

# Private Trust Companies and Family Offices



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High Net Worth individuals and families are increasingly turning to Private Trust Companies (“PTC”) as the solution for protecting and growing their wealth.

The main benefit of a PTC is that the settlor of a family trust can still maintain a certain level of oversight in the conduct of the trust. This suits a settlor who is accustomed to being involved in managing the family assets but wants the benefit of these assets being held by a trust.

A PTC also allows a wider, more entrepreneurial, portfolio to be held, including a substantial holding in a family company, where conventional trustees would be urging diversification.

Finally, a PTC provides an ideal opportunity to involve the next generation in the management of the family’s assets, to plan succession and to maintain consensus after the death of the settlor.

Effective structuring of a PTC requires expert advice and STM Group will work alongside a client’s professional advisers to ensure the objectives are met.

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## What is a Private Trust Company (“PTC”) ?

A PTC is a company, established by one or more members of a family (but usually the patriarch), which provides trustee services, similar to those provided by professional or institutional trust companies, but for the exclusive benefit of the founding family.

A PTC often takes the form of a private limited company, with the family represented on the board of directors.

The choice of jurisdiction in which the PTC is incorporated and managed will be determined by:

- Accessibility for meetings and a time zone that allows for easy communication.
- Capability in a language with which the settlor and his / her family are comfortable. This is vital when the trustees are called on to arbitrate between differing requirements and viewpoints within the family.
- The local tax treatment of income and capital gains arising within the trust(s) of which the PTC is trustee. As parents, children and siblings increasingly are resident in different countries, trusts should ideally be tax transparent or tax exempt.
- The regulatory and compliance regime for a PTC should have appropriately ‘light touch’, given that it serves only family members.
- A relationship of trust with an experienced and pro-active local trustee company.

## What is a Family Office (“FO”) ?

An FO is an administration office dedicated to the affairs of a specific family grouping. An FO often supports an associated PTC, by helping to administer the trust’s assets and providing investment advisory services. Some FOs also administer the non-trust assets of the family. They can provide personal services to family members, such as arranging charge cards and insurance, paying domestic bills or even providing a travel or concierge service.

An FO is expensive to staff and maintain, so only the wealthiest families have a dedicated or “single family” office (“SFO”). It is becoming increasingly common for a small number of families, with similar interests, to share family office facilities in what is known as a “multi-family” office (“MFO”).

An FO will generally take the form of a limited company. Subject to tax considerations, one or more members of the family or a trusted adviser can represent the family on the board of the FO. If the company offers services to a number of different families and their respective PTCs, each of the families may appoint a representative to the board and the costs will be allocated according to use. Most FOs look to recoup their costs and are not profit centres.

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## Who should consider setting up a PTC or an FO ?

PTCs enable a family to establish long-term, multi-generational trustee arrangements, sometimes referred to as “Dynasty Trusts”. A PTC allows the family and its advisers to be involved in key investment, management and philanthropic decisions, subject to tax considerations. A PTC also allows a family to customise the trustee structure and services and to modify them over time, to match the family’s evolving needs.

A PTC may be useful where a family wishes to preserve a special asset, such as a substantial holding in a family business. The family may wish to transfer it into trust for tax planning reasons or for the benefit of future generations but be unwilling to relinquish control to an institutional trustee. Institutional trustees are traditionally conservative and will want to spread their investment risk. Their natural instinct will be to reduce the concentration of risk (possibly by part disposal), where a large part of the trust fund is invested in a single stock.

Furthermore, entrepreneurs who have built up a business and created the wealth which they now wish to transfer into trust may find that institutional trustees are resistant to investing in new entrepreneurial or start-up ventures. This can be a source of considerable friction, which can often be avoided by use of a PTC.

If you have already settled a family trust and are finding the relationship with your current trustees is too restrictive, setting up a PTC and appointing it as the trustee of your existing trust may be a solution.

