STATE OF THE MARKET

It was another challenging year for the legal industry in both of Asia's financial hubs. Competition ramped up from both within and outside the legal industry, client demands intensified as budgets shrank, and talent retention was a serious issue at both middle and senior levels. But it was not all doom and gloom as steady corporate work continued to keep law firms busy.

BY ELIZABETH BEATTIE

HONG KONG

IPO boom provides a lift as PRC firms continue to make their presence felt

There were two overarching themes in Hong Kong's legal industry this year, and both had a distinctly Chinese flavour to them. One was the plethora of initial public offerings (IPO), primarily from the mainland, that provided a massive boost to capital markets lawyers in Hong Kong. The other was the steady entry and expansion of PRC law firms, which continued snaring partners from big-name U.S. law firms in particular.

In April, the Hong Kong stock exchange announced a significant overhaul to its new listings system in a move to

attract large technology and biotech companies that had been demonstrating a preference for the U.S. and mainland China in recent years. As part of the biggest rules changes in at least two decades, companies with "weighted voting rights" - a structure that gives certain shareholders superior voting power over others – were allowed to be listed on the Stock Exchange of Hong Kong's (SEHK) main board. Additionally, the exchange also began accepting biotech companies that had not turned a profit, and made it much easier for issuers to carry out a secondary listing in Hong Kong.

The move paid off as Chinese technology and biotech companies began listing in Hong Kong in droves. As of September, according to Thomson Reuters data, 214 companies had filed to list with the Hong Kong stock exchange, up 170 percent from last year. Hong Kong also overtook New York in IPO volumes, with $27.7 billion raised as of December. According to KPMG, Hong Kong topped global rankings for IPO volumes in the first half of 2018, with the professional services firm predicting that total IPO fundraising in the city would reach more than HK$300 billion ($38.4 billion). This would dwarf the HK$122.6 billion raised in Hong Kong IPOs last year, and make it the world's top market for new listings.

Steve Winegar international general counsel at Ping An Group, considers this an area where there is a large number of opportunities for legal work, noting: "The new Hong Kong Stock Exchange listing standards for innovative companies have led to a range of new opportunities for law firms, investment banks, accounting firms and other service providers in the Hong Kong market."

DEPARTURES AND ARRIVALS

The year kicked off with an abrupt exit. Hong Kong's highly competitive climate proved a bit too much for Atlanta-headquartered firm Troutman Sanders, which announced it was shutting shop not just in the city, but its Shanghai and Beijing presence. Troutman followed on the heels of Winston & Strawn, Cadwalader, Wickersham & Taft and Fried, Frank, Harris, Shriver & Jacobson, all of which substantially withdrew from the region in the past few years.

But that is not to say the market was in retreat. There were new entrants to the Hong Kong market this year, and the biggest names were Chinese. In November, Beijing-headquartered Commerce & Finance Law Offices (Tongshang) launched an office in Hong Kong, aiming to focus on capital markets and M&A. It was the 27th PRC law firm in the city. The 26th was AnJie Law Firm, which opened an office in June.

Other notable entrants included Gordon Dadds, one of the initial wave of firms in the UK to go public, which picked the city of its first international office. Meanwhile, lawyers exited larger outfits to strike out on their own. Hugill & Ip was launched in September by two former partners of Oldham Li & Nie; the boutique recently added its fifth partner.

And 2018 was the year where Big Four accounting firms announced themselves as a force to reckon with. PwC's Hong Kong law firm, Tiang & Co., hired partners from Mayer Brown JSM, King & Wood Mallesons' Jones Day and Minter Ellison.

Nor were PwC's competitors quiet. LC Lawyers, the Hong Kong member law firm of EY, in May hired Rossana Chu as its co-managing partner from Troutman Sanders. And in November, it was reported that Deloitte would be launching a 25-lawyer Hong Kong law practice in early 2019.

THE FIGHT FOR (AND AGAINST) TALENT

With client budgets tightening, NewLaw firms, particularly ones that provide flexible lawyer services, gradually increased in prominence. Earlier this year, Lesley Hobbs, formerly head of client solutions in Hong Kong for Lawyers of Demand, set up NewLaw firm Cognatio Law.

