Advisors Today

SPRING 2011

THE RISE OF Wealth Management IN CHINA

IFPHK
Institute of Financial Planners of Hong Kong
香港財務策劃師學會

CFP CM

China's wealth management market is booming, due to the huge rising number of mainland Chinese with assets, and the huge amount of bank savings. Sherry Lee explores ways to help you get into China's rapidly growing financial

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Eleanor Wan guides you on how to comply with the latest SFC regulation, which is being introduced to ensure that investors are aware of the risks before investing in derivatives, and ways to protect yourselves in disputes.

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A comprehensive guide to a new star investment tool: RMB products By Liana Cafolla

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From the President

Upholding standards

Dear members,

In September 2008, when stock markets crashed and Lehman Brothers collapsed, thousands of retail investors hit Hong Kong's streets to voice their anguish over losing their life savings, which evaporated along with the Lehman minibonds. The protesters- most of whom were elderly, some illiterate - said they had been misled by bank staff when they bought the high-risk financial products. They said they were not given adequate information about the nature of the financial product nor its inherent risks. The protesters urged the government to take action against the intermediaries who sold the products and to hold regulators accountable for failing to protect investors. The outcry over the minibonds saga led to demands that financial intermediaries conduct their business ethically.

The global financial crisis highlighted the weaknesses in the worldwide financial system. In Hong Kong, the issue motivated regulators to introduce new regulations to protect investors and rebuild public trust. The latest regulation, Investor Characterization, introduced by the Securities and Futures Commission (SFC), will come into force in June. The regulatory initiative is aimed at ensuring that investors are only able to buy derivatives if they have been made fully aware of the risks involved.

While these measures are primarily being introduced to protect investors, they also function to raise the standards of financial professionals. As your president, I value the high standards of our profession. With an enhanced benchmark, business can be conducted in an environment of trust. Our standards are the most valuable asset our financial planning profession brings to business and investors.

Since our establishment in 2000, our Institute has upheld our mission of "reinforcing and upholding professional standards in financial planning". Our qualification programme trains prospective CFP professionals in ethics, teaching them how to make the right decisions in a variety of circumstances. Our continuing professional development programme offers courses to enhance members' knowledge and awareness throughout their careers in a fast changing market.

The Competency Profile Survey is one of our latest initiatives to boost standards within our profession. Thanks very much to the 2,000 members who participated in the survey. We will use the survey's results to review our CFP certification programme with the goal of raising benchmarks within our industry. The report can be downloaded at www.ifphk.org.

The Institute believes boosting consumer awareness is as important as financial planning. Adhering to our other mission statement - "increasing public awareness of the value of CFP certification and the financial planning process" - IFPHK often takes part in public events to promote our profession. In February, we participated in the Hong Kong Education & Careers Expo. We gave advice to young job seekers and employers on how our qualification programme can help people become a CFP professional.

Being a Certified Financial Planner, you can create your own success story and make a difference in society. You assist your clients to make retirement plans to safeguard their living standards when they get old. You uphold ethical standards. You can also help people through volunteering. CFP Peter Fung recently won the Yuen Long Outstanding Volunteer Election 2010 for his outstanding achievement and dedication to volunteering in the New Territories West. Peter, well done! The Institute believes financial institutions should have corporate social responsibility (CSR) to better our society. We recently took part in a CSR project, the Green Cub Financial Workshop, where we used our financial planning expertise to train individuals. I would encourage more CFP professionals to give back to society.

As President of IFPHK, I recently took part in two consumer education programmes to promote our profession. One of them was Invest Ed Arena organized by the Securities and Futures Commission (SFC) on March 13. The other was the Retirement Planning Seminar hosted by the Mandatory Provident Fund Schemes Authority (MPFA) on March 19. Our participation in these events reflects the growing recognition from regulators of the professionalism of CFPs. The Institute will maintain close ties with the SFC, the MPFA and other regulators to strengthen communication; gain up-to-date information about regulations; and reflect issues concerning our trade.

To enhance communication with our members, we recently relaunched our quarterly magazine, Advisors Today, to help financial planners do their jobs and develop their careers confidently. Armed with a team of experienced financial writers, the revamped magazine will report on market trends and business developments in a fast changing market.

In each issue, I will brief you on the Institute's news and viewpoints on our profession. Our CEO Eleanor Wan will unravel the complexities of new regulations in her regulatory column. There is also an in-depth feature on how to maximize opportunities in emerging wealth management markets. Our Quarterly Review column provides global financial news at a glance. Practice Tools offers practicing tips on wealth management markets. Technical Q & A is an easy-to-read introduction to a particular financial product. I hope that our magazine will become a practical companion to your working life.

With Hong Kong's GDP growing 6.8 per cent last year, 2011 will be a rewarding year for financial planners. I am confident that our steps today will build a growing profession with high standards and a bright future.

Paul Pong
President
IFPHK

AdvisorsToday

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Advisors Today invites editorial submissions by qualified People. Please address all editorial enquiries or submissions to the publisher at marketing@ifphk.org.

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A comprehensive guide to a new star investment tool: RMB products
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The number of mainland billionaires has been growing rapidly, filling the coffers of local banks. As a result, China has become a profitable market for wealth management professionals. Sherry Lee looks at the opportunities for asset management in the world's second largest economy.

As general manager of a joint venture insurance agency in Shenzhen, Paul Cho King-pak foresees a huge financial planning market in China. "Our company business has grown gradually," says Cho of Shenzhen Altruist Financial Group Limited.

Since 2007, when Hong Kong-based Altruist set foot in Shenzhen, sales of their investment-linked insurance plans, regarded as a wealth management product, have doubled.

Many of the company's clients buy one-off investment-linked insurance plans worth between RMB80,000 and RMB100,000.

"Occasionally, clients bought plans costing RMB500,000-600,000 each," he says, adding each of their insurance scheme nets them an average monthly premium of RMB500-700.

But for Cho, such big bucks are only the beginning.
"We are still searching for strategies on how to develop this market. This market potential is very, very big."

