



Trust me,
I'm a trustee

Welcome to STM Group

I hope that this short booklet on the role and responsibilities of “Trustees” helps you to better understand the concept of the “Trust” and how trusts can help to safeguard your capital.

STM Group has subsidiaries in five jurisdictions, listed on the back cover, which offer professional trustee services. We administer literally hundreds of trusts. However, whilst size, solidity and reputation of your trustee are important, it is personal service and responsiveness which matter to our individual clients. If you decide to appoint STM as your trustee, we will assign one of our highly qualified and experienced trust officers to you. He or she will get to know your family and understand your financial affairs and aspirations, as a basis for a long-term relationship.

STM Group is independent of any other financial institution. This is underpinned by our status as a public company, listed on the London Stock Exchange – AIM. This means we are free to choose the bank(s) and investment manager(s) which match your, your family’s and your trusted advisor’s objectives.

For more information or if you or your professional advisor would like to arrange a no-obligation chat with one of our trust officers, please contact whichever of the offices, listed on the back cover, suits you best

Colin Porter

Chief Executive Officer

STM Group Plc

Contents

Section		Page
1	What is a trust ?	2
2	What are the benefits of a trust ?	3
3	The different types of trust	4
4	Are trusts universally recognised ?	5
5	Where should I set up my trust ?	6
6	Who can act as a trustee and what are their responsibilities ?	7
7	How does a trust work in practice and what sort of costs are involved ?	8
	Why choose STM Group as your trustee?	9

1. What is a trust?

A trust is not a separate legal entity like a company, but is an arrangement between the parties, recognised and protected by law.

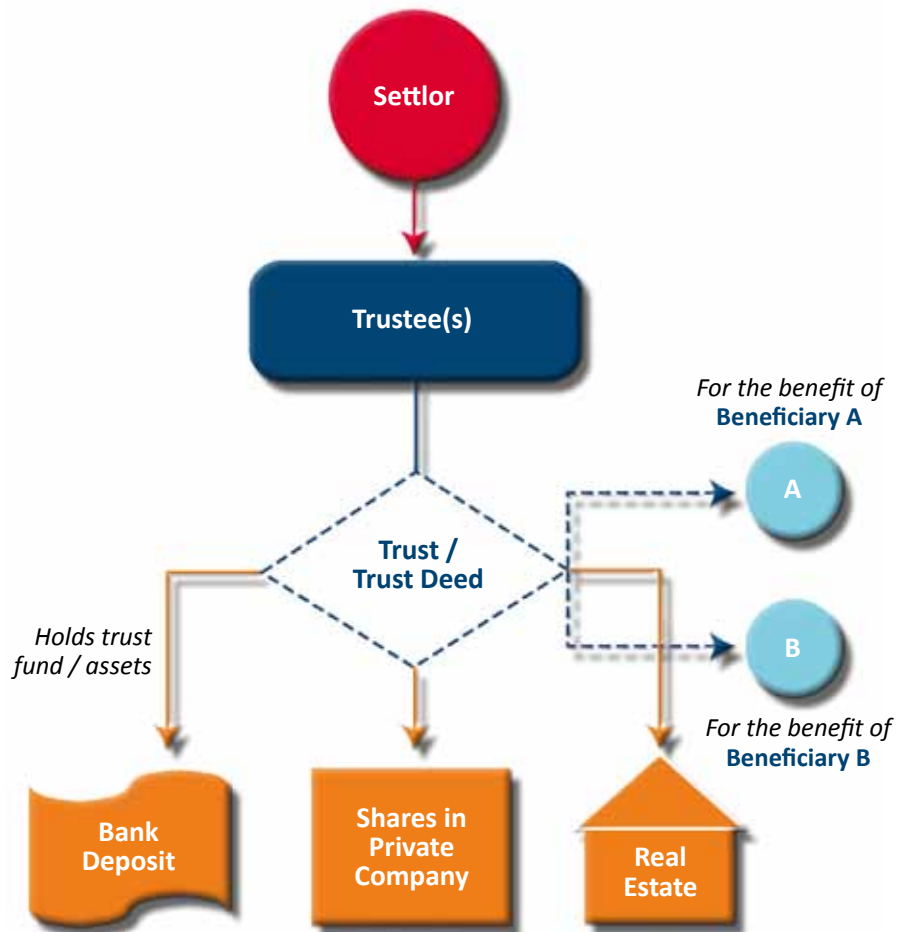
A trust is a legal arrangement or relationship under which a person (an individual or a company), known as the “**settlor**”, transfers assets, referred to as the “**trust fund**”, to another person, known as the “**trustee**” to hold and manage for the benefit of others, chosen by the settlor, called the “**beneficiaries**”. The transfer, sometimes termed a settlement, is technically a gift.

