

## **BASIC STANDARDS IN THE ADMINISTRATION OF TRUST, OTHER FIDUCIARY AND INVESTMENT MANAGEMENT ACCOUNTS**

*(Appendix to Sec. 401)*

### **I. Introduction**

Trust and other fiduciary business and investment management activities have evolved with the changes in the financial market and advancement in technology. These innovations have allowed trust entities to expand the scope of trust products and services offered to customers, thus increasing their exposure to various risks. As trust entities grow more diverse, necessarily policies and procedures as well as risk management practices must keep pace. The basic standards would provide common processes for an efficient operation and administration of trust, other fiduciary and investment management activities across the trust industry.

### **II. Statement of policy**

It is the policy of the Bangko Sentral to provide adequate level of protection to investors who, under a fiduciary arrangement, engage the services or avail of products of trust entities which are required to observe prudence in the exercise of their fiduciary responsibility. Along this line, the Bangko Sentral prescribes basic standards for the efficient administration and operation of trust and other fiduciary business and investment management activities.

### **III. Standards**

The basic standards in the administration of trust, other fiduciary and investment management accounts are meant to address the significant areas of operations and provide minimum set of requirements and procedures:

#### *A. Account acceptance and review processes*

##### **1. Pre-acceptance account review**

This review must document that the trust entity can effectively administer the account. It shall be covered by a written policy which shall contain, among other things, the types of trust, other fiduciary and investment management accounts that are desirable and consistent with the trust entity's risk strategies and the specific conditions for accepting new accounts, and approved by the Trust Committee, or the Trust Officer, or subordinate officer of the trust department, authorized by the board of directors or its functional oversight equivalent, in the case of foreign banks and institutions.

The review process entails the thorough and complete review of the client's/account's characteristics and investment profile, including the assets/ properties to be contributed/delivered. Non-financial/non-traditional assets (i.e., real estate and the like) which are more likely to be illiquid shall be carefully reviewed prior to acceptance to ensure that the trust entity only accepts accounts which hold assets it may be able to properly manage.

Prior to the acceptance of a fiduciary account, the trust entity shall review the underlying instrument (trust agreement or contract) for potential conflicts of interest. If such conflict exists, the trust entity shall take appropriate action to address such condition before the account is accepted.

In cases where the trust entity is chosen as a successor trustee or investment manager, the trust entity shall perform a review and evaluation of all assets to be delivered to the trust entity to determine how these would serve the client's objectives, whether the trust entity can properly handle such assets and to assess any possible issue/problem which may arise with respect to such assets before acceptance of such assets and/or assumption of the trust, fiduciary or investment management relationship.

## 2. Establishment and post-acceptance review

Acceptance policies for new accounts shall, at a minimum, include the following processes and/or requirements:

a. *Account opening process*<sup>1</sup>. This process defines the trust entity's policies and procedures for client/account identification, consistent with the trust entity's KYC policy for compliance with anti-money laundering regulations; identification of the needs of the client; the objective(s) of the engagement; the vehicle to be used; and the account's investment parameters. The trust officer or other authorized personnel of the trust department shall conduct the account opening process for trust, fiduciary and investment management accounts. In the case of UITFs, only authorized branch managers/officers as well as UIT marketing personnel, who have all successfully undergone the required certification/accreditation/licensing process, may perform said process for UITF clients. The account opening process shall at least involve the following:

(1) As a general rule, client profiling shall be performed for all UITF and regular trust, other fiduciary and investment management accounts via a duly acknowledged Client Suitability Assessment (CSA), which aims to provide the trust entity with information leading to the prudent design of investment packages, suited to a particular client or

investment account. The CSA, however, shall not be required for the following trust and other fiduciary accounts:

- (a) court trust;
- (b) legislated and quasi-judicial trust;
- (c) trust under indenture;
- (d) facility/loan agency;
- (e) transfer agency;
- (f) depository and reorganization;
- (g) escrow;
- (h) custodianship;
- (i) safekeeping; and
- (j) institutional trust – pre-need plans.

The profiling process, to be documented through a CSA Form signed by the concerned parties, shall be undertaken on a per client basis, which shall emphasize the level of risk tolerance of the client.

(i) CSA

The trust entity shall obtain adequate information from the client to determine the appropriateness of the fiduciary product/ service to be provided and ensure the suitability of the investment product/ portfolio/strategy to be recommended to each client. It shall provide prospective clients with client suitability questionnaire and require them to accomplish the same prior to the acceptance of the account and execution of a transaction.

