WEST VIRGINIA CODE CHAPTER 31I ARTICLE 1

WV Legislature

§31I-1-1. Short title.

This article may be cited as the "Private Trust Company Act".

WV Legislature

§31I-1-2. Purposes; findings.

(a) The purpose of the article is to establish requirements for licensing private trust companies, to regulate persons who provide fiduciary services to family members of no more than three families and their related interests as a private trust company, and to establish the degree of regulatory oversight required of the State Auditor over such companies. The public interest served by this article is to ensure that fiduciary activities performed by a private trust company are restricted to family members and their related interests and as otherwise provided in this article.

(b) The Legislature finds that:

(1) A private trust company is not a financial institution, and licensure of such a company is not required.

(2) A private trust company may elect to be a licensed private trust company under this article if the company desires to be subject to the regulatory oversight of the State Auditor, as provided in this article, notwithstanding that the company restricts its services to family members.

(3) With respect to a licensed private trust company, the State Auditor is responsible for regulating, supervising, and examining the company as provided under this article.

(4) With respect to a private trust company that does not elect to be licensed, the State Auditor's role is limited to ensuring that fiduciary services provided by the company are restricted to family members and authorized related interests and not to the general public. The State Auditor is not responsible for examining a private trust company regarding the safety or soundness of its operations.

WV Legislature

§31I-1-3. Definitions.

As used in this article, unless the context requires a different meaning:

(1) "Applicant" means the corporation or limited liability company on whose behalf an application for a license to operate as a licensed private trust company is submitted under §31I-1-4(e) of this code.

(2) "Capital account" means the aggregate value of unimpaired capital stock based on the par value of the shares, plus any unimpaired surplus and undivided profits or retained earnings of a private trust company organized as a corporation; or the initial cash investment remitted for membership interests in a private trust company organized as a limited liability company, plus any undivided profits or retained earnings of the limited liability company.

(3) "Capital stock" means the shares of stock issued to create nonwithdrawable capital for a corporation, or membership interests issued to create nonwithdrawable capital for a limited liability company.

(4) "Collateral kinship" means a relationship that is not lineal but derives from a common ancestor.

(5) "Degrees of kinship" means, with respect to two persons:

(A) Degrees of lineal kinship computed by counting one degree for each person in the line of ascent or descent, exclusive of the person from whom the computing begins; and

(B) Degrees of collateral kinship computed by commencing with one of the persons and ascending from that person to a common ancestor, descending from that ancestor to the other person, and counting one degree for each person in the line of ascent and in the line of descent, exclusive of the person from whom the computation begins, the total to represent the degree of such kinship.

(6) "Designated relative" means a common ancestor of a family, who may be a living or deceased person, who is the individual to or through whom the family members are related, and who is so designated in the application for a license.

(7) "Family" means a designated relative and family members of that designated relative.

(8) "Family affiliate" means a company or other entity in which one or more family members own, control, or have the power, directly or indirectly, to vote all of the capital stock, partnership interests, membership interests, or other equity interests of the entity.

(9) "Family member" means a designated relative and:

(A) Any individual within: (i) the fifth degree of lineal kinship to a designated relative of a

WV Legislature

private trust company, or the sixth degree of lineal kinship to a designated relative of a licensed private trust company, or (ii) the seventh degree of collateral kinship to a designated relative of a private trust company, or the ninth degree of collateral kinship to a designated relative of a licensed private trust company;

(B) The present or past spouse of any individual qualifying as a family member and an individual who is within the fifth degree of lineal kinship to such spouse or former spouse;

(C) A trust established by: (i) a family member if the trust is funded exclusively by one or more family members and, for these purposes, a trust to which property has been transferred as a result of a family member's exercise of a power of appointment shall be considered established by that family member if all qualified beneficiaries of the appointee trust are family members, or (ii) an individual who is not a family member if all of the noncharitable qualified beneficiaries of the trust are family members, except that a trust composed exclusively of nonindividual qualified beneficiaries is considered to be a family member if all of the nonindividual qualified beneficiaries are charitable foundations or other charitable entities as described in paragraph (F) of this subdivision;

(D) A family affiliate or officer or former officer of a family affiliate: *Provided*, That in the case of a former officer, such officer must have qualified as an officer of the family affiliate at any time within the past three years;

(E) The estate of a family member or the estate of an individual who is not a family member if all of the noncharitable beneficiaries of such estate are family members, except that an estate composed exclusively of nonindividual beneficiaries is considered to be a family member if all of the nonindividual beneficiaries are charitable foundations or other charitable entities as described in paragraph (F) of this subdivision; or

(F) A charitable foundation or other charitable entity that either: (i) was created by a family member, or (ii) has a governing body consisting mostly of family members.

