MOORE STEPHENS

Quarter 1 2016

Wealth Wise

Family offices

PRECISE. PROVEN. PERFORMANCE.

Philanthropy for family offices

We have entered a new era of modern capitalism where high net worth philanthropists are using their wealth to generate social, economic and environmental returns.

Often, philanthropy is being used as a vehicle to reinforce family values when considering business succession. Succession planning is not an overnight achievement and using good philanthropy strategies can lay the framework for making collective decisions, whilst also instilling the family values in generations to come. It also represents a unique opportunity to involve the next generation in decision-making and to introduce an enduring governance framework.

In some cases the framework will be driven by the legal structure, for example the articles of a family foundation, or the legal requirements of a registered charity. Some families have adopted a family charter incorporating principles of governance for family philanthropy, and in most cases the following principles will apply:

Setting the family philanthropy strategy is an opportunity for the family members to buy into an over-riding strategy which reflects their cultural or religious values, interests and expertise, to provide an enduring framework for charitable giving. The strategy will typically cover:

- defining charitable objectives, causes and sectors – traditionally health, education or relief of poverty, increasingly international development, human rights, sustainability, the environment, entrepreneurship or diversity;
- partnering with public or private organisations;
- single donations or multi-year engagement;
- impact investing;
- level of ongoing engagement;
- communication and publicity;
- restrictions and prohibitions;
- termination.

As stewards of foundation assets, trustees should look to ensure that:

- they exercise oversight over the foundation management;
- they act reasonably and diligently;
- they avoid conflicts of interest;
- they comply with relevant laws and regulation;
- they reflect the values of the foundation.

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Financial parameters may be built into the constitution of the philanthropic vehicle (such as a simple trust requiring the annual distribution of income) or act as guidance. They will probably apply to the endowment and the operations in addition to the philanthropic activities.

We will further examine the priorities for family offices in their philanthropic ventures through an upcoming survey and in-depth report. If you would like to participate in the survey or discuss the topic further, please contact us.

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Get ready for the Common Reporting Standard

The Common Reporting Standard (CRS) is a game-changer in the global fight against tax evasion. The OECD published the CRS for the Automatic Exchange of Financial Account Information on 13 February 2014.

Financial institutions resident in CRS countries will report account holder information to their local tax authorities who will then exchange information with countries where account holders are tax residents.

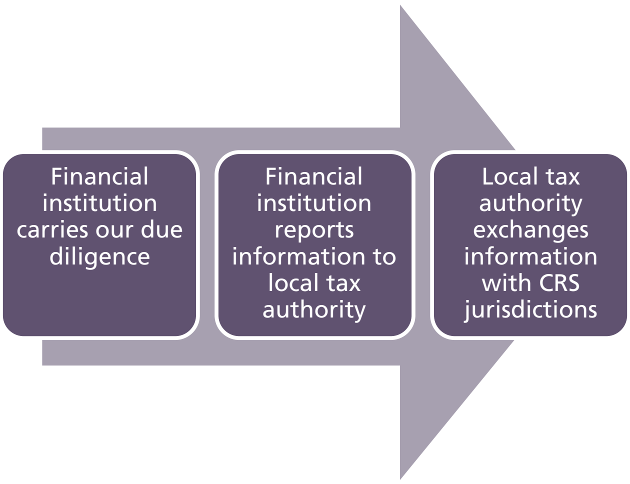
More than 90 jurisdictions have already committed to adopting CRS and there are more than 50 early adopters, with the first automatic information exchanges to happen in 2017.

CRS will work in a similar way to the US FATCA regulations, although it does not itself impose withholding taxes for non-compliance.

In the European Union, CRS will be implemented through the Directive on Administrative Co-operation. Whilst the US has no immediate plans to adopt CRS, it is already receiving financial account information through the FATCA regulations. There are very few hold-outs who have not yet agreed to adopt the CRS, namely Bahrain, the Cook Islands, Nauru, Panama and Vanuatu.

General reporting requirements

Reporting financial institutions have an obligation to review their financial accounts to identify reportable accounts by applying due diligence rules, and then report relevant information to their local tax authority:



Reporting financial institutions must report the following information on each reportable account:

- name, address, jurisdiction of residence, Taxpayer Identification Number (TIN) and date of birth of each reportable person, and, in the case of an entity, each controlling person who is a reportable person;
- account balance or value as at the end of the relevant year (or on date of closure of the account);
- for custodial accounts, interest, dividends, other income, gross proceeds from sale or redemption paid or credited during the year;
- for depository accounts, gross interest paid or credited in the year;
- for other accounts, the gross amount paid or credited during the year.

There are exceptions, for example where a TIN is not issued by the relevant jurisdiction, or where financial institutions are not required to obtain dates of birth under domestic law.

We will be publishing a comprehensive report on what organisations need to do when adhering to these reporting standards. If you would like to receive a copy or discuss the topic further, please contact Geoff Woodhouse.

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Fraud update: a biometric buzz

There's a buzz around biometrics in the IT security and financial sectors at the moment. Developers are looking at how to make biometric applications more user-friendly and service organisations are seeing how they can be used to strengthen their own data protection defences.

