

**GOVERNANCE & SUCCESSION
FAMILY BUSINESS
FAMILY OFFICE**

WEBINAR SERIES

1/6

26 AUG 4:00 PM (GMT + 8)

**Governance & Succession
Setting the Scene**

MCCARTHY DENNING
IBDO
PK Wong & Nair
ABNR
AZB & PARTNERS
PJS
SHEARM DELAMORE & CO
ONE LAW OFFICE
MORI HAMADA & MATSUMOTO

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**GOVERNANCE & SUCCESSION
FAMILY BUSINESS
FAMILY OFFICE**

WEBINAR SERIES

**Governance & Succession
Solving the Problem**

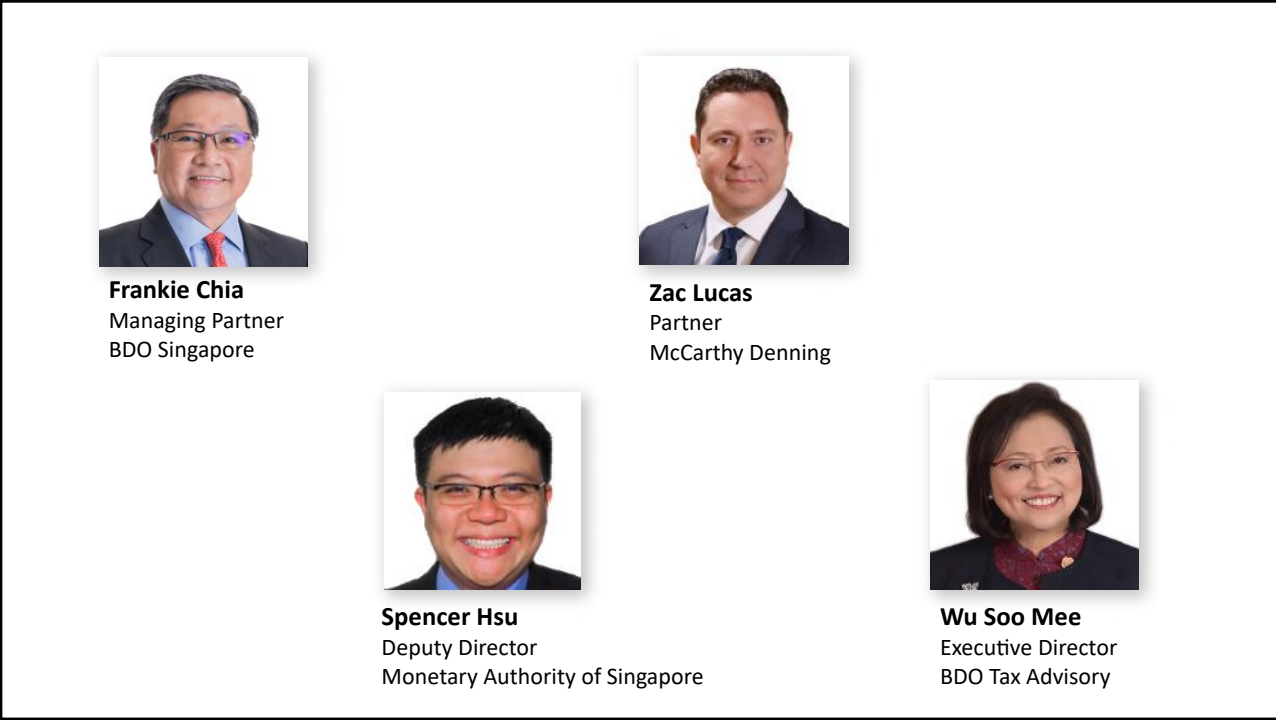
27 AUG 4:00 PM (GMT + 8)

MCCARTHY DENNING
IBDO
PK Wong & Nair
SHEARM DELAMORE & CO
AZB & PARTNERS
ONE LAW OFFICE
PJS
MORI HAMADA & MATSUMOTO

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Agenda:

- Setting the Scene | Opening Remarks | Frankie Chai
- Governance & Succession | Understanding the Challenge | Zac Lucas
- Professional Development | IBF and MAS Skills Map | Spencer Hsu
- Governance Reform | Getting Started | Wu Soo Mee

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The banner features a background image of three people in a meeting. On the left, a dark teal sidebar contains the following text: 'GOVERNANCE & SUCCESSION', 'FAMILY BUSINESS', 'FAMILY OFFICE', '1 / 6', 'MCCARTHY DENNING', 'PK Wong & Nair.', 'AZB & PARTNERS ADVOCATES & SOLICITORS', 'Shearn Delamore & Co', and 'MORI HAMADA & MATSUMOTO'. The main area contains 'WEBINAR SERIES', '26 AUG 4:00 PM (GMT + 8)', and the title 'Governance & Succession Setting the Scene'. Logos for 'IBDO', 'ABNR COUNSELLORS AT LAW', 'PJS PUYAT JACINTO & SANTOS LAW', and 'ONE LAW OFFICE' are also present.

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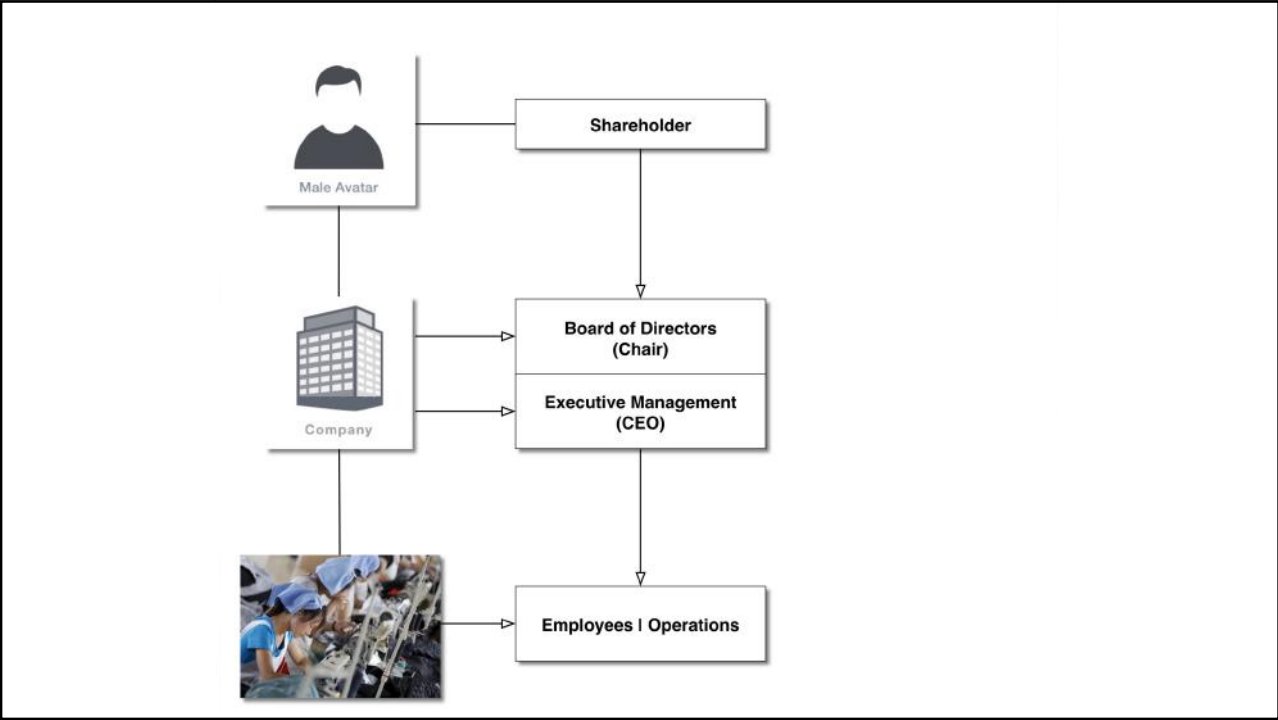
Understanding the Challenge

- The Founder's Vision
- The Challenges
- Applying a Governance Framework
- Companies and Trusts ➔