The rise of wealth management IN CHINA

The market potential is reflected in China's strong savings.
In late 2008, People's Bank of China's vice-governor Yi Gang said Chinese individual bank savings had exceeded RMB20 trillion. But there is just RMB 4 trillion invested in funds, says Dr Alexander Chan Hing-sang, head of Guo Yuan Asset Management, a financial planning specialist doing extensive business in the mainland.

"Mainland China has such huge bank savings. It means that the market need for wealth management is so big," says Chan, who is from Hong Kong. "Now the industry is talking about how to attract those savings from the banks."

Seeing these enormous savings available for investments, Convoy Financial Group, a provider of financial planning and insurance services, plans to launch its insurance business in three or four Chinese provinces this year.

The group's chairman, Quincy Wong Lee-man, says they will set up joint ventures with local insurance agents or acquire mature companies to make use of the firms' existing sales networks and experiences.
Wong says that they will explore other asset management businesses in China in the future.

One of his target markets is China's wealthiest people. According to the Forbes list of the world's billionaires, 115 Chinese have over US$1 billion in assets each. A joint study by Forbes and China Construction Bank in 2010, White Paper on China's Private Wealth, also reported China as having 380,000 "high-net-worth individuals" who have altogether RMB 22 trillion worth of assets for investment.

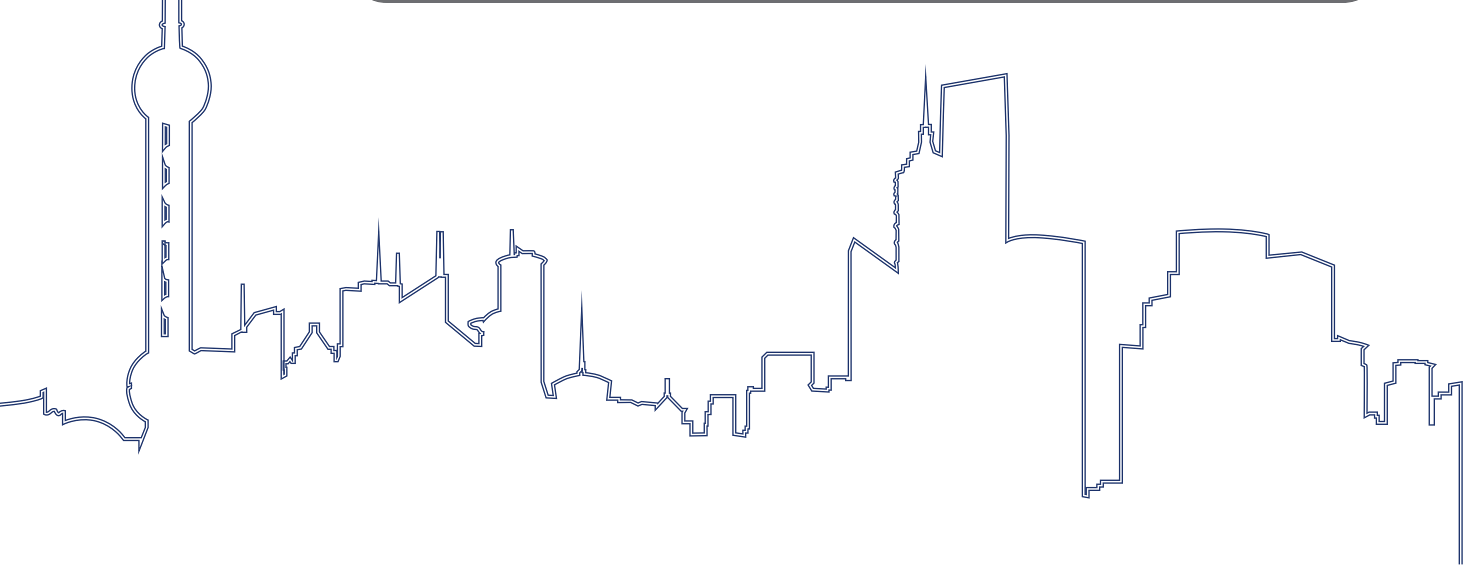
About 70% of the high-net-worth crowd "rely on themselves or families to manage their assets" because of a lack of wealth management services they can trust, the report said. "This figure means each of these high-net-worth people has over RMB50 million to invest. But they know very little about investment tools," Wong says.

China's 90 million middle-class families with average yearly income of RMB100, 000 or above are also their target market. Out of all households in China, 24% are middle class.

"Even if you get all of Hong Kong's population to sell investment products to these Chinese, there are still not enough people to do so. The Chinese market is very big. You don't have enough people to handle such a big market," Wong says.

In fact, the market is doing so well that there is already a talent shortage, despite China having 9,034 CFP professionals and 61,847 AFP professionals as of December 2010, as registered by the Financial Planning

“ **MAINLAND CHINA HAS SUCH HUGE BANK SAVINGS.** It means that the market need for wealth management is so big…Now the industry is talking about how to attract those savings from the banks.”



Standards Board (FPSB China).

Xue Hong, chief executive officer of FPSB China says: “Now everywhere in China needs financial planning professionals, especially the top-level talents.”

Talents in great demand include investment products specialists, financial analysts and experienced financial planners.

According to FPSB China, the mainland wealth management business kicked off in about 2000. Five years later, the trade had developed rapidly with banks, insurance companies, funds, and stock brokerages — as well as what are known as ‘third-party wealth management firms’ — had all joined the fray with a wide range of asset-management products.

Different businesses trade in a variety of asset-management products. Insurance agents sell life and investment-linked insurances. Banks offer insurance, gold, currency-linked savings, trusts, A-share index-linked instruments, commodities-linked instruments, public funds, private equity funds and other products. Stock brokerages trade shares and handle discretionary portfolios for clients by making the buy-sell decisions to manage the client’s pool of money. Fund houses sell directly to the richest clients and indirectly to retail investors through banks. Third-party wealth management companies advise clients on which trusts to invest in and earn a commission from those trusts.

China’s control of the sectors where financing planning businesses are operating is tight. There are different regulations governing various sectors, including banks, insurers and stockbrokers.

