewees highlight that eMPF is a standardised commodity in terms of scheme administration functions, so the pension industry needs to think about how it can add value for customers. Trustees/sponsors may, for instance, be looking to invest resources in innovation and technology to strengthen connectivity and engagement with members, such as artificial intelligence solutions like chatbots and robo-advice.

From a trustee/sponsor's perspective, those who have been very focused on MPF business will need to start looking at a more balanced revenue composition to diversify their sources of income. "The launch of eMPF will intensify competition among trustees/sponsors, and those who can adapt to change will have a competitive advantage. The market consolidation trend is expected to continue, and the market share and rankings could continue to change."[19]

Several interviewees agree that the introduction of the eMPF platform could lead to fee pressure on trustees/sponsors and industry consolidation. "First, they may not be able to charge the scheme administration fees that they are currently charging. At the same time, there is now an annual registration fee that trustees need to pay. With all of these combined, some players with smaller market share may want to exit the market because the profit margins will be further narrowed."[20]

[18] Aaron Liu, Deputy Secretary for Financial Services and the Treasury (Financial Services), Financial Services and the Treasury Bureau

[19] Andrew Law, CEO, BOCI-Prudential Trustee Limited

[20] Sophia Man, Partner, Baker McKenzie

More investment is needed for the transition of all schemes to the Platform including data management and data migration, as well as technology to interface with clients, other service providers and the eMPF platform. There is a lot of work ahead for the industry in the coming two years to help the eMPF Platform Company in the new system, and to guide clients through the transition.[22]

For its part, the MPFA says that the implementation of the eMPF Platform will not change the regulatory relationship between the MPFA and the trustees. While trustees will continue to owe fiduciary duties to scheme members, their scheme administrative work and associated regulatory burden should be reduced significantly after the streamlining, automation and centralisation of these scheme administration processes by the eMPF Platform.

"The eMPF Platform opens up an opportunity for trustees to rationalise their workflows and reduce business costs. As the eMPF Platform Operator will perform most of the scheme administration functions, which are currently operated by the trustees under a decentralised model, resources in managing MPF scheme administration processes will be largely reduced in future."[21]

Implementation of amended ORSO

The Occupation Retirement Schemes Ordinance was first enacted in 1993. Although adjustments have been made to the Ordinance over the years, the Occupational Retirement Schemes (Amendment) Ordinance 2020, which was implemented in June 2020 to prevent the misuse of schemes for purposes unrelated to employment and improve the governance of ORSO schemes, can be considered as a major overhaul of the ORSO legislative framework. Apart from the said purposes, the amended Ordinance also strengthens the ORSO regime for further development and helps promote Hong Kong as a centre of retirement expertise for genuine occupational schemes of multinational corporations.

ORSO as a key differentiator for HR strategy

Before the implementation of the MPF, many Hong Kong employers had been voluntarily operating retirement schemes to provide retirement benefits for their employees. In many cases, these voluntary schemes, regulated under ORSO, have continued to operate. The ORSO scheme can be a key differentiator for employers in the market, according to some interviewees. "The defined benefit scheme that we are offering makes us different. This is a huge commitment as all the investment risks will be borne by the employer rather than the employee. The defined benefit scheme can safeguard employees to receive a definite amount at retirement and help them with better financial planning in advance. From an HR perspective, this meaningful direct support to our people helps to attract and retain people. This absolutely sets us apart from our peer companies."[23]

[21] Leo Chu, Chief Operating Officer and Executive Director, MPFA
[22] Ka Shi Lau, Managing Director & CEO, BCT Group, and Vice Chairperson, HKTA
[23] Hayly Leung, General Manager, Group HR Services, Jardine Matheson

Charities regulation

The introduction of charities-specific legislation and the constitution of a charities regulator have been mooted multiple times. To date, however, the Government of Hong Kong has not yet enacted legislation for the purposes of clarifying the currently confusing state of charities law, or for establishing a statutory body dedicated to the regulation of charities.

Practitioners have, however, noticed an increase in scrutiny by the Hong Kong IRD of entities it acknowledges as charitable, by way of follow-up questions and audits. The standard and depth of review of entities applying for recognition of charitable status has also increased. Whereas the IRD has always been a de facto regulator for charities, it appears that it is now taking a more active stance in both vetting postulant charities at the application stage, and following up with newly constituted charities with a view to ascertaining that they remain charitable at Hong Kong law.

The IRD's publication of revised and detailed guidance on charities is welcome, legal certainty is preferable, and it may be time for the Government to accelerate enacting specific charities legislation with a view to putting the regulation of charities on a clearer statutory footing. As matters currently stand, charities law in Hong Kong is almost entirely based on common law precedents, many of which are very old and arise from a socio-cultural context that is very different to contemporary Hong Kong.

Heightened professionalism and launch of the HKTA Accreditation Program

With the ongoing development of the wealth management industry and the family office ecosystem in Hong Kong, a key recommendation to support growth in this area is to groom suitable talent. Finding the right talent has also been identified as a key challenge for the Hong Kong trust industry, with survey respondents identifying 'trust administration', 'legal & compliance' and 'risk management' as the roles or functions where the talent gap is most critical.

In response, the HKTA has embarked on an accreditation and training program to enhance recognition, skills and education in the broad trust arena. The Accreditation Program, launched by the HKTA in July 2018, is the first and only program in Hong Kong dedicated to the trust industry. It was introduced to systematically develop trust and fiduciary services talent, to provide minimum professional standards and competency within the industry and to enable new entrants and career advancement for practitioners.

This Accreditation Program suitably qualifies professionals with the designation of Certified Trust Practitioner (CTP). Experienced industry practitioners generally with more than 10 years of experience can qualify as a CTP via the Experienced Practitioners Exemption (EPE) route. For those with less experience or wishing to pursue a career in the trust industry, they can attend the Trust Training Certificate (TTC) Course, organised in partnership with the Hong Kong Securities and Investment Institute (HKSI Institute). The TTC provides an alternative route to CTP accreditation for practitioners with at least two years of relevant working experience. For details on the TTC, please refer to the Appendix (Page 40).

In addition to qualifying people as CTPs, the TTC units are also recognised by supervisory bodies such as the SFC, The Law Society and MPFA for continuing professional development. TTC is an eligible program for the Hong Kong Government subsidy from the WAM programme (Pilot Programme to enhance talent training for the Asset and Wealth Management Sector).

The CTP Accreditation Program/TTC Course has been well received, with 55% of survey respondents saying that it has had 'some' or a 'significant' impact on their organisation's ability to find, hire and nurture the right talent and skills.

Since its launch in 2018, 251 individuals have enrolled in the TTC examinations, while 43 individuals have obtained the TTC (36 specialising in private trusts and 7 in CIS/retirement schemes). A total of 771 students have attended at least one unit of the course.