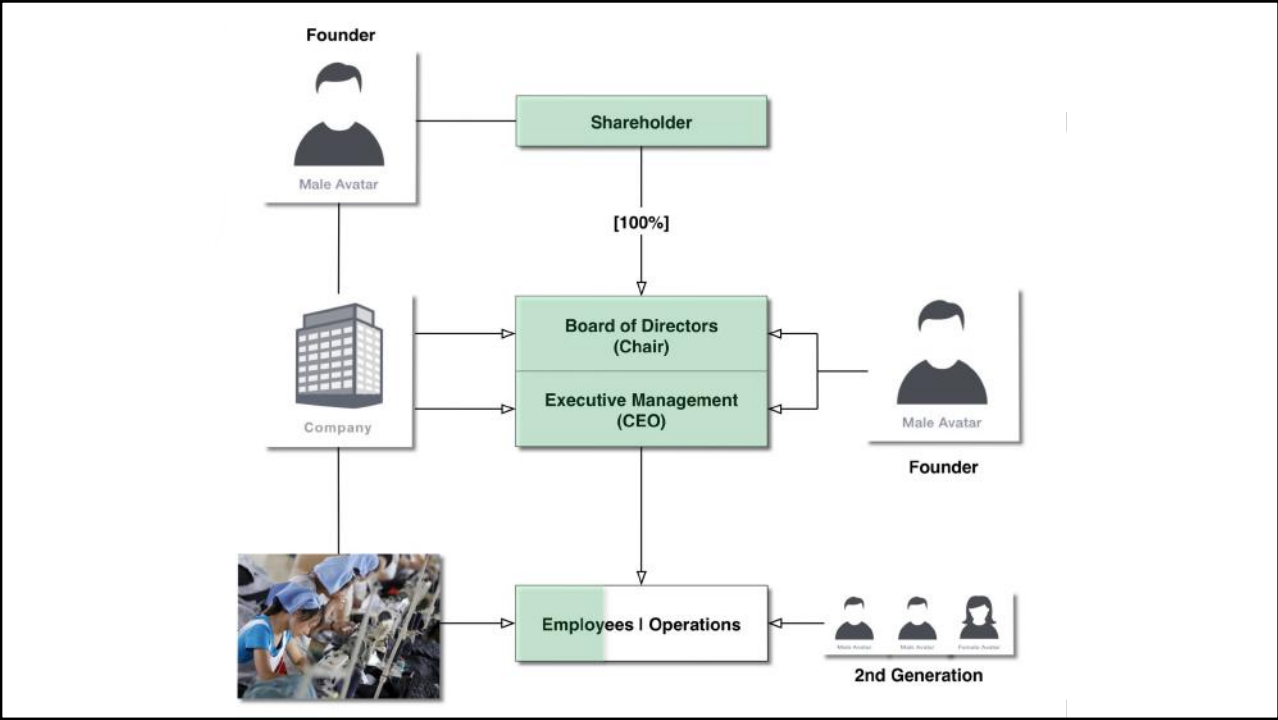
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The Founder's Vision:

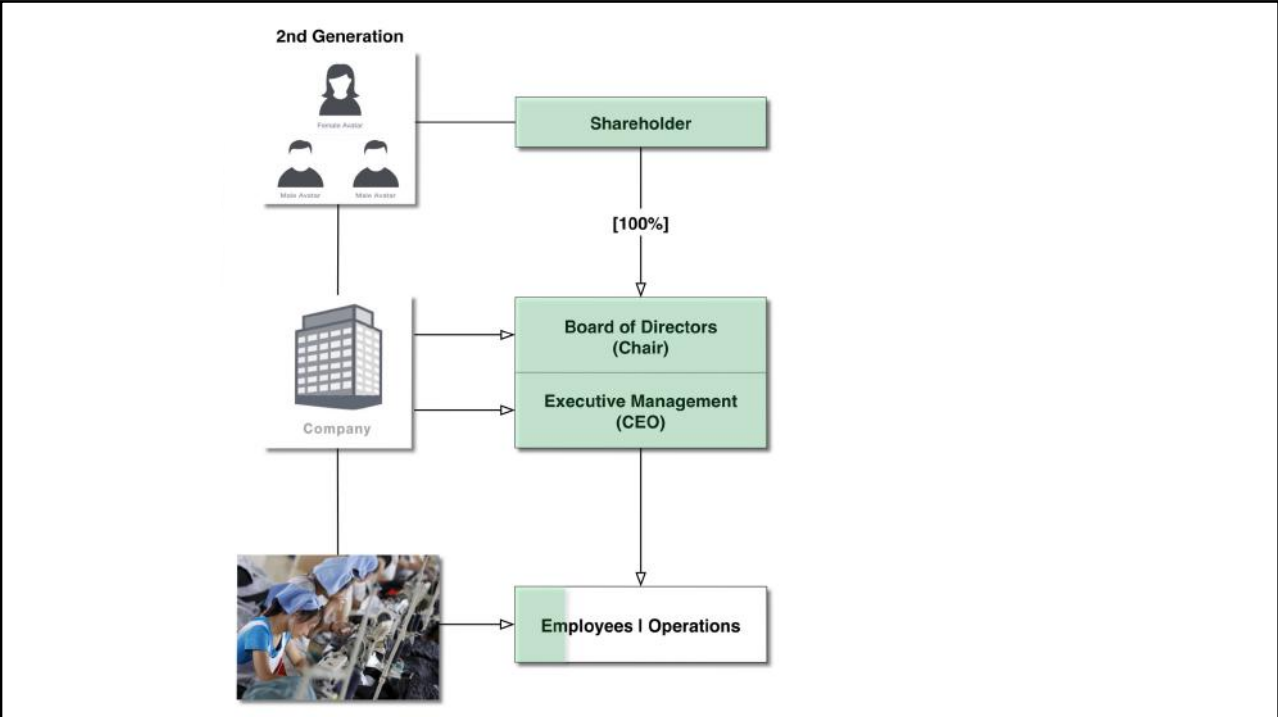
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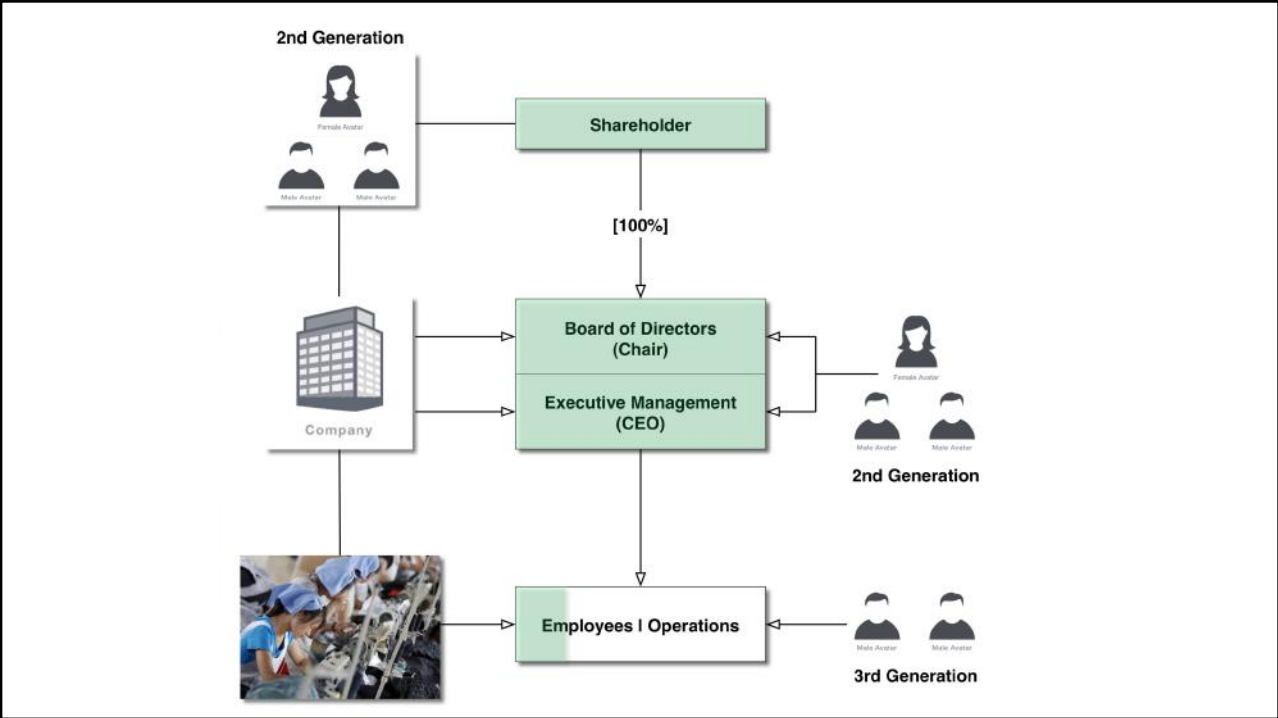
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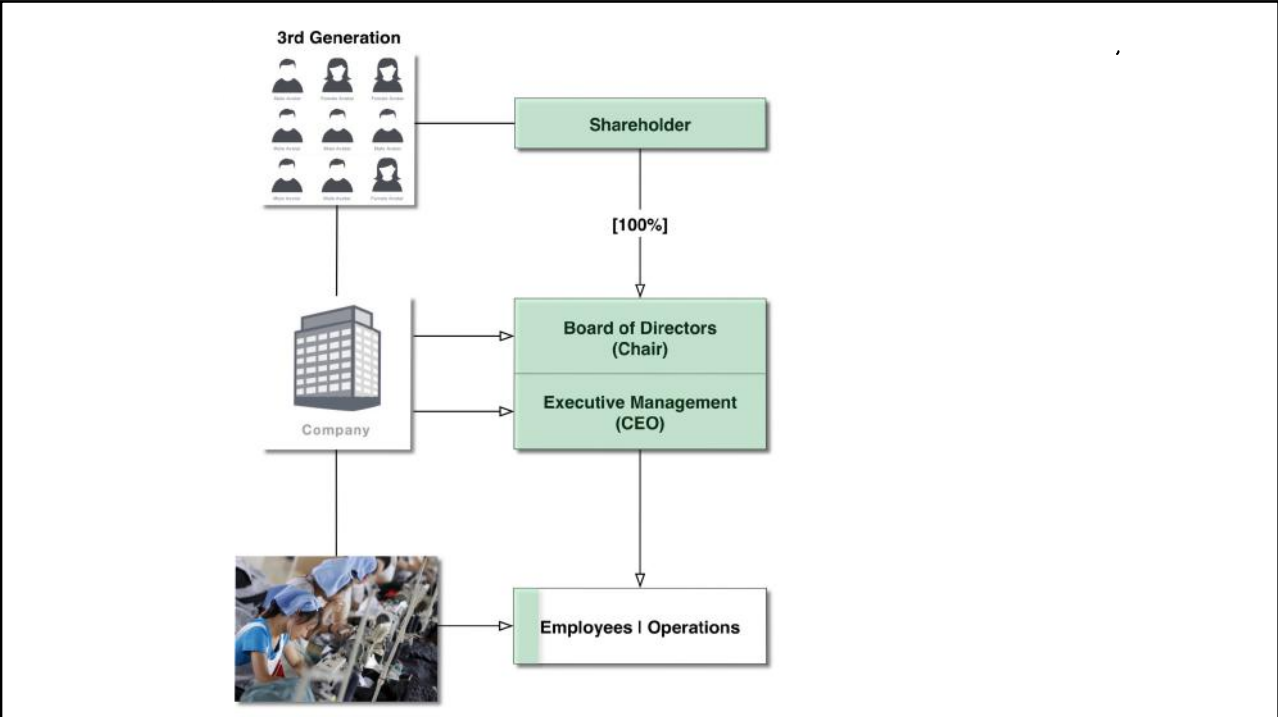
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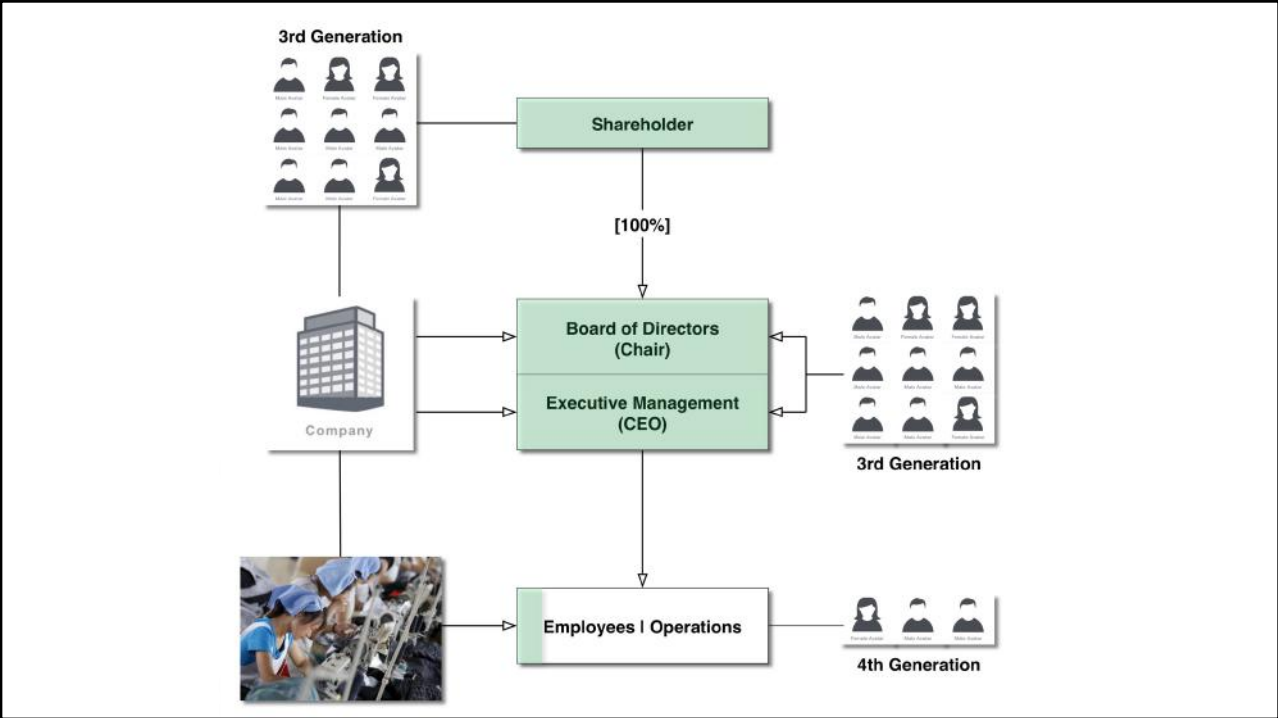
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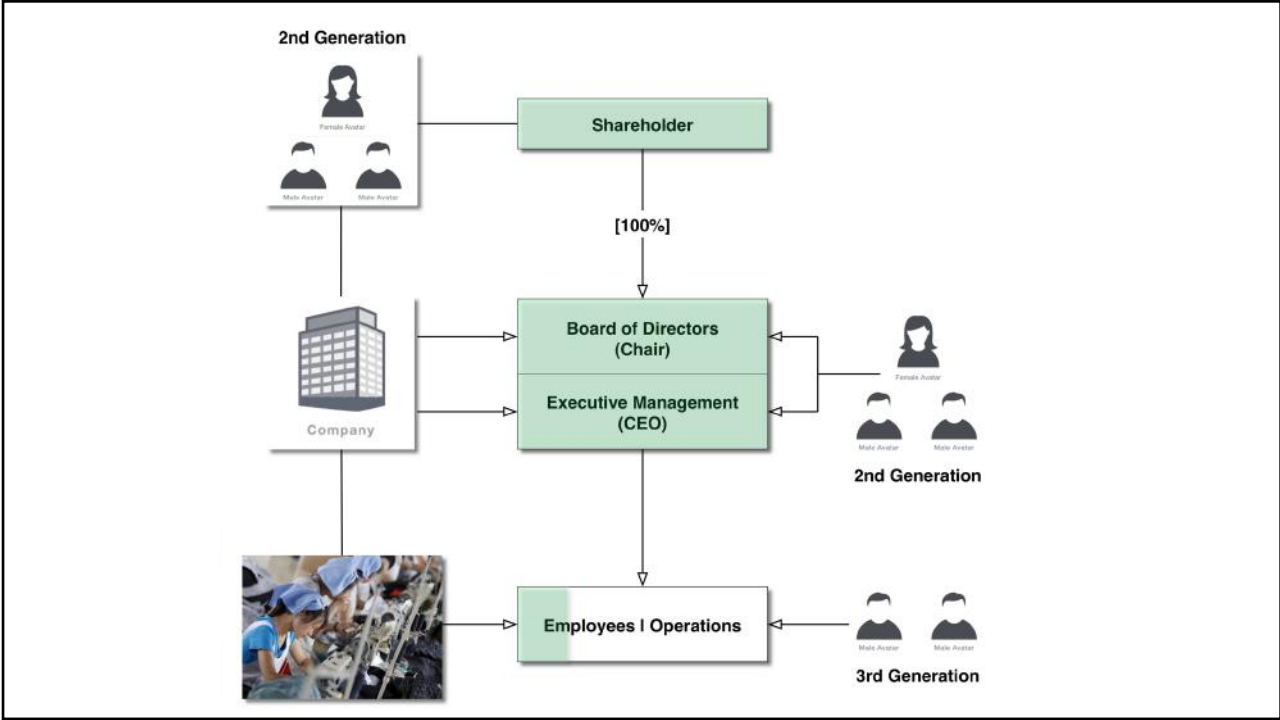
