SENATE BILL 288 – Innovative Legislation Creating Economic Growth for Kansas

TEFFI

State of Kansas Technology Enabled Fiduciary Financial Institutions

Ben

3/26/2021

CONTENTS

The following pages provide responses to these questions and more:

WHAT WILL SENATE BILL 288 ENACT?

SB 288 is innovative legislation structured to generate private investment in Kansas by:

1 Authorizes the chartering and lines of business for Technology Enabled Fiduciary Financial Institutions within Kansas

2 Establishes operating guardrails for Kansas TEFFIs to provide custodial services and financing to customers from across the U.S. who are invested in professionally managed alternative assets

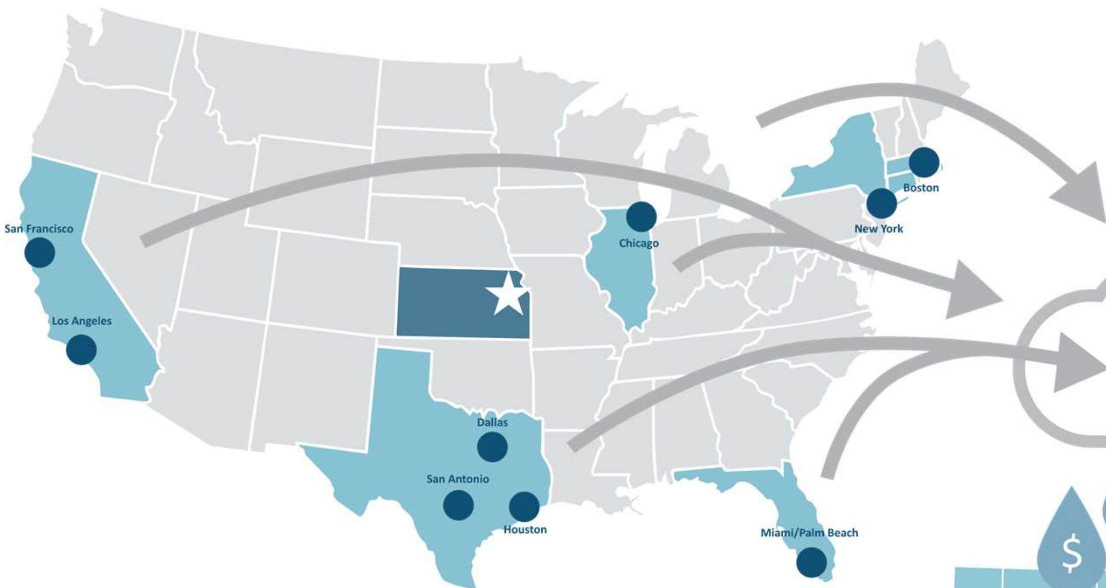
3 Consolidates existing statutory legislation governing #1 and #2 above from several states (e.g. Kansas, Delaware, South Dakota, Texas and Wyoming) into one cohesive legislation (SB 288) to position Kansas as the preferred jurisdiction for TEFFIs to operate from Kansas

4 Imposes a 2.5% upfront one-time Customer tax (called the Economic Growth Contribution) on the value of the alternative assets contributed to Kansas Trusts having Kansas TEFFIs as Trustee and lender to the Kansas Trust, and provides a tax credit to the TEFFI as an incentive to operate in Kansas and bring Customers from across the U.S. to establish Kansas Trusts

