

HOUSE BILL 2398

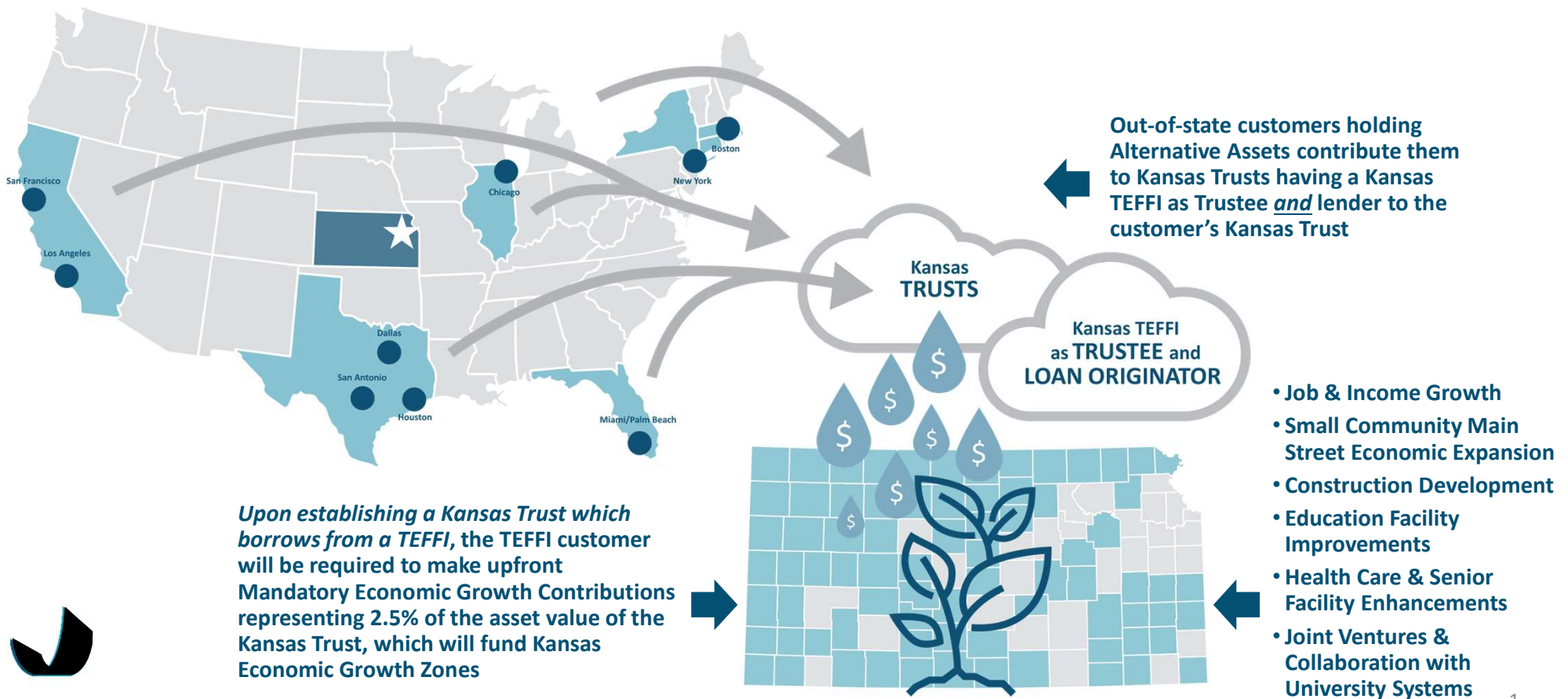
Innovative Legislation Creating Economic Growth for Kansas



TEFFI *State of Kansas
Technology Enabled
Fiduciary Financial Institutions*

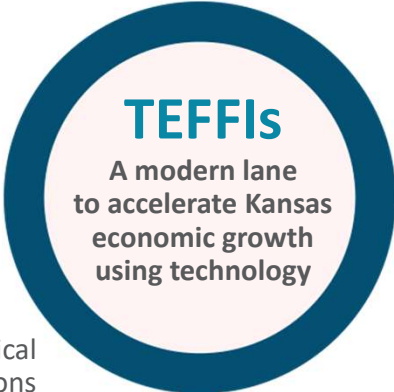


TECHNOLOGY ENABLED FIDUCIARY FINANCIAL INSTITUTIONS WILL USE TECHNOLOGY TO BRING CUSTOMER ASSETS FROM ACROSS THE U.S. TO KANSAS TRUSTS



