

CHAPTER 320
SB 394 – FINAL VERSION

03/22/06 1377s

26Apr2006... 1927h

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2006 SESSION

06-2032

08/09

SENATE BILL 394

AN ACT establishing the Trust Modernization and Competitiveness Act.

SPONSORS: Sen. D'Allesandro, Dist 20; Sen. Clegg, Dist 14; Sen. Green, Dist 6; Sen. Odell, Dist 8; Rep. Sheila Francoeur, Rock 15; Rep. O'Neil, Rock 15; Rep. Moran, Hills 18; Rep. Hunt, Ches 7

COMMITTEE: Judiciary

AMENDED ANALYSIS

This bill makes various changes to the law regarding trusts and trust companies in New Hampshire.

The bill makes revisions to the Uniform Trust Code and adopts the Uniform Principal and Income Act.

Explanation: Matter added to current law appears in ***bold italics***.

Matter removed from current law appears [~~in brackets and struckthrough.~~]

Matter which is either (a) all new or (b) repealed and reenacted appears in regular type.

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STATE OF NEW HAMPSHIRE
In the Year of Our Lord Two Thousand Six

AN ACT establishing the Trust Modernization and Competitiveness Act.

Be it Enacted by the Senate and House of Representatives in General Court convened:

320:1 Purpose. The legislature finds that:

I. The market for trust and trust services across the nation is a rapidly growing sector of the nation's economy.

II. New Hampshire is uniquely positioned to provide the most attractive legal and financial environment for individuals and families seeking to establish and locate their trusts and investment assets.

III. This act will serve to establish New Hampshire as the best and most attractive legal environment in the nation for trusts and trust services, and this environment will attract to our state good-paying jobs for trust and investment management, the legal and accounting professions, and support an infrastructure required to service this growing sector of the nation's economy.

IV. This act shall be known as the Trust Modernization and Competitiveness Act.

320:2 Nondepository Trust Companies; Examination. Amend RSA 383:9-d to read as follows:

383:9-d Examination of Highly Rated Institutions; ***Nondepository Trust Companies.***

I. The bank commissioner may, at his or her discretion, waive one 18-month examination requirement under RSA 383:9 every 6 years for institutions which have consistently been given high ratings in past examinations. The commissioner may also substitute for an 18-month examination once every 6 years a report of a federal institution examining agency whose reports regularly include a report on New Hampshire institutions. Within any 6-year period in which 4 18-month examinations are required under RSA 383:9, the commissioner may for highly rated institutions:

[I.] **(a)** Waive one examination; [and]

[II.] **(b)** Substitute for one examination a report of a federal bank examining agency whose reports regularly include a report on New Hampshire banks; and

[III.] **(c)** Perform 2 examinations as required by 383:9.

II. The commissioner may, at his or her sole discretion, upon the written request of a highly-rated nondepository trust company, satisfy the examination requirement of RSA 383:9, including modifications under paragraph I, for such trust company through an off-premises examination of:

(a) An audit report satisfying the requirements of RSA 384:43, I and II if it is prepared in accordance with RSA 384:43, III(a) and (b), and a fiduciary audit conforming to applicable generally accepted auditing standards; and

(b) Such other records and information of the institution as may be required by the commissioner.

320:3 Powers and Inconsistent Charter Provisions. Amend RSA 384 by inserting after section 1-a the following new section:

384:1-b Powers and Inconsistent Charter Provisions. Unless otherwise determined by the

bank commissioner, each savings bank, trust company, cooperative bank, and other banking company chartered by the state of New Hampshire shall have all the powers, rights, benefits, privileges, and procedures conferred upon each of such types of banks by the general statutes and rules adopted thereunder, subject to all the duties and restrictions contained in such general statutes and rules. The provisions of such general statutes and rules shall prevail over any inconsistent charter provisions of such banks.

320:4 Trust Companies; Banks Authorized to Invest Trust Funds in Affiliated Investments. Amend RSA 384:65 to read as follows:

384:65 Banks Authorized to Invest Trust Funds in Affiliated Investments.