For this purpose, the trust entity shall make an assessment of the client's level of financial sophistication and consider factors relevant to the creation and management of, or participation in, an investment portfolio, such as but not limited to, the specific needs and unique circumstances of the client and/or beneficiary/(ies), basic characteristics of the clients' investment and experience, financial constraints, risk tolerance, tax considerations and regulatory requirements.

The same CSA process shall be applied by the trust entity for directional accounts.

(ii) Minimum information required for CSA<sup>2</sup>:

(aa) Personal/Institutional data. Minimum personal/institutional information that are

unique to a natural or juridical client, which shall also cover demographics and KYC information; the identity of beneficiaries, where applicable, and approximate portion of total assets administered/ managed.

- (bb) Investment objective. A clear statement or definition of the client's investment goals/purposes to be achieved through a particular trust, fiduciary or investment product or service. The client may opt to open several accounts, each one (1) with specific investment objectives separate and distinct from the other accounts.
- (cc) Investment experience. A list of various types of investment the prospective client is familiar with, acquired from actual/personal investment experience, or of similar investment circumstances.
- (dd) Knowledge and financial situation. For complex transactions where the level of risk involved is greater, the trust entity must take into account the knowledge, experience and financial situation of the client or potential client to assess the level of investment sophistication. This may include the careful assessment whether the specific type of financial instrument/service/portfolio/strategy is in line with the client's disclosed financial capacity. Such assessment is necessary as there are significant risks involved on financial investments (e.g., derivatives), the type of transaction (e.g., sale of options), the characteristics of the order (e.g., size or price specifications) or the frequency of the trading.
- (ee) Investment time frame and liquidity requirement. The trust entity is able to organize the portfolio in a manner that will provide for anticipated liquidity requirement through redemption of principal contribution or earnings.
- (ff) Risk tolerance. Allow the trust entity to classify clients in accordance with its own pre-set internal risk classification.

Based on the results of the CSA, classification of clients by the TE may include, but need not be limited to the following:

- i. *Conservative*. Client wants an investment strategy where the primary goal is to prevent the loss of principal, and where the client prefers investment grade and highly liquid assets, government securities, Republic of the Philippines' bonds (ROPs), deposits with local banks/branches of foreign banks operating in the Philippines, and/or deposits with financial institutions in any foreign country: *Provided*, That said financial institution has at least an investment grade credit

rating from a reputable international credit rating agency. For purposes of investing in UITFs, a client wants an investment strategy where the primary objective is to prevent the loss of principal and where the fund is invested in securities issued by the National Government and/or deposits with local banks/branches of foreign banks operating in the Philippines and/or with financial institutions in any foreign country: *Provided*, That said financial institution has at least an investment grade credit rating from a reputable international credit rating agency.

- ii. *Moderate*. Client wants a portfolio which may provide potential returns on investment that are higher than the regular traditional deposit products and client is aware that a higher return is accompanied by a higher level of risk. Client is willing to expose the funds to a certain level of risks in consideration for higher returns.
- iii. *Aggressive*. Client wants a portfolio which may provide appreciation of capital over time and client is willing to accept higher risks involving volatility of returns and even possible loss of investment in return for potential higher long-term results.

(iii) Investment policy statement

Trust entity managing discretionary accounts shall have in place a method by which suitability of investment is determined based on the results of the CSA and formulated via an Investment Policy Statement (IPS). It shall communicate to prospective clients the results of the assessment, recommend the investment product/portfolio/strategy, and explain the reasons why, on the basis of the given information, its recommendation is to the best interest of the client as of a defined timeframe. The trust entity shall make a recommendation only after having reasonably determined that the proposed investment is suitable to the client's and/or beneficiary's risk profile/tolerance, financial situation, investment experience, and Investment objectives.

The IPS is a clear reference frame for investment decisions and must be based on the investment objectives and risk tolerance of the client. It must include, at a minimum, a description of the following:

- (aa) Client's risk tolerance;
- (bb) Investment and/or return objectives;

- (cc) Liquidity requirements;
- (dd) Investment horizon;
- (ee) Investment strategy and rebalancing;
- (ff) Portfolio construction process, including asset allocation and security selection criteria;
- (gg) Investment restrictions - identifying any limitation which the client may have for the portfolio such as, but not limited to, single/group exposure limits, investment restrictions (e.g., prohibited investments), and client's consent for taking losses; and
- (hh) Investment performance review- indicating proposed market benchmarks and the desired frequency of the performance review reporting.