HOUSE BILL 2398 IS AN ACCELERATOR FOR ECONOMIC GROWTH

INNOVATIVE
legislation creates
economic growth
for Kansas



**High volume,
transactional**

**Customer comes to a portal,
transacts, and departs**

National reach

Relationship-oriented, Physical
Bricks & Mortar Locations

Longer term connection
with Customers

More defined
geographic scope



Est. 1897
Reformed 1947



2021



WHO BEARS THE ECONOMIC RISK OF A TEFFI?



1. NOT KANSAS – The TEFFI and all compliance are privately funded by the TEFFI in advance. Kansas has NO out-of-pocket expenses.



2. NOT BENEFICIARIES – NO capital invested.



3. NOT DEPOSITORS – The TEFFI is a non-depository trust company.



4. COMMON SHAREHOLDERS – Risk factors are fully disclosed and a primary focus of the TEFFI Board of Directors.



TEFFIs ARE STRUCTURED TO BE SAFE, SOUND AND STABLE

1

TEFFIs are non-depository financial institutions, meaning no depositors are at risk.

2

TEFFIs are prohibited from borrowing from third parties. The only permissible debt are loans from affiliates.

3

TEFFIs are required to secure a capital management and assurance agreement from its equity owners. If such an agreement is not obtained, the OSBC can set an appropriate required capital amount.

4

If a TEFFI were to cease operations, its assets (e.g., financings) and liabilities would be assumed by its holding company.

5

TEFFIs retain the right to resign as Trustee of FidFin trusts with 30 days notice – a provision agreed to by the parties when trust is created.

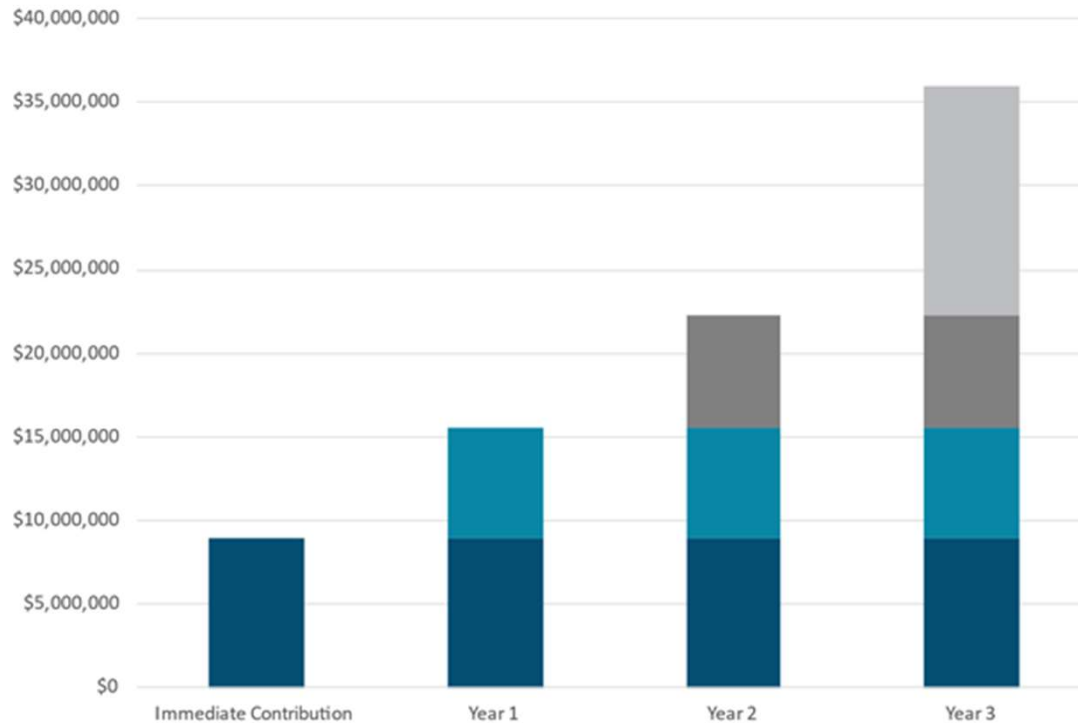
The TEFFI legislation permits the inclusion of individual trust advisors. If the TEFFI resigns as Trustee, then these individuals may either appoint a qualified fiduciary as successor trustee or serve as the successor trustee.