I. Notwithstanding the provisions of any other law to the contrary, **and in addition to any authority granted by RSA 564-B**, any bank, as defined in RSA 384:57, II, authorized to exercise trust powers in this state, is authorized while acting as a fiduciary to purchase for the fiduciary estate, directly from underwriters or distributors or in the secondary market:

(a) Bonds or other securities underwritten or distributed by such bank or an affiliate thereof or by a syndicate which includes such bank or affiliate, provided that such bank discloses in any written communication or account statement reflecting the purchase of such bonds or securities the nature of the interest of such bank or affiliate in the underwriting or distribution of such bonds and securities and whether such bank or affiliate received any fee in connection with such purchase; and

(b) Securities of any investment company [registered] **as defined** under the federal Investment Company Act of 1940 for which such bank or affiliate acts as advisor, distributor, transfer agent, registrar, sponsor, manager, shareholder servicing agent, or custodian, provided that such bank discloses in any written communication or account statement reflecting the purchase of such securities the nature of the relationship and whether such bank or affiliate received any fee for providing such services.

II. The authority granted in paragraph I of this section may be exercised only if:

(a) The investment is not expressly prohibited by the instrument, judgment, decree, or order establishing the fiduciary relationship;

(b) The bank discloses in writing to the person or persons to whom it sends account statements its intent to exercise the authority granted in paragraph I prior to the first exercise of such authority; and

(c) The bank procures in writing the consent of its cofiduciaries **with discretionary investment powers**, if any, to the investment.

III. A bank, acting as a fiduciary pursuant to RSA 384:65, I, may:

(a) Invest in the securities of an investment company or investment trust, to which such fiduciary or its affiliate provides services in a capacity other than as trustee, such as advisor, distributor, transfer agent, registrar, sponsor, manager, shareholder servicing agent, administrator, or custodian, and such investment is not presumed to be affected by a conflict between personal and fiduciary interests if the investment complies with the prudent investor standard pursuant to article 9 of RSA 564-B.

(b) Be compensated by the investment company or investment trust for providing services in a capacity other than as trustee, such as advisor, distributor, transfer agent, registrar, sponsor, manager, shareholder servicing agent, administrator, or custodian, if the fiduciary at least annually notifies [the] **each** person [or persons] to whom it [sends] **is required to send**

account statements **under RSA 564-B:8-813** of the rate and method by which the compensation was determined.

IV. Nothing in this section shall affect the degree of prudence which is required of fiduciaries under the laws of this state. Any bonds or securities purchased under authority of this section shall have sufficient liquidity and investment quality to satisfy the principles of fiduciary investment and the terms of the instrument, judgment, decree, or order establishing the fiduciary relationship.

V. Notwithstanding paragraphs I-IV, no bank authorized to exercise trust powers in this state which is acting as a fiduciary shall purchase for the fiduciary estate any fixed income or equity security issued by such bank or an affiliate thereof, unless the bank is expressly authorized to do so by the terms of the instrument creating the trust, a court order, the written consent of the grantor of the trust, or the written consent of the **qualified** beneficiaries of the trust, **as defined in RSA 564-B:1-103**.

320:5 Trust Companies; Bond Requirement. RSA 390:14 is repealed and reenacted to read as follows:

390:14 Bonds. Unless required by the order of a court with proper jurisdiction, no corporation or limited liability company authorized to act as trustee or executor in this state shall be required to give bond of an indemnity company licensed to do business in this state.

320:6 Repeal. RSA 390:16, relative to making loans from funds held in trust, is repealed.

