JANUARY 2021

PRIVATE CLIENT SERVICES

TRANSPARENCY

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THE DEFAULT SETTING IS DISCLOSURE

The transparency agenda has been central to private client planning for some time. Our research reveals a clear understanding and acceptance that transparency requirements are not only here to stay, but set only to strengthen, broaden and deepen. The new reality for private individuals is that information sharing is more sophisticated, more thorough and more immediate than ever. 'Real time' has replaced 'on request' and the default setting is disclosure.

> *"There is a clear understanding that transparency requirements are set only to strengthen, broaden and deepen"*

Globalisation and technology have created an increasingly borderless world for business and individuals. Despite a lag, authorities have gradually been catching up, creating frameworks for inter-jurisdictional cooperation and collaboration. International harmonisation ensures compliance is paramount, but this brings new complexities which wealth owners are expected to navigate and structure their affairs within. Linked to this is the fact that tax authorities are coming under increasing political pressure to raise taxes and we may see an increase in investigations across the globe, such enquiries can cause distress and add to the cost of investing or operating in that jurisdiction.

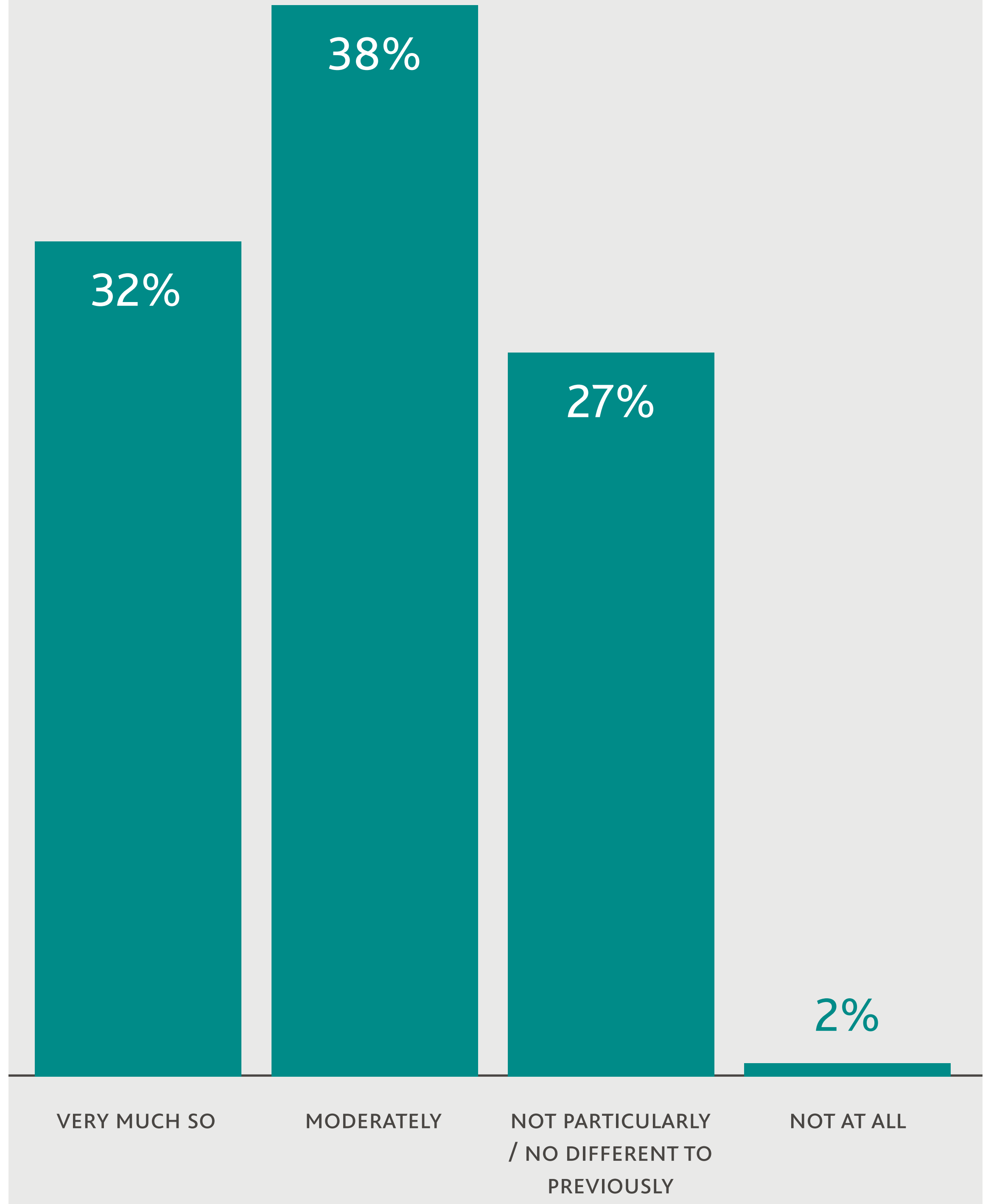
How, then, are private clients managing their tax strategies to guarantee compliance? Tax regulation is particularly complex and further complexity may arise as wealth owners grapple with national tax policy reforms that are likely to be introduced post-pandemic. There is an overwhelming appetite for ensuring compliance to stave off unwelcome surprises later down the line. As one legal adviser points out "nobody wants another Panama Papers", and in some cases this has prompted a flight to conservatism.We are fast approaching the transparency horizon, beyond which regulation may become onerous, excessive and counterproductive. Wealth management professionals hope that regulation will speed up with time and technology, as there is a need to "remove the grit in the system and get past endless box-checking".