If the trust advisor serves as successor trustee, the OSBC would no longer be required to oversee FidFin trust administration or trustees who are individuals.

The trust advisor will retain professional advisors and service providers to ensure the continued accounting and administration of the FidFin trusts (e.g., Capital Analytics, Colmore, regional accounting firms, etc.).



PROJECTED CUMULATIVE ECONOMIC GROWTH CONTRIBUTIONS TO SMALL TOWN KANSAS FROM THE PILOT PROGRAM



With the addition over the next 5 years of 10 TEFFIs similar in size to the first Pilot Program, the State of Kansas could see ANNUAL Economic Growth Contributions of \$165 million by the fifth year, with the possibility for a total of \$1 billion by 2030 in cumulative Economic Growth Contributions made to Kansas Economic Growth Zones.



3/21/2021

DELAWARE, SOUTH DAKOTA, TEXAS AND WYOMING EACH AUTHORIZE CERTAIN ASPECTS OF TEFFI OPERATIONS, BUT NO ONE STATE HAS COMPREHENSIVE STATUTES

House Bill 2398 consolidates the following existing statutory provisions from multiple states into one cohesive legislation positioning Kansas as the preferred jurisdiction for trust banks to consolidate operations from other states.

Bill Reference	Statutory Source	Description
Consolidated Statutes from Existing Kansas Legislation		
Sec. 1(b)(6)	K.S.A. 74-50, 222	Identification of Economic Growth Zones
Sec. 2	K.S.A. 9-801	Charter Requirements
Sec. 3	K.S.A. 9-1703	Examination and Fees
Sec. 4	K.S.A. Article 9	General Incorporation of Article 9
Sec. 5	K.S.A. 9-901	Capital Requirements
Sec. 6	K.S.A. 9-1114	Management/Composition of Board of Directors
Sec. 7	K.S.A. 9-1704	Reporting Obligations to Commissioner
Sec. 10	K.S.A. 9-1101	Authorization of Trust Bank Powers
Sec. 12	K.S.A. 9-1104	Licensing and Outsourcing of products/services
Sec. 19	K.S.A. 58a-708	Trustee Compensation
Consolidated Statutes from Existing Delaware Legislation		
Sec. 1(b)(9)	12 Del. C. §3301(d)	Definition of “fiduciary”
Sec. 14	12 Del. C. §3313	Rights and Powers of Trust Advisor
Sec. 15	12 Del. C. §3313A	Duties and Liabilities of Trust Advisor
Sec. 26	25 Del. C. §503	Duration of FidFin Trust

Bill Reference	Statutory Source	Description
Consolidated Statutes from Existing South Dakota Legislation		
Sec. 1(b)(7)	SDCL § 55-1B-1(5)	Definition of “excluded fiduciary”
Sec. 1(b)(13)	SDCL § 55-1B-1(3)	Definition of “trust advisor”
Sec. 9(c)	SDCL § 51A-6A-11.1	Principal Office Requirements
Sec. 15	SDCL § 55-1B	Duties and Liabilities of Trust Advisor
Sec. 15(d)	SDCL § 55-1B	Directives of Trust Advisor
Sec. 20	SDCL §21-22-28	Privacy of FidFin Trusts
Sec. 23	SDCL §54-3-1.1	Usury
Consolidated Statutes from Existing Texas Legislation		
Sec. 12	TX Trust Code §113.108	Authority to Engage Agents/Employees
Sec. 18	TX Trust Code § 114.007	Limitations of Indemnification
Consolidated Statutes from Existing Wyoming Legislation		
Sec. 8	Wyo. Stat. §34-29-104(p)	Definition of “custodial services”
Sec. 1(b)(5)	Wyo. Stat. §13-1-204	Use of “bank” in name
Sec. 13	Wyo. Stat. § 34-29-104	Requirements for custodial services
Sec. 16	Wyo. Stat. § 4-10-713 & 714	Trust Advisor as a fiduciary and subject to KS jurisdiction

HOW IS A TEFFI REGULATED?