The programme has gone digital in light of Covid-19. "Because of Covid-19, we changed everything to e-mode. With the changing business landscape, we constantly need to think about how best to provide training and courses."[24]

Interviewees view the program as an important first step in addressing talent shortages and skills gaps. "The TTC Course material was well written and well structured, and I fully support sending our staff to join this program. My approach has been to invest in training our staff, including via these programs, rather than paying for external hires."[25]

HKTA recognises that its CTP Accreditation Program and TTC Course will need to be continually updated to reflect the latest developments affecting the trust industry in Hong Kong, such as the upcoming introduction of RA 13 by the SFC, as well as overseas law changes. "The HKTA is discussing and working with the SFC and HKSI Institute on RA 13 so hopefully this TTC program will be recognised under the RA 13 regime. Overall, we want to increase the recognition of the TTC Course. This program has been a good showcase of the industry driving the standard and building a local program for the sector. That will help to increase recognition of trustees in Hong Kong."[26]

[24] Ruth Kung, Chief Executive, HKSI Institute

[25] Dr Nichols Pang, Deputy CEO and Executive Director, CTI Capital Management

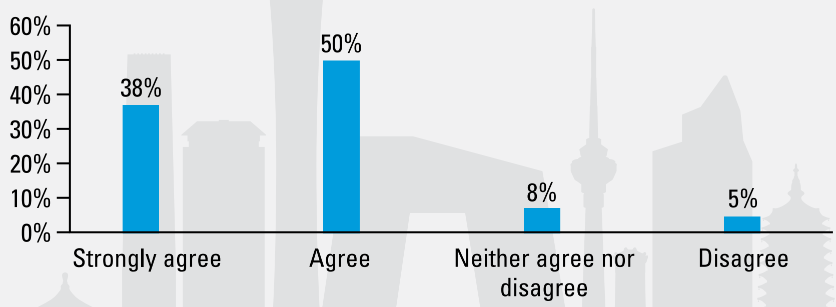
[26] Jacqueline Shek, Executive Director, Zedra (Hong Kong) Limited, and Chairperson, HKTA

Growth opportunities

Mainland China remains the key driver

With the recent regulatory developments set to raise the standard of the trust industry in Hong Kong, survey respondents and interviewees have kept their eyes on a number of significant growth opportunities for the industry. First and foremost, the mainland China market remains a key growth driver for the trust industry in Hong Kong, according to 88% of survey respondents (Figure 9). In particular, interviewees highlight the continued opening up of mainland China's financial services industry, the ongoing development of the GBA and the rise of private wealth as key opportunities.

Figure 9: The mainland China market is a key growth driver for my organisation



Source: Hong Kong Trust Report 2021 Survey

Note: Numbers may not add up to 100% due to rounding

Over the last few years, mainland China's financial services sector and capital markets have rapidly opened up to international investors. This includes the launch and growth of the Stock Connect schemes between Hong Kong and Shanghai and Shenzhen, the launch of the Bond Connect, and the lifting of quota restrictions on the Qualified Foreign Institutional Investor and RMB Qualified Foreign Institutional Investor schemes in late 2019. The scrapping of foreign shareholding caps in the financial services sector, including for fund management companies in April 2020, have attracted great interest from international institutions. In addition to the Stock Connect and Bond Connect Schemes, the Mutual Recognition of Funds (MRF) arrangements between Hong Kong and mainland China, France, Luxembourg, Switzerland, Thailand, the Netherlands and the UK provide more investment opportunities for retail investors.

At the same time, there have been notable developments to facilitate the flow of mainland Chinese capital overseas through foreign direct investment, the Qualified Domestic Institutional Investor program, the Stock Connect Schemes and the impending southbound Bond Connect arrangements. These developments allow investors in mainland China to buy into funds, equities, fixed income, structured products and projects overseas, creating opportunities for global asset managers and service providers along the value chain.

> *Hong Kong is well positioned to take advantage of the rapidly growing wealth in the region. Wealthy customers from mainland China and other parts of Asia are increasingly looking for more comprehensive types of services such as estate and succession planning activities, and family office services. This is where the trust industry in Hong Kong has a pivotal role to play.*[29]

The rise of private wealth

Interviewees point to a number of major trends leading to an increase in demand for private trusts and trust services in Hong Kong. First is the increasing intergenerational transfer of wealth, with the older generations seeking to set up suitable structures to preserve family wealth. Second is the rise of new wealthy individuals and young entrepreneurs in mainland China, many of whom have aspirations to raise funds globally and protect their wealth. According to the Hurun China Rich List,[27] more wealth was created in 2020 than the previous five years combined – that too in spite of Covid-19.

These trends are expected to continue in the coming years, bringing benefits and opportunities to Hong Kong's private trust sector to service this growing client base. Some industry executives point out that there is increasing demand for trust services from mainland Chinese clients seeking to do succession planning to segregate their assets in anticipation of changes in government policies, including the potential introduction of a gift tax in mainland China. "Furthermore, after the introduction of the Common Reporting Standard (CRS) and the Automatic Exchange of Financial Account Information (AEOI), which has subtly changed the environment for offshore centres, an increasing number of mainland Chinese clients with offshore trusts may seek to use trustees with a Chinese background to handle their assets."[28] The ongoing US-China trade dispute is also leading many Chinese investors to carefully consider their trust set-ups and jurisdiction. The flexibility of Hong Kong's trust industry remains a key attraction for many clients.

The ongoing development of the GBA

A key strategic component of China's national development blueprint is the GBA, which aims to create a world-class city cluster comprising Hong Kong, Macau and nine cities in Guangdong Province. The GBA is home to more than 71 million people, with a combined GDP of US$1.6 trillion. In 2019, 20% of all HNWIs in China lived in the GBA. The sizeable population and growing amount of wealth in the region presents opportunities not just for the asset management industry, but also for private trusts, family offices and private CIS.