A trust entity shall review the IPS of each client, offer suggestions on clarifying any necessary changes in the IPS, and discuss with the client various techniques and strategies to be used to meet the client's investment goals. A trust entity shall have a mechanism in place to ensure that this review is done periodically and that only appropriate investments and investment strategies are included in a client's portfolio and are aligned with the IPS.

For UITF, the IPS is equivalent to the investment objective of the fund specifically stated in the Declaration of Trust.

(iv) Option of client to re-classification

Generally, the trust entity shall recommend the investment product/portfolio/strategy suitable to the client based on the results of the CSA. The trust entity may, however, provide a process for allowing clients to invest in investment products/portfolio/strategy with a higher risk than those corresponding to the CSA profile results. A client who exercises the option to be re-classified outside the CSA process thereby waives some of the protection afforded by these guidelines. Such re-classification may be allowed subject to the observance of the following:

- (aa) The client shall state in writing to the trust entity that -

- He does not agree with or accept the recommendation of the trust entity on the investment product/portfolio/strategy appropriate to the client's profile based on the results of the CSA;
- He would like to avail of the investment product/portfolio/strategy other than that which is consistent with the results of the CSA;
- He requests/intends to be re-classified, either generally or in respect to a particular investment/service/ transaction/product; and
- He fully understands and is willing to take the risks incidental to the investment product/portfolio/strategy to be availed of.

(bb) The trust entity shall issue a clear written warning to the client of the protections he may lose and conversely, of the risks that he is exposed to.

(cc) The trust entity shall have taken all reasonable steps to ensure that the client meets all relevant requirements as provided for in the trust entity's written policies.

For non-discretionary accounts, the trust entity shall observe the above requirements for every transaction allowing clients to invest in products/portfolio/strategy with a higher risk than those corresponding to their CSA profile results.

(v) Frequency of CSA and IPS

(aa) The CSA shall be performed and the IPS shall be formulated and executed prior to the opening of the account;

(bb) The trust entity shall update the CSA and the IPS at least every three (3) years except in the following instances:

- Whenever updates are necessitated by the client, upon notice/advise to the trust entity, on account of a change in personal/financial circumstances or preferences, the trust entity shall adjust/modify its investment strategy/portfolio and recommendation, subject to the conformity of the client;

- Whenever managed trust, other fiduciary, and investment management accounts express intention to invest in complex investment products such as financial derivatives, the entity shall ensure that the CSA and the IPS are updated at least annually. Otherwise, the trust entity shall not make new/additional investments in complex investment products;
- (cc) The trust entity shall ensure that periodic written notices given to clients reminding them of such updates are received/acknowledged by clients or their authorized representatives;
- (dd) Updated CSA and IPS shall be acknowledged by the client;
- (ee) The frequency of review shall be included as a provision in the written agreement; and
- (ff) The latest CSA and IPS will continue to be applied for any subsequent principal contributions to the account, until these are amended or updated by the client.
- (2) Identification of degree of discretion granted by client to the trust entity. This process involves the determination of the extent of discretion granted to the trust entity to manage the client's portfolio.
- (a) Discretionary. The trust entity has authority or discretion to invest the funds/property of the client in accordance with the parameters set forth by the client; and
- (b) Non-discretionary. Investment activity of the trust entity is directed by the client or limited only to specific securities or properties and expressly stipulated in the agreement or upon written instruction of the client.
- (3) Documentation. The trust, fiduciary or investment management relationship shall be formally established through a written legal document, such as the trust or investment management agreement. The engagement documents shall clearly specify the extent of fiduciary assignments/ responsibilities of the trust entity and articulate the nature and limits of each party's status as trustor/principal or trustee/agent. Policies and procedures shall provide that trust or investment management agreements are signed by the trust officer, or subordinate officer of the trust department, or in the case of UITF, branch managers/officers duly authorized by the board of directors.