One UK adviser compares the approach to traffic in London: "you introduce all these regulations, but the result is that traffic is slower".

The tipping point may be closer than one might think. Specifically, concerns over the EU Directive DAC6 on mandatory reporting of cross-border arrangements persist, with one Swiss professional adviser observing that, while the need for tax transparency is well-understood, "there has to be a line in the sand and DAC6 is a huge burden". Although, DAC6 is not significantly mitigated, what is left cannot be ignored.

GRAPHIC 4:

HOW CONCERNED ARE HNWIS AROUND POTENTIAL PRIVACY AND SAFETY RISKS POSED BY TAX TRANSPARENCY AND INTERNATIONAL REPORTING REQUIREMENTS?



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PRIVACY CONCERNS PERSIST AND DEEPEN

Hailed as an unequivocal good by authorities and regulators, the reality is that transparency is a double-edged sword. Our research reveals the extent to which private clients harbour concerns around information falling into unscrupulous – or merely untrained – hands.

Remaining compliant with tax and regulatory authorities is both expected and accepted. "Clearly, there is a need for authority access," says one corporate lawyer in Cyprus. With the OECD-led Common Reporting Standard (CRS) overseeing information exchanges since 2017, individuals are accustomed to the automatic exchange of information between authorities in participating countries (those that are on the CRS' 'reportable jurisdictions' list).

Such measures contributed to a reduction of deposits to offshore jurisdictions and estimates from the UK's 'No Safe Havens' 2019 report suggest that automatic information exchange now covers 90% of global GDP. But despite signs of the initiative's effectiveness, campaigners in some jurisdictions want transparency to go further still. The Panama papers, followed by subsequent leaks, have also had an influence.

However, there is a downside to transparency – and privacy is the main price that is paid. The CRS has mechanisms to safeguard the secure transfer of data, but these procedures continue to be tested and must keep pace with technological advances to ensure leaks do not occur. Another APAC-based fiduciary says the problem comes when information is publicly available, either by design or by virtue of leaks, which "creates a sense of unease when data is floating about in the open".

This gives rise to associated concerns around physical safety, for example where information falls into the hands of criminals. Our research shows that 70.8% believe HNWIs are moderately or very concerned about the privacy and safety risks posed by tax transparency and reporting requirements (Graphic 4). A mere 2.4% are "not at all" concerned about such risks.

"When you consider personal safety, does the public really need to know?" asks one Hong Kong based trusts and family office services provider, who has also worked in North America. This is echoed by a European trusts and fiduciary structures specialist who asserts that "shaming in the press is wholly wrong".

