

1. HOW SAFE IS YOUR INVESTMENT WITH A TRUST ENTITY?

Although not an obligation of the Trust Entity and not insured with the Philippine Deposit Insurance Corporation, money placed with a reputable trust entity is just as safe, if not safer, than money in a savings or time deposit account with a bank. There are enough safeguards instituted through current government regulations and industry practice.

• **Capitalization Requirements/License**

Under a circular issued by the Monetary Board, an applicant for a trust and investment management license must have a combined capital account of not less than P250 million.

• **Reserves**

Before a trust entity with trust license can actually accept money in trust, an initial deposit of at least P500,000.00 with the BSP, in the form of eligible government securities, as security for the trust entity's faithful performance of its trust duties is likewise required. If assets managed exceeds P50 Million, the trust entity must place with the BSP additional government securities to maintain its deposit at the equivalent of at least 1.0% of total value of assets managed. This deposit likewise serves as security that the trust entity will perform its duties well. At no time can the security deposit be less than P500,000.00.

• **“ Prudent-Man” Rule**

Under this rule, the trust entity is required to “administer the funds or property under its custody with the skill, care, prudence and diligence necessary under the circumstances then prevailing that a prudent man, acting in like capacity and familiar with such matters, would exercise in the conduct of an enterprise of a like character and with similar aims”

• **Investment Restrictions/Disclosure**

The BSP regulations on trust and investment management spell out some of the specifics of the Prudent-Man rule in a set of investment rules that limit the placement of funds and upholds disclosure and transparency in investments.

• **Periodic Reports to Client/BSP**

Informative reports are required to be made by the trustee to the client and other parties who have legitimate interest in the trust. These reports must be given at least quarterly, and must consist of a balance sheet, an income statement, a schedule of earning assets and an investment activity report. The trust entity likewise submits to the BSP periodic reports on the trustee's trust business.

• **Yearly Triple Audit**

The trust entity is required to submit itself to an annual triple audit: one by its own internal auditors, a second by the independent external auditors of the trust entity, and the third by the examiners of the Bangko Sentral ng Pilipinas. These audits, which have the common purpose of determining whether the trust business of the financial institution is being conducted in accordance with the law and regulations, serve as effective deterrents against unsound practices and fraudulent schemes.

• **Earmarking/Separation of Accounts**

Trust assets are required to be kept separate and distinct from all other assets of the trust entity's business; trust books and records are separate and independent from other books and records of the trust entity. The records of each trust account are separate from those of all other accounts and are adequately identified.

• **Preference of Claims**

No assets held by the trust entity as trustee shall be subject to any claims other than those of the parties (trustor/beneficiaries) interested in the specific trust accounts.

• **Check-and-Balance Mechanism/Group Judgment**

No single person controls the entire process of administration of a trust /investment management fund. The Board of Directors, the Trust Committee and the Trust Officer are all involved. Normally, transactions involving the trust account require dual signatories for implementation and trust assets are under the joint custody of at least two persons, one of whom shall be an officer of the trust entity, designated for that purpose by the Board of Directors.

• **Reasonable Trust Fees**

The fees are based on the cost of services rendered and the responsibilities assumed; not based on the excess of the income derived from the investment of trust fund over a certain amount of percentage.

• **Reputation of the Trust Entity**

No respectable trust entity would want to have its name sullied by scandals and scams perpetrated by its own people. Every trust entity now operating would like, instead, to develop and maintain a reputation of prudent investment and efficient administration. A trust entity worthy of its name "Trust", works hard to ensure that always make sure that the client's account is safe, that it achieves reasonable growth for the funds it manages and that its accounts yield adequate income for its clients.