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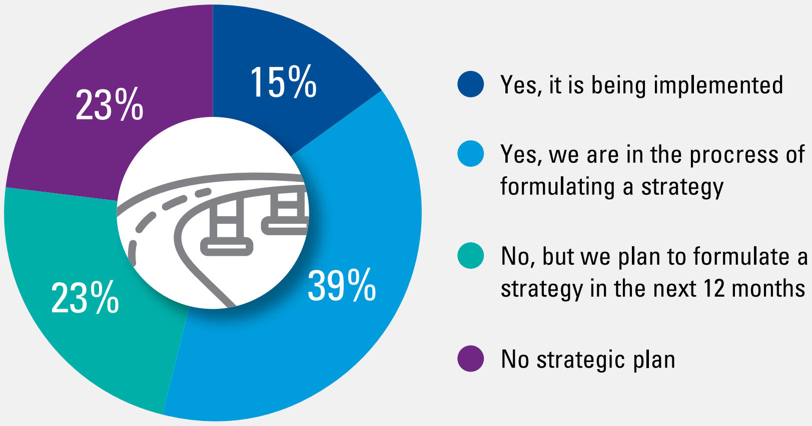
[27] 'Hurun China Rich List 2020', Hurun Research Institute, October 2020, https://www.hurun.net/en-US/Info/Detail?num=1E096ECED920

[28] Dr Nichols Pang, Deputy CEO and Executive Director, CTI Capital Management

[29] Bonn Liu, Head of Asset Management, ASPAC, KPMG China

With the GBA a clear growth opportunity, devising a strategy for the region is key for the trust industry, with potential benefits for first movers. A number of trust organisations surveyed for this report are seeking to develop and execute dedicated plans for the region. 54% of respondents note that they have a strategic plan for the GBA, while another 23% do not have a plan, but intend to formulate a strategy in the next 12 months (Figure 10).

Figure 10: Does your company have a strategic plan for the GBA?



Source: Hong Kong Trust Report 2021 Survey

> *A large portion of the wealth in China is based in Southern China, so anything we can do to get greater access to that is a positive. From a trust perspective, although the Wealth Management Connect is product focused, it does offer an opportunity to discuss these developments with potential clients on the mainland, as well as other key issues like setting up trusts and family succession arrangements.[31]*

The imminent launch of the GBA Wealth Management Connect

All eyes remain on the imminent launch of the GBA Wealth Management Connect scheme, which will allow residents of the cities in the GBA to invest in eligible investment products distributed by banks in Hong Kong and Macao, and vice versa. Compared to the Mainland-Hong Kong MRF scheme, the Wealth Management Connect offers better opportunities to the trust industry, according to 45% of survey respondents. Only 10% believe that the Wealth Management Connect does not offer better opportunities, while another 45% are unsure.

While the scheme will start by offering low to medium risk products, with a quota of RMB 1 million per individual, it is expected to evolve and expand over time, enlarging the overall size of the funds market. The launch of the Wealth Management Connect is a welcome development that is expected to bring benefits to Hong Kong's asset management and trust industries. From a wealth management perspective, it opens up a large pool of new clients, but it may take time to make sure teething issues are worked out.

There is, however, an initial limitation on allowing only Hong Kong-domiciled funds to participate in the scheme. Whether this alone will lead to asset managers launching new Hong Kong-domiciled funds will depend on individual business' prognosis on where the opportunities are, the range of funds that the organisation uses, and its specific business model in the GBA, say some interviewees. "While there may not be a huge immediate surge in new Hong Kong-domiciled funds, things are likely to change once the policy is relaxed over time. What is clear is that people are interested, and there is a lot of optimism behind the Wealth Management Connect."[30]

30 Terry Pan, CEO, Greater China, Southeast Asia and Korea, Invesco Hong Kong

31 Michael Olesnicky, Consultant, Baker McKenzie, and Chair, China Development Sub-Committee, STEP Hong Kong

Hong Kong's prominent role in the GBA's development

Hong Kong has a significant role to play in the development of the GBA. The Outline Development Plan[32] for the region states that Hong Kong should leverage its position as an international financial, asset management and risk management centre, as well as an offshore RMB hub. Recent regulatory and market reforms introduced by Hong Kong's Government and regulators have served to reinforce Hong Kong's role as the financial centre for the GBA. Continued reforms and initiatives will help to further strengthen Hong Kong's position, presenting the region's financial services industry – including the trust industry – with significant business benefits and opportunities for growth.

One of Hong Kong's strengths is its position as a fundraising centre and a testing ground for innovation for the development of not just the GBA but also China overall. For example, the Hong Kong Government is committed to developing the REIT market and reinforcing the city's role as a premier treasury and IPO centre. The use of REITs could help developers in the GBA attract capital and finance property development in the region.

Attracting family offices

The rapid growth of ultra-high-net-worth families in Asia, especially in mainland China, presents Hong Kong with a significant opportunity to attract more family offices to set up in the city. Family offices are largely corporate vehicles and many single family offices are owned by trust structures. Other family offices manage wealth that is held in trust structures, while TCSPs in the jurisdiction of the trust or the family office typically provide fiduciary and support services.

There have been a number of new developments and initiatives over the past year to create a more attractive environment for family offices in Hong Kong. In September 2020, the SFC issued updated guidance on investment vehicles owned by family trusts or family offices. The updated guidance should allow more single family offices run by experienced professionals to qualify as Corporate Professional Investors. It also makes them eligible for certain exemptions related to sales suitability, client agreements and disclosures.

The HKMA and InvestHK also launched a one-stop information site for family offices, while the government announced the creation of a dedicated unit within InvestHK to assist family offices with their set-up in Hong Kong.

A recent Financial Services Development Council (FSDC) paper helps shed more light on the development of family offices in Hong Kong, and offers recommendations to increase Hong Kong's competitiveness as a family office hub for the Asian region.[33] Family offices remain quite novel in Hong Kong, and not many ultra HNWIs set up traditional family offices. More often than not, they utilise their lawyers or accountants to help with their family office, which is a loosely defined term. "However, they are starting to realise the advantages of having a standalone or single family office, in terms of confidentiality, AML, succession planning and overall cost efficiency. Riding on that, the government is trying to make the regulations more user-friendly to encourage more family offices to set up in Hong Kong."[34]

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[32] Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area (February 2019), https://www.bayarea.gov.hk/filemanager/en/share/pdf/Outline_Development_Plan.pdf

[33] 'Family Wisdom: A Family Office Hub in Hong Kong', FSDC, July 2020, https://www.fsdc.org.hk/en/press-publications/family-wisdom-a-family-office-hub-in-hong-kong

[34] CM Chan, Consultant, Anthony Siu & Co

However, there are still a lot of complexities that family office newcomers to Hong Kong have to face in terms of different legislation involving different governmental departments. There is also currently no specific licensing regime for family offices. Several interviewees believe it would be helpful if the government could help the industry to consolidate from a trust and tax legislative point of view, with one suggestion to have a standalone section that deals with family offices.

Some interviewed industry executives believe that Hong Kong needs a more flexible regulatory regime, coupled with greater clarity on the applicability of potential licensing exemptions from the SFC, and a more competitive tax treatment for family offices and trusts in Hong Kong.

