

OPERATING TRUST POWERS:

IN TODAY'S
FINTECH ENVIRONMENT

Learning Objectives

Three things:

1. Understand that trust operations was designed to support three fiduciary product lines.
2. Understand the complexity that Wealth Management and Held-Away Custody brought to trust operations.
3. Understand the unique exposure that digital assets bring to a fiduciary operating under trust powers.

Refresher

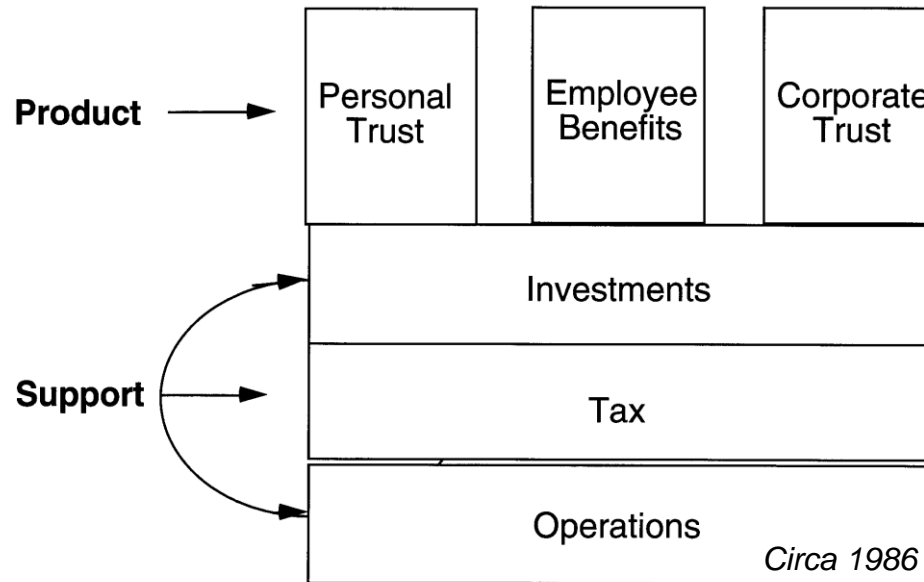
- Baseline decision making for a Trustee

Decision Hierarchy for Trustee
Federal Law
Governing Instrument
State Law
Trustee's Discretion
Court Order

Federal Law applies for retirement under ERISA and Corporate Trust under Trust Indenture Acts as revised.

Trust Department was aligned by Product

Trust Department Design



Originally, Trust was a division or a department within a bank and most are within Community Banks.

WM exponentially increased complexity

Wealth Management Functional Map

Front Office Functions

Executive Management & Marketing						Sales and Relationship Management						Relationship Management					
Strategic Planning	Market Research	Product Management	Brand Management	Sales Strategy	Pricing	Sales Process Management	Commission Determination	Prospect Evaluation	Prospect Proposal	Prospect Relationship Management	Distribution Channel Management	Client Suitability Assessment	Account Opening & Closing	Client Data Maintenance	Estate Administration Services	Fee Administration & Collection	Transition Management Services
Competitive Market Assessment	Target Market Segment Analysis	New Product Development	Marketing Communications	Product Positioning	Profit & Loss Management	Sales Funnel Management	Wholesale Services	Other Prospect Assessment	Distribution Support	Financial Planning	Event Management	Client Relationship Management	Portfolio Transfer	Cash & Currency Mgmt Svcs	Real Estate Administration Services	Corporate Trustee Services	Closely Held Business Mgmt Svcs
Asset Management																	
Investment Policy Statements	Financial Planning Services	Mutual Fund Products	Fixed Income Products	Alternative Investment Products	Portfolio Rebalancing Services	Portfolio Management Services	Equities Products	Managed Account Products	Securities Lending Services	Liquidity Management Products	Trade Execution Services	Investment Portfolio Models	Margin Lending	Trade Order Services	Brokerage Commission Management	Cash Sweep Services	Digital Asset Management Services