(10) "Fiduciary" means executor, administrator, conservator, guardian, committee, or trustee.

(11) "Licensed private trust company" means a private trust company that operates in accordance with this article and has been issued a license that has not been revoked or suspended by the State Auditor.

(12) "Lineal kinship" means a family member who is in the direct line of ascent or descent from a designated relative.

(13) "Officer" of a family affiliate means an individual, regardless of whether the individual has an official title or receives a salary or other compensation, who may participate in the major policymaking functions of a family affiliate, other than as a director. The term does not include an individual who may have an official title and exercise discretion in the

WV Legislature

performance of duties and functions, but who does not participate in determining the major policies of the family affiliate and whose decisions are limited by policy standards established by other officers, regardless of whether the policy standards have been adopted by the board of directors or other members of management. The chair of the board of directors, the president, the chief officer, the chief financial officer, the senior trust officer, and all executive vice presidents of a family affiliate, and all managers if organized as a limited liability company, are presumed to be officers unless such officer is excluded by resolution of the board of directors or members or by the bylaws or operating agreement of the family affiliate, other than in the capacity of a director, from participating in major policymaking functions of the family affiliate, and such excluded officer does not actually participate therein.

(14) "Operating plan" means a plan that establishes the policies and procedures a private trust company will have in effect when the institution opens for business and thereafter:

(A) To ensure that trust accounts are handled in accordance with recognized standards of fiduciary conduct; and

(B) To assure compliance with applicable laws and regulations.

(15) "Private trust business" means acting as or performing the duties of a fiduciary in the regular course of its business for family members. A person does not engage in private trust business by:

(A) Rendering services as an attorney-at-law in the performance of duties as a fiduciary;

(B) Rendering services as a certified or registered public accountant in the performance of duties as such;

(C) Acting as trustee under a deed of trust made only as security for the payment of money or for the performance of another act;

(D) Acting as a trustee in bankruptcy or as a receiver;

(E) Holding trusts of real estate for the primary purpose of subdivision, development, or sale, or to facilitate any business transaction with respect to such real estate;

(F) Engaging in the business of an escrow agent;

(G) Holding assets as trustee of a trust created for charitable purposes if:

(i) The trustee is an entity exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code; and

(ii) The trust is: (I) exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, (II) a charitable remainder trust described in Section 664 of the Internal

WV Legislature

Revenue Code, (III) a pooled income fund described in Section 642(c)(5) of the Internal Revenue Code, or (IV) a trust the charitable interest in which is either a guaranteed annuity or a fixed percentage distributed yearly of the fair market value of the trust property, described in Section 2055(e)(2)(B) or Section 2522(c)(2)(B) of the Internal Revenue Code;

(H) Receiving rents and proceeds of sale as a licensed real estate broker on behalf of the principal; or

(I) Engaging in securities transactions as a broker-dealer or salesman.

(16) "Private trust company" means a corporation or limited liability company that:

(A) Is exclusively owned by one or more family members;

(B) Is organized or qualified to do business in this state;

(C) Engages or proposes to engage in private trust business under this article with one or more family members;

(D) Does not serve as a fiduciary for a person, entity, trust, or estate that is not a family member, except that it may serve as a fiduciary for up to 35 individuals who are not family members if the individuals are current or former employees of the private trust company or one or more trusts, companies, or other entities that are family members; and

(E) Does not transact business with the general public.

(17) "Qualified beneficiary" has the meaning provided in §44D-1-103(r) of this code.

(18) "State Auditor" means the West Virginia State Auditor.

(19) "Tax" includes, but is not limited to, federal, state, or local income, gift, estate, generation-skipping transfer, or inheritance tax.

(20) "Trust institution" means a bank or trust company chartered by a state bank supervisory agency or by the Office of the Comptroller of Currency.

WV Legislature

§31I-1-4. Organization; minimum capital requirements; notice to State Auditor; control; application for license.

(a) No person other than a corporation or limited liability company organized under the laws of this state to engage exclusively in the private trust business shall act as a private trust company or licensed private trust company.

(b) A licensed private trust company that has one designated relative may not be organized or operated with an owners' capital account of less than $250,000. The minimum capital account is $350,000 if two designated relatives of the licensed private trust company are named in the application for a license or in the annual license renewal. The minimum capital account is $450,000 if three designated relatives of the licensed private trust company are named in the application for a license or in the annual license renewal. A private trust company may not be organized or operated with a capital account of less than $250,000.