→ The China Securities Regulatory Commission (CSRC) implements a centralized and unified regulation of the nationwide securities market. CSRC regulates and supervise securities issues, investigates and imposes penalties for illegal activities related to securities and futures. It oversees issuing, trading, custody and settlement of equity shares, bonds and investment funds.

→ The China Insurance Regulatory Commission (CIRC) regulates Chinese insurance products and creates laws and rules to supervise the insurance industry. Insurance companies, agents and brokers need approval from the commission to run their business. CIRC offers accreditation and approves the qualifications of managers of various insurance companies, including brokers. Banks also need approval from CIRC to run their insurance business and be regulated according to insurance laws.

→ The China Banking Regulatory Commission (CBRC) formulates rules and regulations to govern banking institutions. It authorizes their establishment, changes, termination and business scope. CBRC also undertakes on-site surveillance of banks and enforcement actions against rule-breaking behaviour.

→ However, third-party wealth management is currently beyond the reach of all existing regulations. Individuals can simply set up a private company to undertake asset management.

“It is a grey area. There is no law to govern these companies. People don’t need a licence to run a third party firm,” Chan says. “The operator can be a CFP professional or someone who has no knowledge of finance as long as the clients trust him.”

Third- party companies often call themselves asset management firms, Chan says.

Under Chinese regulations, trust companies must not entrust non-financial companies to promote or sell their products. To get around the restriction, third-party firms typically sign consultancy agreements with trust companies, rather than sales agreements.

"The third-party companies cannot receive money from clients. They charge commissions to the trust firms, as advisory fees and asset management charges. In fact, the commission is transferred to the clients as the trust companies will mark up their prices," Chan says.

Banks dominate the asset management market. Observers estimate their share at 70-90% of the total. "People in the mainland have confidence in big corporations," Cho says. "Also, banks have more chance to get in touch with wealthy clients."

Despite this dominance, Cho says there is no danger of a shortage of clients, citing the rapid growth of the middle class in the mainland. They include owners of small and medium enterprises, corporate executives, professionals, teachers and senior civil servants.

The sluggish stock market and mainland government policies to depress house prices mean that Chinese have little choice in where they invest their money despite their wealth has been boosted by strong economic growth in the world's second-largest economy.

"People have so much funds in their hands but their channels of investment are limited," Cho says. "Funds have no place to go. So there is a great need for financial planning."

Low interest rates and high inflation in China also discourage people from putting money in the banks, "as interest cannot cover the cost of inflation". So, Cho says, they are looking elsewhere.

For high-net-worth Chinese, housing and stock remain the most popular investment options, according to a China Construction Bank study released in December 2010. Trust management, investment trust products, business insurance, futures, precious metals, art collections and other investments are becoming increasingly popular for these wealthy individuals. And 22.6% of high-net-worth Chinese hold offshore assets, with Hong Kong being their first choice, the study said.

In recent years, rich mainlanders have come to Hong Kong through the Individual Visit Scheme to buy shares, funds, insurance plans and even derivatives.

It is illegal to solicit mainlanders to invest offshore, but mainland travellers are allowed to buy insurance or make investments while they visit the former British colony.

Cho believes the funds in Hong Kong are just a "tiny bit" of the wealth management market of China, with the majority of funds remaining in the mainland.

Hong Kong financial businesses started to tap into the mainland's wealth management market in 2003 when the local economy slumped amid the outbreak of Severe Acute Respiratory Syndrome (SARS).

That year the Individual Visit Scheme began, bringing in mainland Chinese to buy insurance and make investments in Hong Kong. The mainlanders' fistfuls of bank notes was an awakening, triggering some of the city's insurance brokers and firms affected by the SARS' recession to cross the border to explore China's burgeoning wealth management market, Chan says.

At first, they offered financial planning consultations to clients to encourage them to buy insurance plans in Hong Kong, Chan says. Later more Hong Kong firms joined the ranks. Some started insurance agencies while others set up stock brokerage firms. Some became financial public relations (PR) consultants.

"These PR firms host fee-charging seminars for Hong Kong's financial institutions, such as stock brokerages and providers of warrants and derivatives. During the seminar, the clients realize their 'deficiencies', and come to Hong Kong to make the investments," Chan says.

Meanwhile, support is on the way from the mainland government. Chinese authorities are exploring how to support the development of small insurance agents and wealth management companies. "It is very positive," Cho says.

China's insurance market is still in its infancy. Clients still see the purchase of insurance policies as a favour for their financial planner friends or relatives, he says.

When choosing a financial planner, they will trust people they know or are introduced to, rather than whether they have a CFP certification.

Mainland Chinese have low awareness of investment risks. As a result, they do not know the importance of having a CFP professional to handle their investments, Wong says.

> "Some trusts in the mainland are very risky. They simply said there is a project where you can put your money in and promise you a return. It is very risky," Wong says.
>
> "But Chinese people don't care about the risks and they will put the money in as long as there is a return."

In 2002, China's Labour Bureau launched a qualification programme for financial planners aiming to use it as a nationwide accreditation to regulate the asset management market.

However, it was not widely supported by the industry. Part of the reason is that there is no consensus on what jobs are called financial planners and who should be regulated, Wong says.

He hopes that China will impose a law ensuring that only qualified professionals are allowed to call themselves financial planners.

Chan, who was accredited with the Labour Bureau's qualification in 2005, urges the Chinese government to license financial planners. "I hope that in future, financial planners need to get an accreditation before they are allowed to work in the trade in China as it can promote best practices," Chan says.

STRATEGIES FOR **SUCCESS IN CHINA**

How can you tap into the growing wealth management market in China?

Hong Kong's financial planners wanting to launch a career in the mainland should target the country's 380,000 'high-net-worth individuals', says Quincy Wong Lee-man, chairman of Convoy Financial Group.

He explains that if Hong Kong's CFP professionals aim at the mainland's middle class, their earnings will be similar to what they would normally get in Hong Kong, and "there is no advantage to moving to China".

Wong says Hong Kong's financial planners should not just jump into the China market without any preparation. He says mainland clients will not trust them to make transactions with their money because of the financial planners' unfamiliarity with local conditions.