PURSUANT TO HOUSE BILL 2398, TEFFIs WILL COMPLY WITH ALL RELEVANT BANKING LAWS UNDER THE SUPERVISION OF THE BANKING COMMISSIONER

Technology differentiates a TEFFI:

- 1 Allows a TEFFI to efficiently and securely process transactions over a web-based portal
- 2 Provides national scope, since access is online rather than in person, which optimizes revenue generation for Kansas from financial centers outside Kansas
- 3 Facilitates “remote transactions,” making a high volume, secure transactional process possible, while still complying with all banking rules



Comparison



High volume, transactional	Relationship-oriented
Customer comes to the portal, transacts, and departs	Longer term connection with Customers
National reach	More defined geographic scope
Fiduciary capacity	Fiduciary capacity



SAFETY AND SOUNDNESS

TEFFIs ARE SUBJECT TO FIDUCIARY STANDARDS AND
EXAMINATION PRINCIPLES SIMILAR TO BANKS AND TRUST COMPANIES

1 CAPITAL
ADEQUACY

2 ASSET
QUALITY

3 MANAGEMENT

4 EARNINGS

5 LIQUIDITY

6 SENSITIVITY

- TEFFIs are subject to the CAMELS rating system
- Ratings are applied based on the financial characteristics of a TEFFI
- HB 2398 provides guidance on the relative weight of certain factors
 - Capital adequacy is overweighted, focusing on financial stability
 - Earnings are underweighted, recognizing unique profitability profile and long-term nature of TEFFIs
- The legislation's Pilot Program is specifically designed to (i) implement appropriate TEFFI examination standards, (ii) afford the OSBC and the Pilot Program TEFFI the opportunity to work together to tailor the application of the CAMELS rating system to TEFFIs and (iii) address any other matters through legislative amendments before expanding the TEFFI initiative.

BENEFITS OF THE TEFFI PILOT PROGRAM

THE PILOT PROGRAM ESTABLISHED BY HB 2398 BRINGS IMMEDIATE BENEFITS TO KANSAS

1

Immediate Investment in Rural Kansas Communities.

The Pilot Program TEFFI would immediately make an investment in an Economic Growth Zone – the purchase or development of at least 10,000 square feet of real estate

2

Immediate Funding of Economic Growth Zones.

The Pilot Program TEFFI would immediately contribute at least \$9,000,000 of assets to fund one or more Kansas Economic Growth Zones

3

Immediate Funding of the OSBC.

The Pilot Program TEFFI would immediately remit \$1,000,000 to the OSBC to fund the development of a TEFFI examination team and to provide other examination resources for the Commissioner

4

Development of Examination Standards.

The Pilot Program TEFFI would work with the OSBC to assist in the development of appropriate TEFFI examination standards

