



Global  
Family Office Community

## Family Office Breakfast Seminar - Keeping the Family (Office) Safe: Event Summary

Thursday, November 24, 2016  
8.30am – 11.00am

Fortnum & Mason, London, UK

### Welcome and introduction

Vahe Vartanian, Founder & CEO, *Global Family Office Community*.  
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### Panelists:

Yolande Escher, Wealth Director, Family Office Services, BNY Mellon Wealth Management  
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Stephen Ross, Partner, Head of Civil Fraud, Withers LLP  
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Family Office CEO

### Panel Discussion:

#### **Risk Mitigation: General**

*What do you think is the role of Family Office staff / executives to keep the Family safe?*

- A key part of the role of CEO of a Family Office is always to think about mitigating risk
- There are risks associated with looking after a wealth family, including negative PR
- The risk of using third parties and the need to vet them and their processes
- Prioritizing the risks when you first join a family office
  
- Security is a bit like Insurance, no-one wants it until something goes wrong
- Educating / training the family about risks surrounding their lifestyle, and taking a proactive approach
- Often there is a perception that security is all about expensive systems when in fact a high percentage of risk can be removed by looking at patterns of behaviour; changing timings, routes, making small adjustments which families will accept which doesn't impact on their daily lives.
- It is not about building a fortress around you, but making changes that can significantly reduce risk. These include things such as vetting of staff, driver training, etc.

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- Work on a need-to-know basis.
- Putting the right controls in place to prevent disputes, such as contracts, pre- and post-nup's.
- Ensure contracts with third parties are governed by English law and subject to the exclusive jurisdiction of the English courts. This will ensure you are not dragged into litigation overseas.
- As an alternative to the English courts, consider an arbitration clause in any contracts. Arbitration is a confidential process and will mean the family office or family name is kept out of the press.
- Understanding the evolution of the Family (enterprise and personal balance sheet), structure of the family office and interaction with third-party providers.

### **Financial Risk:**

*One of the key responsibilities of the CEO / CIO is to protect the family wealth and preserve it for future generations. What safeguards can take place?*

- Legally protecting investments overseas
- Consider whether Bilateral Investment Treaties apply between the country from which you are investing (or where the structure you are investing through is based) and the overseas jurisdiction. If they do, you have the right to fair and equitable treatment, non-discrimination and a right to compensation if your investments are expropriated.
- Many financial advisors and lawyers do not know about these Treaties and simply look to structure investments in a tax efficient way. That is all very well but if you are investing into a risky jurisdiction there are more important things to consider than tax.
- Role of "Power of Attorney"
- Fraudsters (within the family office and outside)
- Keeping track of "the family budget"
- Dealing with bribery
- Burglary
- Ensuring that practices and protocols are in place to reduce risk from hacking.
- Be aware of rogue hotspots, use your mobile phone hotspots as much as possible so there is less change of your system being hacked.
- Considerations of VPN protective applications for laptops / computers / phones and also for dial up services within hotels.
- Investment committee
- Putting in place an investment policy and decision-making process

### **Operational Risk:**

*There are different risks associated with setting up, running, but also winding down a family office. Can you share your experiences around operational risk?*

- The family office executive is responsible for the transition between generations
- Splitting / winding down: handing over autonomy to family branches
- Spend enough time thinking about the 'set-up': for the long-term (wealth grows, investments become more diverse and more complex)

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- Regulation more burdensome, administration increasing; you don't want the admin hiring to get out of control
- The weak link in any organisation is generally the people, breaking practices and procedures. This is sometimes to make work practices easier or quicker, but in so doing often break down the security that has been put in place.
- Safekeeping of passwords, and the possible use of password management systems such as Last Pass and Key Pass.
- Vetting of individuals, and ensuring this process is on-going. Also consider cyber vetting to check individuals' profiles online, their discretion / behaviour and so on.
- Health and safety audits are key for anyone employing staff or with properties or land on which people work. A failure to comply with your legal obligations is a criminal offence.
- Stress test your procedures, contracts and structures on a regular basis to see if they still achieve what they are meant to achieve. There is no point having set up complex trust structures or the like, only to find out many years later that they don't work or don't match the expectations of the family members.

### **People / Family Risk:**

*People are probably the most critical risk in and outside the family (office): family members' personal circumstances, matters of life and death, publicity (in the press). How can the family office help the family "keep out of trouble"?*

- Hiring skilled staff into the family office
- Getting a lawyer involved at the right time, eg. Set up contracts
- Lifestyle review
- In the same way financial audits are completed, then conducting a lifestyle review allows you to look at security as a whole. It takes into consideration, systems, practices and procedures but most importantly, lifestyle of the Principal to ensure that security is appropriate and provides a holistic solution. Security systems are great in houses, but what about the security of being out and about on a daily basis. So raising awareness, education of families and children. Testing systems, both physical and cyber.

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### **Thank you to our Event Partner, BNY Mellon:**

- BNY Mellon is the world's largest custodian. It is like a safety deposit box for a family's investment assets. The role of the custodian is to be the CCTV camera over the assets and monitor any activities on the accounts. Examples are daily checks to make sure there are no failed trades, no overdrafts and no pending actions in relation to the investments (corporate action).
- The role of any suppliers/third parties is to understand the evolution of the family (office) and provide risk mitigation tools at each stage. A global custodian for example can help in the area of risk analytics across the family's total wealth.
- By appointing a master custodian you create operational efficiencies in a safe environment. The less banking relationships the family maintains the better the Family Office Executive can keep control and oversight over cash movements, asset performance and others. Every extra account bears risks and costs.
- A Family Office that keeps in place a well-documented and tight decision making process (over investments, but also other decisions) together with the family members are usually better able to protect the family wealth from external, negative forces.
- The custodian acts as COO to the Family Office. All the administrative burden is taken over by the custody team. This helps tremendously as the family's wealth grows and expands into multiple asset classes.

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