However, local financial planners should try to reach mainland investors when they come to Hong Kong through the Individual Visit Scheme. "They can start making transactions for mainland clients in Hong Kong to build up their confidence in them. Then through these clients, they can network with other Chinese investors and then enter the mainland market," Wong says.

To communicate with mainland clients, Wong reminds local financial planners to speak clear Mandarin, learn their jargon and enhance their customer-service skills. Last but not least, don't add English, into their conversations.

"It is common for Hong Kong people to pepper their conversations with a few English words to show off. But in the mainland, it is taboo. There will be investors who don't know English and dislike you speaking English as they feel that you are being pretentious, though they will not say it," Wong says.

Financial planning specialist Dr Alexander Chan Hing-sang, who is also an Institute of Financial Planners of Hong Kong (IFPHK) executive committee member, says networking with mainland's clients is one way to go to China.

"They can go to mainland seminars and workshops to meet people, and contact human resources companies," he says. "They should start visiting China more to understand the people's culture and their needs."

He also urges career-seekers to read more to understand China. Chan reads 60 mainland financial magazines each week, and four mainland newspapers per day.
The other way to enter China is to become a specialist: People, he says, should upgrade their knowledge of various investment products and become familiar with China's legal environment to work as a product specialist.

Thirdly, financial planners should train themselves as "solution-oriented" professionals, as many mainland clients need solutions for various aspects of their life.

To learn more about wealth management in China, you may join the Wealth Management Conference: Explore the Development of Wealth Management Business in Mainland China and Hong Kong.

Date : 23 & 24 June 2011
Time : 9:00 – 17:00 (Thursday) / 9:00 – 12:45 (Friday)
Venue : The Mira, 118 Nathan Road, Tsimshatsui, Kowloon, Hong Kong

For details, you may click to www.ifphk.org or turn to the Announcement Section.

"The clients may give you RMB1 million and you have to handle their various needs and formulate solutions, ranging from the children's education, to migration or teaching them lifestyle issues such as how to appreciate wine and cigars," Chan says.

Paul Cho King-pak of Shenzhen Altruist Financial Group Limited adds that those who have lived in China, such as mainland migrants, have a competitive edge, explaining that their connections in China can give them a head start in obtaining clients.

Financial planners wanting to work in the mainland's insurance trade need a mainland accreditation to obtain a licence. An examination can be taken in Hong Kong.

Both Wong and Chan advise financial planners to obtain the CFP certification from the non-profit Financial Planning Standards Board China (FPSB China) and IFPHK as an added-value item in their resume.

To obtain a CFP certification in China, an applicant first has to obtain the Associate Financial Planner certification, and then take 132 hours of training and a two-day examination offered by Shanghai-based FPSB China. Work experience is another criterion for CFP certification, as required by the group.

People who already have a CFP certification in Hong Kong can take cross-border training and an examination to obtain the CFP certification in the mainland, says Xue Hong, chief executive officer of FPSB China.

"It is not a must to have an FPSB China CFP certification to work as a financial planner in the wealth management sector in the mainland. But for those working in the sector, having a CFP certification shows their professionalism," says Xue.

INVESTOR CHARACTERIZATION

Regulations will play a vital role this year in raising standards for financial planning professionals. The latest regulation, Investor Characterization, will hit the local investment market in June. IFPHK's chief executive officer Eleanor Wan explains the rule's complexities and shares tips on how financial planners can use it to maximize opportunities.

The Securities and Futures Commission has introduced a new regulation, which will come into force in June, to protect investors from buying derivatives without understanding the risks.

The regulation - called Investor Characterization - is among a series of amendments made by the SFC to its Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (Code of Conduct) to enhance protection for the investing public.

The amendments, aimed at correcting intermediary-client dealings after the Lehman minibonds saga, are based on the results of public consultations announced by the SFC in May last year.

While most of the new regulatory initiatives - such as providing Product Key Facts Statements for clients, banning gifts, and installing post-sale cooling-off rights for investors - are being implemented, Investor Characterization will take effect on June 4 this year.

The regulation requires intermediaries to assess a client's knowledge of derivatives during the "know your client" procedures to characterize investors. If you classify the client as not having knowledge of derivatives, you need to explain the product risks to the client.

According to SFC recommended criteria in the circular, investors may be regarded as having knowledge of derivatives by three methods: undergoing training or attending courses on derivative products; current or previous work experience related to derivatives; or prior trading experience in derivatives. A client will be considered as having knowledge of derivatives if he or she has executed five or more transactions in any derivative product within the past three years.

The regulation states that financial planners should not promote any complex products embedded with derivatives to clients who do not have such knowledge.

If these clients request to purchase a product with a derivatives component which is listed on the exchange, financial planners will be required to explain the risks associated with the product prior to any purchase agreement.

If the product is unlisted—such as Equity Linked Instruments (ELI) or other high-risk products, the financial planner is required to warn the client about the transaction.

The financial planner may only proceed with the purchase "if doing so would be acting in the best interests of the client in accordance with the general principles of the Code of Conduct", the SFC rule states.

The new rule presents a challenge for financial planners because of its ambiguity in defining knowledge and experience. It is difficult to define knowledge, which is a subjective concept. Defining investors in terms of their trading experience is also dangerous: an investor who has traded derivatives does not necessarily understand the products.

We need a vigorous system to define what is meant by knowledge and experience in derivatives. The SFC noted that their suggested criteria for defining a client with knowledge of derivatives "should be viewed as examples only and will not be included in the Code of Conduct". This means that you have to make the judgment on your own, which makes your job more difficult.

Having said that, I see positive developments from this regulation. The new rule not only increases protection for investors, it will raise the professionalism of financial planners. The regulation will trigger the need for financial planners to upgrade themselves through continuing education.

To meet the continued demand from investors, financial products are getting more complex these days. Financial planners need to improve their skills so that they can present risks versus returns to clients much more clearly. The market is changing rapidly and this is why financial planners should continue their education. Your knowledge will build up your confidence. The Institute of Financial Planners of Hong Kong will help you strengthen your knowledge of derivatives.