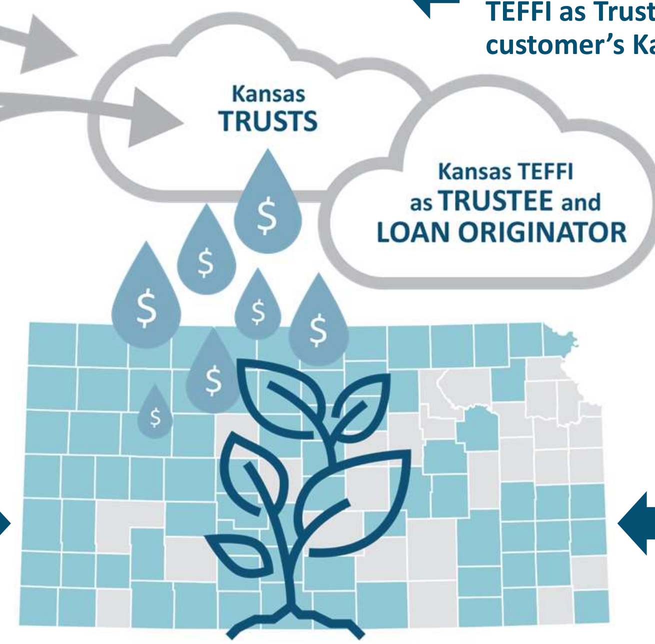
5 Designates Kansas counties as Economic Growth Zones and funds them along with the Department of Commerce with the upfront one-time Customer tax collected by the TEFFI (the Economic Growth Contributions)

WHAT IS A TEFFI?

A ***TECHNOLOGY ENABLED FIDUCIARY FINANCIAL INSTITUTION*** WILL USE TECHNOLOGY TO BRING CUSTOMERS FROM ACROSS THE U.S. TO KANSAS



Out-of-state customers holding Alternative Assets contribute them to Kansas Trusts having a Kansas TEFFI as Trustee *and* lender to the customer's Kansas Trust



***Upon establishing a Kansas Trust which borrows from a TEFFI*, the TEFFI customer will be required to make upfront Mandatory Economic Growth Contributions representing 2.5% of the asset value of the Kansas Trust, which will fund Kansas Economic Growth Zones**

- **Job & Income Growth**
- **Small Community Main Street Economic Expansion**
- **Construction Development**
- **Education Facility Improvements**
- **Health Care & Senior Facility Enhancements**
- **Joint Ventures & Collaboration with University Systems**

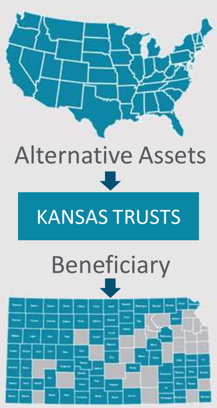
HOW DOES A TEFFI BENEFIT KANSAS?

KANSAS ECONOMIC GROWTH ZONES WILL RECEIVE FUNDING FROM TEFFIs PAID BY ALTERNATIVE ASSET INVESTORS FROM ACROSS THE U.S.

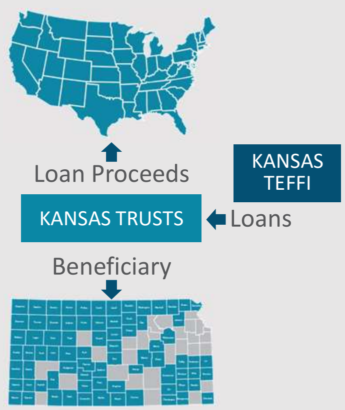
BENEFITS TO KANSAS Funds Will Flow to Economic Growth Zones in Kansas, and Kansas Will Have No Out-of-Pocket Expenses in This Process.

HOW THE PROCESS WORKS:

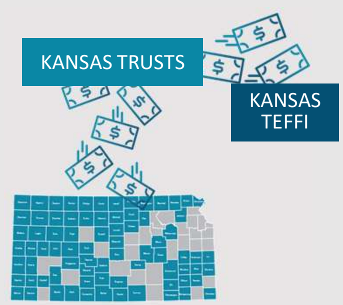
1 Customers across the U.S. contribute alternative assets to Kansas Trusts, which designate Kansas Economic Growth Zones as beneficiary.



2 Kansas TEFFI provides financing and/or loans to Kansas Trusts, which distribute proceeds to the alternative asset investor Customers.



3 As the alternative assets (now in Kansas Trusts) produce cash flow, it is used to repay the financings and loans from Kansas TEFFI AND to fund the Kansas Economic Growth Zones.



4 Once the financing or loans are repaid, remaining asset values are used to fund Kansas Economic Growth Zones and the Kansas Department of Commerce.