## What other benefits are there in setting up a PTC ?

The main benefit of a PTC is that the family can have a much greater level of involvement in the key decisions. The investment policy can be tailored to meet the family’s aspirations, which is often not possible with an institutional trustee, where “one size fits all”. PTCs are suitable for use where the trust fund is likely to comprise entrepreneurial investments.

PTCs also allow families to obtain objective investment advice, since they are not committed to using the services of an in-house investment manager, which most institutional trustees are. The family can select separate investment managers for specific asset classes.

Because PTCs usually have boards and committees in which family members can participate (not possible with an institutional trustee) this may provide educational opportunities and encouragement for active participation by the next generation in the PTC / family’s ongoing investments and business. A growing trend is for the next generation to be more concerned with the philanthropic application of the family’s assets, including “green” issues .

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## How can STM Group help establish a PTC?

STM Group employs over 50 client relationship managers within Europe, with experience of trust and company management. Many of our staff are qualified professionals (Chartered Accountants, Solicitors, Bankers and Trust and Estate Practitioners). Between them they have accumulated many years of experience in managing corporate and trustee structures.

STM Group can establish and administer a PTC and an FO in Switzerland, Jersey or Gibraltar.

STM's services range from working with the client's trusted adviser(s) in planning the structure of the PTC and drafting a "family charter" and a business plan, comparing a PTC to other possible solutions, through to arranging administrative details, such as letterhead, business cards or domain names. Correctly structuring the holding / ownership of the PTC to allow participation in decision making by the family, without adverse tax consequences, is vital. The relevant STM office will therefore work closely with a client's trusted tax advisers from the start.

## What does it cost to set up and maintain a PTC?

It is simply not possible to estimate the cost of setting-up and running a PTC until the size of the trust fund, the level of activity and the services to be provided by STM Group have been agreed. An important decision is whether it will be cheaper for our client to set up a family office and employ its own staff directly, rather than outsource the services required.

## The next step

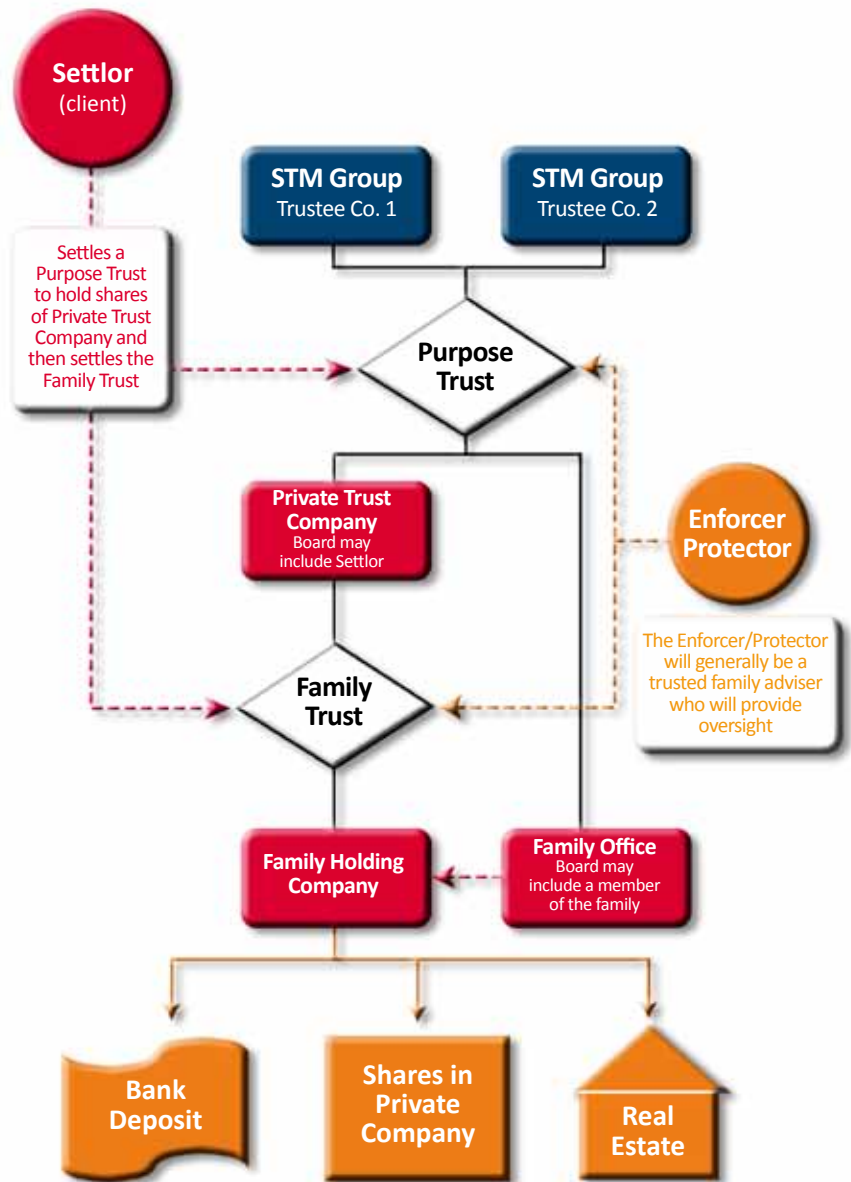
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
# Typical Private Trust Company / Family Office Structure