Investors also need education on derivatives to understand the product risks, so that they know how to allocate their money. Investors have the responsibility to know in what they are investing. To help them, the IFPHK will launch training courses for investors to provide the basic knowledge of derivatives. Investor education is a long term project which needs commitment from business practitioners like ourselves. Our business might suffer in the short term from implementing these new procedures. However, we expect it will eventually be a win-win situation, when we have more professional financial planners servicing more trained investors with better understanding of risks versus returns.

Meanwhile, I'd like to offer you some tips to protect yourselves when implementing the new rule. It is important for you to keep a record, with the client's signature, documenting advice and warnings which have been given to protect all parties. Such records can be used in court as evidence to protect you in the event of a dispute about losses. The SFC noted that any explanation to the client regarding the risks of derivatives should be made in writing, whether by electronic means or otherwise. It is also acceptable if the explanation is audio recorded.

To make sure your client fully understands any product risks, I suggest you do not rely on verbal explanations. Show your clients the Key Facts Statement of each derivative product now available in your organization as required by the amended Code. The document is condensed to only three to four pages, and is written in plain language without investment jargon.

At the end of the day, if you feel uncomfortable selling a derivative to a client because you are unsure of their knowledge of the product, don't do it. This is what this rule wants you to do so you can better protect your clients.

For details about the new regulation, see www.hksfc.org.hk

Eleanor Wan
Chief Executive Officer
Institute of Financial Planners of Hong Kong

Within the next decade, China is expected to surpass the United States and become the world's biggest economy. David Evans explores China's economic plans that are set to boost opportunities for Hong Kong.

It wasn't unexpected that China would overtake Japan as the world's second largest economy, but the reverberations were felt across the globe. Official figures in February show that while Japan's economy was worth US$5.474 trillion at the end of 2010, China's economy was closer to US$5.8 trillion. The news came as no surprise to analysts with China having shown strong growth over the past 10 years and Japan's economic fortunes still in the doldrums.

But it may just be the beginning. Some commentators have suggested that within the next decade, China could surpass the United States as the world's biggest economy. While the WEST has struggled in the aftermath of the global financial crisis, China and the rest of Asia excluding Japan, appear to have weathered the storm and embarked on a new cycle of growth. China will be the powerhouse behind the fortunes of other Asian nations. Indeed the country's 12th Five-Year-Plan, due to be officially rubber-stamped this spring, will not just be a blue-print for the country, but for the global economy as well.

Among the details already revealed are China's plans to boost domestic consumption, increase employment, and improve the living standards for millions of Chinese. This will be done through a series of measures. They include providing pension schemes for all rural residents and 357 million urban dwellers, boosting the minimum wage, and encouraging all qualified enterprises to list.

CHINA **Leaps**

The good news for Hong Kong is that the plan also stipulates that the central government will further upgrade Hong Kong's status as an international financial centre, and support economic co-operation between Guangdong, Hong Kong and Macau.

Speaking at Peking University recently, Chief Executive Donald Tsang said this year was the first time the national plan included a dedicated chapter on Hong Kong and Macau, showing that the Beijing government places great importance on Hong Kong.

China's ambitious roadmap cannot be achieved with domestic expertise alone. This is where Hong Kong's financial planning professionals stand to benefit. There is likely to be huge demand from China for knowledge and experience from individuals and organisations within the financial planning and wealth management sector. International firms are already gearing up to take advantage of China's bid to increase domestic consumption. And it will be Hong Kong that will provide them with the professionals to help guide them. It is up to organisations such as the IFPHK to proactively position themselves to enable their members and Hong Kong to take advantage of any opportunities that arise.

Official figures reveal that Hong Kong's year-on-year growth of 6.2 percent for Q4 2010 is in line with the Asian Development Bank's (ADB) forecast of 6.3 percent for the region over the next 12 months. It is even higher than the International Monetary Fund's (IMF) 4.5 percent global prediction. The Hong Kong government expected growth of 4 to 5 percent this year. Despite the optimistic economic outlook both locally and regionally in the coming year, the local economy still faces some challenges. While Hong Kong will be buoyed by the positive performance of its neighbours, as an international finance centre it is still hindered by lingering problems in the US and Eurozone. In its 2011-2012 Budget, the Government said a soft US dollar and rising global food and commodity prices were likely to put inflationary pressure on Hong Kong. In addition, the mainland's food prices and property rentals are expected to have a noticeable effect on inflation in the coming years and the risk of an asset bubble remains a real concern. The government expects inflation to accelerate sharply to 4.5% this year, and average around 3.5% between 2012 and 2015.

While government relief measures such as the electricity subsidy and a waiving of rates were broadly welcomed, high inflation means middle-class families will have less money to spend on non-essential items. This will make the coming year a challenging one for those in the financial planning industry. While we understand financial management should be a top priority for middle-class families, for some individuals it may have slipped down the list. Therefore the IFPHK and its members need to work closely with businesses and clients to ensure we are all positioned to meet whatever challenges may lie ahead.

Economic Data - 2011	Hong Kong Census & Statistics Dept.	Asian Development Bank (March 2011)	IMF (Jan 2011)
GDP	**6.2%** (Actual for Q4 2010 y-o-y)	**6.3%** (Regional annual forecast)	**4.5%** (Global annual forecast)
Employment figures	**3.8%** (Provisional unemployed Nov 2010-Jan 2011)	**High** (Regional annual forecast)	**High** (Global annual forecast)
Consumer Price Index	**3.6%** (Actual y-o-y to end of Jan 2011)	**6.5%** (Regional annual forecast)	**Average 4.25%** (Global annual forecast)

As people in Asia become richer, there is a growing need for them to create trusts to look after their wealth and preserve it for the next generation. Liana Cafolla looks into the advantages of trusts.

Trusts offer advantages in estate planning, control, protection and privacy, with British Virgin Islands, or BVI, trusts offering some distinctive features, says Nigel Rivers, managing director of leading trust service provider Equity Trust.

Why **trusts?**

Trusts have multiple advantages. They can provide a settlor – the person who creates the trust and provides the assets – with effective succession planning.

"In some senses, they can actually control the destiny of the wealth that they have generated for successive generations, which is an important consideration particularly in Asia, where the patriarch is usually very much the decision-maker within the family," says Rivers.