5 TEFFIs do not operate like alternative asset (or private equity) funds, because TEFFIs provide trust services and financings which include the following structural elements:

- TEFFIs Provide Financing Against Known Companies
- TEFFIs Do Not Buy and Sell Investments – Assets Remain in Kansas Trusts until Liquidation
- As Senior Lender, TEFFIs Finance only a Portion of the Equity Value of the Alternative Asset
- TEFFIs Charge a Stated Interest Rate Return and Require a Mandatory Repayment Term of the Loan
- TEFFIs have an Identifiable Repayment Source for their Loans
- TEFFIs Lend to Kansas Trusts from Permanent Capital of the TEFFI
- TEFFIs Earn a Stated Interest Rate – and Do Not Earn Equity Level Rates of Return
- Equity Appreciation belongs to the Kansas Economic Growth Zone as Beneficiary

WHAT OTHER STATES HAVE EXISTING LEGISLATION SIMILAR TO SENATE BILL 288?

DELAWARE, SOUTH DAKOTA, TEXAS AND WYOMING EACH AUTHORIZE CERTAIN ASPECTS OF TEFFI OPERATIONS, BUT NO ONE STATE HAS COMPREHENSIVE STATUTES

Senate Bill 288 consolidates the following existing statutory provisions from multiple states into one cohesive legislation positioning Kansas as the preferred jurisdiction for trust banks to consolidate operations from other states.

Senate Bill 288 Reference	Statutory Source	Description
Consolidated Statutes from Existing Kansas Legislation		
Sec. 1(b)(6)	K.S.A. 74-50, 222	Identification of Economic Growth Zones
Sec. 2	K.S.A. 9-801	Charter Requirements
Sec. 3	K.S.A. 9-1703	Examination and Fees
Sec. 4	K.S.A. Article 9	General Incorporation of Article 9
Sec. 5	K.S.A. 9-901	Capital Requirements
Sec. 6	K.S.A. 9-1114	Management/Composition of Board of Directors
Sec. 7	K.S.A. 9-1704	Reporting Obligations to Commissioner
Sec. 10	K.S.A. 9-1101	Authorization of Trust Bank Powers
Sec. 12	K.S.A. 9-1104	Licensing and Outsourcing of products/services
Sec. 19	K.S.A. 58a-708	Trustee Compensation
Consolidated Statutes from Existing Delaware Legislation		
Sec. 1(b)(9)	12 Del. C. §3301(d)	Definition of "fiduciary"
Sec. 14	12 Del. C. §3313	Rights and Powers of Trust Advisor
Sec. 15	12 Del. C. §3313A	Duties and Liabilities of Trust Advisor
Sec. 26	25 Del. C. §503	Duration of FidFin Trust

Senate Bill 288 Reference	Statutory Source	Description
Consolidated Statutes from Existing South Dakota Legislation		
Sec. 1(b)(7)	SDCL § 55-1B-1(5)	Definition of "excluded fiduciary"
Sec. 1(b)(13)	SDCL § 55-1B-1(3)	Definition of "trust advisor"
Sec. 9(c)	SDCL § 51A-6A-11.1	Principal Office Requirements
Sec. 15	SDCL § 55-1B	Duties and Liabilities of Trust Advisor
Sec. 15(d)	SDCL § 55-1B	Directives of Trust Advisor
Sec. 20	SDCL §21-22-28	Privacy of FidFin Trusts
Sec. 23	SDCL §54-3-1.1	Usury
Consolidated Statutes from Existing Texas Legislation		
Sec. 12	TX Trust Code §113.108	Authority to Engage Agents/Employees
Sec. 18	TX Trust Code § 114.007	Limitations of Indemnification
Consolidated Statutes from Existing Wyoming Legislation		
Sec. 8	Wyo. Stat. §34-29-104(p)	Definition of "custodial services"
Sec. 1(b)(5)	Wyo. Stat. §13-1-204	Use of "bank" in name
Sec. 13	Wyo. Stat. § 34-29-104	Requirements for custodial services
Sec. 16	Wyo. Stat. § 4-10-713 & 714	Trust Advisor as a fiduciary and subject to KS jurisdiction

HOW IS TECHNOLOGY USED BY A TEFFI AND HOW WILL IT BE REGULATED?