2. HOW DOES A TRUST ARRANGEMENT DIFFER FORM OTHER FINANCIAL OR NON-FINANCIAL TRANSACTIONS?

• Trust Services vs. Banking / Other Financial Transactions

	TRUST SERVICES	BANKING TRANSACTIONS
On Relationship	Trust services basically make the institution a manager of the client's assets, either as trustee, agent, custodian, or advisor.	Banking transactions with banks or other financial institutions almost always involve a creditor-debtor relationship. The depositor/investor effectively extends a loan (deposit) to the financial institution.
On Documentation	The documentation of the trust transaction is usually in the form of trust indentures, investment management agreements, custodian contracts or investment advisory agreements.	The clients are given a passbook, certificate of deposits, repurchase agreements or confirmation of sale evidencing the deposit of placement.
On Duties	The essential duty of the trust institution is to do its best in getting the best deal for the client. Thus, when funds held in trust are invested, the trustee is required to put money in an investment that gives the highest income compatible with the safety of the capital.	The duty of the financial institution is merely to pay back the client's money with the agreed interest at the agreed maturity date.
On Liabilities	If the money placed in an investment, which in spite of the due care and prudence exercised by the asset manager, result in a loss, the loss is borne by the client himself.	If the depositor's money is placed by the financial institution in a losing investment, the loss is borne by the financial institution itself.
	The investor's money is not covered by the PDIC insurance. However, adequate protection is secured by strict laws and regulations concerning trust activities.	In financial institutions, only deposits up to P100,000 are insured with the PDIC. As for the excess, the ability of the institution to return the client's money depends on the institution's own financial standing.
	<i>In case of a bank closure, the trust department continues to collect on existing investments and/or delivers assets/securities back to clients or successor-trustees or agents</i>	

• Trust Fund vs. Deposits

Trust fund constitutes all property placed under trust which includes money, securities, and real as well as personal property. A trust fund is created for the purpose of administering the property for the use of benefit of the trustor or of others. Because of this, trust funds do not form part of the bank's assets and are thus classified as contingent accounts.

Also, the administration of trust funds is done on a best-effort basis. Hence, no interest rate can be guaranteed. The trustee does not promise a result, instead he offers his assistance to achieve the desired result.

The trustee does not do business with the client, as in the case of depositor-bank business; like an agent, he is doing business for a client.

• Trust Fund vs. Money Market

Money market normally refers to types of financial transactions involving the sale purchase of debt instruments with varying maturities. Being debt instruments, these securities usually involve fixed interest.

In trust instruments, however, the trust fund may be placed in the money market. This however, does not convert the trust itself into a debt instrument carrying a fixed interest rate. Money market is merely an investment outlet for trust funds.

• **Trusteeship vs. Agency**

Trusteeship is an arrangement whereby a trustor transfers property to a trustee for the latter to administer in a certain manner, for the benefit of the trustor or third persons (beneficiary). Agency is an arrangement whereby a person binds himself to render some service on behalf of another with the consent or authority of the latter.

The distinguishing characteristic of trusteeship from agency is that in the case of trust the kind of transfer required is a peculiar transfer of the entire legal title or ownership to the trustee subject only to the latter's duty to hold it for the beneficiary as directed by the trustor. Thus, while trustee is vested with the legal title to the property, the agent is vested only with the power to perform certain acts regarding the property without having any legal title to it; only some attributes of ownership are delegated to the agent by the property owner.

Despite legal distinction between trusteeship from agency, in practice, however, the scope of activities under trusteeship and agency is basically the same. Thus, most trust corporations or trust departments of banks now include agency as a type of service.

• **Trust vs. Guardianship**

The relationship of guardian and ward, and that of trustee and trust beneficiary, bear considerable similarity to each other. A guardian is under a duty to deal with the ward's property for the benefit of the ward, and hence serves in a fiduciary relationship.

However, there is a sharp distinction between the position of a guardian and that of a trustee, one that is of real importance in connection with sound estate planning, and one that apparently is seldom understood in the making of estate plans. This distinction comes from the fact that while a guardian is entrusted with the possession and management of his ward's property, he does not take legal title to that property; it belongs to him, and title is in his name (not that of the guardian).

Since the trustee takes legal title to trust property, he may sue or be sued in his own name as trustee for a certain trust property.

The two relationships are markedly different from each other, and the guardian, ordinarily subject to orders of the court, will not have, and usually cannot be given, the same powers that can be given to a trustee under a properly prepared trust instrument.

• **Trust vs. Mutual Fund**

Both trust and mutual funds can act as investment vehicles to ensure long term growth of assets. The difference in the structure of both instruments, however, implies a wide difference in the flexibility afforded to investors. Trust funds are constructed with the needs and constraints of a specific investor in mind. Investment policies can be easily adjusted to adapt to changing investor needs and the variable investment climate.