Trusts also provide asset protection. They allow asset owners to effectively give away some or all of their assets, thereby protecting those assets from unforeseen circumstances.

For settlors with assets in multiple jurisdictions around the world, assets held in trust allow the consolidation of asset ownership and management. Also, because the assets held are not registered in the name of any individual, privacy regarding the ownership and value of assets is assured.

However, the tax benefits of trusts have diminished due to estate duties being abolished in some jurisdictions, explains Rivers. When estate duties were payable, it made sense to place assets into a trust to exempt them from estate duties when the settlor died.

"There's less benefit from doing that now because many jurisdictions such as Hong Kong and Singapore have abolished estate duty, and other jurisdictions such as Taiwan have reduced the level of estate duty," he says.

Placing assets into a trust can, however, speed up inheritance procedures after death, as probate is not required in the jurisdiction where the assets were located in a trust at the time of the settlor's death, meaning that benefactors will be able to access their inheritance more quickly.

Estate Planning - Why Choose TRUSTS?

Nigel Harris

BVI Trusts

Establishing a trust in the British Virgin Islands is simply choosing the governing jurisdiction over the trust, explains Rivers. "The assets can be based anywhere in the world. So the same benefits [as above] apply even though the trust is established in the BVI."

BVI trusts offer several advantages compared with the UK and some other jurisdictions.

"... there is no registration or filing of trusts, which of course adds to the privacy of the arrangement, and there is no BVI income tax on income arising from the trust, nor any stamp duty on the actual trust deed itself," he says.

The islands also offer a reassuringly long trust history.

"BVI has a strong regulatory background for trusts. It's a well-established trust jurisdiction, so there's a good deal of certainty as to how trust laws and trust deeds will be interpreted and applied by the courts."

Vista Trusts

BVI introduced Vista trusts in 2003.

"The distinguishing feature of a Vista is that it removes the obligation of the trustee to monitor and intervene in the affairs of any underlying companies," says Rivers. "The Vista is particularly used where a settlor wants to hold trading companies within a trust structure, and it lends itself very well for that purpose."

The Vista structure requires that the first company must be a BVI company; beyond that, there is no restriction.

Non-Charitable Purpose Trusts

In contrast to the UK and Hong Kong, BVI offers non-charitable purpose trusts. Such trusts can hold assets for a purpose, rather than for beneficiaries.

"They're used, for example, where you want to hold a business, the shares of a company pre-listing, or a bond [...] in limbo for a specific purpose rather than in order to pass it to a third person," explains Rivers.

> While some believe that trusts have outlived their usefulness since the abolition of estate duties, Rivers says they are still essential for succession planning.

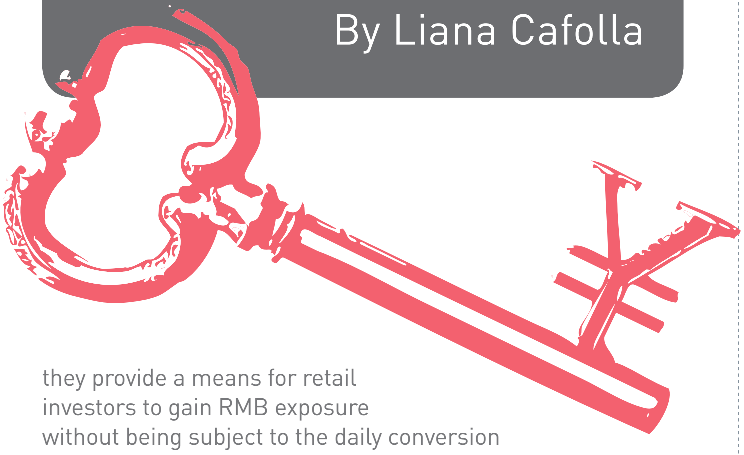
"As people become much wealthier – and in Asia they are becoming much wealthier – there is an increasing need and desire to create a medium through which wealth can be controlled by the patriarch and preserved for generations to come, and a trust is a great tool for doing that."

Five things you need to know about RMB denominated products.

As Hong Kong prepares for the arrival of RMB-denominated products, we talk to Steve Chiu, CFPCM, Vice President (External), Institute of Financial Planners of Hong Kong and Managing Director of Bosera Asset Management (International) Co. Limited about the market's features, the pros and cons of different products and the future outlook for RMB products.

By Liana Cafolla

Steve Chiu



❶ The RMB products market is growing fast

Despite a daily conversion limit of RMB 20,000, the ground is set for spiralling investor interest in RMB-denominated products. According to the Hong Kong Monetary Authority, there is about RMB 370 billion worth of deposits in Hong Kong, six times the RMB 62.7 billion in deposits at the end of 2009. "Of all the foreign currency deposits in the banks of Hong Kong, half of them are already in RMB now," says Chiu. He says that following Hong Kong's designation by the mainland as an international asset management center and, more importantly, as the offshore RMB center, expectations are that the figure could reach RMB 600 billion to 1 trillion by end-2011. Interest in RMB products has also grown since restrictions were relaxed on the conduct of offshore RMB business in 2010. "Essentially, the Chinese government allows a more flexible conversion of RMB as long as those are trade related," says Chiu.

❷ 'Dim sum' bonds offer higher interest rate potential

Hong Kong has been an offshore RMB bond market since 2007. Offshore RMB funds, also known as 'dim sum' bonds, allow international companies to raise RMB in Hong Kong. Well-known issuers have so far included the Bank of East Asia, Asian Development Bank and the US-based McDonald's Corporation. Investors can also invest in dim sum bonds through a fund, thereby avoiding the RMB 20,000 daily limit. Investors must have RMB deposits in order to directly invest in RMB-denominated bonds. Some banks allow clients to transfer their deposits to branches in China, where they benefit from higher interest rates of up to 6% or more, compared with less than 1% offered in Hong Kong. Such transfers are subject to certain criteria, including Hong Kong residency, limits to daily conversion amounts, as well as reconversion limits. More and more institutions are launching RMB bonds, says Chiu. The catch is that bonds can only be redeemed through the original currency.