## KEY:

 = an individual

 = a company

 = a trust

Clients should always take professional advice from their trusted adviser as to the structure required to best suit their and their family's specific circumstances.

# What are the steps in setting up a PTC?

- 1.** The settlor usually settles sufficient cash to establish a Purpose Trust. The Purpose Trust is a trust specifically set up to hold the shares in the Private Trust Company (PTC) and has no other functions and no beneficiaries. A Purpose Trust is often recommended by tax advisers to demonstrate a partition between the settlor and the PTC, reducing the possibility of tax complications.
- 2.** Purpose Trust legislation normally requires appointment of two trustees and an “enforcer”. The enforcer oversees the administration of the Purpose Trust and protects the settlor’s interests. For this reason the enforcer will generally be a trusted adviser to the settlor.
- 3.** The trustees of the Purpose Trust then incorporate the PTC. Subject to the recommendations of the client’s tax advisers, the settlor / client may be appointed as a director of the PTC.
- 4.** The settlor then settles assets into a “family trust” of which the PTC is the trustee.
- 5.** The enforcer of the Purpose Trust can also act as the protector of the family trust, which is a very similar role.
- 6.** The family trust will incorporate a holding company to hold the legal title to the underlying family assets. A member of the family or the family’s trusted adviser may represent the family on the board of this company.
- 7.** If the family holding company is substantial enough, the trustees of the Purpose Trust may set up a family office (FO) to undertake the day-to-day administration of the family holding company. The FO will enter into a service level agreement, on arms-length terms, with the family holding company and will charge a fee, which, as a minimum, covers its costs.

# About STM Group

STM Group was founded in 1989 and is a leading Corporate and Trustee Service Provider. We have been listed on the AIM market of the London Stock Exchange since March 2007 (STM.L). The group's holding company is in the Isle of Man and we have subsidiaries in Switzerland, Jersey, Gibraltar, Luxembourg, Spain and the BVI. Details of the full range of our services and products can be reviewed on:  
[www.stmgroupplc.com](http://www.stmgroupplc.com).

STM Group is independent and has no ties (other than arms-length commercial relationships) with any other financial institution. We specialise in administration of clients' affairs. We do not provide investment management services nor advice on investments. So, our services are compatible with the business interests of the institutions, who refer the majority of our clients.

STM Group companies are regulated in the jurisdictions in which they operate and specifically for conducting trust business, in the jurisdictions where that is relevant.

STM Swiss AG is regulated by SRO PolyReg and authorised to act as a financial intermediary under the Swiss Money Laundering Act.

STM Fiduciare Limited and its affiliates are regulated by the Jersey Financial Services Commission for the conduct of Trust Company Business under the Financial Services (Jersey) Law, 1998 with Licence No. TCB0043.

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