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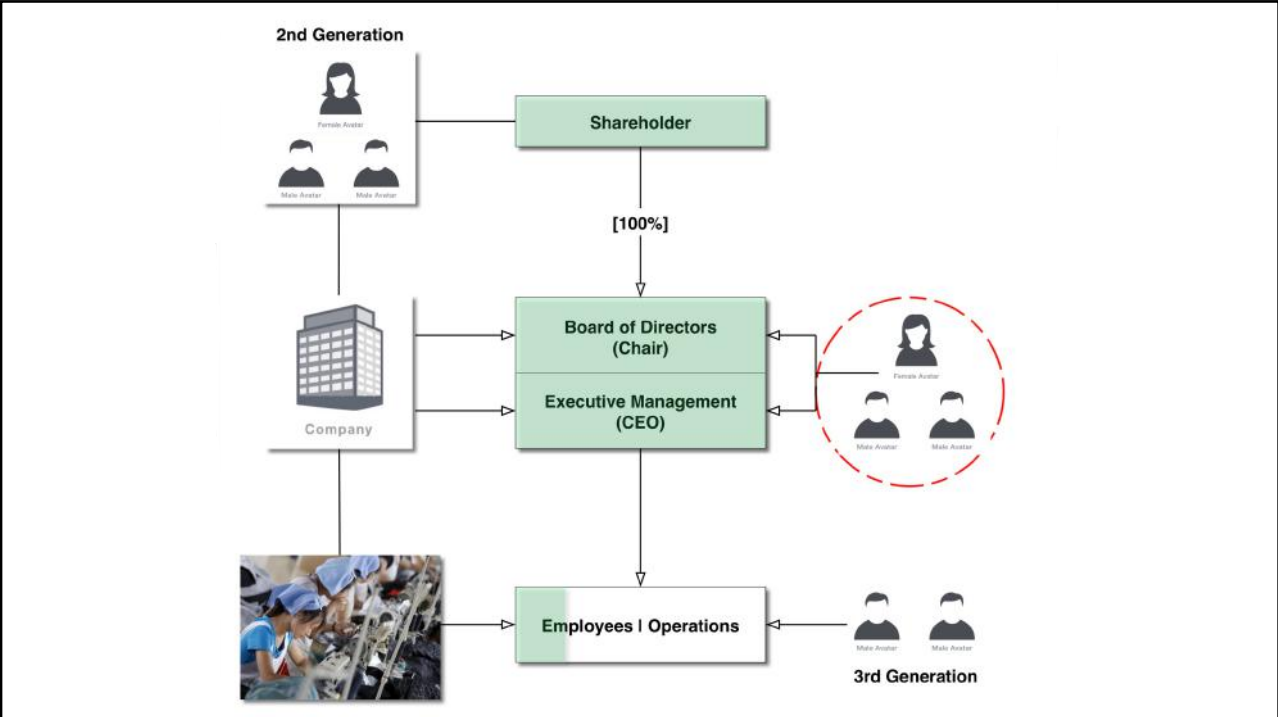
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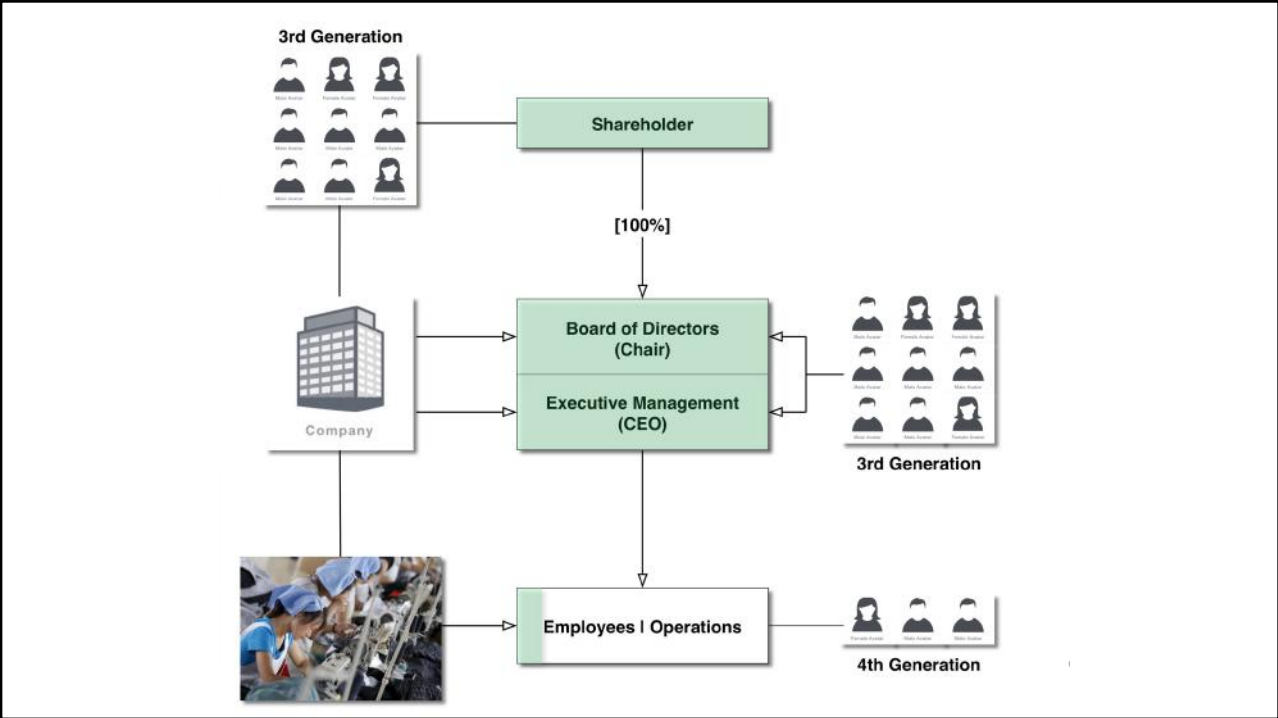
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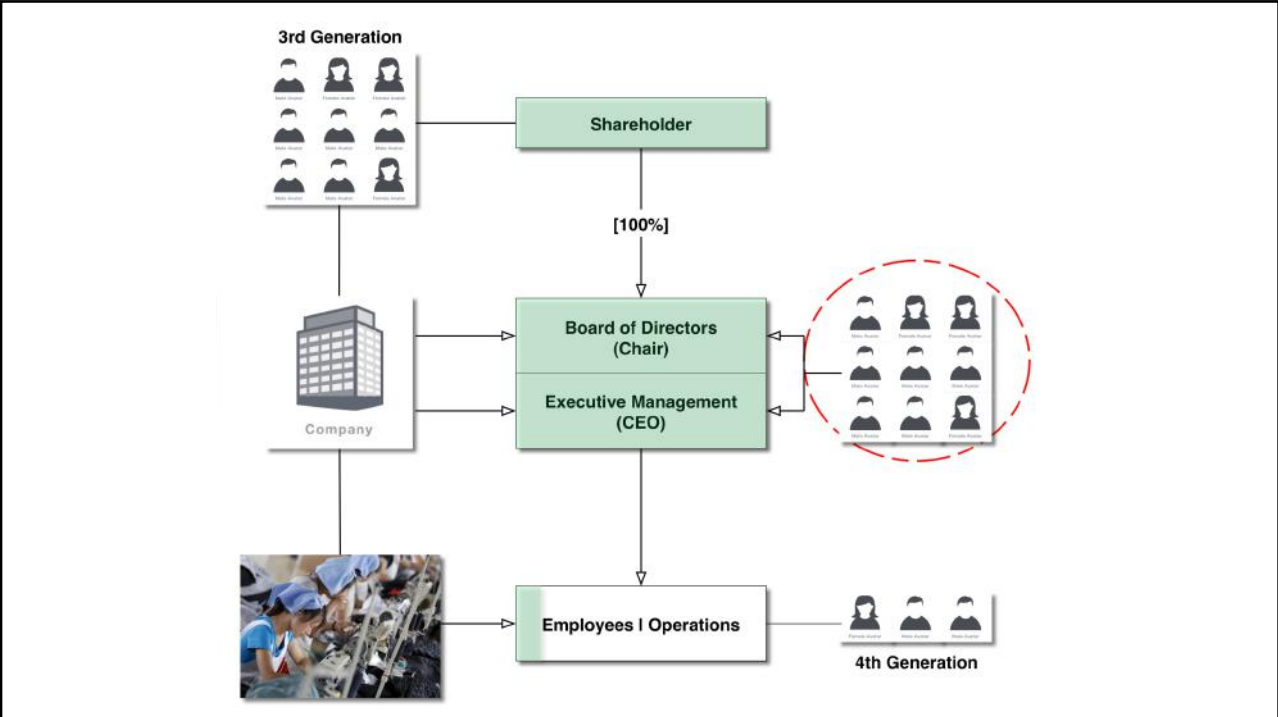
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Typical Areas of Dispute:

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Typical Areas of Dispute

- Exclusion from management
- Failure to provide information
- Increase of issued share capital
- Alteration of corporate constitutional documents
- Diversion of company business | misappropriation of assets
- Excessive remuneration | non-payment of dividends
- Mismanagement | Incompetence ➡

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Consequences:

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**The 'missing middle':
Bridging the strategy
gap in family firms**

2,802 executives with senior executives from family businesses across 50 countries

43% of family businesses don't have a succession plan in place

Only 2 in 4 family businesses say they feel vulnerable to digital disruption

Despite the extraordinary longevity of some individual family firms, the average life-span across the sector is three generations. Typically, only 12% make it that far, and the number getting past four generations falls to as low as 3%¹.

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The Great Succession Challenge of Asian Business

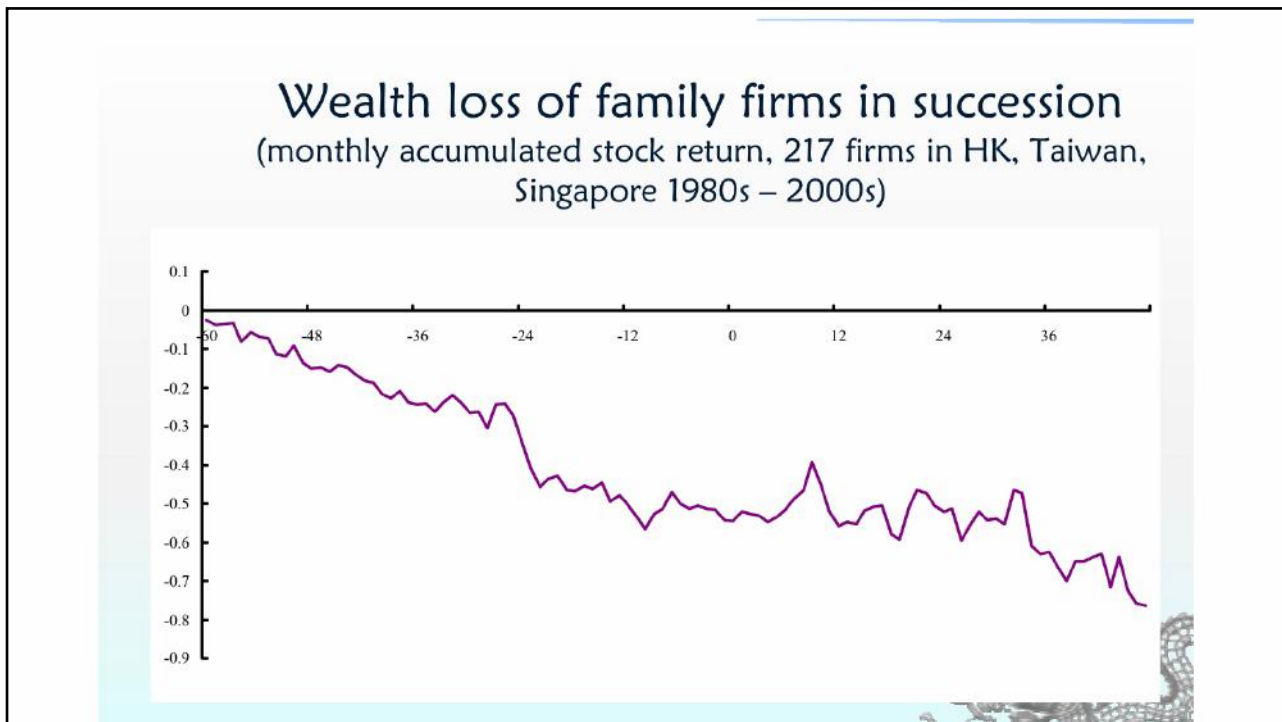
Joseph P.H. Fan (范博宏)
Director, Institute of Economics & Finance
Professor, School of Accountancy and Department of Finance
Phone: 852-26097839; Email: pjfan@cuhk.edu.hk
Web: <http://ihome.cuhk.edu.hk/~b109671/>

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Succession is great challenge

- ◆ Our research on 250 family firms in Hong Kong, Taiwan and Singapore shows,
- ◆ Family firms has great wealth loss in succession process, - **60%** accumulated stock return from five years before succession to three years after succession.
- ◆ That is, owners of 100 dollars stock only have 40 dollars left after succession.
- ◆ Compared with Taiwan and Singapore, 80 family firms in Hong Kong have -**120%** loss.

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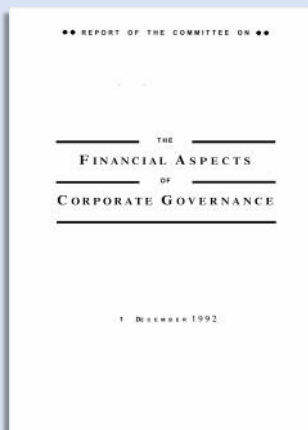
Causes of Failure:

- Family unaware of “*best practice*” governance required by next generation
- Failure to implement any governance reforms prior to succession
- Failure to adequately prepare next generation for the challenges of working together 🗄

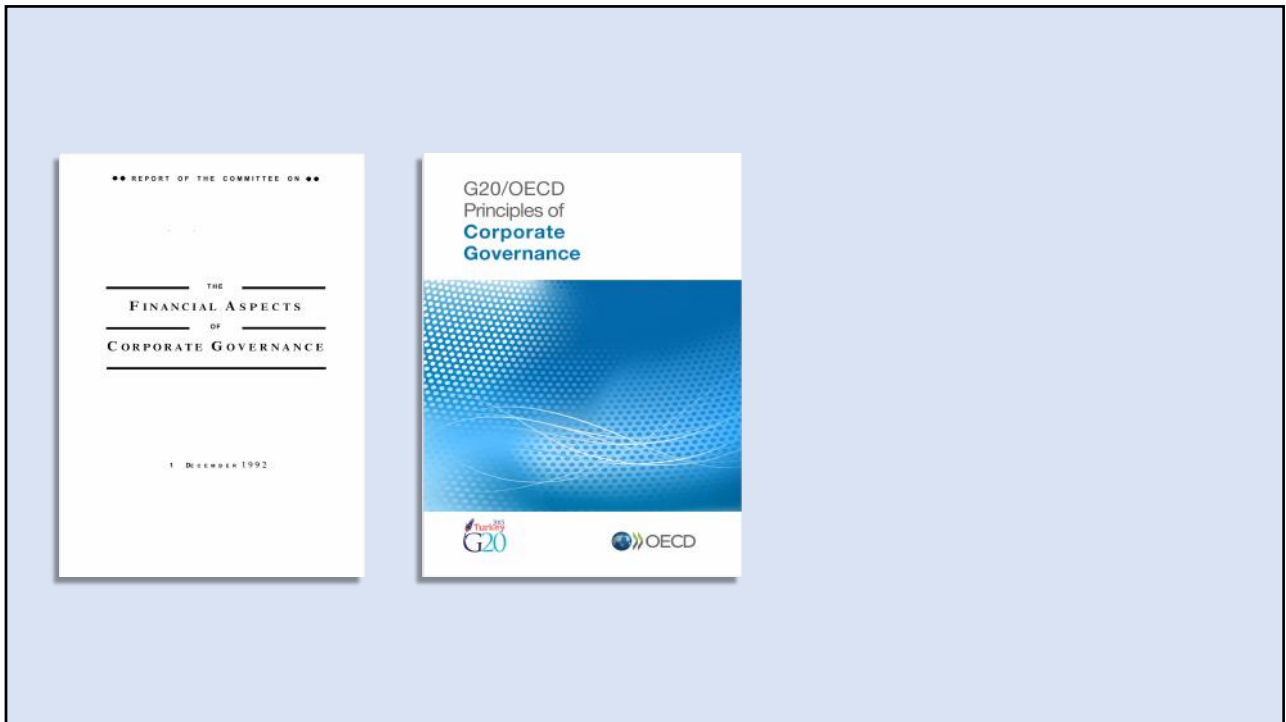
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Sources of Best Practice:

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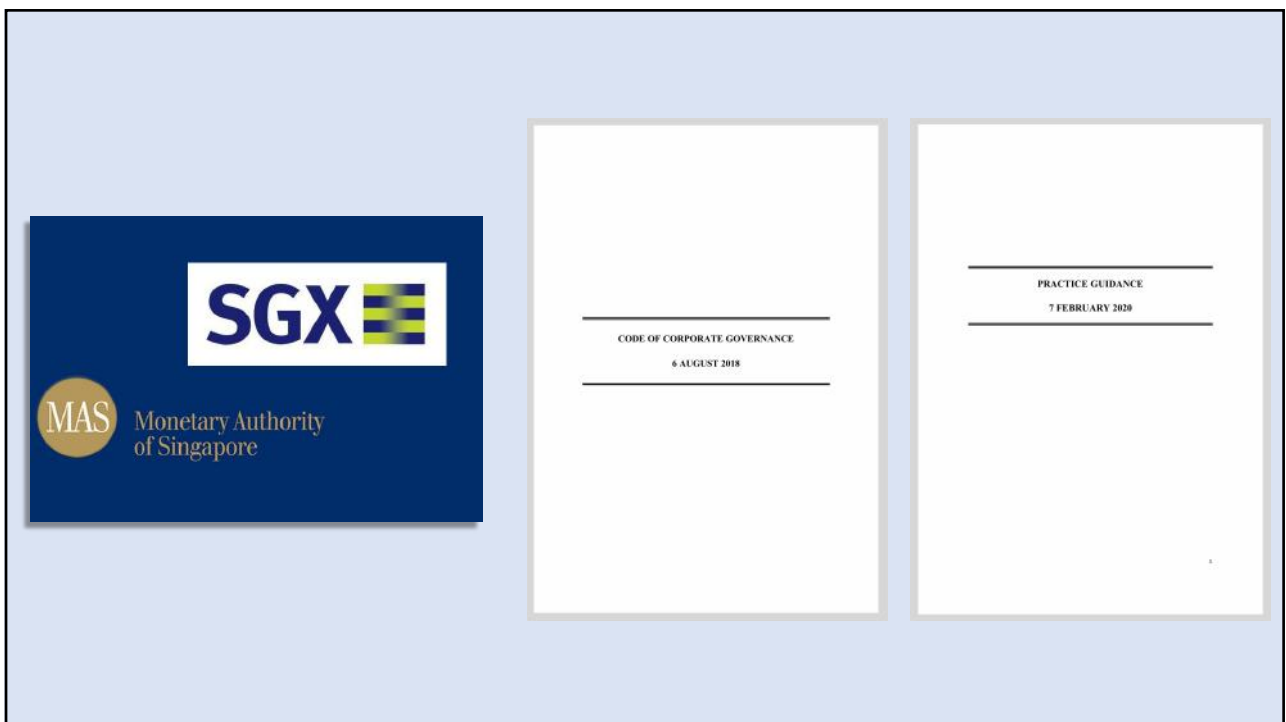
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Guiding Principles