Mutual funds, on the other hand, represent passive ownership of shares of an investment company. Investment policies and strategies are pre-approved by the appropriate regulatory body to cater to a large number of investors in a specific segment. The composition of the fund and its strategies cannot be tailored to the needs of any one investor.

Trust funds also have a broader scope as to the disposition of the assets. A trust fund can distribute assets to beneficiaries in a scheme specified by the trustor. A trust fund, for instance, can be set up to pay for grandchildren's education. The trustee can take it upon itself to schedule maturities to meet scheduled tuition fee payments. Mutual fund servicing only covers the buying and redemption (selling) of mutual fund shares; the service does not include the systematic distribution of the mutual funds proceeds to the investor's beneficiaries.

3. WHAT ARE THE BENEFITS OF APPOINTING AN INSTITUTIONAL TRUSTEE OR INVESTMENT MANAGER?

• **Continuity of Existence.**

The life of a corporation or institution is almost perpetual. The investor /client feels assured that the institutional trustee /investment manager he chooses will continue to be in existence and be prepared to serve his needs as well as his beneficiaries of the second and even the third generation.

• **Continuity of Capacity.**

In the trust entity, continuity of capacity is to be found in the succession of trust officers. Incapacity or unavailability of one trust officer handling the account does not disrupt the servicing of the account because in a normal corporate set up, a successor or replacement or substitute immediately takes over.

• **Specialization.**

The management of assets is the work, not of one, but of several specialists. Thus, there are specialists, for example, in the investment of trust funds; in the management of business; in bookkeeping and accounting; in tax work; in research, in documentation, or even specialization and focus in terms of investment outlets (fixed income, global, equities, etc.)

• **Group Judgment/Objectivity..**

The trust entity obtains the group judgment of its officers, its Trust Committee and its Board of Directors (or other specialized units depending on the internal structure of a particular institution).

• **Government Supervision.**

The trust entity is under constant and continuous government regulations, examination and supervision by various government entities, specifically the Bangko Sentral ng Pilipinas, to ensure that the trust entity manages assets held in the best interest of its beneficiary.

• **Financial Responsibility and Responsiveness.**

The institutional trustee is financially responsible not only by its own capital and surplus but also by the reserves it is required to put up for its trust business. Unlike a natural person as trustee, an institutional trustee is more compelled to maintain its financial responsiveness, otherwise it may forfeit the patronage of people seeking its professional services.

4. WHAT IS A TRUST?

Trust is a legal device or arrangement whereby a person delivers part or all of his properties to another person who administers and manages the property/ies for the benefit of designated person/s. The term "person" could mean an individual or natural person or a juridical entity like a corporation or institution.

It is an arrangement composed of three parties, each with his own rights and obligations, and a variety of properties and interests intended to serve a multitude of ends and purposes.

The distinguishing feature of a trust is found in the fact that the legal title to property is in one person, while the beneficial interest (usually referred to as the "equitable title") is in another person. The legal rights of ownership and control are in the trustee, subject to the duty of using and applying the property as directed by the trustor, while the right to enjoy the benefits from the property is in the trust beneficiary.

Trust may be implied or express. Implied trust is created by operation of law, as for example when a person acquires property by mistake, he is considered by the law as a trustee while he holds the same for the real owner of the property. Express trust is established by the intention of the parties or of the trustor.

5. WHAT ARE THE ESSENTIAL ELEMENTS OF A TRUST?

• **Parties to the Trust**

- The trustor/grantor/creator - the owner or the person giving the property in trust, who should have the legal capacity to effectively transfer property outright by gift, assignment, exchange or sale. Thus, a person under a legal disability to sell or donate a property, such as a minor or a mentally disabled person, could not be a trustor.
- The trustee- the person or institution in whom the confidence is reposed as regards the management of a property for the benefit of another person. The trustee may either be a natural person or a corporation or institution.
- The beneficiary/ "cestui que trust"- the person who is to receive the benefits from the trust or for whose benefit the trust has been created and is sufficiently identified as such. The beneficiary may be the trustor himself or persons other than the trustor, as for example, the trustor's children or favorite charity.