❸ Synthetic Bonds

These RMB-denominated bonds allow investors who have USD deposits to gain exposure to RMB, thereby avoiding the RMB20, 000 per day limit. Despite their denomination, the settlement currency is USD, which means that the investors will receive back USD, the value of which will reflect the underlying RMB currency movement. Synthetic bonds allow companies to raise funds for their China business. At the same time they provide a means for retail investors to gain RMB exposure without being subject to the daily conversion limit, says Chiu.

❹ RMB-linked insurance products

These are derived from the RMB bonds and deposits mentioned above. The underlying product value is dependent on the RMB currency rate. Investors can pay for the policies in non-RMB currencies, and receive the corresponding interest rate or guaranteed return in RMB-linked USD or HKD at the end of the policy. While not a direct RMB investment, it allows RMB exposure. It is convenient and popular with Hong Kong investors, particularly as contracts typically have a duration of 3-5 years, says Chiu.

❺ Forthcoming Products

RMB IPOs: These will allow investors to invest directly into an RMB-denominated stock. The first RMB IPO will likely be offered in H1, says Chiu. Details are yet to be provided. Chiu's understanding is that it is "highly likely the settlement will be conducted in RMB."

Mini-QFII: These will allow offshore investors to use their Hong Kong-based RMB deposits to invest in mainland China. "With a more flexible set of rules, they will allow more investors to divert their RMB deposits into the domestic China market," says Chiu.

CALLING FOR MORE **IFPHK VOLUNTEERS**

The IFPHK is looking to expand its pool of volunteers and is calling on all CFP professionals to join this industry-wide effort. This call comes as the Institute expands its industry role and looks at rolling out more initiatives aimed at improving consumer knowledge and reinforcing the professionalism of the CFP professionals.

As a volunteer, you can join the following three groups, depending on your area of interest:

1. **Ambassadors:** As an ambassador, you will have many opportunities to share your knowledge and experience in financial planning with the public.

2. **Think Tank Members:** Selected members will need to study specified sections of the CFP certification examination syllabus in their area of expertise and return a completed questionnaire to the IFPHK office before the actual Think Tank session.

3. **Instructors:** As an instructor, you will have the opportunity to conduct the Continuing Education programmes on various topics such as asset management, financial planning, risk and retirement planning, and tax planning, etc

INTERESTED?

To join, you must:

- Be an active CFP professional; and
- Have a minimum of five years' work experience in financial planning

For more information, please visit **www.ifphk.org** to fill out the application form.

SCMP/IFPHK **FINANCIAL PLANNER AWARDS 2011**

The industry-wide competition, which is in its seventh year, is co-organized by the Institute of Financial Planners of Hong Kong and the South China Morning Post.

This year, the Practitioner Category was launched on March 28, 2011 and the application deadline is April 27, 2011. The competition provides you with an excellent opportunity to show the industry your talent in and knowledge of financial planning. If you want to learn more, you are also welcome to join the free information session, which will be held on April 18, 2011 at the IFPHK Office.

Please take a look at our website, **www.ifphk.org** for more information, the latest updates, and the application form

RETIREMENT PLANNING CONFERENCE 2011: **RESET THE RETIREMENT PLANNING STRATEGIES**

Due to the turbulence of the past few years, the mood in the market has been one of caution, but that will gradually change as the global economy recovers. A recovery in the market is imminent, but it's difficult to tell how that recovery will unfold, especially with the recent unprecedented catastrophe in Japan; anticipated high inflation and rising interest rates; and the unstable political environment in the Middle East.

At this year's Retirement Planning Conference, industry experts will share their insights and winning strategies for creating the proper retirement planning strategies. Topics will include:

- Improving your client's engagement in MPF and retirement planning through consumer education and proactive communication
- Mid-Year Review: What's happening in the next six months?
- It's Time to Fight Against Inflation (i): Winning Investment Strategies to Grow and Protect your Client's Retirement Funds
- It's Time to Fight Against Inflation (ii): Winning Investment Strategies to Grow and Protect your Client's Assets
- Housing Options for Retirement: From the Outlook of the Property Market to Reverse Mortgage Pilot Scheme 2011
- A Rewarding Retirement: Giving back to Society Unveiling the Retirement Plans of Successful Financial Services Professionals

Conference Details:

Date : June 8, 2011 (Wednesday)
Time : 9.30 am – 5.00 pm
Venue: Meeting Room N201, HKCEC
Fee : HK$680 Member (Early bird registration on or before 20 May at HK$570); HK$1,200 Non-Member

WEALTH MANAGEMENT CONFERENCE: EXPLORING THE LATEST BUSINESS DEVELOPMENT TRENDS IN WEALTH MANAGEMENT IN MAINLAND CHINA AND HONG KONG

Due to Hong Kong and mainland China's booming financial services industry, there is increasing market demand for wealth management. This growing demand means that wealth management has huge potential for future development. In view of this exciting opportunity, the Institute of Financial Planners of Hong Kong and the Financial Planning Standards Board China will jointly hold the "Wealth Management Conference: Exploring the Latest Business Development Trends of Wealth Management in mainland China and Hong Kong" on 23 & 24 June 2011.

The Conference aims to explore and exchange information on recent developments in the wealth management business in both mainland China and Hong Kong. Participants will be able to learn about and understand the challenges that the wealth management business is facing so as to help them further enhance their competitiveness in the wealth management industry. Through this conference, participants will learn about the:

- Economic outlook of mainland China and Hong Kong
- The latest developments within the regulatory systems of mainland China and Hong Kong
- The challenges faced by financial institutions in mainland China and Hong Kong
- The business development of the wealth management industry in mainland China and Hong Kong
- The various business opportunities in the wealth management industry

Conference Details:

Date : 23 & 24 June 2011
Time : 9:00 – 17:00 (Thursday) / 9:00 – 12:45 (Friday)
Venue: The Mira, 118 Nathan Road, Tsimshatsui, Kowloon, Hong Kong

	Fee	Early-bird Special (Registration on or before 26 May 2011)
Conference (Day 1 only)	HK$2,200	HK$2,000
Post Conference Master Class (Day 2 only)	HK$1,200	HK$1,100
Special Offer		
Conference + Post Conference Master Class (Day 1 & 2)	HK$3,400	HK$3,000

Dressing Professionally

Members should wear the correct attire whether to attend a seminar, conference, networking with your business or meeting your clients. First impressions countespecially in financial planning as they are the first step to building a trusted relationship with your peers, your future employers and prospective clients.