The documentation process must also consider the following:

- (a) The Agreement must conform to the requirements provided under Sec. 413 (*Minimum documentary requirements*) for trust and other fiduciary accounts and Sec. 415 (*Minimum documentary requirements*) for investment management accounts. In addition, the Agreement shall contain the following provisions:
  - A description of the services to be provided;
  - All charges relating to the services or instruments envisaged and how the charges are calculated;
  - The obligations of the client with respect to the transactions envisaged, in particular his financial commitments towards the trust entity; and
  - For engagements involving management of assets or properties, the degree of discretion granted to the trustee or agent must be clearly defined and stated in the agreement;
- (b) The Agreement shall be in plain language understandable by the client and/ or personnel of the trust entity responsible for explaining the contents of the agreement to the client.
- (c) For complex investment products, such as financial derivatives instruments or those that use synthetic investment vehicles, the trust entity shall disclose to the client and require client's prior written conformity to the following:
  - Key features of investment services and financial instruments envisaged, according to the nature of such instruments and services;
  - The type(s) of instruments and transactions envisaged;
  - The obligations of the trust entity with respect to the transactions envisaged, in particular, its reporting and notice obligations to the clients; and
  - An appropriate disclosure bringing to the client's attention the risks involved in the transactions envisaged.
- (d) In order to give a fair and adequate description of the investment service or financial instrument, the trust entity shall provide a clearly stated and easily understood Risk Disclosure Statement to its clients, which forms part of or attached to the trust, fiduciary or investment management agreement. The Risk

Disclosure Statement shall contain, among other things, the following provisions:

- Cautionary statement on the general risks of investing or associated with financial instruments, i.e., if the market is not good, an investor may not be able to get back his principal or original investment. Such statement must be given due prominence, and not to be concealed or masked in any way by the wording, design or format of the information provided;
- If the investment outlet is exposed to any major or specific risks, a description and explanation of such risks shall be clearly stated; and
- Advisory statement that for complex investment products, said instruments can be subject to sudden and sharp falls in value such that the client may lose its/his entire investment, and, whenever applicable, be obligated to provide extra funding in case it/he is required to pay more later.

Additional risk disclosures may be provided as appropriate.

The trust entity must ensure that the trust, fiduciary and investment management agreements and documents have been reviewed and found to be legally in order.

#### *B. Account administration*

It is the fundamental duty of a fiduciary to administer an account solely in the interest of clients. The duty of loyalty is a paramount importance and underlies the entire administration of trust, other fiduciary and investment management accounts. A successful administration will meet the needs of both clients and beneficiaries in a safe and productive manner.

Account administration basically involves three (3) processes, namely; (1) periodic review of existing accounts, (2) credit process and (3) investment process.

##### 1. Periodic review of existing accounts

The board of directors and Trust Committee shall formulate and implement a policy to ensure that a comprehensive review of trust, fiduciary and investment management accounts (including collective investment schemes such as UITFs) shall be conducted. The periodic review of managed accounts shall be aligned with the provisions on the review and updating of the CSA and IPS. The board of directors may delegate the conduct of account review to the Trust Officer or Trust Department Committee created for that purpose. The

policy shall likewise indicate the scope of the account review depending upon the nature and types of trust, fiduciary and investment management accounts managed.

A comprehensive accounts review, which shall entail an administrative as well as investments review, shall be performed on a periodic basis to ascertain that the account is being managed in accordance with the instrument creating the trust and other fiduciary relationship. The administrative review of an account is taken to determine whether the portfolio/assets are appropriate, individually and collectively, for the account, while an investment review is used to analyze the investment performance of an account and re-affirm or modify the pertinent investment policy statement, including asset allocation guidelines. Whether the administrative and investment review are performed separately or simultaneously, the reviewing authority shall be able to determine if certain portfolio/assets are no longer appropriate for the account, (i.e., not consistent with the requirements of the client) and to take proper action through prudent investment practices to change the structure or composition of the assets.

The periodic review process also involves disclosure of information on the investment portfolio and the relevant investing activities. Regardless of the degree of discretion granted by the client to the trust entity, the former assumes full risk on the investment and related activities, and counterparties. Relevant changes in the trust entity's organization or investment policies that may affect the client's decision to continue the services of the trust entity shall be disclosed to the client. In the case of non-discretionary public interest accounts such as employee benefit/retirement or pension funds, due diligence review of the investment portfolio by the trust entity shall include providing investors with appropriate information needed to make an informed investment decision and avoid possible conflict of interest and self-dealing situations.