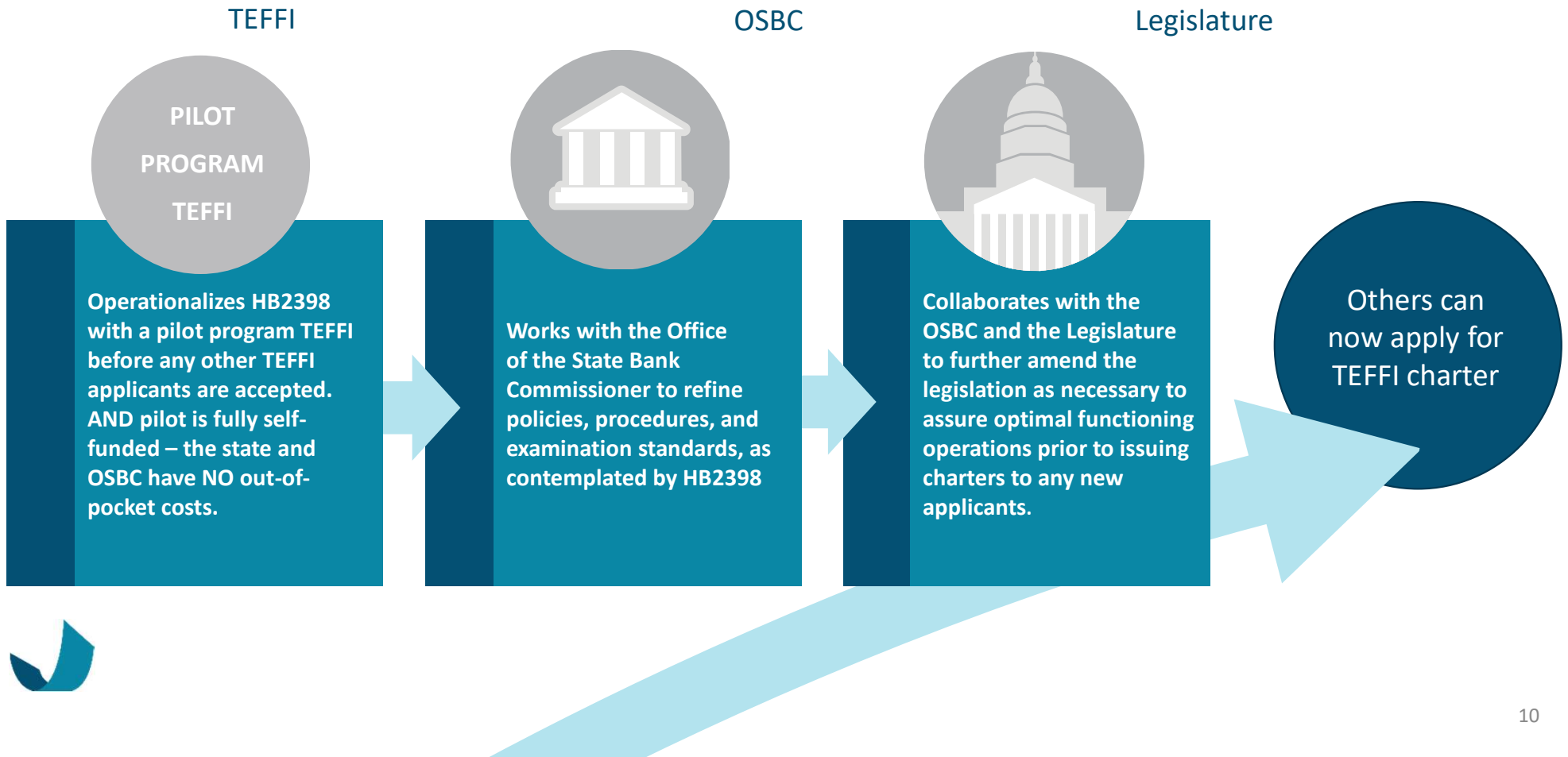
5

Opportunity for Legislative Enhancements.

The Pilot Program TEFFI would work with the OSBC and Kansas legislature to identify opportunities to clarify and enhance the TEFFI legislation



THE PILOT PROGRAM IS A RISK-FREE PERIOD TO OPTIMIZE THE PROCESS



TEFFIS DO NOT COMPETE WITH EXISTING KANSAS TRUST COMPANIES & BANKS

TEFFIs are different both because of what they do and, just as important, what they don't do – they do not provide traditional trust banking services in Kansas.

1 Do not provide traditional administration services such as ILITs, Revocable Trusts, Gifting Trusts, GRATS and Estate Administration

2 Focus on investors worth over \$5 million from major wealth city centers outside of Kansas and not in the major Kansas markets