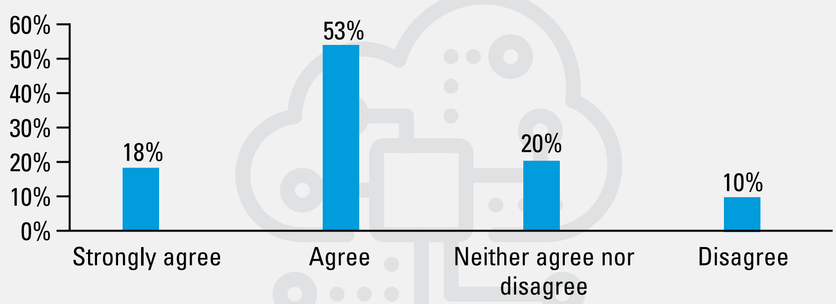
Furthermore, talent development in the family office space in Hong Kong remains a challenge. This educational need is being addressed by the HKTA through its TTC Course, which covers modules on family offices (see 'Heightened professionalism and launch of the HKTA Accreditation Program' section on Page 22).

Embracing technology and digitalisation

One major outcome of Covid-19 is that the trust industry in Hong Kong has embraced technology and accelerated its digitalisation efforts. Many interviewees note that Covid-19 has acted as a catalyst for their organisations to foster innovation and investment in technology to enhance regulatory reporting and compliance, streamline internal processes, increase connectivity with clients and upskill their workforce. Overall, the industry believes that it is generally meeting client demands, with 71% of survey respondents agreeing that their organisation's technology/digital offering is able to meet customer expectations (Figure 11).

This is partially due to the trust industry placing an increasing focus and investment in a wide range of technologies, in many cases to improve data security or to better serve customers. Emerging technologies such as blockchain, Application Programming Interfaces (APIs) and robotic process automation are in increasing demand and are being more widely applied to the trust industry, for example to enhance the administration of trusts. "We have our own one-stop mobile app, and we are also working on other initiatives such as robotic services. We are investing a lot in data analytics to better understand our customers, which should help us uplift our service level to our members and provide more personalised services."[35]

Figure 11: My organisation's technology/digital offering is able to meet customer expectations



Source: Hong Kong Trust Report 2021 Survey
Note: Numbers may not add up to 100% due to rounding

[35] Elaine Lau, CEO, AIA Company (Trustee) Limited

We invested a lot in regulatory technology (Regtech) to make our compliance a lot simpler and more efficient. With Covid-19 preventing most face-to-face interaction, we have ramped up our use of Regtech to assist with on-boarding many of our clients using technology advances.[36]

The trust industry as a whole has been forced to adapt to new technology both as a result of Covid-19 as well as due to changing client expectations. One example of this is on the employee benefit trust side. "We set up corporate trust structures for companies that want to establish trusts to award shares or a hybrid form of shares or options to their employees. There are several brokerage firms that now have electronic digital platforms that enable the administration of employee benefit trusts to be deployed digitally."[37] This is an area where technology is forcing the industry to keep up with these developments and to make investments.

While the proliferation of technology and digitalisation continue to transform the business and operating models within the trust industry, the industry needs to consider and prepare for client requirements and expectations around technology to continue to increase.

In addition, the greater adoption of emerging technology, the increasing use of digital channels, and the normalisation of remote working are placing related risks and issues such as cybersecurity in the spotlight. As organisations in the trust industry continue to pursue their digital initiatives, they should also ensure that adequate safeguards are put in place to manage cyber risks and protect customer data. The HKTA has meanwhile launched a Cybersecurity Intelligence Sharing Platform in July 2018 to help the trustee community in Hong Kong to better understand the impact of cybersecurity and to share intelligence in this area.

Another key trend is the People's Bank of China's (PBOC) ongoing efforts to develop digital yuan, a central bank digital currency that aims to replace some of the cash in circulation, such as coins and bank notes. This will have a notable impact on Chinese policymakers' visibility into monetary flows in the economy, as well as on individuals' payment and investing habits. While no official launch timeline has been agreed – although some trial programmes have been implemented – this is certainly an area that the trust and broader financial services industry will continue to closely monitor.

Market interest in virtual assets such as cryptocurrency is also on the rise, and this is an area that the SFC has been closely monitoring and has taken steps to include virtual assets under its regulatory purview. As virtual assets continue to gain traction both globally and in Hong Kong, this will likely lead to increased demand for trusted virtual asset custodians.

While the growth of the virtual asset market presents an opportunity for the trust industry, careful consideration must be given to security. Indeed, cybersecurity should be top of mind given the online nature of virtual assets. Custodians looking to grow in this space should seek to bolster their cybersecurity and risk management practices accordingly to cater to the growing virtual asset clientele.

[36] Jacqueline Shek, Executive Director, Zedra (Hong Kong) Limited, and Chairperson, HKTA

[37] Michael Shue, Managing Director – Trust Services, Tricor Services Limited

Addressing ESG and sustainable development

ESG and sustainability is fast becoming a key focus area – and also an opportunity for the trust industry – with clients and investors increasingly demanding that organisations factor ESG criteria into their own investments and processes, and offer more ESG-related products.

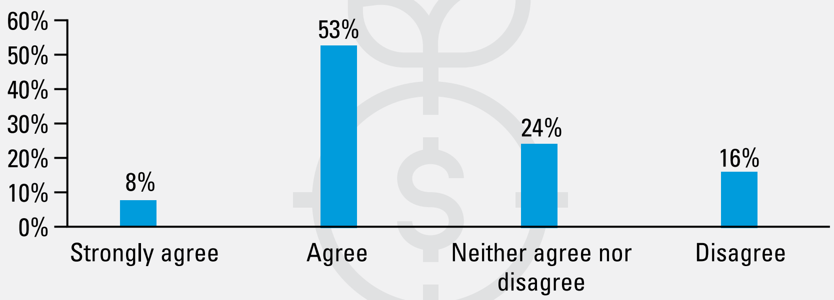
This prevailing global trend is further underscored in the region, with China's recent commitment to becoming carbon neutral by 2060, as well as its positioning of environmental protection as a key focus area in its 14th Five-Year Plan.

Policymakers in Hong Kong are increasingly focusing on this area too. In May 2020, the Green and Sustainable Finance Cross-Agency Steering Group was established in Hong Kong. The Steering Group, comprising the HKMA, SFC, the Environment Bureau, FSTB, HKEX, IA and the MPFA, provides strategic direction on regulatory and market development to make Hong Kong a hub for green and sustainable finance.

The SFC's recent Consultation Paper on the Management and Disclosure of Climate-related Risks by Fund Managers is another positive step. The consultation paper proposes to amend the Fund Manager's Code of Conduct to require fund managers to take climate-related risks into consideration in their investment processes, and to make appropriate disclosures to investors.

The growing influence and importance of ESG is clear to the trust industry. 61% of survey respondents agree that sustainability and ESG are increasingly important to clients, while only 16% disagree (Figure 12).