• **Manifest intention to create a trust.** The person creating the trust must expressly show that he really intended a trust arrangement. Imperfect expression of intent may result in converting the arrangement into some other form of

management or simple agency relationship.

• **Trust Property.** This is the subject matter of the trust. The property to be conveyed in trust must be existing, lawful, definite and transferable. Anything that has an economic value and which a person may own and to which he may transfer legal title, by gift or sale, is a property that may be conveyed in trust.

Thus, a trust may be constituted on real estate, household effects, cash, stocks, bonds and other securities, livestock and growing crops, works of art, jewelry and other tangible things.

Trust property need not be a tangible thing; it may be comprised of a claim, such as a right of action for breach of contract or upon a promissory note. For instance, a trust may exist in life insurance policies or the proceeds thereof; or may consist of patents, copyrights, goodwill, trademarks and trade secrets.

• **A lawful purpose.** If the trust violates a law or is against morals, public policy or public order, the trust will be void and of no effect. Thus, a trust will be void if it involves the commission of a criminal act by the trustee, or if the trustee encourages the neglect of parental duties, restrains marriage, religious freedom or the performance of public duties.

• **Trust terms sufficiently stated in the trust instrument.** The trust instrument must at least show the following:

- The beneficiaries and the extent of their interest;
- The subject matter of the trust or the trust property;
- The purpose or purposes of the trust;
- A recitation of the powers and duties of the trustee to facilitate the orderly administration of the trust and the fulfillment of the trustor's desires.

6. WHAT ARE THE OTHER SERVICES OF AN INSTITUTIONAL TRUSTEE WHICH ARE AVAILABLE TO AN INDIVIDUAL?

• Testamentary Trust

As its name implies, it is a trust whereby the trustor transfers his property in trust through his will and testament and this is to take effect only upon his death. It is a part of the will and testament itself and is not a separate legal document.

This is for clients who intend to accumulate all their assets as may be allowed by law into one fund to be managed by a competent and responsible trustee, specially if the trustor feels that he will be survived by heirs who would still be minors, or who are incapacitated or not competent to manage their own affairs or the properties they stand to inherit from the trustor. This prevents the unnecessary division of the trustor's estate and the consequent loss of earning power through unwise management or dissipation. Depending on how it is drafted, the testamentary trust can also minimize or avoid a second tax on the family estate as it is transferred from the surviving spouse to the children.

• Living or "Inter Vivos" Trust

This trust, which is created by a trust agreement, starts to operate during the lifetime of the trustor. Under this arrangement, the trustor transfers assets to a trustee for the latter to manage as the trust agreement dictates. The functions and authorities to be exercised by the trustee are defined in the trust agreement. These would include: (1) the scope or extent of the trustee's investment powers; (2) the beneficiaries; (3) the terms and conditions under which the income and/or principal of the trust is to be paid or to be disposed of ultimately.

A living trust may either be revocable or irrevocable.

- **Revocable Living Trust-** This is a trust where the trustor reserves the right to change or amend the terms and conditions of the trust, or to revoke or terminate the trust at his pleasure. The trust is also considered revocable if the beneficiary is the trustor himself. This type of trust arrangement is for people who are not sure that they will not, in the future, need the entrusted property for themselves, or not certain as to who would be their ultimate or final beneficiaries of the trust.
- **Irrevocable Living Trust-** In transferring his property to the trustee, the trustor at the same time completely and absolutely relinquishes his ownership to the trust property. Likewise, the trustor does not retain nor reserve any right to amend the terms of the trust. The trust cannot be revoked except for causes prescribed by law. This actually involves a donation of properties to the beneficiary of the trust. Thus, the trust must comply with the formalities of a donation and is subject to the donor's tax. However, the properties donated in trust will no longer be a part of the estate of the trustor/donor when he dies and therefore will not be subject to the much higher estate tax. In the meantime, the income of the trust is not taxable to the trustor/donor.

• **Reversionary Trust**

This is a form of a living trust whereby the trustor does not reserve the right to get trust property but requires its automatic return to him after the lapse of a certain period or upon the happening of a condition.

For instance, a well-to-do child might wish to set up a trust some of his income-producing properties for the support of his aged mother for as long as he lives. Upon the death of his mother, the trust properties will be returned to him by the trustee. No donor's tax is involved but the properties remain part of the gross estate of the trustor should he die during the term of the trust. The income, as in the case of an irrevocable trust, is no longer taxed to the trustor.