PURSUANT TO SENATE BILL 288, TEFFIs WILL COMPLY WITH ALL RELEVANT BANKING LAWS UNDER THE SUPERVISION OF THE BANKING COMMISSIONER

Technology differentiates a TEFFI:

1	Allows a TEFFI to efficiently and securely process transactions over a web-based portal
2	Provides national scope, since access is online rather than in person
3	Facilitates “remote transactions,” making a high volume, secure transactional process possible, while still complying with all banking rules

Comparison

Kansas TEFFI	Kansas Traditional Trust Companies and Banks
High volume, transactional	Relationship-oriented
Customer comes to the portal, transacts, and departs	Longer term connection with Customers
National reach	More defined geographic scope
Fiduciary capacity	Fiduciary capacity

WILL TEFFIs COMPETE WITH EXISTING KANSAS TRUST COMPANIES & BANKS?

TEFFIs are different both because of what they do and, just as important, what they don't do – they do not provide traditional trust banking services in Kansas.

1 Do not provide traditional administration services such as ILITs, Revocable Trusts, Gifting Trusts, GRATS and Estate Administration

2 Focus on investors worth over $5 million from major wealth city centers outside of Kansas and not in the major Kansas markets

3 Do not take cash deposits, provide traditional banking services or offer investment products

4 Transactional focus through technology enablement - not relationship oriented through personal contact

5 Provide Fiduciary Finance (FidFin) loans collateralized by Alternative Assets (Covered Funds), whereas Federal regulation restricts deposit-taking trust banks from making such loans

6 TEFFIs are not focused on the investment advisory services business. TEFFIs are focused on transactions, not relationships

HOW DO TEFFIs BENEFIT THE KANSAS TRUST BANKING INDUSTRY?

TEFFIs ARE COMPLEMENTARY TO EXISTING KANSAS TRUST COMPANIES AND BANKS

TEFFIs will serve to position Kansas among the leaders in U.S. financial trust services, while providing practical benefits to both Kansas bankers and the citizens of Kansas.

The technology enablement of a TEFFI facilitates the origination of assets from residents of wealth city-centers across the U.S. thereby generating funds for the State of Kansas through the Privilege Tax or Economic Growth Contribution, whichever is greater.

The Economic Growth Contributions will fund and fuel economic growth, job growth, construction and main street redevelopment with local banks within Economic Growth Zones.

The cash accounts of the Kansas trusts administered by TEFFIs will be deposited in local banks.

Kansas banks and trust companies will be able to offer their Customers highly specialized custody and liquidity services for complex alternative assets by utilizing TEFFIs as sub-custodians.

TEFFI legislation will further highlight and promote Kansas and the KBA as leaders in the financial services industry.

WHO BEARS THE ECONOMIC RISK OF A TEFFI?

1. NOT KANSAS – The TEFFI and all compliance are privately funded by the TEFFI in advance. Kansas has NO out-of-pocket expenses.

2. NOT BENEFICIARIES – NO capital invested.

3. NOT DEPOSITORS – The TEFFI is a non-depository trust company.

4. COMMON SHAREHOLDERS – Risk factors are fully disclosed and a primary focus of the TEFFI Board of Directors.

HOW WILL TEFFIs AFFECT THE REPUTATIONAL INTEGRITY OF THE KANSAS TRUST BANKING INDUSTRY?

MARKETPLACE CONFIDENCE IN TECHNOLOGY-ENABLED TRANSACTIONS IS PARAMOUNT

Three key pillars supporting reputational integrity.