Middle Office Functions

Regulatory Compliance				Accounting Services						Client Reporting							
Dodd-Frank Compliance	MiFID Compliance	GIPS Compliance Management	RMD Compliance & Reporting	Trust Accounting Services	Pooled Investment Accounting	Other Institutional Services	Foundations & Endowments Services	Multi-Currency Accounting	Client Profitability Analysis	Client Statements	Client Tax Reporting	Custom Client Reporting	Composite Performance Reporting	Participant Reporting	Trade Advices & Confirms	Portfolio Aggregation Reporting	Archival Services
SOX Compliance	SOC / SSAE16 Compliance	GLBA Reg R & Privacy Compliance	AIFMD Compliance	Financial Accounting Services	Partnership Accounting	Business Valuation	Tax Accounting	Specialized Accounting Services	Investment Performance Services	Client Performance Reports	Shareholder Reporting	Ad Hoc Client Reporting	Performance Attribution Reporting	Document Management Services	On-Line Client Reporting	Client Extracts & Data Feeds	Workflow Status Reporting
AMLA 2020 Compliance	'34 Act Compliance	'40 Act Compliance	Other Regulatory Compliance	Risk Management						Reconciliation			Management Reporting				
				Counterparty Risk Management	Technology Risk Management	Market Risk Management	Vendor Risk Management	Compliance Risk Management	Capital Risk Management	Trade Reconciliation	Position Reconciliation	Cash Reconciliation	Market Value & Pricing Reconciliation	NAV & Unitized Reconciliation	Inv Perf Composites Reporting	Cash Projections Reporting	Other Management Reporting

Back Office Functions

Back Office Operations																			
Trade Settlement Services	Asset Coding	Class Action Processing	Custody & Safekeeping Services	Pricing & Valuation Services	Mutual Fund Processing	Security Transfer Services	Portfolio Data Aggregation Services	Custodial Network Management	Fiat Currency/ FX Processing	Tax Withholding & Reclaims	Operations Consulting Services	Tax Operations	Global Securities Operations	SWIFT Messaging	Client Loan Operations	Real Estate Services	Operations Management Services		
Income Processing Services	Proxy Processing Services	Securities Lending Operations	Tax Lot and Acquisition Date Tracking	Collateral Accounting and Control	Benefits Payment Services	Order Management Processing	Fee Processing	Cash Sweep Processing	Cash Movement Services	Corporate Action Processing	Margin Processing Operations	RMD Calculation Operations	Global Tax Reclaims	Sundry Assets Services	Beneficiary Payments Services	Alternative Assets Support	Ops Perf Monitoring & Management		
Information Technology																			
Information Integration Services	Data Aggregation Services	Information Security Services	Business Continuity Services	Facilities Management	Third Party Vendor Management	Network Services	Hosting Services	IT Project Management Services	Business Migration Services	Data Migration Services	Transition & Cut-Over Services	Maintenance & Development	IT Compliance Monitoring	Capacity Planning Services	IT Audit Services	Unified Communications	Other IT Services		

Generalists became Specialists

Operations

Trade Settlement Services

Asset Coding

Class Action Processing

Income Processing Services

Proxy Processing Services

Securities Lending Operations

Front Office Functions

Executive Management & Marketing

Strategic Planning	Market Research
Competitive Market Assessment	Target Market Segment Analysis

Asset Management

Investment Policy Statements	Financial Planning Services
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Fee Administration & Collection	Transition Management Services
Corporate Trustee Services	Closely Held Business Mgmt Svcs
Cash Sweep Services	Digital Asset Management Services

Middle Office Functions

Regulatory Compliance

Dodd-Frank Compliance	MiFID Compliance
SOX Compliance	SOC / SSAE16 Compliance
AMLA 2020 Compliance	'34 Act Compliance