The terms on which the trustees are to manage the trust fund and the identities and entitlements of the beneficiaries are set out in the “**trust deed**” and the trustees are required by law to apply these terms.

A trust can be settled by an individual during his / her lifetime or can result from the terms of his / her will, on death. The terms of a trust deed can be very flexible and will be drafted to meet the objectives of the trust (see section 3 – *The different types of trust*).

Simple trust arrangement

Shown below is a typical, simple trust arrangement, where the settlor has transferred cash, some shares and a house, into trust, instructing the trustees to hold them for the benefit of beneficiaries A and B, who might be children, not old enough to administer the assets themselves.



2. What are the benefits of a trust?

Trusts are confidential arrangements between the settlor and the trustee. Few countries have any requirement to register details or even the existence of a trust in a public registry.

The main benefits of a trust are:

- **Confidentiality:** the trust fund assets are registered in the name of the trustee(s) (as “**legal owner**”), so that the identities and entitlements of the beneficiaries remain confidential, until assets are distributed to them.
- **Control of assets beyond the grave:** Trusts are frequently used to determine who will receive income or assets after the settlor’s death e.g. *“I wish all my assets to be held for the benefit of my wife during her lifetime and, on her death, to be distributed to my three children in equal shares”*.
- **Protection of children / grandchildren:** Grandparents and parents may want to give or leave money to ensure their (grand)children are adequately provided for, housed and educated. However, some children may not yet be old enough to shoulder the responsibility of managing what may be substantial wealth (or are in danger of falling prey to “gold diggers”). By transferring funds / assets into a trust during the (grand) parent’s life or under the terms of their will, on death, they can be sure that the inheritance is safeguarded and managed wisely, until the beneficiaries are ready to take control.
- **Provision for the disabled:** some disabilities are so serious that third parties need to be appointed to look after the affairs of the disabled. A professional trustee can manage a fund (for the life of the beneficiary), where family members cannot or where there is concern about continuity.
- **Tax planning:** a trust may, in certain circumstances, help to reduce tax liabilities. Assets held on trust may not be treated as part of a deceased person’s estate, so they can be particularly useful for inheritance tax planning. However, taxation is a complicated area, so you should always seek professional advice.
- **Asset protection:** assets transferred to a trustee may be protected against the claims of future creditors, providing the settlor is solvent at the time of making the settlement.
- **Consolidated asset management:** trusts can be a convenient single “wrapper”, holding, managing and accounting for a very diverse portfolio of assets and providing regular, consolidated financial reports.
- **Philanthropy:** wealthy families are increasingly setting up their own charitable trusts to benefit social and environmental causes in which they have a particular interest.
- **Professional and impartial intermediary:** trustees are frequently engaged to protect the interests of investors or lenders, particularly in the case of unit trusts and syndicated loans. Investors / lenders usually require an independent, impartial and professional custodian to hold assets as security for their investment / loan. Trustees also frequently act as “escrow agents”, holding funds in commercial transactions, until the other side has performed in accordance with the contract terms.

3. The different types of trust

There are many different kinds of trust, to cater for the huge variety of circumstances in which they are useful.

Most trusts fall into one of three basic categories, although there are hybrids:

- **Fixed trust:** is one where the settlor decides exactly what proportion of the assets, capital gains and income each of the named beneficiaries will receive and when. A fixed trust gives the trustees no choice over who receives benefit from the trust or when, but they still have responsibility for protecting and investing the trust fund. Examples of a fixed trust might be:

Trust for a minor – example:

“school / university fees to be paid for Andrew and Barbara until they reach the age of 23, when the trust fund becomes theirs absolutely, in equal parts.”

Life interest – example:

“I wish all income arising within the trust to be paid to my widow and, on her death, the trust fund to be distributed 25% to the Royal National Lifeboat Institution and 75% to the Home of Rest for Old Horses.”

- **Discretionary trust:** the trust deed gives the trustees discretion as to whom should benefit from the trust fund, how much they should receive and when. In some cases, the trustees’ discretion is limited by the settlor inserting a “class” of potential beneficiaries in the trust deed: example: *“beneficiaries means any descendent of Charles Dibbley, who died in 1941”* or *“any member of the Ely football club”*. Where the trust deed does not include a class of beneficiary, it is normal for the trustees to ask the settlor, to summarise his



wishes in a “letter of wishes”, which is not part of the trust deed and can be withdrawn and modified by him / her as circumstances change.

- **Power of appointment trust:** This is a hybrid between a fixed and a discretionary trust. The income beneficiaries and their entitlements are defined. When these entitlements come to an end, the settlor can recommend to the trustees, at that time, to whom and in what proportions the trust fund assets should be distributed.