The trust entity should be able to show (in addition to the specific written directive from the client) what it has done in the exercise of due diligence and prudence on its part to protect the interest of the client and/or beneficiaries, especially for accounts of public interest like retirement/pension fund accounts.

The trust entity shall keep its clients informed of the investment and related activities by rendering periodic reports and financial statements prescribed under Sec. 435 and as necessary. The types of reports and statements and the frequency of their submission must be clearly specified in the trust entity's written policies and procedures.

The trust entity shall also establish a system that enables a trust account representative or officer to periodically contact clients and/or beneficiaries to determine

whether their financial objectives and circumstances have changed.

## 2. Credit process

Each trust entity shall define its credit process in relation to the discharge of the trust entity's investment function. The process ensures credit worthiness of investment undertakings including dealings and relationship with counterparties. It also serves to institutionalize the independence of the credit process of the trust entity. The credit process must at least cover the following:

- (a) *Credit policies.* Trust entities must clearly define its credit policies and processes, including the use of internal and external credit rating and approval process relative to the delivery of its instrument function. The trust entity can share credit information with the bank proper subject to proper delineation and documentation. The credit process shall show the following at the minimum:
  - i. Clear credit process flow, from initiation of the lending activities envisioned by the trust entity up to the execution of actual investment;
  - ii. Credit criteria and rating used;
  - iii. Manner by which the trust entity handles the information, including confidential and material data, which is shared between and among the departments, subsidiaries or affiliates of the trust entity; and
  - iv. Clear delineation of duties and responsibilities of each of the departments, subsidiaries and affiliates of the trust entity, where such groups or entities share the credit process.
  
- (b) *Counterparty accreditation process.* The trust entity must clearly define the policies and the processes it will undertake to accredit counterparties, including the bank proper, and its subsidiaries and affiliates, for their investment trading functions. It may use or avail itself of the accreditation process of its bank proper provided there is proper delineation of functions. The counterparty accreditation process shall show the following at the minimum:
  - i. Clear accreditation process flow from the initiation of credit activities up to the actual usage of lines;
  - ii. Credit criteria and rating used;
  - iii. Manner by which the trust entity handles the information, including confidential and material data, which are shared between and among the departments, subsidiaries or affiliates of the trust entity;

- iv. Usage, duties and responsibilities of each of the department, subsidiaries and affiliates of the trust entity, where there is sharing of credit lines between and among these concerned groups/entities; and
- v. Clear delineation of duties and responsibilities of each of the departments, subsidiaries and affiliates of the trust entity, where such groups or entities share the accreditation credit process.

### 3. Investment process

This process defines the investment policies and procedures, including decision-making processes, undertaken by the trust entity in the execution of its fund/asset management function. The primary objective of such process is to create a structure that will assure trust entities observe prudence in investment activities at all levels, preservation of capital, diversification, a reasonable level of risk as well as undivided loyalty to each client and adherence to established structure for the trust entity's investment undertakings. The investment process covers a broad range of activities; thus, the investment policies shall clearly outline the parameters that, at a minimum, include the following:

- (a) *Overall investment philosophy, standards and practices.* A general statement of principles that guides the portfolio manager in the management of investments outlined in the board-approved policy, along with a discussion on the practices and standards to be implemented to achieve the desired result.
- (b) *Investment Policies and Processes.* Defines the policies and the processes undertaken to create the portfolio to ensure the proper understanding of the client's preferences.
  - i. Profiling of client. Aims to understand the level of maturity of the client relevant to the creation of an appropriate portfolio.
  - ii. Portfolio construction for custom- made portfolios. Includes the process of researching and selecting recommended portfolio and setting objectives or strategies for diversification by types and classes of securities into general and specialized portfolios.
    - Asset allocation. Outlines the process and criteria for selecting and evaluating different asset classes identified to be appropriate for the client's profile and investment objective. It includes the allocation of desired tenors in conjunction with the client or portfolio profile based on the CSA or IPS. The asset allocation may be based on percentage to total funds managed by the trust entity or

stated in absolute amount whichever is preferred by the client.

- Security selection. Policies and procedures on the selection of investment outlets, including investment advisory, must be in place. This involves the selection of issuers for each of the identified asset classes. The process provides for the review of investment performance using risk parameters and comparison to appropriate benchmarks. It shall also identify the documentation required for all investment decisions.