(c) No person shall engage in business as a private trust company or licensed private trust company without first giving written notice to the State Auditor. The notice shall identify at least one designated relative for any private trust company, and up to three designated relatives for any licensed private trust company, whose relationship to other individuals determines whether the individuals are family members. The notice shall identify the location of the principal office and additional office, if any, within this state. The notice shall be accompanied by an operating plan and such other books, records, documents, or information as the State Auditor may require. The notice shall also certify that:

(1) All provisions of law have been complied with;

(2) The private trust company or licensed private trust company is formed for no other reason than to engage in the private trust business;

(3) Family members have subscribed for capital stock, surplus, and a reserve for operation in an amount equal to or in excess of $250,000; and

(4) The private trust company or licensed private trust company is serving or will serve as trustee for one or more trusts having an aggregate of at least $50,000,000 in trust assets as further specified in §31I-1-10 of this code.

(d) All of the capital stock, membership interests, or other equity interests of a private trust company or licensed private trust company shall be and shall remain owned by, and under the voting control of, family members, including any spouses, trusts, stock corporations, limited partnerships, limited liability companies, or estates that qualify under §31I-1-3(9)(B) through (E) of this code of one or more families.

(e) An applicant seeking to operate as a licensed private trust company must file an application with the State Auditor on forms prescribed by the State Auditor, accompanied by a nonrefundable $10,000 application fee to be deposited into a special account in the State

WV Legislature

Treasury to be known as the Private Trust Company Application Fund. Expenditures from the fund shall be for the purpose of the State Auditor administering this article. Expenditures are not authorized from collections but are to be made only in accordance with appropriation by the Legislature and in accordance with the provisions of §12-3-1 *et seq*. of this code and upon fulfillment of the provisions of §11B-2-1 *et seq*. of this code: *Provided*, That for the fiscal year ending June 30, 2024, expenditures are authorized from collections rather than pursuant to appropriation by the Legislature. The application to operate as a licensed private trust company must also contain or be accompanied by:

(1) The name of the proposed licensed private trust company;

(2) A copy of the articles of incorporation or articles of organization and the bylaws or operating agreement of the proposed licensed private trust company;

(3) The physical address and mailing address of the proposed licensed private trust company, which must be located in this state;

(4) A statement describing in detail the services that will be provided to family members by the proposed licensed private trust company;

(5) The name and biographical information of each individual who will initially serve as a director, officer, manager, or member acting in a managerial capacity of the proposed licensed private trust company;

(6) The name and biographical information of each individual who owns or has the ability or power to directly or indirectly vote at least 10 percent or more of the outstanding shares, membership interest, or membership units of the proposed licensed private trust company;

(7) The names of the designated relatives;

(8) The amount of the initial capital account of the proposed licensed private trust company and the form in which the capital was paid and will be maintained;

(9) The type and amount of bonds or insurance that will be procured and maintained on directors, officers, managers, or members acting in a managerial capacity or employees pursuant to §31I-1-12 of this code;

(10) A statement signed by the applicant, or by the individual signing on behalf of the proposed licensed private trust company, under penalty of perjury, affirming that the following statements are true:

(A) The proposed licensed private trust company is not currently transacting business with the general public;

(B) No director, officer, manager, or member served as a director, officer, or manager, or acted in a managerial capacity, for a trust company or any other financial institution that

WV Legislature

had a license issued under the financial institutions codes or by the Federal Government or any other state, the District of Columbia, a territory of the United States, or a foreign country that was suspended or revoked within the 10 years preceding the date of the application;

(C) No director, officer, manager, or member acting in a managerial capacity has been convicted of, or pled guilty or nolo contendere, regardless of whether adjudication of guilt is entered by the court, to a violation of the financial institutions codes, or other similar state or federal laws or related rules, or to a crime involving fraud, misrepresentation, or moral turpitude;

(D) No director, officer, manager, or member acting in a managerial capacity has had a professional license suspended or revoked within the 10 years preceding the date of the application;

(E) All information contained in the application is true and correct to the best knowledge of the individual signing the application on behalf of the proposed licensed private trust company; and

(11) Any other additional information reasonably required by the State Auditor.

WV Legislature

§31I-1-5. Operation and powers.

Every private trust company and licensed private trust company shall conduct its business in accordance with an operating plan and in accordance with generally accepted fiduciary standards. A private trust company or licensed private trust company when engaging in a private trust business shall have the same rights, powers, and privileges as a banking or trust institution pursuant to §31A-4-14 of this code, including the power to act as executor under the last will and testament or administrator of the estate of any deceased family member.

WV Legislature

§31I-1-6. Reacquisition of shares or interests; dividends.

A private trust company or licensed private trust company shall not buy, redeem, or otherwise reacquire shares of stock or membership interests that the private trust company or licensed private trust company has issued, or declare a dividend or other distribution to its stockholders, members, or holders of equity interests, to the extent that such purchase, redemption, reacquisition, dividend, or distribution shall cause the private trust company's or licensed private trust company's paid-in capital, retained surplus, and reserves to be reduced below $250,000.