1

TEFFI FOCUS on preserving the reputational integrity of the KBA, Kansas Trust Companies & Banks

2

TEFFI POLICIES ensuring reputational integrity

3

TEFFI LEADERSHIP of the highest caliber, with unimpeachable credibility and integrity

*TEFFIs such as Ben are committed to contributing to the reputational integrity of the **trust and banking industry** as reflected within the policies and procedures approved by Ben's Board of Directors and governed by the Board's Enterprise Risk Committee and Compensation Committee.*

POLICIES

Examples of Ben's Policies containing procedures covering reputational integrity include:

- Enterprise Risk Management Policy
- BSA/AML/OFAC Policy
- Fair Lending Policy
- Fair Credit Reporting Act Policy
- BEN Business Code of Conduct
- BEN Employee Handbook
- BUSINESS Continuity Policy
- Concentrations of Credit Policy
- Credit Risk Policy
- Credit Scoring Policy
- Allowance for Loan Losses
- IT Vendor Management Policy
- Loan Review Policy
- Model Risk Management Policy
- Problem Loan Policy
- Related Party Transactions Policy
- Risk Management Policy
- Travel and Expense Policy
- Fiduciary Account Management Policy

Ben's 9-member Board of Directors includes former Federal Reserve Presidents and current industry leaders with national reputations, such as:

Richard Fisher,
Senior Partner Director
Prior: President and Chief Executive Officer of the Federal Reserve Bank of Dallas

Dennis P. Lockhart,
Independent Director
Prior: President and Chief Executive Officer of the Federal Reserve Bank of Atlanta

HOW DOES THE TECHNOLOGY AND PORTAL WORK?

Customer Portal Account Setup, Submission of Customer Alternative Assets and Delivery of Liquidity Proposals

1 Customer gains access to the portal (two options)

Company generates and delivers portal credentials to the customer at the customer's request

OR

Customer self-registers an account on the AltAccess portal through website. Portal accounts are maintained by TEFFI as a BSA, OFAC, AML compliant system portal operation.

2 Customer accepts terms and appoints agent/custodian

a. Customer reads and accepts Confidentiality, Terms of Use and Privacy Policy via Portal account.
b. Customer appoints us as custodian/banking agent via Portal account.

3 Customer creates liquidity request by answering Portal questions pertaining to the alternative asset investments

4 Customer uploads to the Portal Account data regarding the alternative assets

5 Customer information and data is electronically transmitted to underwriting and risk management tech systems. Customer can access transaction status via Portal account as internal activities are completed.

6 Customer receives liquidity options and binding term sheet via Portal

a. Customer receives several liquidity options via their Portal account.
b. If customer agrees to the terms of an option, then a binding term sheet is generated and delivered via the Customer's Portal account.

7 Customer inputs personal information via Portal account

a. Information needed to comply with customer identification and verification procedures
b. Wiring and brokerage account instructions
c. Confirmation of accredited investor status

8 Consideration (cash/securities) electronically delivered pursuant to customer instructions

Customer portal incorporates detailed internal controls procedures, segregation of duties, reviews and approvals at various stages of the transaction. Reviews, approvals and final officer signoff are documented via verified electronic signatures.

APPENDIX: ABOUT THE BENEFICIENT COMPANY GROUP

Since its founding in 2003 and commencement of commercial operations in 2017, Beneficient has been dedicated to a simple goal: **to create opportunity** for individuals and institutions that own alternative assets, and through our rapid, simple, cost effective approach to level the playing field in alternative assets by providing individual investors the trust liquidity products and trust services previously available to only the largest institutional investors.

Beneficient provides private trust solutions, including a unique suite of private trust, lending and financing products, to bring liquidity to owners of alternative assets. Ben's trust liquidity solutions are designed **to serve** high net worth individuals, institutions with less than $1 billion in investable assets, and asset managers who have historically possessed few attractive options to access early liquidity from their alternative assets.

Ben acts as principal and deploys its own balance sheet to help remove many of the traditional barriers to liquidity faced by alternative asset investors. We are grounded with a **strong leadership** team and a Board of Directors with extensive experience in alternative assets and financial services. Our robust risk management guidelines anchor and drive our origination and underwriting strategies, and our established extensive data security measures are designed to always safeguard information and transactions.

OPPORTUNITY

SERVICE

LEADERSHIP

Ben's operating philosophy is anchored in robust risk management