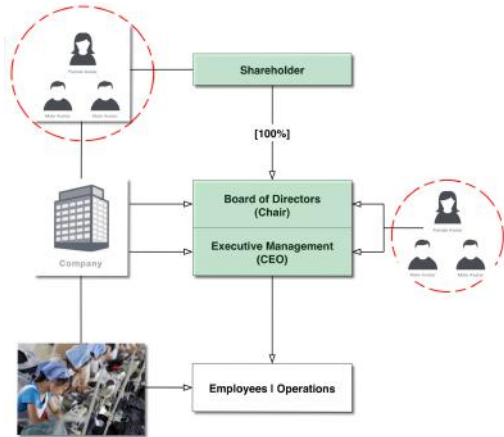
- Competency – Merit Driven
- Accountability – Checks and Balances, Conflicts of Interest
- Transparency – Disclosure and Sharing
- Integrity – Financial Reporting
- Enforceability – Effective Implementation 🗑

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A Governance Framework:

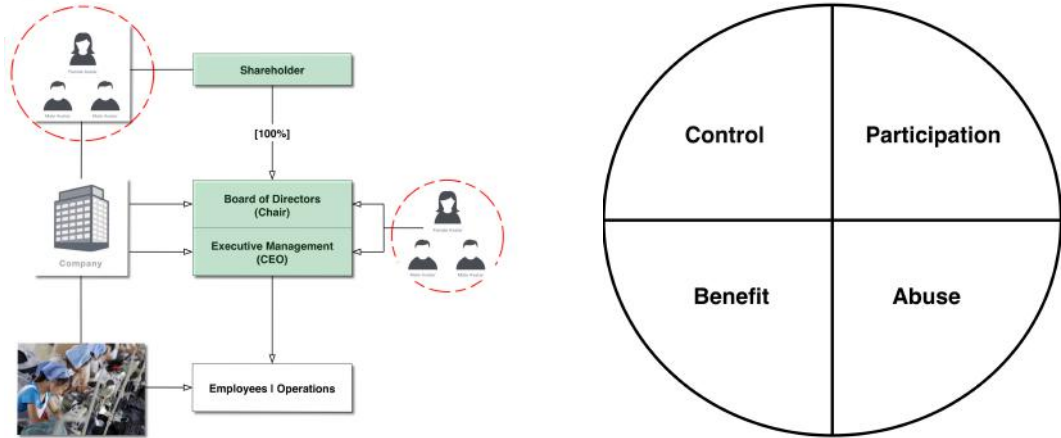
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Governance Framework- Company:



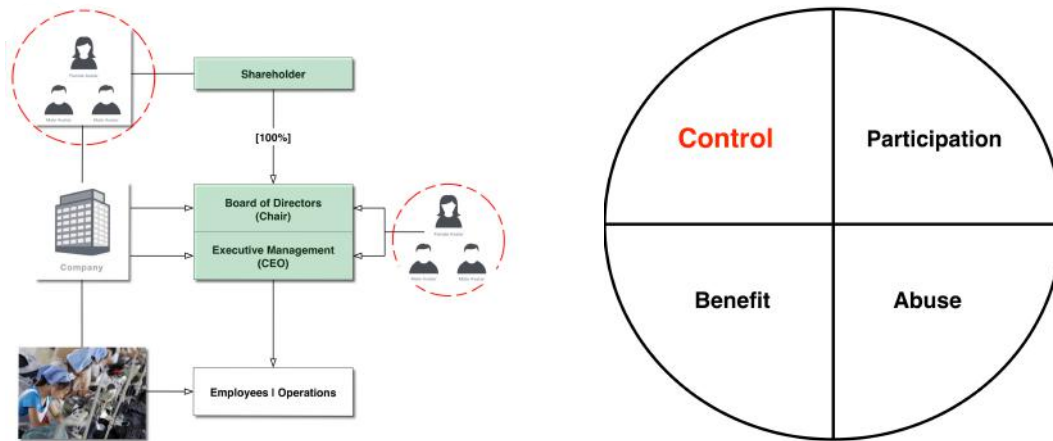
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Governance Framework- Company:



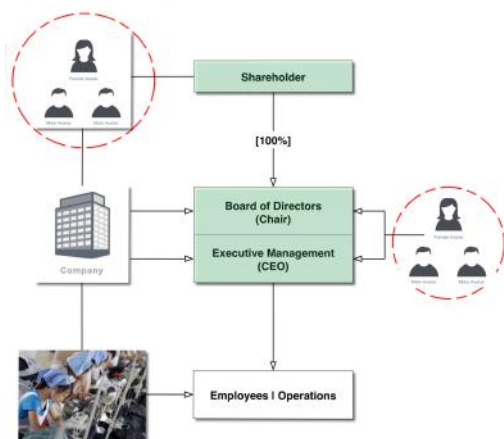
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Governance Framework – Control:



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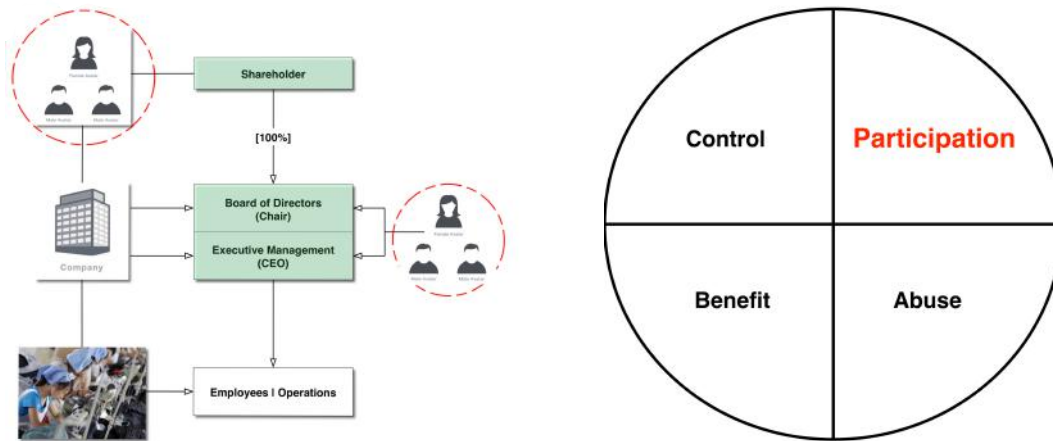
Governance Framework – Control:



- Branch Representative Directors?
- Shareholder Appointed Directors | Vote Threshold (>50%)?
- Director Appointed?
- Functioning Chain of Accountability | Competency?
- Chairman | CEO same person?
- Business Plan Shareholder Approval?
- Restricted Business Activities?
- Entrenched Provisions? ➡

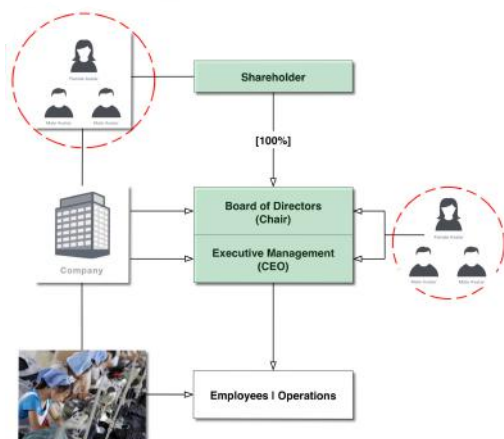
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Governance Framework – Participation:



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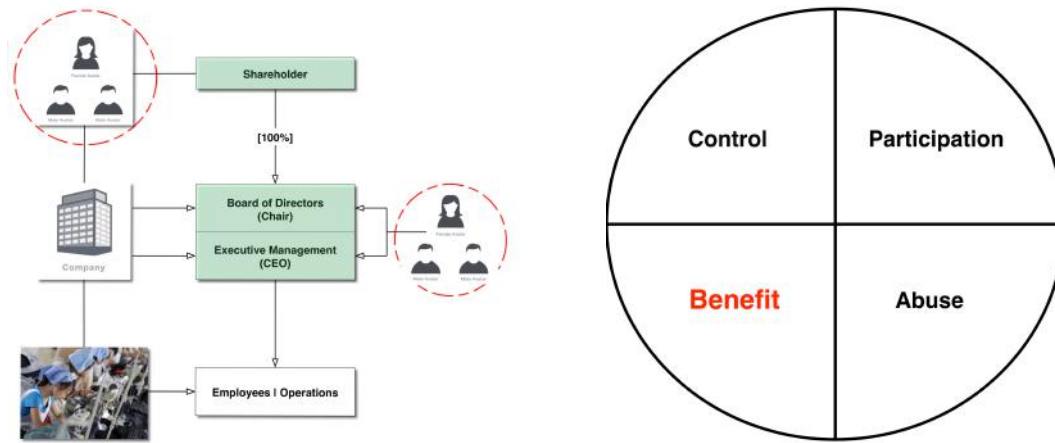
Governance Framework – Participation:



- Share Transfer Restrictions “Family Only”
- Pre-Emption Rights – Rights Issue | Transmission on Death
- Effective Share Lock-in
- Family Employment Policy
- Entrenched Provisions? ➡

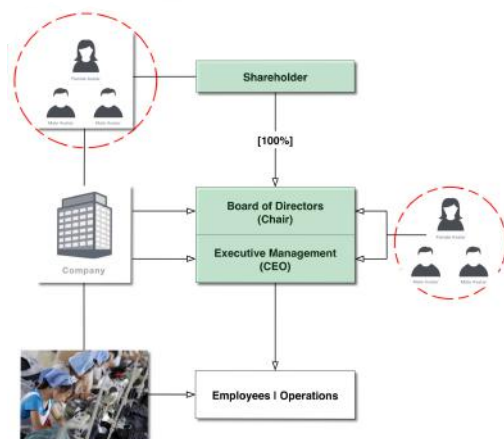
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Governance Framework – Benefit:



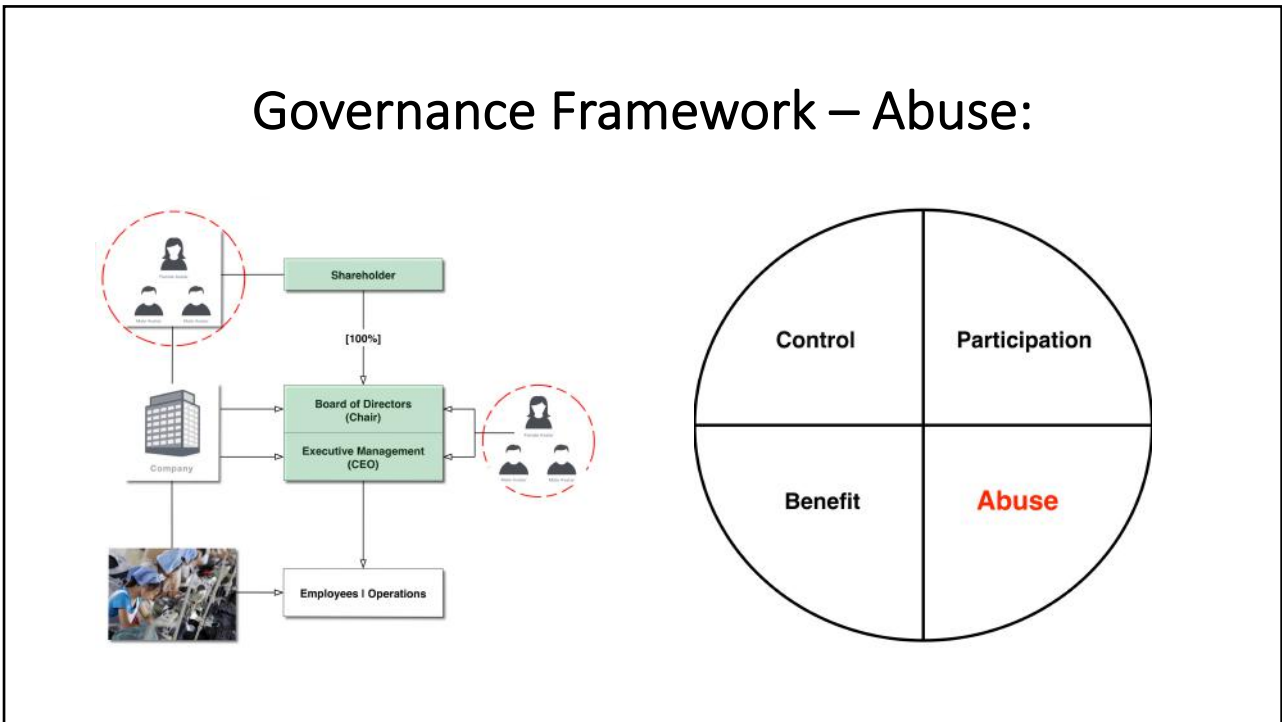
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Governance Framework – Benefit:

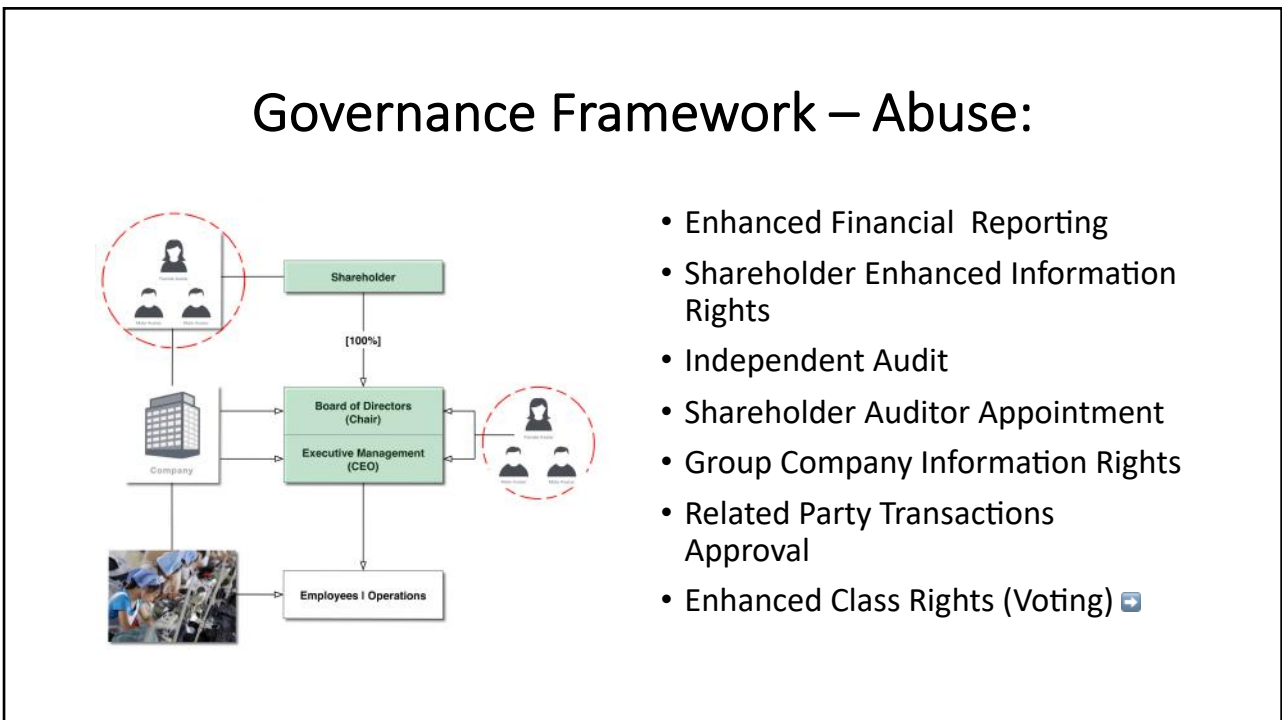


- Dividend Distribution Policy?
- Income Retention Policy?
- Share Disposal Prohibitions?
- Share Buy Back Terms | Valuation
- Share Buy Back Succession Consequence?
- Use of Redeemable Shares?
- Director Remuneration Policy | Consent | Disclosure?
- Entrenched Provisions? ➡

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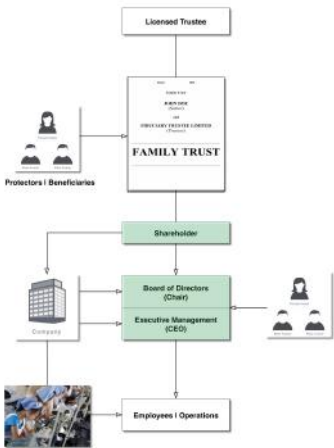


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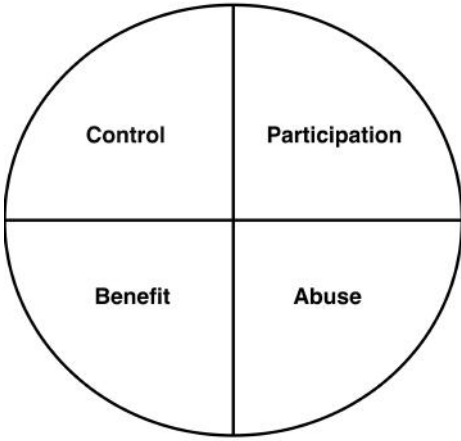
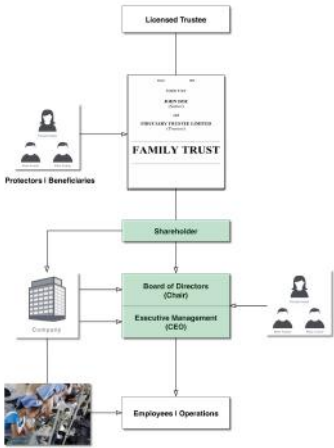
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Governance Framework – Trust:



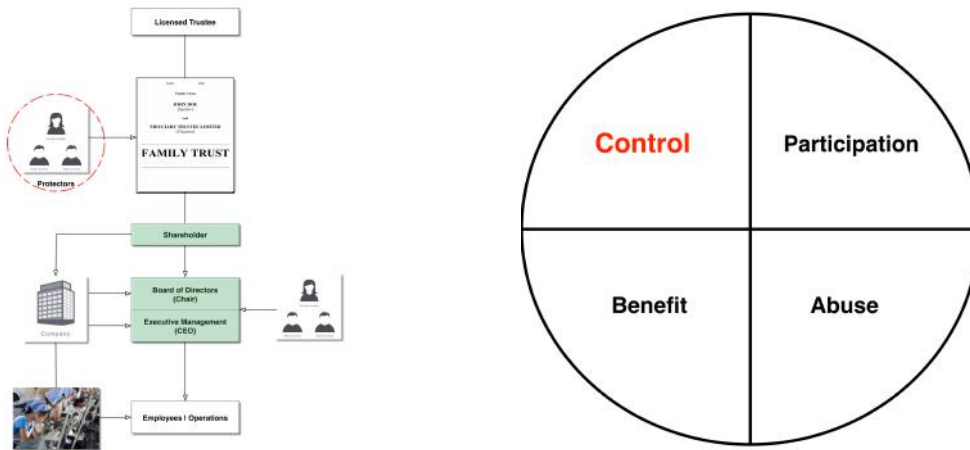
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Governance Framework – Trust:



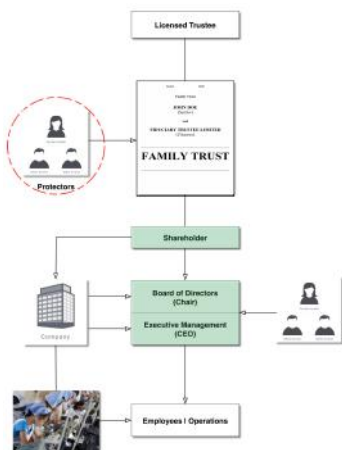
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Governance Framework – Control:



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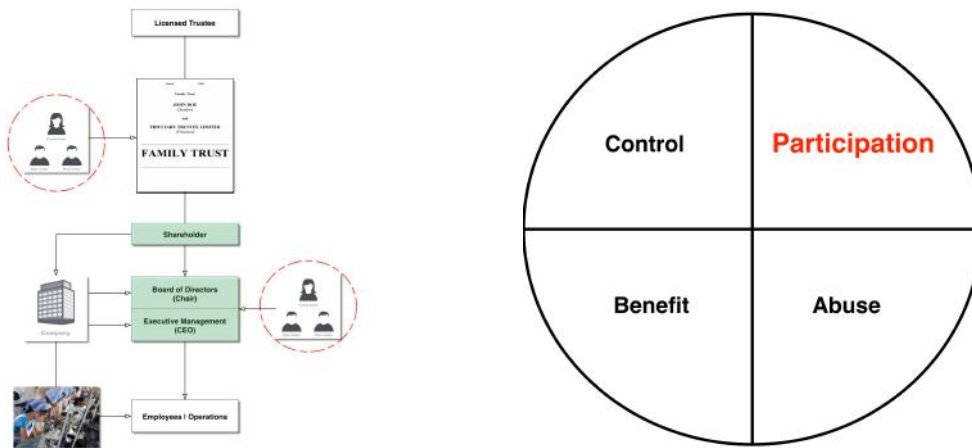
Governance Framework – Control:



- Protector Committee Powers – Director Appointment | Removal
- Branch Representation
- Branch Succession Provisions
- Entrenched Office of Director Rules ➡

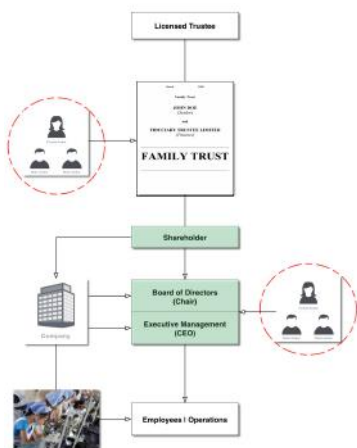
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Governance Framework – Participation:



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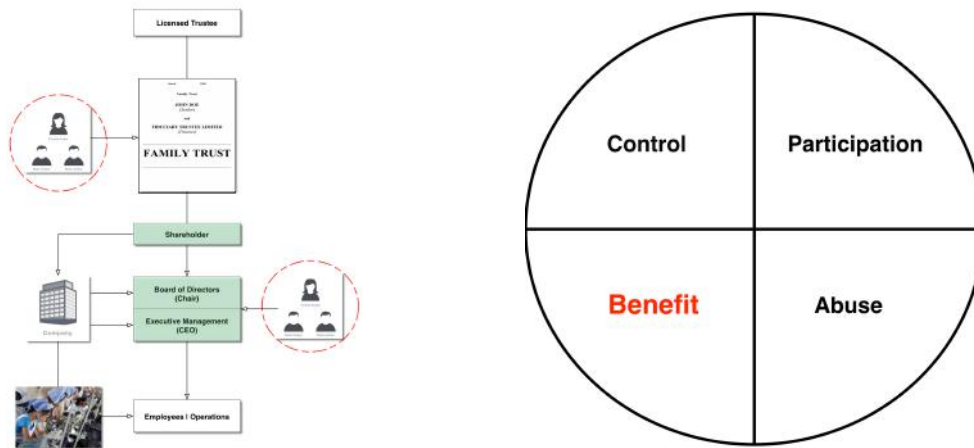
Governance Framework – Participation:



- Entrenched Trust Provisions – “Family Only” Protectors | Directors
- Review Powers of Variation | Variation of Trusts Act
- Detailed Competency Criteria
- Family Employment Policy 🗑️

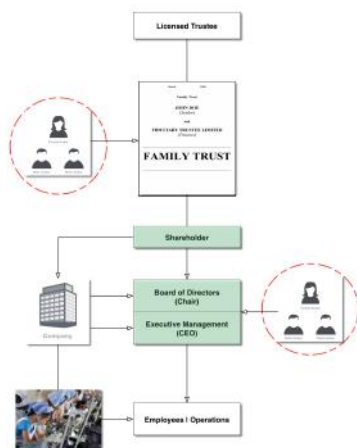
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Governance Framework – Benefit:



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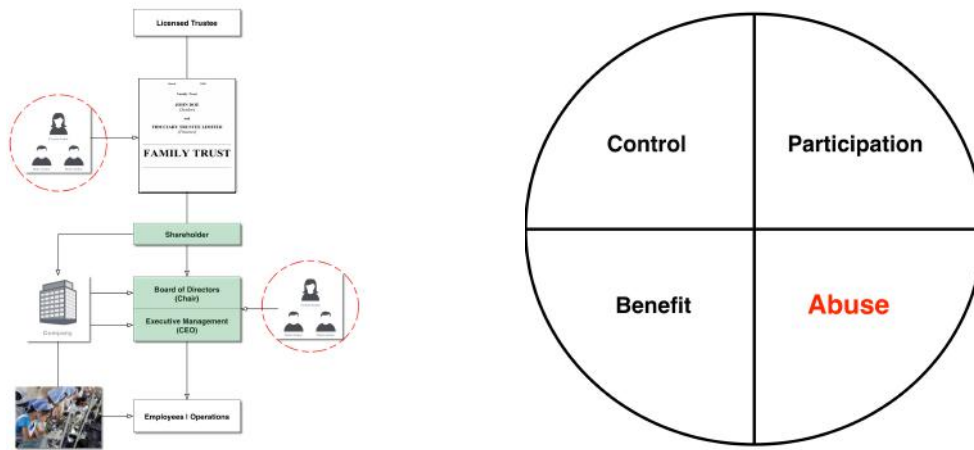
Governance Framework – Benefit:



- Discretionary distribution subject to Letter of Wish
- Life Tenant Income Interest
- Supporting Company Distribution Policy
- Entrenched? ➡

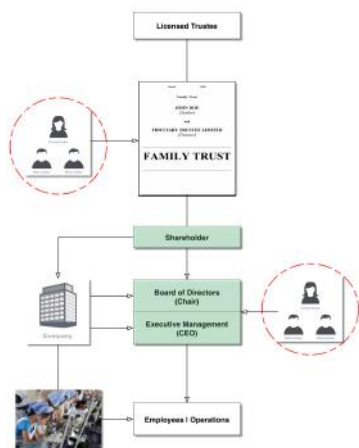
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Governance Framework – Abuse:



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Governance Framework – Abuse:



- Beneficiary information sharing provisions
- Enhanced beneficiary rights of access to information
- Auditor appointment provisions – Nominated Representative Beneficiary?
- Exclude *Bartlett* Provisions
- Entrenched? 🗳️

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Summary

- Governance framework necessary for healthy functioning of succeeding generation team
- Best practice corporate governance taken as a principled starting point
- Governance Framework required so that each issue systematically considered
- Education and early action critical ➡

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