Portfolio Aggregation Reporting	Archival Services
Client Extracts & Data Feeds	Workflow Status Reporting
Cash Projections Reporting	Other Management Reporting

Back Office Functions

Back Office Operations

Trade Settlement Services	Asset Coding	Class Action Processing	Customer Support Services	Transfer Services	Proxy Processing	Portfolio Data Aggregation Services	Custodial Network Management	Fiat Currency/ FX Processing	Tax Withholding & Reclaims	Operations Consulting Services	Tax Operations	Global Securities Operations	SWIFT Messaging	Client Loan Operations	Real Estate Services	Operations Management Services	
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Information Technology

Information Integration Services	Data Aggregation Services	Information Security Services	Business Continuity Services	Facilities Management	Third Party Vendor Management	Network Services	Hosting Services	IT Project Management Services	Business Migration Services	Data Migration Services	Transition & Cut-Over Services	Maintenance & Development	IT Compliance Monitoring	Capacity Planning Services	IT Audit Services	Unified Communications	Other IT Services
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Operations

Client Loan
Operations

Real Estate
Services

Operations
Management
Services

Beneficiary
Payments
Services

Alternative
Assets
Support

Ops Perf
Monitoring &
Management

Front Office Functions

Executive Management & Marketing

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Back Office Functions

Back Office Operations

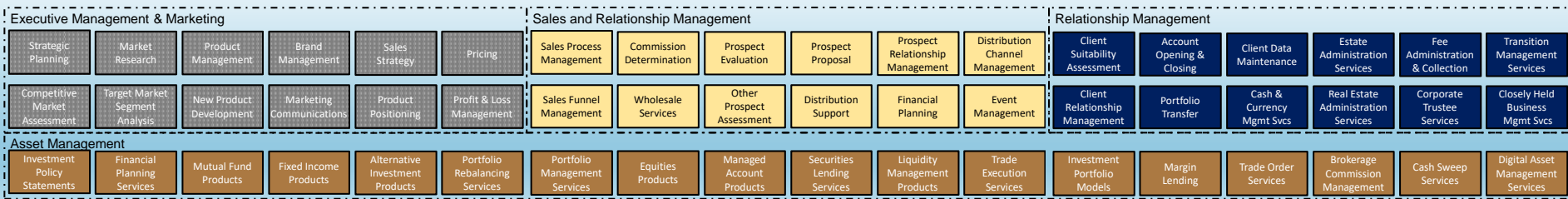
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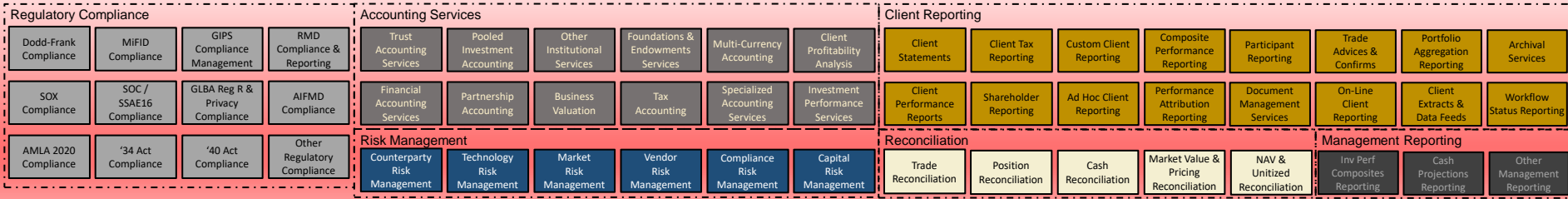
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Wealth Management Functional Map