The tax authorities in your country of residence may categorise trusts differently from the above. For instance in the UK, HMRC use such terms as “**an interest in possession trust**” meaning any trust where a beneficiary has a legal right to the trust’s income, as it arises. They also use the term “**settlor-interested trust**”, where the settlor has retained an interest in the assets transferred to the trust e.g. a settlor transfers the freehold of his house to trustees, but continues to live in it without paying an arms-length rent.

4. Are trusts universally recognised?

The concept and recognition of the trust is gradually spreading throughout the world.



Trusts are widely considered to be one of the most innovative contributions of the English legal system and play a significant role in all common law systems (i.e. in those countries which based their legal systems on English law, including the USA and most Commonwealth countries).

In fact, the success of the trust concept has led some civil law jurisdictions to include trusts, or arrangements approximating trusts, into their civil codes.

In 1985, a first step was taken to establish common provisions throughout the world on the law applicable to trusts and to deal with the most important issues concerning the recognition of trusts, through agreement of the Convention of the Hague on the Law Applicable to Trusts and on their Recognition, which entered force on 1 January 1992.

Italy, Luxembourg, Switzerland and France have ratified the Convention. Amongst others, Argentina enacted provisions in 1994, the Ley de Fideicomisos, which recognised a type of trust contract and defined the rights and responsibilities of the parties. In 2001, China adopted a Presidential Order entitled “Trust Law of the People’s Republic of China”.

In the Muslim world, the “*waqf*” has a close resemblance to the English trust. It has been suggested that the concept may have been imported from the Middle East, into English law, by the medieval crusaders.

The treatment of trusts varies from country to country. Add to this the wide variety of personal circumstances of both the settlor and beneficiary, and it becomes imperative to take advice from a lawyer or trust expert in your country of residence. Will a trust settled by you be legally recognised? By transferring assets into trust, will you contravene fixed inheritance rights in the appropriate Civil Code, which may apply to you and your family?

5. Where should I set up my trust ?



Trusts can be established in any country where the legal system is based on common law or where the concept of the trust has been imported into local law. In these places, if there is any dispute, the settlor and the beneficiaries can appeal to the local courts to settle the matter.

Where trustees are domiciled in civil law countries, such as Switzerland, where trusts are merely recognised, as opposed to actually existing under local law, the underlying trust should be made subject to the law of a common law territory, such as Jersey or Gibraltar.

An important consideration, when choosing a location, is the tax treatment of trusts and trustees. Most trusts, settled by expatriates, are located in countries where there is either no income and capital gains tax or where trusts settled by non-residents for the benefit of non-residents are specifically exempt from tax. Examples are Gibraltar, Jersey, Guernsey, Isle of Man and Cyprus. In Switzerland, trusts are not regarded as taxable entities and a trustee is not taxable on income and gains of the trust, since it cannot benefit from them.

Obviously the settlor and, probably, the beneficiaries will want to stay in regular touch and may want to meet with the trustees. The trust should be located in a finance centre with good communications, both physical and electronic, with the country of residence of those interested parties.

Finally, it is important that professional trustees should be subject to strict regulation by the local Financial Services Authority or Commission (in Switzerland, the appropriate SRO – regulatory organisation).

6. Who can act as a trustee and what are their responsibilities?



Many people see being a trustee as a formality, but this is not the case. The role carries with it a high level of responsibility and requires a thorough knowledge of trust law and practice. Choosing who to appoint as a trustee will be one of the most important financial decisions you may make.

Most people setting up a trust decide to use a professional trustee in whichever location they have chosen as most suitable. A professional trustee is an individual or, more normally, a company, with staff qualified in trust matters and which offers trustee services for a fee. The professional qualification for trust practitioners worldwide is Trust and Estate Practitioner (“TEP”): see www.step.org.

Appointing a corporate trustee means that the management of your trust is not dependent on individuals, who may die unexpectedly or whose circumstances may change, so they are unable to carry out their duties. As the assets in the trust are registered in the names of the trustees, a change of trustee can be time-consuming, expensive and disruptive.

In all reputable finance centres, professional trustees are required, by law, to be regulated by the local Financial Services Authority or Commission. You can normally check that the trust company, which you are dealing with, is licensed by looking at the “regulated entities” section of the local FSC / FSA’s website.

Licensing is necessary to protect the public and the reputation of the finance centre. Regulators will only issue licences to trust companies where:

- persons associated with the licensed entity are “fit and proper persons” to carry on the business (this involves in-depth checks by the authorities into the applicant’s past activities)
- the trust company meets the minimum requirements as to resources (solvency capital, premises, management and staff)

- they are satisfied with the manner in which the business is organised, including the systems of control, record keeping and the clear separation of trust assets from the trust company’s own assets
- they are satisfied with the level of practical experience of the persons who effectively control the business and the continuing professional education of the staff
- the trust company is independently audited, by an approved audit firm
- they are satisfied with the adequacy of professional indemnity (negligence) insurance cover.