BUSINESS ATTIRE

or

BUSINESS (SMART) CASUAL

IFPHK UPCOMING COURSES: APRIL TO JUNE 2011

IFPHK's continuing education courses provide you with the right blend of theoretical and practical knowledge that address today's and tomorrow's issues. Here is the list of upcoming courses. For more details, please visit IFPHK website at www.ifphk.org.

✶ Member Fees

APRIL

6/4/2011
6:30 PM - 9:30 PM
VOLATILITY
Speaker: Jacky Chan
✶HK$390/HK$780

11/4/2011 & 15/4/2011
6:30 PM - 9:00 PM
ANALYSIS OF FINANCIAL DOCUMENTS
Speaker: Dr. Joseph Chan
✶HK$650/HK$1300

12/4/2011
6:30 PM - 9:00 PM
ENGAGING GEN-Y IN FINANCIAL PLANNING INDUSTRY
Speaker: Nathan Yung
✶HK$325/HK$650

14/4/2011
6:30 PM - 8:30 PM
DEVELOPING AND IMPLEMENTING FINANCIAL PLANNING RECOMMENDATIONS
Speaker: Frank Fong
✶HK$260/HK$520

19/4/2011
6:30 PM - 8:30 PM
BEWARE OF COMMERCIAL FRAUD AND FALSE ACCOUNTING
Speaker: Alexander Chan
✶HK$260/HK$520

20/4/2011
6:30 PM - 8:30 PM
OVERVIEW OF WEALTH MANAGEMENT IN CHINA – THE LANDSCAPE AND OPPORTUNITY
Speaker: Alexander Chan
✶HK$260/HK$520

28/4/2011
6:30 PM - 8:30 PM
RETIREMENT PLANNING RECOMMENDATION
Speaker: Frank Fong
✶HK$260/HK$520

29/04/2011
6:30 PM - 9:30 PM
KNOW YOUR CLIENT
Speaker: Ringo Yuen
✶HK$390/HK$780

MAY

4/5/2011 & 6/5/2011
6:30 PM - 9:00 PM
OVERVIEW AND SELECTION OF HEDGE FUNDS
Speaker: Daniel Jim
✶HK$650/HK$1300

5/5/2011
6:30 PM - 8:30 PM
VALUE INVESTING
Speaker: Carlos Wong
✶HK$390/HK$780

11/5/2011 & 13/5/2011
6:30 PM - 9:30 PM
COMMODITIES INVESTMENT AND MARKET VIEW FORMATION
Speaker: Jerome Yen
✶HK$780/HK$1560

12/5/2011
6:30 PM - 8:30 PM
CREDIT RISK ANALYSIS OF FINANCIAL INSTITUTIONS
Speaker: Ringo Yuen
✶HK$390/HK$780

17/5/2011
6:30 PM - 8:30 PM
CONNECTING TO CLIENTS WITH INSTANT RAPPORT
Speaker: Nathan Yung
✶HK$325/HK$650

Enrolment end 7 days before the course date

18/5/2011
6:30 PM - 8:30 PM
MPF UPDATES
Speaker: Ronald Li
*HK$260/HK$520

19/5/2011
6:30 PM - 8:30 PM
LIFE STAGE PLANNING RECOMMENDATIONS
Speaker: Frank Fong
*HK$260/HK$520

23/5/2011 & 30/5/2011
6:30 PM - 8:30 PM
CUSTOMER RELATIONSHIP MANAGEMENT - PRINCIPLES & TECHNIQUES
Speaker: Ringo Yuen
*HK$650/HK$1300

25/5/2011
6:30 PM - 8:30 PM
PRC HIGH NET WORTH – WHAT IS THEIR RISK PROFILE AND INVESTMENT PREFERENCE?
Speaker: Richard Ku
*HK$260/HK$520

JUNE

1/6/2011
6:30 PM - 8:30 PM
PRACTICES IN ESTATE PLANNING
Speaker: John Ng
*HK$260/HK$520

2/6/2011
6:30 PM - 8:30 PM
UPDATES ON COMPLIANCE ISSUES
Speaker: Wilson Yee
*HK$390/HK$780

3/6/2011
6:30 PM - 8:30 PM
PRACTICES IN RETIREMENT PLANNING I
Speaker: Dr. Elex Chan
*HK$260/HK$520

9/6/2011 & 10/6/2011
6:30 PM - 8:30 PM
REFRESHER PROGRAM: TAX PLANNING
Speaker: Dr. Teresa Fung
*HK$660/HK$1320

13/6/2011 & 15/6/2011
6:30 PM - 8:30 PM
REFRESHER PROGRAM: INVESTMENT PLANNING
Speaker: William Lai
*HK$660/HK$1320

14/6/2011
6:30 PM - 8:30 PM
REFRESHER PROGRAM: TIME VALUE OF MONEY
Speaker: Dr. Joseph Chan
*HK$330/HK$660

17/6/2011
6:30 PM - 8:30 PM
REFRESHER PROGRAM: INSURANCE PLANNING
Speaker: Richard Ng
*HK$330/HK$660

20/6/2011
6:30 PM - 8:30 PM
REFRESHER PROGRAM: INSURANCE PLANNING
Speaker: Wilson Yee
*HK$330/HK$660

23/6/2011
6:30 PM - 8:30 PM
How Mutual Funds Work
Speaker: Billy Wong
*HK$390/HK$780

27/6/2011
6:30 PM - 8:30 PM
How Mutual Funds Work
Speaker: Lewis Wan
*HK$260/HK$520

29/6/2011
6:30 PM - 8:30 PM
PERFORMANCE ANALYSIS OF MUTUAL FUNDS
Speaker: Jacky Chan
*HK$390/HK$780

30/6/2011
6:30 PM - 8:30 PM
HOW TO MONITOR YOUR PORTFOLIO
Speaker: Jacky Chan
*HK$260/HK$520

Enrolment end 7 days before the course date