Figure 12: Sustainability and ESG are increasingly important to clients



Source: Hong Kong Trust Report 2021 Survey

Note: Numbers may not add up to 100% due to rounding

Interviewees recognise the growing importance of ESG and sustainability, leading to a key topic of discussion around the extent to which trustees have an obligation to proactively drive the ESG agenda and push clients to integrate ESG factors into their investment decisions and processes. "ESG is becoming more prominent in the trust industry as a fiduciary role. As a trustee, we should also require pension schemes and funds to incorporate ESG into their overall strategy."[38]

The growing awareness and importance of ESG certainly presents a significant opportunity for the trust industry to play a more prominent role in exercising its fiduciary duty to enhance corporate governance and push clients to integrate ESG factors into their overall strategy. Indeed, companies that are well-governed and that pay close attention to the 'governance' aspect of ESG are often better placed for long-term success.

One of the primary duties of the trustee is to act in the best interest of beneficiaries. Traditional trustees have always focused on protecting capital for those beneficiaries. However, trustees should also be encouraging clients and investment managers to diversify more into sustainable investments that meet ESG standards so that the capital of trust funds also contributes to the preservation and protection of the environment. "That way we indirectly benefit the beneficiaries because hopefully they will be able to live longer and healthier lives. This is fast becoming an important area, and over a period of time, clients and beneficiaries will become even more aware of the importance of sustainability and ESG."[39]

Some in the industry point out that a lack of universal ESG standards remains a major challenge for the industry to understand how best to comply with ESG requirements and meet investor expectations. On the other hand, this can present a significant opportunity for the trust industry to drive the agenda. "This is an opportunity for the trust sector to take the lead on trying to establish some kind of a minimum requirement because ultimately the sector looks after a lot of the assets in the industry. Coming up with a minimum litmus test will at least provide some common understanding among all the industry players."[40]

Going forward, many in the industry agree that trustees will have a more prominent role than they have today. "Looking at other funds jurisdictions such as Europe and Australia, the general direction of travel is that people are now looking at fiduciaries – trustees, directors or other types of fiduciaries – to at least be considering these matters when they are exercising their fiduciary obligations. If not today, then sometime in the near future there will be that expectation."[41]

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38 Ka Shi Lau, Managing Director & CEO, BCT Group, and Vice Chairperson, HKTA

39 Michael Shue, Managing Director – Trust Services, Tricor Services Limited

40 Dr Au King-lun, Executive Director, Financial Services Development Council

41 Glenn Kennedy, Chief Executive Officer & Head of Trustee & Fiduciary Services – Asia Pacific, HSBC Institutional Trust Services (Asia) Limited

Overcoming historical challenges

Despite the positive industry developments and significant growth opportunities for the trust industry in Hong Kong, a number of historical challenges remain, such as a fragmented regulatory regime for trustees, increasing compliance costs, talent shortages, and the need for greater regulatory and tax clarity.

A fragmented regulatory regime

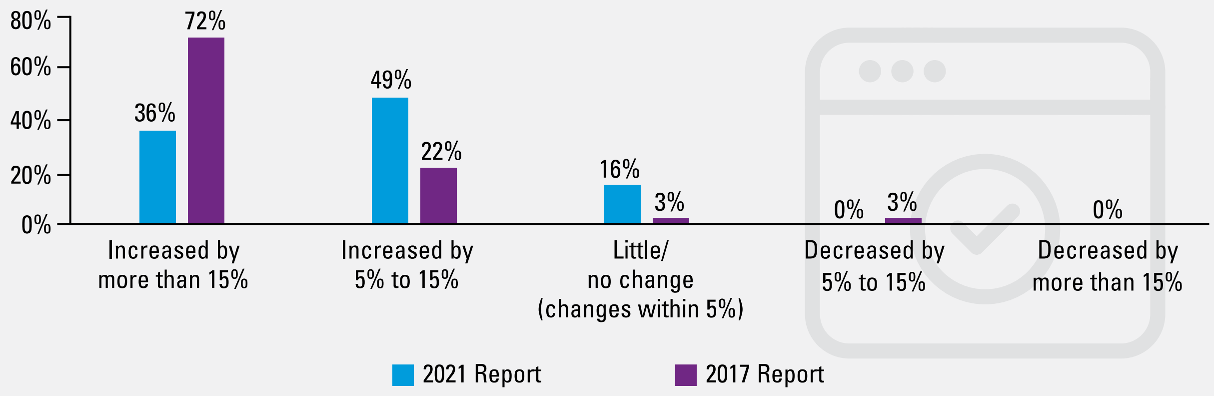
The diverse nature of the Hong Kong trust industry means the regulatory regime is highly fragmented. The current regulatory regime in Hong Kong for trust business involves a number of regulators. Trustees of MPF schemes are approved and regulated by the MPFA, while the HKMA supervises AIs and their subsidiaries under the Banking Ordinance. Under the proposed RA 13, trustees and custodians of SFC-authorized CIS would be subject to direct regulation by the SFC under the SFO. The IA adopts an indirect supervisory approach by ensuring non-regulated entities including trustees and custodians within an authorized insurer group will not adversely affect the position of the authorized insurer.

Furthermore, under AMLO, trustees are required to apply for a licence from the Registrar of Companies (unless otherwise exempted). Trustees are subject to requirements on customer due diligence and record-keeping but not business conduct.

While the industry overall is supportive of recent regulatory reforms that raise the standards of the industry, interviewees point out that the fragmented regulatory regime continues to be a major challenge that leads to unnecessary compliance costs. For example, trustee service providers for different pension products – such as MPF, ORSO or PRFs – could be subject to different regulators, such as the MPFA, SFC, HKMA and the IA.

85% of survey respondents say that their compliance costs have increased in the last 12 months (Figure 13). While the size of the increase in costs seems to have eased as compared to the 2017 report, the ongoing compliance burden remains a key issue.

Figure 13: Change in compliance costs for your organisation in the last 12 months



Source: Hong Kong Trust Report 2021 Survey

There remains an ongoing concern that there are often overlapping regulations and regulators of the same company for different products. There may also be grey areas within a trust company, where some services are being regulated and some are not. "While regulation is welcome as it helps to raise the standards of the industry, trustees are against overlapping regulation, which adds to the regulatory burden and increases compliance costs. We hope that the regulators could continue streamlining certain regulation to avoid the overlapping of regulation or grey areas that are making compliance more difficult for the industry."[42] In the absence of a super-regulator, the industry would appreciate it if the regulators talk to each other more effectively to avoid any overlaps, as well as to ensure alignment and that a consistent approach is taken across the various regulatory regimes.

Overall, it is perceived that Hong Kong does not have a comprehensive regulatory regime for trustees. "The government should carefully review the regulatory regime for professional trustees as it is hard to clarify who is a 'professional trustee' and who is not. While the TCSP licensing regime has been helpful in dealing with AML risks, it does not factor in fit and proper considerations as to the standards of professionalism of the trustees, or any consumer/investor protection elements."[43]

Addressing these recommendations, interviewees say, will help to provide more clarity to the industry, ease the compliance burden, and enhance Hong Kong's attractiveness as a trust jurisdiction.