But it isn't just changing structures and ways of working which pose a threat to traditional firms. Large staff changes have also unsettled practices. The poaching of specialists as firms attempt to plug gaps in their offerings is a trend that shows no sign of slowing.

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Notable beneficiaries of this trend were, again, Chinese firms. In October, PRC firm Fangda Partners poached a four-member capital markets team from Shearman & Sterling in Hong Kong. Two months before that, Han Kun Law Offices hired two capital markets lawyers from Simpson Thacher & Bartlett, while in June, JunHe added an ex- Latham & Watkins associate as partner.

Winegar suggests this is a new challenge that firms must be aware of going into the new year. "The growth of the Hong Kong offices of the PRC-based law firms has been the most significant development in the Hong Kong market over the past 12 months," he says.

And providing one more headache for firms in Hong Kong were rules recently proposed by the Law Society, which included restrictions on lawyers who had gained their qualifications outside of Hong Kong, allowing them to only offer legal advice on cases that involved the jurisdictions they were registered in. An unnamed source told ALB this could force international firms to move their operations and regional headquarters to other markets, such as the mainland or Singapore.

ARBITRATION SETBACK

One area where Hong Kong saw a setback this year was its standing in the arbitration field. The 2018 International Arbitration Survey conducted by the School of International Arbitration, Queen Mary University of London, and White and Case found that Hong Kong had dropped from third to fourth place in terms of both the most preferred seats, as well as and most preferred institutions (in this case HKIAC).

The slow movement on third-party funding has also been a frustrating topic for the city's disputes practitioners. Kim Rooney, barrister and arbitrator, who chaired the Law Reform Commission's subcommittee on third-party funding for arbitration, says that legislation passed in June last year but has so far only been partly implemented, although further reforms will come into effect "soon."

"In common law jurisdictions and many civil law jurisdictions, [third-party funding] is allowed, so to maintain our competitiveness, and to provide the service to users, we need to have this in place," says Rooney. "In Hong Kong, and given our proximity to China, there are a lot of mainland companies with operations here, I think there is going to be real interest and I hope there's going to be enough cases to make it a real area of development for Hong Kong, a new area of business."

Given the vast investment and various territories covered, the Belt and Road initiative also continues to play on lawyers' minds as a potential avenue for disputes work. In April, the Hong Kong International Arbitration Centre (HKIAC) established a Belt and Road Advisory Committee and online resource centre with guides to drafting arbitration contract clauses, and resources should a dispute arise. Rooney predicts that next year, lawyers will see an increase in disputes "clearly related to the Belt & Road being conducted in Hong Kong."

LOOKING TO 2019

With so much change apparent in Hong Kong's legal market, exactly what the next year holds remains a big question mark.

Winegar suggests next year will see a continuation of the trends that have been noticeable this year. "I expect legal talent in Hong Kong to continue to move from Western law firms to PRC-based law firms in 2019, and Western firms will need to make changes, in terms of cost structure and practice focus, to remain competitive in this legal market," he says.

But, he believes the unique Hong Kong market retains many merits as of the close of 2018. "The Hong Kong market continues to be unique for the same reasons that it has been unique for many years: proximity to mainland China, free currency convertibility, multi-lingual business environment, financial system infrastructure and regulatory integrity. The Hong Kong Stock Exchange is also large enough to support the listings of world-class companies," says Winegar.

Arbitration will also be a key area for future development going into the new year, with Rooney and her peers waiting for third-party arbitration funding to come into force. At the same time, international lawyers continue to hold their breaths while they wait to learn about their future career prospects.

But the outlook is positive. From the various new firms establishing themselves in Hong Kong, the massive deals which Hong Kong-based firms have been instrumental in advising on, to the constant stream of lateral movements, these all highlight that Hong Kong continues to be important, growing and – above all – exciting, market as 2019 approaches.