• **Life Insurance Trust**

Direct payment of the insured's life insurance proceeds to his beneficiaries may be unwise if they are experienced or not inclined to manage the insurance proceeds. Through a life insurance trust, the insured/trustor appoints the trustee to receive or collect the trustor's life insurance proceeds. The trustee then invests and manages the fund for the benefit of the insured's family or other beneficiaries. The management of the life insurance proceeds and the eventual distribution thereof to the beneficiaries shall be in accordance with the terms set down by the trustor/insured in the life insurance trust agreement.

The beneficiaries may be designated as either revocable or irrevocable. In the case of revocable designation, the insurance proceeds will form part of the insured's life insurance proceeds.

- **Funded Life Insurance Trust** - The trust property is comprised not only of the trustor's life insurance policy but also his money or other properties which may be used to pay for the insurance premiums to ensure that his insurance policy does not lapse.
- **Unfunded Life Insurance Trust** - Only the insurance policy is given under trust.

• **Dry Trust**

In this type of trust, the trust agreement is executed before the property is actually transferred to the trustee.

• **Step-Up Trust**

This is a variant of the dry trust. Under this arrangement, the trustee holds no property until the happening of a certain event. For instance, a person may wish to set up a trust for his children that will take effect only when he becomes incapacitated or unable to support them. In the meantime, he continues to manage property. The trust remains dormant or "dry" until the trustee is informed that the trustor has become incapacitated and thus can no longer manage the property himself. The trustee then "steps up" into the action and manages the property for the trustor's children.

• **Generation-Skipping Trust**

Under this arrangement, beneficiaries are designated successively. For instance, a father may set up a trust for his own son who is to receive the income of the trust for as long as he lives. The son is the "life tenant" or "income beneficiary". Upon the death of the son, the trust provides for the payment of the income to the grandson who will later receive the principal of the trust after say, reaching the age of 25. The grandson is called the "principal beneficiary" or the "remainderman". The estate tax that would have been paid had the son inherited the property outright is avoided when the son dies, effectively skipping taxation of the estate of one generation.

• **Accumulation Trust**

The trustee is under a direction by the trustor to keep the income of the trust fund within the trust and hold it for future distribution to the beneficiary.

For example, parents who wish to make sure that their child will have enough funds to enable him go to college would do well to set up an accumulation trust while the child is still very young. The income of the trust property is kept in the trust and is distributed to the child as soon as he goes to college.

• **Discretionary Trust**

The trustor gives the trustee sufficient authority to decide whether to accumulate or distribute the trust assets in accordance with the requirements of the beneficiary.

• **Sprinkling Trust**

A trustor who has two or more beneficiaries may find it difficult to ascertain the specific needs to each beneficiary. The trust arrangement is therefore designed to enable the trust fund to meet as much as possible all needs of all beneficiaries, giving the trustee the power to decide how much to give to each beneficiary, not necessarily equally but according to need.

- **Spendthrift Trust**

This trust prohibits the beneficiary from transferring or assigning his interest in the trust property prior to the actual distribution of the income or principal to him. It likewise prohibits him from assigning his interest in the property as a collateral loans. It effectively prevents an ingenious or gullible beneficiary from prematurely spending away his interest by excessive borrowings or assignments of his future interests in the trust assets.

- **Incentive Trust**

Under this arrangement, the funds are set aside in a trust designed to motivate the beneficiary into accomplishing something e.g., obtaining a college degree), upon the occurrence of which the trust funds are distributed to the beneficiary.

- **Estate Planning**

This is primarily an advisory service whereby the institutional trustee assists the client in developing a comprehensive financial plan designed to conserve, make productive, increase the value and eventually transfer the client's assets to his beneficiaries, at the least tax and other transfer costs. It is a multi-discipline activity requiring the participation not only of the institutional trustee, but also of others, like the client's insurance adviser, his pre-need counselor, his accountant and, always, his lawyer. Only a few institutional trustees extend this form of advisory service in its full range.

All these uses of trust for personal purposes must be thoroughly discussed not only with one's banker, but also, with others familiar with the trust device. One should consult his lawyer, accountant, investment advisor and even family friends and relatives.