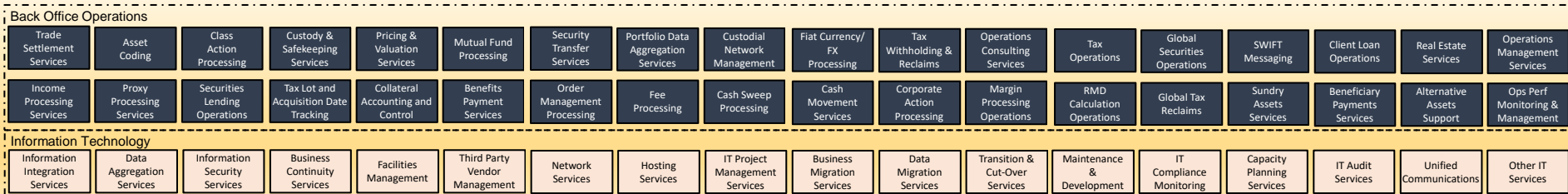
Front Office Functions



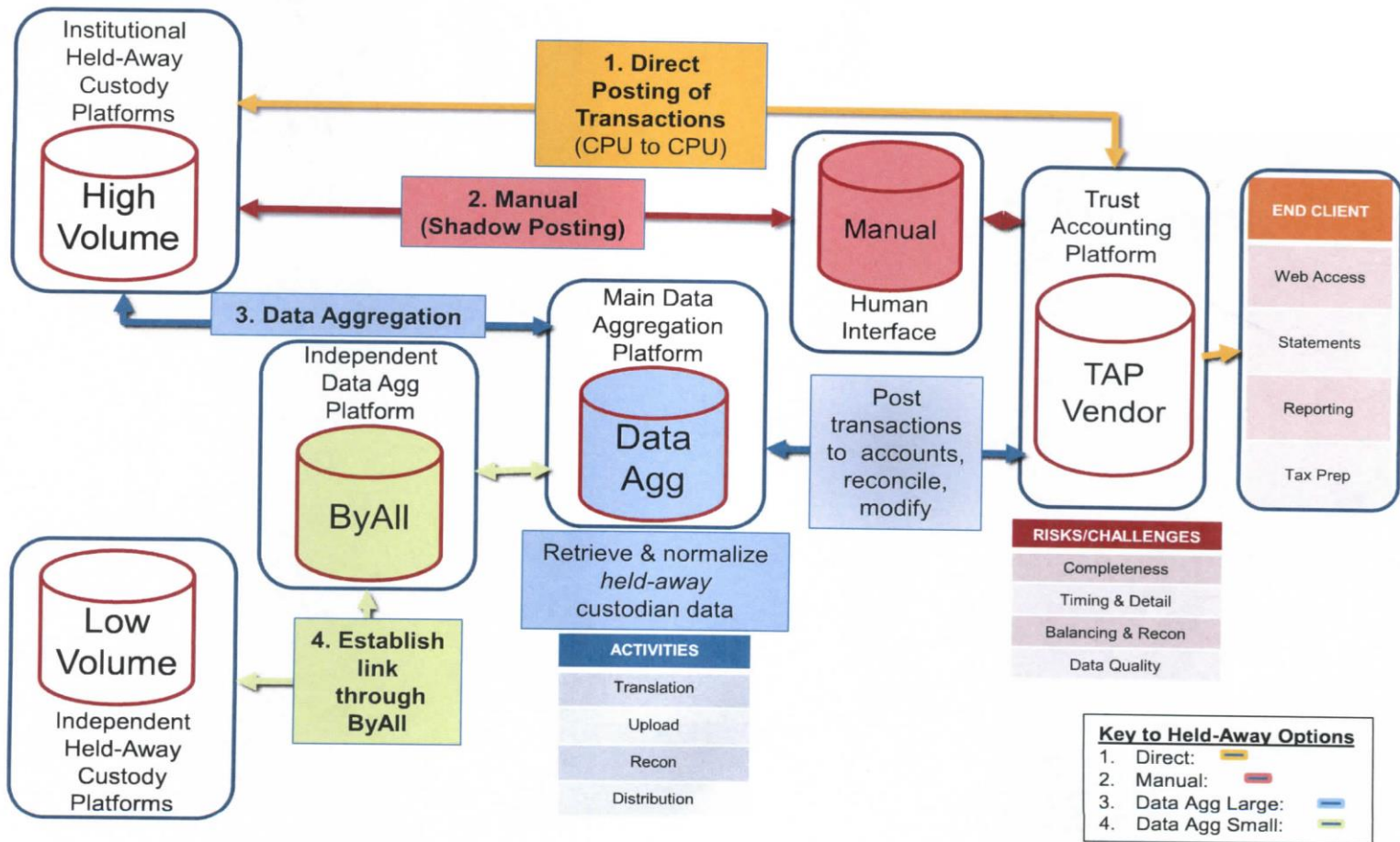
Middle Office Functions