SINGAPORE

A proactive government, and an M&A rebound

Perhaps the biggest difference between the legal sectors of Singapore and Hong Kong is the amount of government involvement in promoting the industry. Despite good intentions, Hong Kong's government tends to have a far more hands-off approach, while Singapore's administration is a lot more supportive. This trend was on full display again this year.

In October, Singapore's Ministry of Law introduced a new Infrastructure Dispute-Management Protocol to help mega infrastructure projects around the region manage disputes and minimise the risks of time and cost overruns. This was to attract legal work stemming from the $1.7 trillion of infrastructure that Asia is set to build every year until at least 2030. It came about a year after the city-state announced plans to become an infrastructure hub, again, looking to tap into an Asian restructuring market worth some $250 billion.

Similarly, the government has been orchestrating a push towards adoption of legal technology by even the smallest of firms. In January, for example, it launched the Future Law Innovation Programme (FLIP) to help law firms integrate baseline technology into their processes and to encourage an exchange of ideas between the technology and legal sectors.

And of course, the country fast-tracked legislation last year to allow third-party funding for international arbitration and related proceedings, with lawyers reporting an upsurge of interest in funding. In November, Australian funder Litigation Capital Management opened an office in the city-state, the fourth of its kind to do so.

OPPORTUNITIES ABOUND

M&A certainly gave lawyers much to cheer. Deal activity in Singapore hit $33.8 billion in the first half of 2018, according to data from Thomson Reuters, up 19.1 percent from H1 2017, and the highest since the same period in 2014 ($54.6 billion).

Shirin Tang, a Singapore-based corporate partner at Morrison & Foerster, notes that such growth this year has also been influenced by external political forces and increased interest in the region. "Southeast Asia is enjoying a boost in foreign investment, particularly in consumer products, industrial, TMT and chemicals," she says. "We expect this trend to continue in part because of the U.S.-China trade war which encourages companies to shift production from China to the region to avoid certain tariffs," she explains. "We are seeing a lot of companies either investing in the region for the first time or expanding their existing operations," she says.

Stefanie Yuen Thio, joint managing partner of Singapore boutique TSMP Law Corporation, agrees external pressures have been breeding opportunities. "The equity capital markets are seeing green shoots, although the ongoing sabre rattling between China and the U.S. continues to spook markets. Corporates are using the opportunity to rationalise their businesses and corporate structures, which has resulted in a steady flow of M&A work," she says.

Such opportunities have also attracted competitors, including three of the Big Four audit firms. In August, Deloitte established a presence in Singapore's legal space, and added local law capability shortly after, when local firm Sabara Law joined its network.

Meanwhile, in July, PwC lured over veteran corporate lawyer Rachel Eng from WongPartnership to launch local law firm Eng & Co. Around the same time, Evelyn Ang, a former senior partner at Dentons Rodyk & Davidson, had established Atlas Asia Law Corporation as a part of EY's legal network.

However, lawyers at local firms told ALB the Big Four aren't the sole focus of their concerns; they're just one of many factors shaping the future of Singapore's legal market.

INTO THE FUTURE

While 2018 saw Singapore's international reputation soar, and gain attention for all the right reasons, as the year draws to a close there are some indicators that suggest next year might not be such smooth sailing.

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For Yuen Thio, and others, a key concern going into 2019 has a proposal by the Civil Justice Commission to peg litigation fees rigidly to the quantum of the claim. "This has raised serious concerns among the local bar and may, if adopted without amendment, set back Singapore's development as a world-class international hub for dispute resolution," she warns.

From Tang's perspective geopolitical risk "remains the biggest uncertainty in the market", although she is positive about the opportunities on the horizon, predicting expansion in work around cybersecurity as this "continues to be an area of increasing focus for our clients."

While Yuen Thio is optimistic the China-U.S. trade war won't be "as bad as threatened", she adds that uncertainty around Brexit "doesn't help", and "slower economic growth across the world is probably on the cards".

But with international investment and expansion on the rise, and the country's global reputation only gaining strength, to the point where it overshadows Hong Kong in some areas, Singapore's resilience and strength as a market leaves it in a solid position as the year draws to a close.