3 Do not take cash deposits, provide traditional banking services or offer investment products

4 Transactional focus through technology enablement - not relationship oriented through personal contact

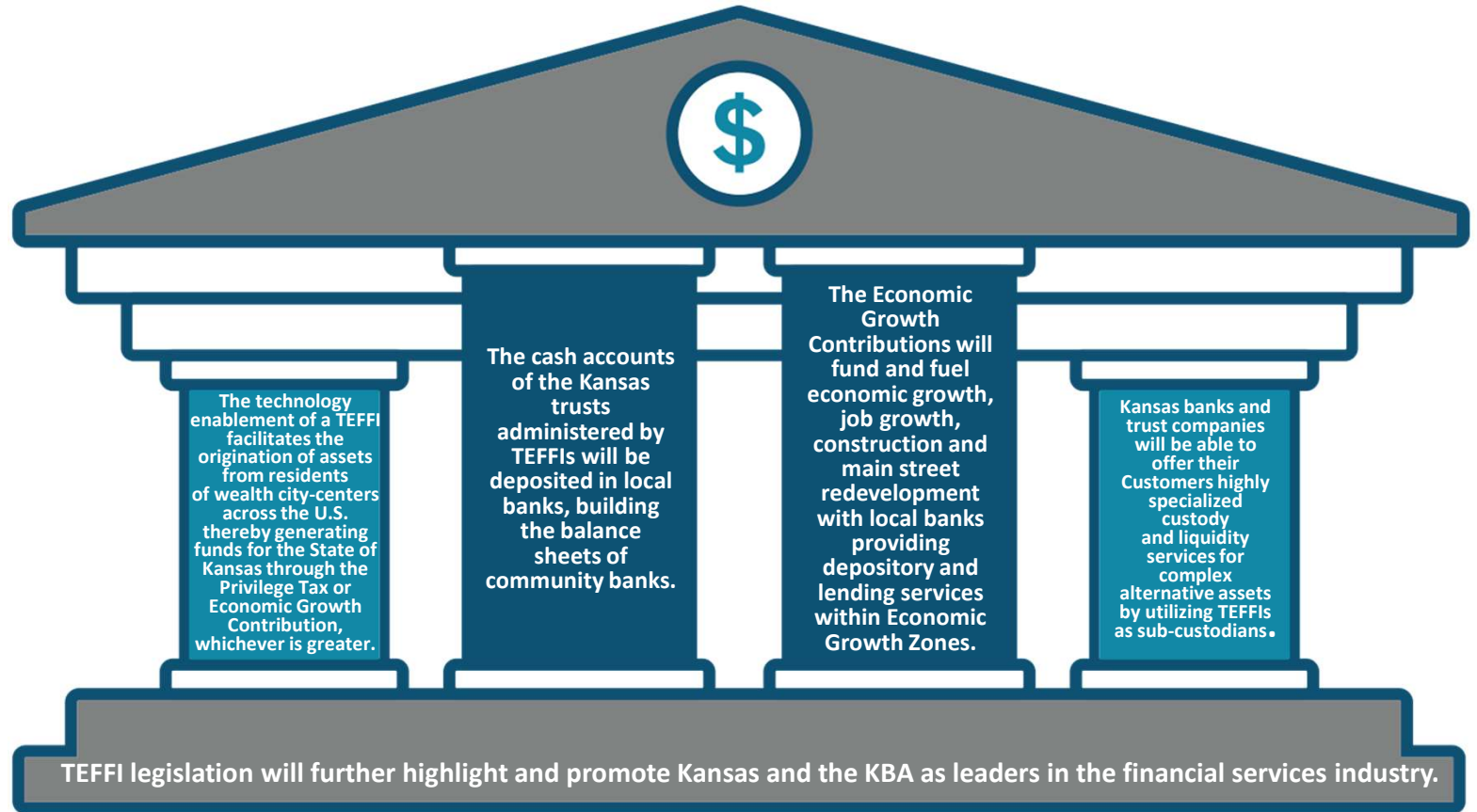
5 Provide Fiduciary Finance (FidFin) loans collateralized by Alternative Assets (Covered Funds), whereas Federal regulation restricts deposit-taking trust banks from making such loans

6 TEFFIs are not focused on the investment advisory or wealth management business. TEFFIs are focused on transactions, not relationships