If the trust entity uses approved lists of investments, there shall be an outline of the criteria for the selection and monitoring of such investments, as well as a description of the overall process for addition to and deletion from the lists.

- Benchmark selection/creation. Selects or crafts the benchmarks to reflect the desired return of the portfolio and to measure the performance of the portfolio manager. The trust entity shall be required to measure performance based on benchmarks to gauge or measure the performance of the account. The trust entity must have clear definition of its benchmarking policy.
  - Limits. Identifies any limitations on portfolio management which the client may impose on the trust entity. These limitations have to be specific as to the nature of the portfolio, such as but not limited to, core holdings, investment in competitor companies, and companies engaged in vices.
  - Risk disclosure statement. A clear and appropriately worded statement/s to disclose different risks to clients of the various investment undertakings of the investment manager done in behalf of the client.
- iii. Internal policies on trade allocation. Defines the institution's policies in ensuring timely, fair and equitable allocation of investments across investing portfolios.
  - iv. Diversification of discretionary investments. The trust entity shall have a policy on the general diversification requirements for asset administration, as well as the process implemented to monitor and control deviations from policy guidelines.
  - v. A trust entity shall have access to timely and competent economic analyses and forecasts for the capital markets and other products in which its clients will be investing. Trust entities engaged in more complex transactions may consider

providing an economic and securities research unit that continually monitors global trends and capital markets. This unit provides necessary forecasts of capital market expectations, currency relationships, interest rate movements, commodity prices, and expected returns of asset classes and individual investment instruments, which help the trust entity establish appropriate investment policies and strategies, select appropriate investments, and manage risks effectively.

vi. The trust entity shall have a process that will confirm trust personnel with investment functions know and follow the board-approved investment policies and processes.

(c) *Selection and use of brokers/ dealers.* The quality of execution is an important determinant in broker selection. In selecting brokers/dealers, a trust entity must consider the following minimum standards and criteria:

- i. Execution capability and ability to handle specialized transactions;
- ii. Commission rates and other compensation;
- iii. Financial strength, including operating results and adequacy of capital and liquidity;
- iv. Past record of good and timely delivery and payment on trades;
- v. Value of services provided, including research; and
- vi. Available information about the broker from other broker customers, regulators, and self-regulated organizations authorized by the SEC.

The trust entity with large portfolio may opt to evaluate broker performance using a formalized point scoring system. A list of approved brokers shall be made available by the trust entity, reviewed periodically and updated at least annually.

(d) *Best practices.* The trust entity shall document best practices policies and processes to institutionalize proper safeguards for the protection of its clients and itself. At a minimum, the policies must include the following standards:

- i. **Best execution.** The trust entity shall use reasonable diligence to ensure that investment trades are executed in a timely manner and on the best available terms that are favorable to the client under prevailing market conditions as can be reasonably obtained elsewhere with an acceptable counterparty. For related counterparties, no purchase/sale must be made for discretionary accounts without considering at least two (2) competitive quotes from other sources. The policy on best execution must document processes to warrant such execution is readily and

operationally verifiable.

- ii. Chinese Wall. A clear policy on Chinese Wall aims to protect the institution from conflict of interest arising from varying functions carried by the trust entity in relation to credit (debt), shareholder, and investment position taking. The policy shall state the duties and responsibilities of the trust entity and each department including that of the bank proper and subsidiaries and affiliates should transactions involve the concerned departments and entities.
- iii. Personnel investment policies. These policies aim to ensure honest and fair discharge of investment trading functions of all qualified personnel. Qualified personnel are those that may have access to information on clients and investment position-taking of clients, investment manager or portfolios. The use of such information may be abused and detrimental to the clients. The policy shall state the duties and responsibilities of each qualified personnel in relation to trading and portfolio management activities including allowed and not allowed transactions as well as sanctions in case of violations.
- iv. Confidentiality and materiality of Information. The trust entity must keep information about past, current and prospective clients confidential, unless disclosure is authorized in writing by the client or required by law and the information involve illegal activities perpetrated by the client. It must ensure safekeeping of confidential and material information and prevent the abuse of such information to the detriment of the institution or its clients.
- v. Fair dealing. The trust entity shall document dealing practices to ensure fair, honest and professional practices in accordance with the best interest of the client and counterparties at all times and for the integrity of the market. It must ensure that any representations or other communications made and information provided to the client are accurate and not misleading. The trust entity must also take care not to discriminate against any client but treat all clients in a fair and impartial manner.
- vi. Diligence and reasonable basis. In conducting its investment services, the trust entity shall act with skill, and care and diligence, and in the best interests of its clients and the integrity of the market. The duty of due diligence is intertwined with the duty to maintain independence and objectivity in providing investment recommendations or taking investment actions. When providing advice to a client, the trust entity shall act diligently and make certain that its advice and



recommendations to clients are based on thorough analysis and take into account available alternatives.