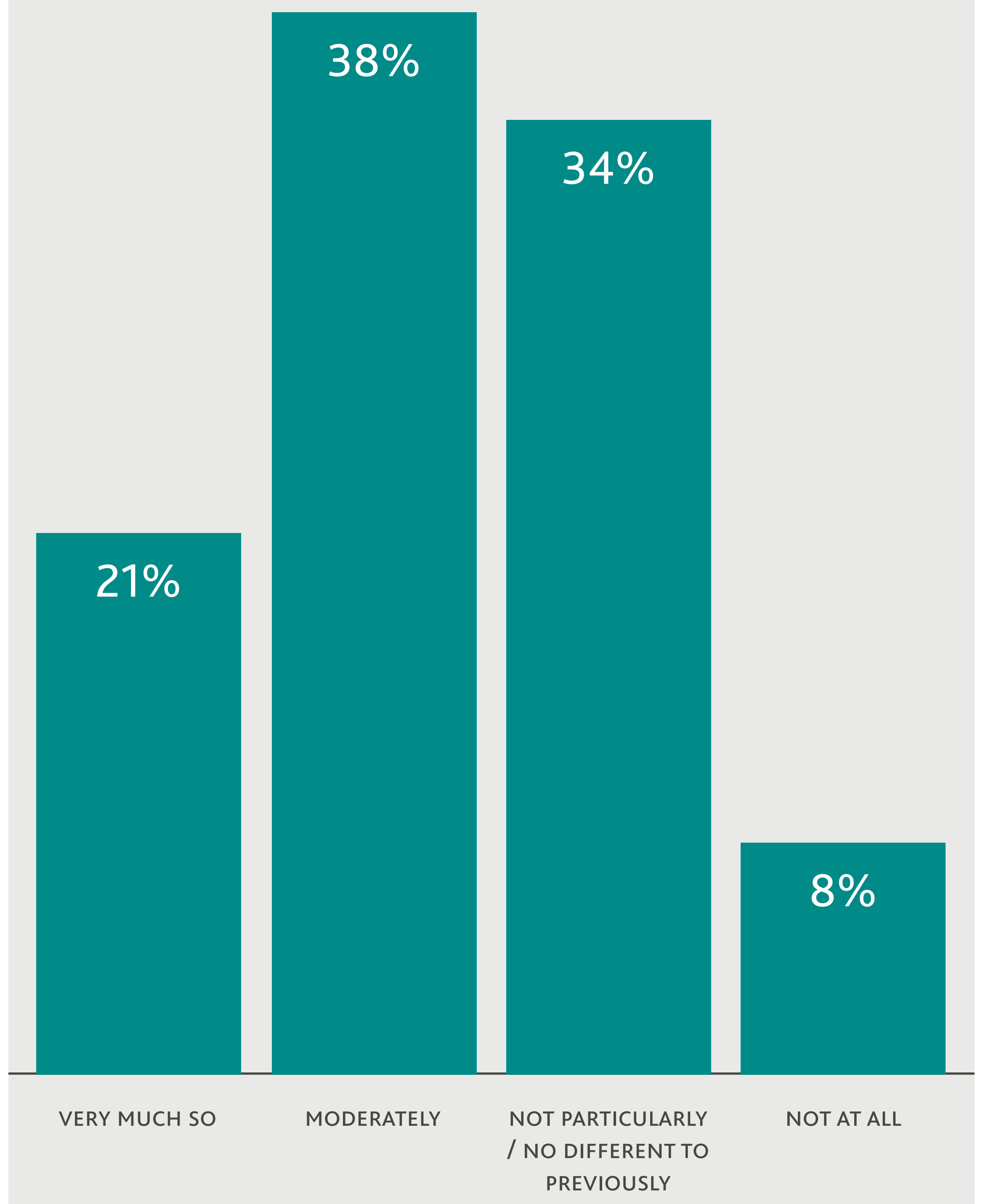
Nonetheless, public scrutiny and the reputational risks of being thrust into the media spotlight or court of public opinion must be considered.

A majority of private clients take issue with the public nature of certain transparency requirements, and the vast spectrum of new stakeholders that creates. Public beneficial ownership registers have questionable benefit, says one intermediary who believes such mechanisms are "fundamentally wrong" and may constitute a "breach of human rights".