Back Office Functions



Processing Options in Held Away Environment

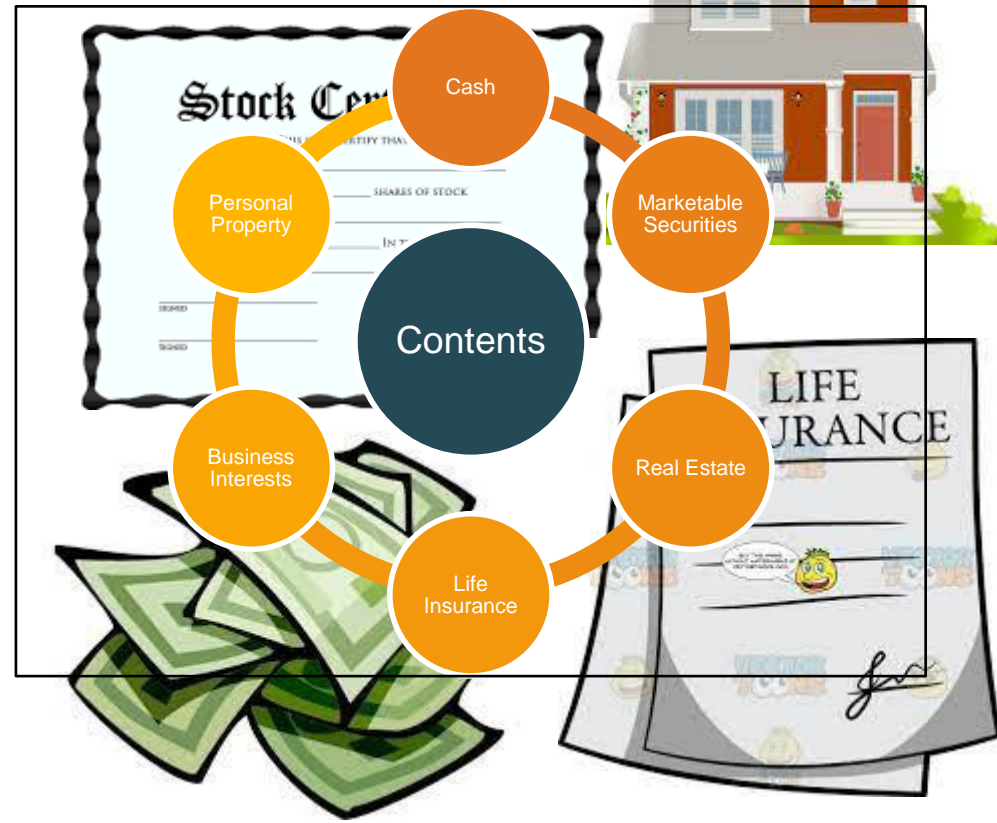
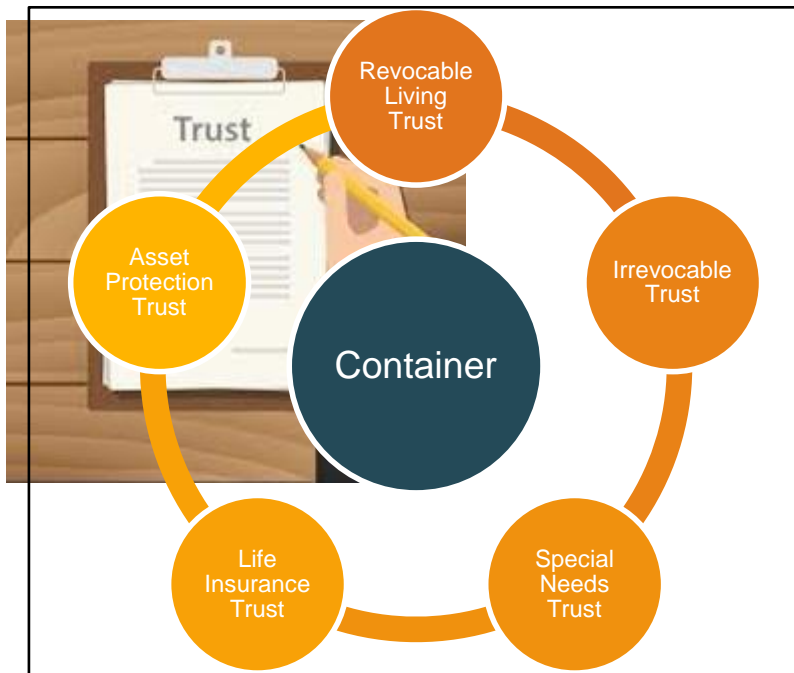