The personal uses of trust are limitless. A combination of two or more of the above types is also feasible and desirable.

7. WHAT ARE THE OTHER SERVICES WHICH A TRUST ENTITY CAN OFFER FOR INSTITUTIONAL/CORPORATE/BUSINESS PURPOSES?

- **Trust Indenture** - This is an effective device for corporate financing. When a corporation decides to borrow money from the investing public, it would be a most cumbersome procedure if the borrowing corporation were to execute a contract of loan with the numerous creditors. To handle this difficulty, a corporation executes an agreement with a trust entity which shall act in behalf of all these lenders.

The agreement executed is called a "Trust Indenture". It usually sets forth the terms and conditions of the loan, lays down the restriction on the borrowing company as long as the obligations are outstanding, provides for the remedies the trustee may and should take in case the borrowing company defaults, and generally defines the rights and duties of the creditors, trustees and the borrowing companies.

Aside from authenticating the bonds as having been issued under a particular indenture, the trustee receives the lenders' money from the underwriters and turns it over to the company either immediately or according to schedule in the indenture. It may also receive some money from the borrowing company sufficient in amount to pay interests and principal at maturity.

- **Mortgage Trust**- Most indentures, so as to attract the investing public more effectively, impose a direct lien on the fixed assets of the company whereby the fixed assets of the company are mortgaged in favor of the trustee acting for and in behalf of the lenders. Because of this, additional duties are incumbent upon the borrowing company. This usually comes in the form of specific restrictions on the borrowing company to ensure that the mortgaged assets will not be impaired in value. The trustee receives specific periodic reports to see to it that the borrowing corporation is complying with its commitments. Sometimes the assets offered as security are equipment, real estate or simply blocks of shares of stock.

In both the above corporate trust arrangements, the trustee is bound to minister and attend to the property placed in trust as security. The trustee must see to it that the borrowing company complies with the terms and conditions of the trust indenture and, if necessary, take remedial steps to protect the lenders in case of the borrower's default. Prior to any breach, the trustee simply holds the property as security for the benefit of the lenders.

- **Special Purpose Trust**

A special purpose trust is an arrangement undertaken whenever a company wishes to gain the financial flexibility provided by an asset-backed securitization.

Securitization is the process of liquifying future income or future selling proceeds from an identified asset pool by selling the claims to these cashflows on a discounted basis. These claims are transformed into tradeable securities which can be redeemed by the issuing company or originator.

Securitization can offer companies the following advantages: The timing of cash inflows from operations is managed to match the schedule of financing requirements; the company incurs lower financing costs; the company is able to change the form of its assets allowing it to exploit developments in the financial markets and access to a wider range of investors; and, if an off-balance sheet structure is used, the underlying assets are removed from the originator's balance sheet, thus freeing up capital for use in writing new business.

Assets that commonly lend themselves to securitization are Mortgages, Leases, Credit Cards, Trade Receivables, Employee Loans, and Auto Loans.

The special purpose trust issues the certificates evidencing claims to these cash flows and holds the underlying right to collect and distribute these cash flows as they mature.

In essence, the special purpose trust provides credibility to the securitization process. The special purpose trust represents a third party entity who protects the cash flows pledged to investors by removing it from the control of the originator.

Under the present rules of the Securities and Exchange Commission, the Trust Department of a financial institution is the Trustee of a special purpose trust.

- **Corporate Agencies**

- **Transfer Agency-** This function involves, essentially, the duty of ascertaining, verifying and recording the ownership of stock, commercial papers, certificates, registered stock purchase warrants and the like, and their transfers. The transfer agent also takes care of issuing the original certificates of articles, keeping in custody unissued certificates, replacement of lost or destroyed ones, stock bookkeeping, dividend disbursement, and disseminating communications to stockholders.
- **Registration Agency -** A trust entity can act as registrar of stocks certificates, voting stock certificates of deposit and other objects of the transfer agency for added control of corporations and their transfer agents, specially against over-issuances.
- **Fiscal Agency -** With their big volume of trust and quasi-trust business, most trust entities have an established machinery to service numerous payments to individuals. They are thus capable to act as paying agents for companies who could do the same thing for themselves but only at a larger cost and greater inconvenience. As paying agents for bonds, debenture and interests of a corporation, these trust entities are only responsible for the administrative aspect of making the payments and not for making funds available for payments. Their function also includes advising their principals of coming payments way in advance of the date these are due.