- The trust entity shall take all reasonable steps to execute promptly client orders in accordance with the instruction of clients.
- The trust entity, when acting for or with clients, shall always execute client orders on the best available terms.
- The trust entity shall ensure that transactions executed on behalf of clients are promptly and fairly allocated to the accounts of the clients on whose behalf the transactions were executed.

Where a client opts not to accept the recommendation of the trust entity and chooses to purchase another investment product which is not recommended, the trust entity may proceed with the client's request/instruction, provided it shall document the decision of the client and highlight to him/her that it is his/her responsibility to ensure the suitability of the product selected.

- vii. In-House or related party transactions handling. The trust entity shall define the policies in handling related-interest transaction to ensure that the best interest of clients prevails at all times and all dealings are above board. It must conform to the requirements of Sec. 413 and Sec. 415.
- viii. Valuation. The trust entity shall document the institution's valuation process to show the sources of prices, either market or historical value, and the formula used to derive the NAV of investment portfolios. Valuation shall be understood, compliant with written policies and operating procedures, and used consistently within the trust entity. The trust entity must ensure that the valuation processes of service providers, custodians, and other subcontractors are compatible with those of the trust entity and in compliance with relevant statutory or regulatory valuation standards.

Risk officers shall document the accuracy and reliability of all valuation processes and data sources and ensure that valuations are completed as required by internal policies and procedures and regulatory reporting standards.

- (e) *Conflicts of interests*. These may arise when the trust entity exercises any discretion where mutually opposing interests are involved. The most serious

conflict of interest is self-dealing, which could include transactions such as an investment in related interests of the trust entity or purchase of securities from or through an affiliate. Such transactions must be fully disclosed and authorized in writing by clients. Because of the complexity and sensitivity of the issue, a trust entity must develop policies and procedures to identify and deal with conflicts of interest situations.

### C. Account termination

Accounts may be terminated for a variety of reasons, including the occurrence of a specified event or upon written notice of either the client or the trust entity. The trust or investment management agreement shall provide for the terms and manner of liquidation, return and delivery of assets/portfolio to the client. Generally, the trust entity's responsibilities include distribution to the client, the successor trustee and/or beneficiaries of the remaining assets held under trusteeship/ agency arrangement, preparation and filing of required reports. The trust entity must ensure the risk control processes are observed when terminating accounts just as when accepting them.

The trust entity must have a general policy with respect to the termination of trust accounts, which policy shall take into consideration the general processes to be observed in the return or delivery of different types of assets, the possible modes of distribution, fees to be paid, taxes to be imposed, the documentation required to effect the transfer of assets, the provision of terminal reports, and whenever applicable, the timing of distribution, needs and circumstances of the beneficiaries. Should the trust entity anticipate possible issues or problems with respect to the termination of the account, such as the liquidation of certain assets or the partition or division of assets, these issues shall be disclosed to the client for proper disposition. The policy on the termination of trust, fiduciary and investment management accounts shall likewise include the approval process to be observed for the termination of these accounts as well as the reporting requirements for accounts terminated and closed.

*(Circular No. 1020 dated 07 November 2018 and 966 dated 11 July 2017)*

#### Footnotes

1. Trust entities (TE) shall be given six (6) months from 01 August 2017 to make appropriate changes in their policies, processes, and procedures in order to comply with the above requirements.
2. TEs may already invest their existing money market UITFs for conservative clients in securities issued by the National Government: *Provided*, That the amended plan rules have been approved by the TE's board of directors, and that existing participants in the said money market UITFs shall be immediately notified and shall be allowed to withdraw their participations within reasonable time prior to such investment but

in no case less than ten (10) banking days from notification.

The Bangko Sentral shall be notified of the amendments to the Plan Rules within thirty (30) banking days from approval of the amendments by the board of directors of the TE. The notice and the amendment to the Plan Rules shall be considered as “*Category A-3*” reports.