The Custody Rule

- Rule 206(4)-2 of the IAA '40
- Definition of Qualified Custodian
 - Trust Company – exercising fiduciary powers similar to those granted to National Banks under OCC
 - Acting in a fiduciary manner generally defined as exercising discretion
- Exercising Discretion
 - Accepting appointment of a Fiduciary Capacity
 - Portfolio Allocation
 - Disbursements

FIDUCIARY: Small "f" and BIG "F"

- Is there a difference?
 - RIA as 'f'iduciary
 - Trustee as 'F'iduciary
- Control over the container vs. the contents



Fiduciary in the Digital Assets World

- Digital Assets: *technologically* different than legacy assets
- Similar functions: store and transfer value, or instrument of record.
- Experience holding, securing, and servicing one does not correlate to the other.

Differentiating Qualities	Control Requirements
Nature of the Blockchain	Exclusive Possession of Private Key Material
Transaction Irreversibility	Proof of Existence of the Asset Itself
Bearer Nature of Assets	Hardware Security
Simultaneous Instances	Blockchain Monitoring

Be very diligent reviewing the exercise of trust powers in this environment.

Must have adequate Governance Structure

Any organization that is exercising Trust Powers in this FinTech environment and looking to add *Digital Assets* under those powers, needs to have the appropriate Governance Structure in place:

1. **Risk-based Capital Policy**
2. **Sound Fiduciary Audit Committee** – 12CFR9.9(c)
3. **Three Lines of Defense Model**
4. **Credible Challenge Standards** – where Governance structure has direct authority to change the strategic direction of the firm.

Questions

What questions
do you have?