But the most important aspect of all is that your relationship with your trustees should result in peace of mind. Hence the title of this booklet “*Trust me, I’m a trustee*”.

7. How does a trust work in practice and what sort of costs are involved?

No one sets up a trust structure for its own sake. Your financial advisor will tell you whether it could be appropriate for you.

The first step in setting up a trust is to take advice on :

- **what type of trust best suits your circumstances**
- **who you want to benefit from the trust, to what extent and when. Will you want flexibility to change your wishes as your family's circumstances change?**
- **where the trust is best located for ease of communication**
- **if you are from a civil law country, will forced inheritance rights apply (i.e. the right of your children and spouse to fixed shares of your estate?)**
- **what are the tax implications of transferring assets into a trust? For instance, if you have held the assets for a long time, you may be subject to tax on any capital gain, since you acquired them (a transfer into a trust is usually treated as a disposal to a third party)**
- **what are the ongoing tax implications for both you as settlor, the trustee during the life of the trust and for the beneficiaries?**

STM Group's professional trustees are happy to work with your personal legal and tax advisors to ensure that your trust meets, as closely as is possible, your aspirations.

As with all financial institutions, we will need to undertake due diligence / know your client procedures before setting up a trust, which will include understanding the source of the funds which you intend to transfer in.

Once you have set up your trust, STM Group will assign to you an experienced client relationship manager ("CRM"), who will have a thorough understanding of the trust and its purpose. Your CRM will be happy to talk to you at any time, during office hours, about both the trust and the assets which the trustees hold. You will also be introduced to a director of the trust company, who actively monitors all transactions (the "4 eyes process") and whom you can contact, should you want to discuss strategic matters or any possible changes to your trust (subject to the terms) or letter of wishes.

All professional trustees charge fees which reflect the level of their responsibility and the nature and amount of work involved. Fee scales vary from country to country, depending on the local cost base. Your chosen STM professional trustee company will be pleased to provide an illustration of the likely fees, based on our understanding of your specific needs.

If you do not have independent financial advisors STM has the capability to advise you on financial structuring that suits your circumstances.

Why choose STM Group as trustee?

STM Group: secure, transparent and accountable

STM Group Plc is a public company listed on the London Stock Exchange's AIM market (L:STM), with the level of financial transparency and security that comes with that.

A choice of locations: a range of services

The Group is big enough to provide a wide range of financial services through STM subsidiaries in a number of financial centres, but small enough to maintain a personal and flexible relationship with clients. We see our clients as people and families, not file numbers. We can currently provide trustee services through our subsidiaries in: Gibraltar, Jersey, Zurich and the British Virgin Islands.

Independence, meaning no conflicts of interest

STM Group is independent of and has no affiliation with any other institution. No part of the group offers investment advice. So, as trustees, we do not have a conflict of interest, but are free to decide which investment managers best meet the needs of the beneficiaries and the wishes of the settlor.

Knowledge, skill and experience

The directors and client relationship managers, who work in our trustee subsidiaries, are very experienced (some have been employed in the trust sector for more than 30 years). Most are professionally qualified, either as trust and estate practitioners or chartered accountants.

A "can do" approach with a minimum of jargon

Our aim is to simplify, as far as we can, a complicated area of the law and to provide benefit. We realise that without continually adding value through the trustee relationship, we will lose your business. We are pleased to say that a high proportion of our new clients result from referrals from existing clients.

Value for money

Unlike many professional trustees (especially those related to banks), our trustee's fees are based on the level of our responsibility and activity, not an annuity income based on the value of the underlying assets.

STM Group companies are regulated in the jurisdictions in which they operate and specifically for conducting trust business, in the jurisdictions where that is relevant.

STM Swiss AG is regulated by SRO PolyReg and authorised to act as a financial intermediary under the Swiss Money Laundering Act.

STM Fiduciare Limited and its affiliates are regulated by the Jersey Financial Services Commission for the conduct of Trust Company Business under the Financial Services (Jersey) Law, 1998 with Licence No. TCB0043.

STM Fidecs Trust Company Limited is licensed to carry on financial services business as a Professional Trustee by the Gibraltar Financial Service Commission with Licence No. FSC00144B.

Gaston Trustees Limited is regulated by the BVI Financial Services Commission to carry on trust business only under the Banks and Trust Companies Act, 1990 by way of a Restricted. Class II Trust Licence with Licence no. RCIL21107

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