8. WHAT CAN YOU EXPECT OF YOUR INSTITUTIONAL TRUSTEE?

- Fidelity to your interest;
- Confidentiality about your financial affairs;
- Scrupulous care, safety and prudent management of your assets;
- Execution of all investments at the best possible prices and at the least transaction costs;
- Separation of your money from the business of the bank and from the money of its other clients, except in the case of Common Trust Funds where participants become proportionate owners of a pool of investments.
- Full disclosure of the details of your investments;
- Compliance with your instructions and with the terms of your agreement with the trustee.

9. WHO CAN BE AN INSTITUTIONAL TRUSTEE /INVESTMENT MANAGER?

A bank, investment house or any corporation can be an institutional trustee, provided that it is duly authorized or licensed by the Monetary Board of the Bangko Sentral ng Pilipinas to perform trust and fiduciary business. In the case of authorized banks or investment houses, the trust or fiduciary business is normally carried out through their Trust division, department, group, unit, section, or any other form of aggrupation. In the case of trust companies or trust corporations, the entire company or corporation is involved in carrying out the trust or fiduciary business, precisely because the company is established for this particular business.

For the purposes of this Primer the words “trustee”, “trust entity”, or “institutional trustee”, which have the same meaning and are interchangeable, shall refer to any of the authorized entities as described above, and the term “financial institution” shall refer to either a bank or an investment house.

10. HOW FLEXIBLE IS TRUST?

Trust is flexible such that it can be modified from time to time to suit changing situations and objectives. However, certain limitations are to be considered and observed:

- **Irrevocable Living Trust.** No changes may be made which would alter the irrevocable nature of the trust; this applies also to an Irrevocable Life Insurance Trust where the insured has designated an irrevocable beneficiary of insurance proceeds.
- **Revocable Living Trust.** The trustor can change its terms such as the beneficiary designation, how the fund will be invested, manner of disposition or distribution of the fund to the beneficiaries; he may even terminate the trust at any time he so wishes.
- **Testamentary Trust.** The trustor can change its term anytime during the life of the trustor. The trust becomes operative and the terms of the trust become final only upon his death.
- **Retirement/Pension Trust.** The trustor (the employer) cannot amend the terms of the trust where such amendment would constitute the diversion of all or a part of the principal and/or income of the fund to purposes other than those specified in the Retirement/Pension Plan.
- **Sinking Fund Management, Trust Indenture, Escrow Agency, Collateral Trust and Similar arrangements.** Amendments in the terms can be made only upon mutual consent of the trustor and the beneficiary.

In any trust arrangement, however, the trustor and, in some cases the beneficiary, can change the trustee at any time.

11. HOW MUCH WOULD IT COST TO AVAIL OF TRUST /INVESTMENT MANAGEMENT SERVICES?

The creation of a trust or the availment of certain trust services entails some expense like trust fees, but the amount of expense is really very nominal specially when compared to the benefits derived therefrom.

Trust fees should in fact be of at least concern to the trustor or client. To begin with, trust fees are always subject to review by the Bangko Sentral ng Pilipinas and are kept in line by sheer competition from institutions similarly offering these services. In trust arrangements which have to pass through the Courts, the trust fees are subject to court approval. The fees can also be covered by the earnings of the trust itself such that, as in most trust arrangements, the trustor or client will not have to pay out the fees from his own pocket.

As a general rule, trust fees are quoted depending on the nature and scope of services the trustee will have to perform. Therefore, it is first necessary to have a preliminary discussion of the needs and specifications of the clients so as to arrive at a reasonable and fair estimate of the corresponding fees. Accordingly, the fees can vary and may be further adjusted and modified on a case-to-case basis.

In addition to the trust fees, all reasonable and necessary expenses incurred by the trustee in the administration of the trust are for the account of the client. The trust fees and/or administrative expenses may be charged to the fund itself or directly to the client, depending on the agreement between the trustee and the client, or on the policies of the client and/or the trustee, or on the type of services availed of.