Talent shortages

While survey respondents and interviewees for this report note that the talent issue is starting to be addressed with the launch of the HKTA Accreditation Program, more still needs to be done to meet the demands of the trust industry and to cultivate a talent base. Levels of training when it comes to compliance and practical matters can be improved by more outreach by the industry and universities, more work experience, internships and information sessions.

[42] Loretta Lam, Executive Committee Member, HKTA

[43] Jacqueline Shek, Executive Director, Zedra (Hong Kong) Limited, and Chairperson, HKTA

Importantly, interviewees add that there needs to be recognition that the trust industry is a strategic sector, and a crucial part of Hong Kong's role as an international financial centre. "The government needs to be more aware and think more about initiatives that facilitate professional homegrown talent in trust services. Universities in Hong Kong are market leading. The talent is there, the technical knowhow is there, it is a question of how to match demand and supply."[44]

Overall, industry executives strongly believe that the trust sector needs to be recognised as a profession. "If we are able to build that pyramid from start to end and show a career path for people in the industry to recognise, we can help to attract younger talent and newcomers to the trust industry."[45]

With the development of the CTP Accreditation Program, the HKTA has expanded its individual membership (in addition to corporate members). This provides a platform for individuals to join various sub-committees and participate in HKTA activities such as legislative lobbying and review and professional development.

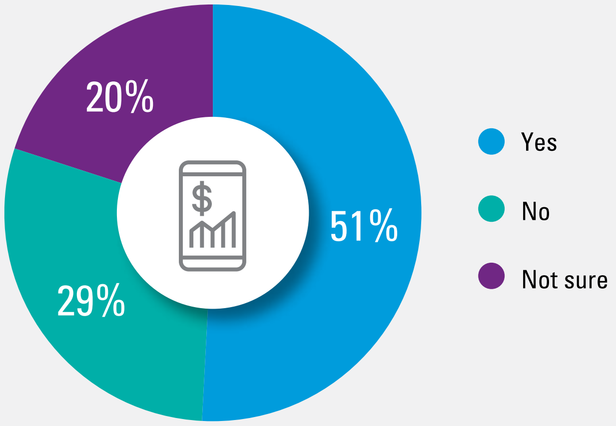
The HKTA also introduced a compulsory continuous professional development regime for its CTP accreditees to ensure that industry practitioners are continually updating their skills.

The need for greater tax clarity and reform

While the modernisation of the HKTO in 2013 has been a welcome development, the industry has observed that there is still some reluctance to set up trusts in Hong Kong. Tax is highlighted as one of the key issues, with several interviewees calling for reforms and greater clarity on the taxation of trusts and trustees in Hong Kong to encourage HNWIs and wealthy families to have their trusts managed in Hong Kong.

More than half of the survey respondents believe that the tax legislation needs to be amended to provide more certainty to the taxation of trusts in Hong Kong (Figure 14). 20% say it does not need to be amended, and 29% are unsure. While interviewees acknowledge that there have been positive tax developments such as exemptions and concessions in the funds segment, more clarity on the taxation of trusts and trustees is needed, particularly in the private trusts space.

Figure 14: Does the tax legislation need to be amended specifically to provide more certainty to taxation of trusts in Hong Kong?



Source: Hong Kong Trust Report 2021 Survey

[44] Stefano Mariani, Tax and Trusts Partner, Deacons

[45] Cynthia Lee, Head of Wealth Planning and Advisory, Asia, HSBC Private Banking

Concessionary tax regimes already apply to REITs, CIS, MPF trusts and trusts that fit within the unified funds exemption regime. "What remains to be taxed under general principles of the Hong Kong Inland Revenue Ordinance are essentially private trust arrangements with a Hong Kong trustee that happens to service Hong Kong resident families, and family trusts that hold assets beyond those fitting within the exemption for qualifying transactions."[46]

Hong Kong does not have clear rules for taxing trust arrangements generally. Interviewees suggest that the tax rules should be clarified and the tax exemption should be extended in the case of trust arrangements to Hong Kong trustees and companies that are part of this structure. "This would encourage people outside Hong Kong to use trustees and companies in Hong Kong, and this in turn would help to generate work and improve Hong Kong's business environment."[47]

Having the right tax regime for trusts in Hong Kong is crucial to the industry's growth, and to Hong Kong's overall growth. "Reforms to the taxation of trusts, given all of the professional service providers, lawyers, accountants and private bankers in Hong Kong, would increase the overall economic investment in Hong Kong, leading to more employment and more economic activity overall. This should be a priority for the government."[48]

An ageing population

Hong Kong's ageing population is a key demographic trend that is expected to have a significant impact on the labour force and pensions system. Hong Kong Census and Statistics Department figures show that Hong Kong's residents have one of the highest life expectancies in the world – 88.1 years for women and 82.2 years for men as of 2019.[49] Government projections suggest that the ageing of Hong Kong's population will continue to accelerate significantly in the coming years. The proportion of elderly persons (excluding foreign domestic helpers) aged 65 and over is projected to increase from 18%, as recorded in 2019, to 33% in 2039, and to 38% in 2069.[50]

These population projections underscore the increasing urgency and importance of ensuring adequate overall retirement protection in Hong Kong. The ageing population trend is also a key focus area and opportunity for the trust industry. At the other end of the wealth spectrum, for the private trust segment in particular, the ageing population may result in increased demand for trust structuring related to intergenerational wealth transfers and succession planning.

While acknowledging that the ageing population presents an opportunity for the trust industry, Hong Kong's retirement options remain limited, some interviewees say. "From a retirement saving perspective, we would welcome more tax incentives to be offered to members to encourage them to save more for retirement. The launch of the MPF TVC in 2019 is a good start. The current deduction cap could be raised, which would help motivate people to save more for their future."[51]

The industry also suggests that the Government consider making more post-retirement income solutions available, providing i-bonds and long-dated bonds, and providing regular investor and financial planning education to the general public to help address the challenges of an ageing population and inadequate overall retirement protection.