WV Legislature

§31I-1-7. Offices.

(a) The office at which a private trust company or licensed private trust company begins business shall be designated initially as its principal office. The board of directors or managers of a private trust company or licensed private trust company may thereafter redesignate as the principal office another authorized office of the private trust company or licensed private trust company in this state.

(b) The board of directors or managers of a private trust company or licensed private trust company may designate, and from time to time redesignate, one additional office at which the private trust company or licensed private trust company may conduct business in this state.

(c) The private trust company or licensed private trust company shall notify the State Auditor of any such redesignation of its principal office or designation or redesignation of an additional office not later than 30 days before its effective date and shall confirm to the State Auditor any such designation or redesignation within 10 days of its occurrence.

WV Legislature

§31I-1-8. Directors or managers.

The affairs of every private trust company or licensed private trust company shall be directed by a board of directors if a corporation, or managers if a limited liability company, consisting of not less than five nor more than 25 persons. At least one director or manager shall be a resident of this state.

WV Legislature

§31I-1-9. Limitation on powers.

(a) In the exercise of any power held by a private trust company or licensed private trust company in its capacity as a fiduciary, the private trust company or licensed private trust company shall have a duty not to exercise any power in such a way as to deprive the estate, trust, or other entity for which it acts as a fiduciary of an otherwise available tax exemption, deduction, or credit for tax purposes, or deprive a donor of trust assets of a tax exemption, deduction, or credit or operate to impose a tax upon a donor or other person as owner of any portion of the estate, trust, or otherwise.

(b) Without limitation to subsection (a) of this section, no family member who is a stockholder or member or who otherwise holds an equity interest in, or is serving as a director, officer, manager, or employee of, a private trust company or licensed private trust company shall participate in or otherwise have a voice in any discretionary decision by the private trust company or licensed private trust company to distribute income or principal of any trust in order to discharge a legal obligation of a family member or for a family member’s pecuniary benefit, unless:

(1) The exercise of the discretion is limited by an ascertainable standard relating to the health, education, support, or maintenance of that family member;

(2) The distribution is necessary for that family member’s support, health, or education; or

(3) The instrument governing the administration of that trust clearly so provides.

WV Legislature

§31I-1-10. Minimum trust assets under management certification.

As part of the notice to the State Auditor required of any private trust company or licensed private trust company that is required under §31I-1-4 of this code, an affidavit must also be submitted by the applicant, signed under penalty of perjury, certifying that the private trust company or licensed private trust company serves or will serve as trustee for one or more trusts having at least $50,000,000 in aggregate trust assets under management as of the date of such affidavit.

WV Legislature

§31I-1-11. Unlawful to advertise services.

A private trust company or licensed private trust company may not advertise its services to the public.

WV Legislature

§31I-1-12. Fidelity bonds; insurance.

(a) The directors or managers of a licensed private trust company shall procure and maintain fidelity bonds on all active officers, directors, managers, members acting in a managerial capacity, and employees of the company, regardless of whether they receive a salary or other compensation from the company, in order to indemnify the company against loss because of a dishonest, fraudulent, or criminal act or omission on their part, whether acting alone or in combination with other persons.

(b) Each fidelity bond shall be issued in an amount of at least $1,000,000.

(c) In lieu of the fidelity bonds required under subsection (a) of this section, a licensed private trust company may increase its capital account required under §31I-1-4(b) of this code by $1,000,000 so that if it has:

(1) One designated relative, then it is organized or operated with a capital account of at least $1,250,000;

(2) Two designated relatives, then it is organized or operated with a capital account of at least $1,350,000; or

(3) Three designated relatives, then it is organized or operated with a capital account of at least $1,450,000.

(d) The licensed private trust company shall also procure and maintain an errors and omissions insurance policy of at least $1,000,000 in which it is listed as the insured to cover the acts and omissions of officers, directors, managers, and members acting in a managerial capacity, regardless of whether the person receives a salary or other compensation from the company.

(e) A private trust company or licensed private trust company may also procure and maintain other insurance policies necessary or desirable in connection with the business of the company, including, but not limited to, one or more casualty insurance policies.

(f) A private trust company that is not a licensed private trust company may procure and maintain fidelity bonds as described in this section.

(g) A private trust company that is not a licensed private trust company may procure and maintain errors and omissions insurance coverage as described in this section.

WV Legislature

§31I-1-13. Rule-making authority by State Auditor.

The State Auditor shall promulgate emergency rules pursuant to the provisions of §29A-3-15 of this code and may propose rules for legislative approval in accordance with the provisions of §29A-3-1 *et seq*. of this code to implement the provisions of this article.

WV Legislature