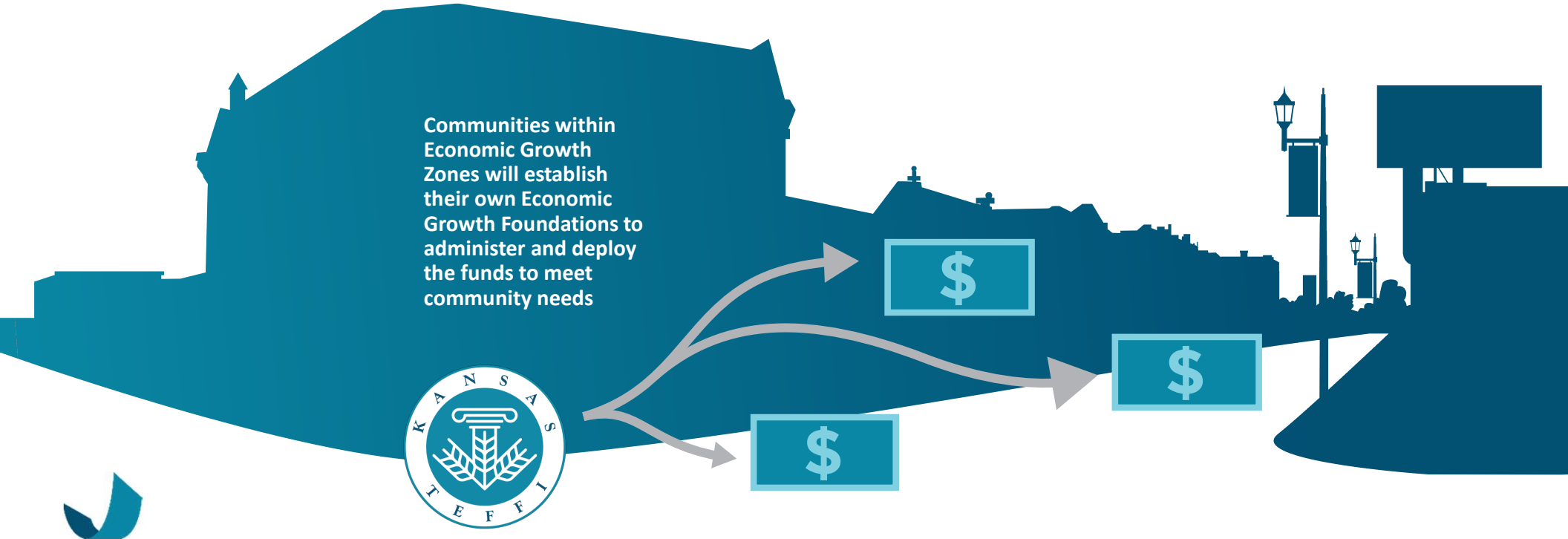
TEFFIs WILL CONTRIBUTE TO BUILDING COMMUNITY BANK BALANCE SHEETS

TEFFIs will serve to position Kansas among the leaders in U.S. financial trust services, while providing financial benefits to both Kansas banks and the citizens of Kansas.



FUNDS GENERATED THROUGH TEFFIS WILL GO TO MAIN STREET REDEVELOPMENT

TEFFIs will contribute to the expansion of economic activity in small communities.



TEFFI FUNDS WILL SUPPORT SCHOOL SYSTEMS

Local communities will gain another source of revenue to make educational facility improvements and support local schools.

The local Economic Growth Foundation will be governed by local community leaders and can make decisions driven by community priorities.