[46] Jacqueline Shek, Executive Director, Zedra (Hong Kong) Limited, and Chairperson, HKTA

[47] Michael Olesnicky, Consultant, Baker McKenzie, and Chair, China Development Sub-Committee, STEP Hong Kong

[48] Darren Bowdern, Head of Alternative Investments and Head of Asset Management Tax, ASPAC, KPMG China

[49] Census and Statistics Department, Hong Kong SAR, https://www.censtatd.gov.hk/hkstat/sub/so160.jsp

[50] 'Hong Kong Population Projects: 2020-2069', Census and Statistics Department, Hong Kong SAR, https://www.statistics.gov.hk/pub/B1120015082020XXXXB0100.pdf

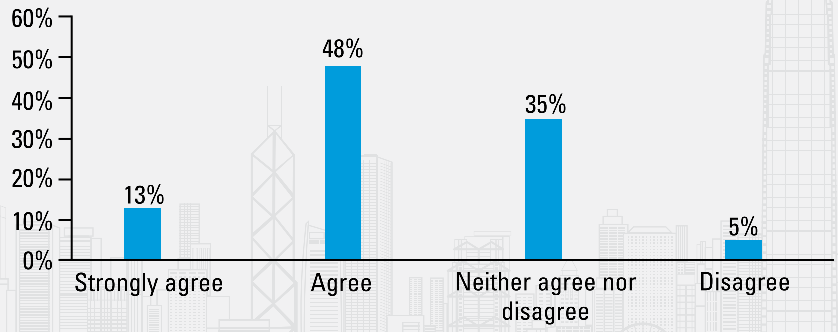
[51] Elaine Lau, CEO, AIA Company (Trustee) Limited

Looking ahead

Despite the challenges that remain, the overall outlook for Hong Kong's trust industry remains positive. 61% of survey respondents believe that the outlook of Hong Kong as a trust centre remains promising in the short to medium term, while only 5% disagree (Figure 15). The industry has been resilient in the face of Covid-19 and continues to grow, positioning itself around mainland China – the opening up of its financial services sector, the development of the GBA and the rise of private wealth. Investment in technology and digital transformation will continue, as well as discussion around whether the trust industry should be more involved in driving the ESG agenda going forward.

While there is an increasing urgency to resolve the historical challenges that remain, if Hong Kong's trust industry can position itself around these trends and opportunities in the industry, then it will continue to thrive.

Figure 15: The outlook of Hong Kong remains promising as a trust centre in the short to medium term



Source: Hong Kong Trust Report 2021 Survey

Looking ahead, the trust industry is set to transform in the coming years as recent regulatory reforms bear fruit, new regulations are enacted, the industry embraces digitalisation and the implications of Covid-19 lead to new ways of working. The rapidly changing nature of these trends means that the landscape of the trust industry in Hong Kong a few years from now will look significantly different to that of today.

Strengthening Hong Hong's competitive edge

There remains an urgent need for Hong Kong to continue to pursue regulatory and market reforms and tackle longstanding challenges in order to effectively compete with other trust centres. Singapore in particular is viewed as the biggest competitor to the Hong Kong trust industry by 73% of respondents, who cite the city-state's centralised and progressive financial regulatory framework and tax incentives, together with its supervision and transparency, as key factors.

Singapore has also proactively implemented a number of policies to boost its trust industry in recent years. The launch of the Variable Capital Companies (VCC) regime in January 2020 for example provides an attractive alternative fund structure and tax incentives for asset managers, and will create opportunities and demand for trust services. Meanwhile, survey respondents point out that while Hong Kong remains the preferred choice in Asia for mainland Chinese clients – who are the main customer segment for private trust and estate planning business – Singapore's language capabilities and cultural similarities make it a potential alternative.

Continuing to drive reforms to boost the trust industry while closely monitoring common practices in other peer jurisdictions to stay ahead of – or at least on par with – the competition will be key to Hong Kong's growth and credibility as a preferred trust centre.

Transforming business models and new ways of working

The business and operating models of trust companies will continue to change, and the trust industry will continue to embrace digital initiatives to increase efficiency and enhance connectivity and experiences, not just with clients but also among employees. The increasing use of technology will offer greater flexibility in the way that people work, and will enable organisations to meet clients' needs in a flexible way and improve the overall client experience.

While business models will undoubtedly change, some ways of working are likely to remain the same. For example, in certain segments like private trusts, face-to-face meetings are still very important. "It's unlikely that the human element of business interaction will go away and it shouldn't. You still need that element of connectivity with clients. Firms that will do the best going forward will have the right digital connections and the relevant expertise on the ground to maximise the opportunity of winning clients and keeping clients happy."[52]

The future business model for trustees in the MPF space will also transform in light of the launch of the eMPF platform. With the platform expected to launch in 2023, MPF trustees will need to use the next two years to transform their business models and seek new ways to generate revenue and add value for their customers. In the immediate months ahead, MPF trustees will need to devise an appropriate data management and data migration strategy and invest in technology that can best interface with clients, other service providers and the eMPF platform. Investments in technology and subsequent trialing and testing of these technologies should be prioritised in the year ahead to ensure that the digital initiatives are ready for implementation. Ongoing education is also key in the lead up to the launch to help clients navigate through the transition. The eMPF platform may also partner with trustees to ensure that the best interests of members and their experience is maintained, if not improved.

[52] Ben Lumley-Smith, Head of Corporate Trust Services, Computershare Asia

> *The trust industry is really taking centre stage. While the fund managers, banks and insurers are still the primary front, we are the ones that have the fiduciary duty to ensure that they deliver in the long term. The general direction is that regulators and other investors will have greater expectations on the fiduciary and trust industry going forward.*[54]

Increasing visibility, specialism and prominence of the industry

Trust services will continue to become more specialised, and clients will increasingly recognise this, which should help drive growth in the industry. Interviewees point out that trust services have become a lot more tailored, bespoke and specialised, with new trusts that are set up often having slightly different factors or nuances that need to be considered. This should therefore be reflected in trust organisations' fees.

In the past, because of the 'one size fits all' approach of trustees, trustee companies tended to compete on price. But because of the increased need for specialisation and specialist advice in trust structuring, set-up and ongoing administration to keep up with regulatory and tax changes, this requires a lot more input and attention from trustees. "Trustee companies need to take this into consideration, and clients need to recognise the increased responsibilities and risks of trustee companies as well, and therefore this needs to be reflected in our fees. Rather than a downward spiral of competing on prices, what trustees need to do is compete on quality and standard of service, rather than on price."[53]

Furthermore, as the trust industry continues to mature, it will become increasingly visible as the government and policymakers realise the importance of trustees and trust structures to Hong Kong's standing as an international financial centre.

As the industry matures, each development, no matter how small it may seem, should be viewed as a crucial part of promoting Hong Kong's financial services and trust industry, say some industry executives. For example, there is a tendency for people to sometimes look at each initiative or regulatory reform in isolation, and therefore they might think that certain initiatives are not that important to them. "However, they cannot look at it like this. If Hong Kong is to be a wealth management hub for Asia and the world for example, then each reform to create an attractive environment for HNWIs or family offices is essential and should be looked at collectively."[55]

Broadening the skillset of the industry

As the government, policymakers and the business community increasingly view the trust industry as its own profession in Hong Kong, this will help to attract new talent in the industry. The continuous development and enhancement of the CTP Program and TTC Course will be crucial in building industry recognition and attracting and training new talent to meet the growing demands of the industry.