Banks in Dubai and London, for example, are trialling a new biometric credit card that generates a one-time-password for every successful fingerprint authentication.

The concept of using biometrics to protect financial information seems to have public support. According to a survey by information services firm Experian, 64% of UK adults would be comfortable using biometrics to log into their online bank account, and 61% believe that biometric technology is as secure or more secure than the current system of online passwords.

Software developers are now looking to combine different types of biometric information – such as a combination of voice and facial biometrics – to replace traditional passwords. The challenge is to make these capable of spotting fake biometrics – photos of faces or video footage, so that data stored on devices is properly protected from fraudsters.

For family offices, progress in biometric security has to be welcome news, as managing the risk of attack from hackers and would-be fraudsters is a key challenge. However, family offices should assess any biometric solutions carefully, including the way that biometric data is stored. If located in the cloud rather than on a device, for example, this could present a highly tempting challenge for hackers. Careful risk assessment, as always, is required.

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Moore Stephens International profile: Holthouse Carlin & Van Trigt LLP

California-based Holthouse Carlin & Van Trigt LLP (HCVT) offers a thriving Business Management and Family Office practice providing a full range of tax, accounting, cash management and estate planning services.

A member of the Moore Stephens International network, HCVT has eight offices in and around Los Angeles, including Northern California, Fort Worth, Texas, and Park City, Utah. The full-service CPA firm, formed in 1991, now has 47 partners, 11 offices and over 400 team members.

"Our firm has been working with family offices since the late 1990s," says Julie Miller, who jointly leads the business management and family office practice with fellow partner Mara Hofman. Julie has been in business management for her entire career. "We see ourselves as being our clients' all-round financial advisers. We work hand-in-hand with them, advising them on all aspects of their financial life." Whether clients need insurance brokers, investment managers, real estate dealers or other specialists, Julie and her colleagues coordinate their input. "We are like the conductor of an orchestra – we put the pieces together in a complete package," she says.

Given where the firm is based, it's no surprise that many clients come from the world of film, TV and entertainment, but also individuals and families whose wealth comes from other sources. Given the profile of their clients, cross-border needs and issues regularly arise. "Many clients go abroad to work, so we have a lot of cross-border tax matters to address," Miller says.

Many clients are particularly focused at present on reviewing their investment portfolios and mitigating the impact of taxes, such as the new 'ObamaCare' taxes. Miller enjoys helping clients fulfil their financial aims and protect their family wealth. "To me, success is helping someone achieve a fabulous retirement and leave a good legacy to their heirs," she says.

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Profile: Andrew Jacobs

Andrew Jacobs, director of the Regulatory Consulting team at Moore Stephens, sees good opportunities for helping family offices meet their regulatory obligations as they implement investment plans.

Andrew joined Moore Stephens last year, bringing a wealth of regulatory experience gained in other advisory roles and directorships in the financial services sector. Now head of the firm's Regulatory Consulting team, he enjoys helping family offices pursue their short and medium-term objectives.

"A number of family offices are currently looking at setting up some kind of alternative investment fund, whether for business purposes or because family members want to pool their funds and undertake investments in line with their outlook as a family," Andrew says. "They might only want to speculate for a year or two, for a particular period when they have liquidity. So we are working with a few family offices on structuring their investment funds and ensuring regulatory compliance issues are addressed."

The Regulatory Consulting team's services are highly flexible. "We would like to be the first port of call when family offices have any query about regulation," Andrew says. "We can provide ad hoc services for a one-off project such as an acquisition or a change in management structure that has a regulatory impact. And we can offer support on an ongoing basis, providing compliance services monthly or quarterly that firms wouldn't be able to afford if they had to hire someone in-house."

Andrew anticipates growing demand for his team's services. "The regulatory landscape is increasingly complex," he says. "We are seeing more and more demand from clients to help them not just react to a need but anticipate a need, so they are ahead of their peers in meeting regulatory requirements."

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The time is nigh – FRS 102 reporting

Since the original issuance of FRS 102 in March 2013, the changes arising from the new standard have been a recurring topic in our newsletters, factsheets and other communications.

For many though, this spectre at the accounting feast will shortly be exercised through the production of the first set of FRS 102 financial statements after which the pain of transition and set up will be (thankfully) over.

Nonetheless, the task of actually reporting on the transition and adopting the requirements of FRS 102 still remains. This challenge is not insignificant as, for those transitioning from the previous incarnation of UK GAAP, many of the disclosures bear a much closer resemblance to those of the IFRSs than the old UK FRSs.

Having been responsible for continually drawing attention to this presence in our midst, we are delighted to be able to assist with its vanquishing. Accordingly, at the end of February, we will be publishing a set of FRS 102 investment fund financial statements as the latest addition to our illustrative investment fund accounts range to aid in the adoption of the new presentational and disclosure requirements.

For additional information, or support and advice in adopting and reporting under FRS 102, please contact David Bates.

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For more information please go to:
www.moorestephens.co.uk
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