While matters of law should be cut and dry, private clients must also decide what level of explanation or justification they attach to their structures, in the face of public interest and access. This is reflected by 92.4% of respondents factoring in concern for personal or family reputation when making decisions around tax structuring and compliance, with 59.2% saying it either "moderately" or "very much" impacts their decision-making (Graphic 5). "There is no objection to disclosing information, per se, but there are objections depending on the audience," summarises one lawyer. Reputational concerns, therefore, are now a defining factor in wealthy individuals decision-making.

GRAPHIC 5:

TO WHAT EXTENT HAS CONCERN FOR PROTECTING PERSONAL & FAMILY REPUTATION BECOME A DEFINING FACTOR IN DECISIONS AROUND TAX STRUCTURING AND COMPLIANCE?



2021 OUTLOOK:

FROM CAREFUL ADJUSTMENTS TO DECISIVE ACTION

While our research reveals the scale and extent of the change that 2020 has thrust upon the world of private clients, it also shows that the fundamental principles wealth owners live by are being adapted, rather than replaced.

Our findings indicate that the appropriate initial response to radical reset is careful adjustment, not knee-jerk reaction. This culture of adaptability and measured response is not new, but its application is. Diversification and opportunity-spotting in reaction to outside events and forces has always been part of sensible wealth management. It is now applied to all aspects of wealth owners' lives.

At the same time, the events of 2020 were unprecedented, so wealth owners remain alive to the need for further change. We have discussed how continued success will rely on thoughtful decision-making that is responsive to change while staying true to the principles that underpin a longer-term outlook.

2021 OUTLOOK:

FROM CAREFUL ADJUSTMENTS TO DECISIVE ACTION

We expect the demand for family offices to continue to grow, as 2020 has given families an opportune moment to take a step back, rethink, plan and start to put in place their succession arrangements. The family office completes the puzzle by providing the basic fundamentals required for this planning phase and set succession planning on a sustainable footing.

But as the themes we have tackled continue to flex throughout the coming year, re-evaluation of priorities will continue to occur. More radical alterations may be warranted as certain trends become permanently embedded while others are shown to be temporary and are duly swept aside.

So, how will our four pillars stack up in 2021?

Transparency will continue quickly. The resolve of national authorities will surely increase, and the tolerance of non-compliance will fall, as recession deepens and governments seek funds to pay for COVID-related policies that have supported the economy in the short-term. Policymakers will keep a watchful eye on the wealthy as they seek to strike a balance between the goal of stimulating the economy and the risk of driving investment away if the taxation ‘stick’ is wielded too forcefully.

COVID-related restrictions are already impacting **relocation** strategies, and will continue to do so, but at some point cross-border activity and movement will return more fully. We are seeing individuals wanting to return to their “home” country where that country has COVID-19 largely under control. This is in turn leading to a surge in demand for property rentals and purchases in some jurisdictions. Wealth owners should assess (and are already assessing) their priorities and options now in order to act swiftly when the time comes.

We should not ignore the potential for a global pandemic to accelerate **inter-generational change**, both due to modified mind-sets and the mortality implications of COVID-19. Right now, it is impossible to imagine a world without COVID-19 but, even in its absence, new social norms and a focus on ESG serve as accelerating forces. The role of the current wealth holders will increase as they actively plan to pass on their wealth and educate the next generation. The only constant is change – but what positive forces can we expect to see within wealthy families, as the ‘react’ phase ends and the ‘resilience’ and ‘realise’ phase begins?

So, too, for the **adviser of the future**. As wealth owners (and wealth itself) change, they bring with them new expectations. However, while everything else around us changes, client satisfaction must not. One thing that is certain is that business as usual no longer exists. Private client advisers must remain alive to shifting needs as the private client landscape and the wider world evolve.

For now, the pursuit of stability remains the order of the day. As the fallout from 2020 continues to crystallise, and with the aid of additional clarity, wealth owners will be able to turn measured responses into more meaningful, longer-term action plans.

This report is the first instalment of a multi-year initiative designed to track and monitor sentiment within, and directed towards, the private wealth community, as well as analysing wealth-holder attitudes and strategies year-on-year. If you would like to discuss this year’s findings, or take part in next year’s research, get in touch with us – just search ‘BDO World of Private Clients’, or contact your local adviser opposite.

Read our full report to see the wider analysis of our four themes.

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