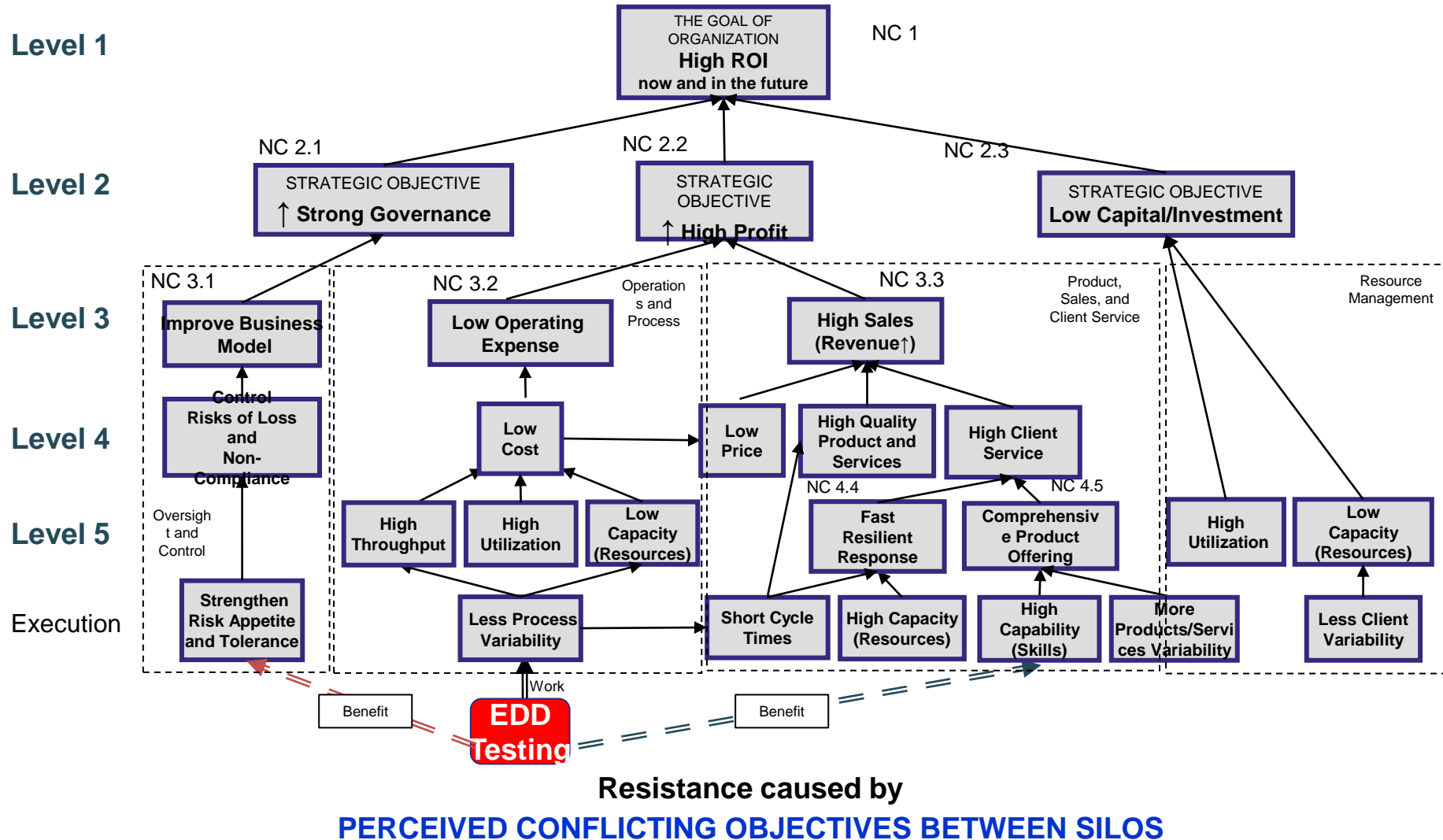
OK Let's add EDD to Governance Structure

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3. **Three Lines of Defense Model**
4. **Credible Challenge Standards** – where Governance structure has direct authority to change the strategic direction of the firm.
5. **Enhanced Due Diligence (EDD) Testing** at the Process Level – Understand Cause and Effect

Adding Enhanced Due Diligence (EDD) Testing at the Process Level

How EDD Testing at the Process Level, helps protect the organization, reduces risk, and provides for sound allocation of risk-based capital in any environment, but especially digital assets.





Sources: Reference Material and Further Reading

- Office of the Comptroller of the Currency, Re: *Authority of a National Bank to Provide Cryptocurrency Custody Services for Customers*
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- Cundiff, David H., Taub, David L., McGee Elise J., and Evans Joseph McDermott Will and Emory, *Two Ocean Trust LLC Request for No Action Letter*, August 27, 2020, available at:
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