OUR COMMUNITIES HAVE MANY NEEDS THAT TEFFI REVENUE CAN SERVE

**JOB AND INCOME
GROWTH**



**CONSTRUCTION
DEVELOPMENT**



**HEALTH CARE AND
SENIOR FACILITY
ENHANCEMENT**



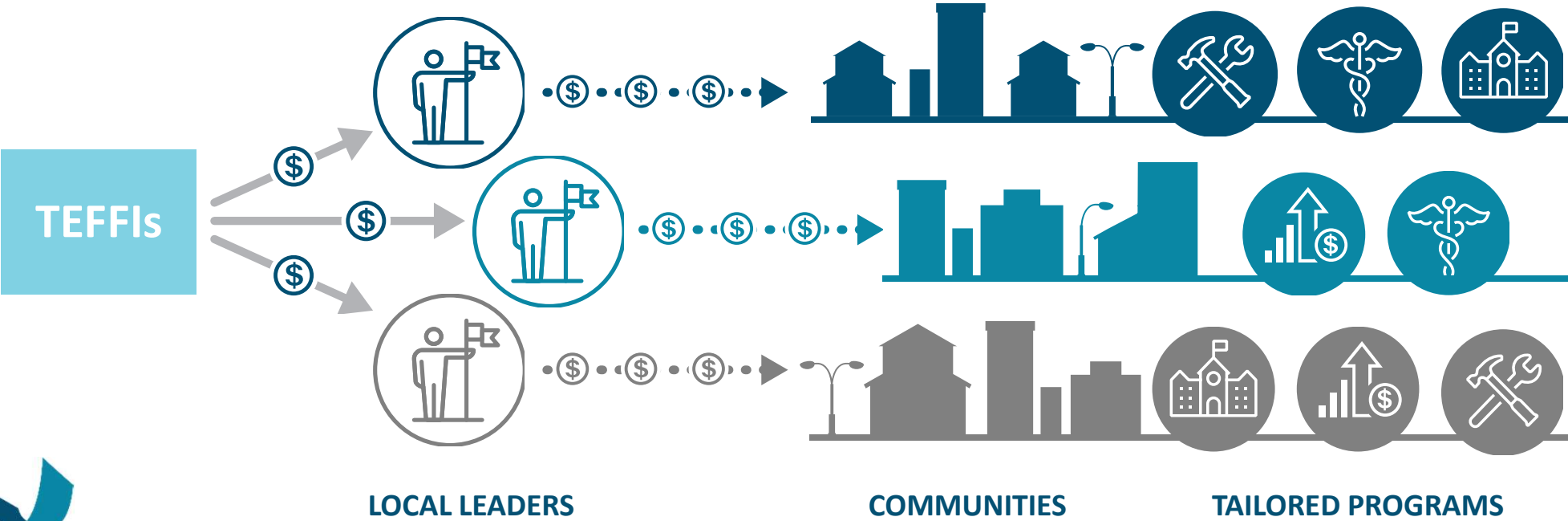
**JOINT VENTURES AND
COLLABORATION WITH
UNIVERSITY SYSTEMS**



LOCAL LEADERS ARE BEST POSITIONED TO ADMINISTER AND DEPLOY ECONOMIC GROWTH CONTRIBUTIONS IN THEIR COMMUNITIES

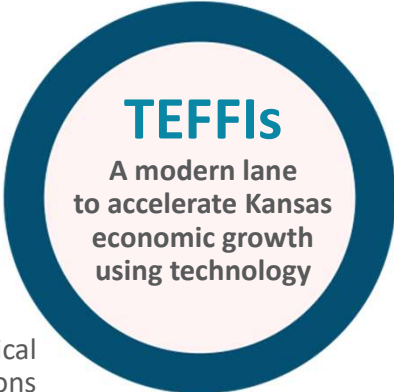
Driven by local priorities, local leaders can direct funds to be responsive to local employment and community needs. Solutions are best when they are tailored to local communities, rather than one-size-fits-all.

EGCs generated by the activities of TEFFIs are a decentralized source of funds. Communities will develop their own, tailored programs that are evidence-based and meet community needs. These programs are more responsive to the needs of Kansans.



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Kansas
Traditional Trust
Companies and
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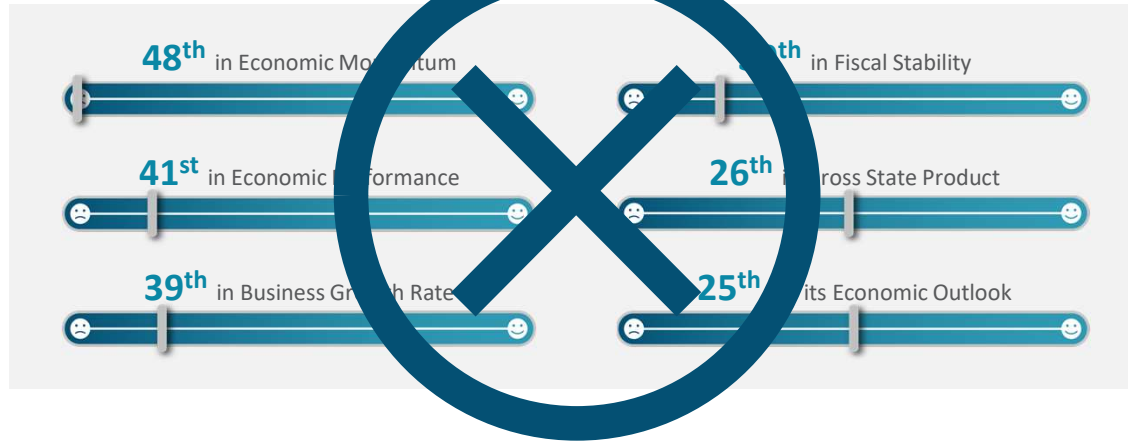
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TOGETHER, WE CAN MOVE KANSAS INTO THE TOP RANKS



GOAL OF HB 2398 – BECOME TOP 10%

in economic development driven by financial institutions.