The required skillsets of trust professionals will also expand as new mega trends and opportunities take shape. In particular, the proliferation of technology and the increasing importance of ESG means that the trust industry will need to ensure that it has the required talent and competencies to meet client expectations and demands in these areas.

Recalibration of global relationships

The recalibration of geopolitical and trade relationships – between the US and China for example – is expected to continue at least in the foreseeable future, which will have implications for Hong Kong overall. Trustees also need to closely monitor the ongoing tensions between the US and China, and the potential consequences this could have on the industry. For example, the recent US sanctions on certain securities and their impact on several trust funds including ETFs and MPF funds serve as a reminder of how the effects are felt in the business community in Hong Kong. Events such as these serve to further emphasise the important and prominent role that trustees play in looking after investor interests amid ongoing uncertainty and unexpected changes.

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53 Michael Shue, Managing Director – Trust Services, Tricor Services Limited

54 Loretta Lam, Executive Committee Member, HKTA

55 Nelson Chow, Chairman, Hong Kong Investment Funds Association, and Managing Director, AllianceBernstein Hong Kong

Hong Kong's long-term future

As some trusts are used for intergenerational wealth transfers and perpetual trusts, a key consideration for some clients is what will happen to the Hong Kong legal system after 2047. Some interviewees note that it would be helpful if the government were able to give some indications of what might happen post-2047, which would help to provide more clarity to private wealth clients in particular.

Some interviewees' approach is to look at it from the point of view that it is not all eggs in one basket. For example, from a family office perspective, a family can have multiple offices, and the one they set up in Hong Kong would definitely offer a lot of opportunities. If they are a mainland Chinese family office, then Hong Kong is a trusted platform for investing overseas. "Likewise for overseas families, Hong Kong is an ideal place for investing into mainland China. Once you have an office here, you can take advantage of the tax and trade agreements between Hong Kong and mainland China. Importantly, it doesn't have to be for financial asset investment, it can be for setting up a business hub or operation."[56]

Separately, what can be done is also for the government and regulatory stakeholders to take a longer-term view in policymaking and laying out a broader roadmap for Hong Kong, whether it is in asset and wealth management, pensions or the overall financial services industry. "This long-term view will help provide more clarity to the industry, and enable organisations to plan ahead and think about how they remain sustainable and contribute to the overall industry development."[57]

Ultimately, the importance of the trust industry to Hong Kong's development as an international financial centre is coming to the fore. With the renewed focus on promoting Hong Kong as an asset and wealth management hub – both in the GBA and internationally – the importance of trust structures, trustees and their fiduciary duty is evident.

Furthermore, with China emerging as one of the first major economies to rebound from the challenging environment brought about by Covid-19, Hong Kong is well positioned to capitalise on this positive development to enhance its competitiveness and accelerate the growth of its financial services and trust industries.

The ability of the industry, policymakers and regulators to work together to address the immediate challenges will help to reinforce the industry's growth and promote the attractiveness and credibility of Hong Kong as a leading trust centre. Industry collaboration to build a strong trust foundation and deep knowledge base, develop the value chain globally and target high value-added services will be key to enabling Hong Kong's trust industry to continue to flourish and to help maintain Hong Kong's position as an international financial centre.

[56] Dr Au King-lun, Executive Director, Financial Services Development Council

[57] Ka Shi Lau, Managing Director & CEO, BCT Group, and Vice Chairperson, HKTA

Appendix

Trust Training Certificate (TTC) details:

1. The TTC has been delivered in partnership with the HKSI Institute.

2. The TTC course consists of two parts (Part A and Part B) with a total of 42 hours of lecture-based training and examinations.

3. Under Part B, there are two elective streams with Stream 1 focusing on Private Trusts and Stream 2 on Collective Investment Schemes/Retirement Schemes. This allows trust industry practitioners to concentrate on their particular areas of interest, for example, family offices, compliance and taxation issues for trusts.

4. TTC course structure:

Part A: 7 Units
Unit 1: Introduction to Trusts
Unit 2: Types of Trusts and when appropriate
Unit 3: Administration and Management of Trusts
Unit 4: Other Estate Planning Vehicles
Unit 5: Trusts compared with other Estate Planning Vehicles
Unit 6: Trusts and Compliance
Unit 7: Trust Jurisdiction Comparison

Part B – Stream 1 (7 units)
Unit 8 - Other Trust Vehicles in Detail
Unit 9 - The contents of Trusts and Drafting
Unit 10 - Testamentary Issues & Avoiding Testamentary Disputes
Unit 13 - Family Offices
Unit 14 - Foundations Law - Part 1
Unit 11 - International Taxation Part 1
Unit 17 - Trusts and Issues for PRC Nationals

Part B – Stream 2 (7 units)
Unit 18 - Trusts for Security Arrangements, Commercial and Employee Benefit Needs
Unit 19 - Collective Investment Schemes - Part 1 Private Arrangements
Unit 20 - Collective Investment Schemes - Part 2 Public Offering Arrangements
Unit 21 - HK Mandatory Retirement Scheme Trusts – MPF
Unit 22 - HK Private Retirement Scheme Trusts – ORSO
Unit 11 - International Taxation Part 1
Unit 17 - Trusts and Issues for PRC Nationals

About HKTA

The Hong Kong Trustees' Association Limited was established in 1991 by members of the trust and fiduciary services sectors to represent the trust industry in Hong Kong, particularly in the areas of legislation and education. It is a not-for-profit company limited by guarantee and incorporated in Hong Kong. The Trustees' Association currently has about 200 corporate and individual members, and represents thousands of people working in the trust, pensions, private banking, asset servicing, legal, accounting and other professional services fields.

Mission:

- Represent the trust industry in promoting high standards of professionalism, corporate governance and regulatory compliance;
- Contribute towards advancing the status of Hong Kong trust professionals and that of the industry internationally;
- Represent the industry to the government, the media, local and international professional bodies and the public in promoting Hong Kong as an international trust and fiduciary services centre;
- Promote quality standards for the industry by the issuance of Best Practice Guides applicable to corporate trusts, pension schemes, private trusts and charitable trusts;
- Contribute towards enhancing the education and knowledge of practitioners in the trust industry through relevant trust accreditation and training programmes.

About KPMG China

KPMG China is based in 28 offices across 25 cities with around 12,000 partners and staff in Beijing, Changsha, Chengdu, Chongqing, Foshan, Fuzhou, Guangzhou, Haikou, Hangzhou, Hefei, Jinan, Nanjing, Ningbo, Qingdao, Shanghai, Shenyang, Shenzhen, Suzhou, Tianjin, Wuhan, Xiamen, Xi'an, Zhengzhou, Hong Kong SAR and Macau SAR. Working collaboratively across all these offices, KPMG China can deploy experienced professionals efficiently, wherever our client is located.

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