320:7 New Section; Trust Companies; Definitions. Amend RSA 392 by inserting after section 1 the following new section:

392:1-a Definitions. For the purposes of title XXXV and RSA 359-C, as applicable:

I. "Confidential information," with respect to a trust company, includes the names of stockholders, members, or other owners; ownership information; capital contributions; addresses; business affiliations; findings of the commissioner or the board of trust company incorporation through any examination or investigation of the commissioner or the board of trust company incorporation; any information required to be reported or filed with the commissioner or the board, any information that qualifies as any person's "nonpublic personal financial information" under Chapter V of the Gramm-Leach-Bliley Act of 1999 and the regulations implementing it; any information or agreement relating to any merger, consolidation, or transfer; any agreements or information relating to any relationship with a contracting trustee; and any other nonpublic information that, in the judgment of the commissioner, could be useful in connection with an act of bribery, extortion, identity theft, or terrorism.

II. "Depository trust company" means a trust company that is organized under this chapter and is not prohibited by its charter from accepting deposits.

III. "Family fiduciary services company" means a nondepository trust company that is organized under this chapter to engage in business with one or more family members and does not transact business with the general public, as defined in RSA 392:39-a, I(c) and is prohibited by its charter from making loans.

IV. "Nondepository trust company" means a trust company organized under this chapter but is prohibited by its charter from accepting deposits.

V. "Organizational instrument" means, with respect to a trust company, the articles of

agreement for a corporation or the certificate of formation for a limited liability company.

VI. "Trust company" means a depository trust company or a nondepository trust company.

320:8 Trust Companies; Number of Organizers. Amend RSA 392:2 to read as follows:

392:2 ~~[Incorporators]~~ **Organizers.** Except as provided in this paragraph, ~~[10]~~ **3** persons may subscribe to ~~[articles of agreement]~~ **an organizational instrument** in writing for the purpose of forming a trust company and may, upon compliance with the provisions of this chapter, become a ~~[corporation]~~ **trust company** with all the powers and privileges and subject to all the duties, restrictions, and liabilities of a trust company, as set forth in the general laws now or hereafter in force relating to such ~~[corporations]~~ **trust companies**. If a trust company is being organized by a bank holding company or a financial holding company as defined by the federal Bank Holding Company Act of 1956, as amended, or by a savings and loan holding company as defined by the federal Savings and Loan Holding Company Act, as amended, or by any other type of company that will directly or indirectly hold all of the shares **or interests** of the trust company~~['s capital stock]~~, or in connection with a reorganization of a trust company into a holding company structure, then only the holding company or, if applicable, the subsidiary of the holding company that will hold all of the shares **or interests** of the trust company~~['s capital stock]~~, is required to subscribe to the ~~[articles of agreement]~~ **organizational instrument**.

320:9 Trust Companies; Limited Liability Company Powers. Amend RSA 392:2-a to read as follows:

392:2-a Limited Liability Company. Notwithstanding RSA 304-C:7, I or any other provision of law to the contrary, a trust company subject to the regulation of the bank commissioner may be organized as a limited liability company **with all the powers and privileges and subject to all the duties, restrictions, and liabilities of a corporate trust company**. A trust company organized as a limited liability company shall ~~[be subject to the provisions of]~~ **have all the powers and privileges and, except as otherwise provided in this section, be subject to all the duties, restrictions, and liabilities of** state ~~[law]~~ **laws** applicable to ~~[such type of entity]~~ **a limited liability company**~~[-]; provided, however, any filing required to be made with the secretary of state shall be made instead with the bank commissioner]~~. Any reference to a corporation in the statutes governing trust companies shall also include a limited liability company. A trust company organized as a limited liability company shall be subject to all of the same laws and regulations that relate to a trust company organized as a corporation. All managers and employees of a trust company organized as a limited liability company shall be subject to the same duties and liabilities as pertain to directors, trustees, and employees of a trust company organized as a corporation. Any reference to corporations, directors, officers, stockholders or other like terms used to describe corporations in the statutes governing trust companies shall be construed to apply in the same manner to limited liability companies, managers, employees, members or other like terms used to describe limited liability companies unless the context otherwise requires. The organizational ~~[instruments]~~ **instrument** of a trust company chartered as a limited liability company ~~[shall satisfy the requirements of the Federal Deposit Insurance Corporation in order to be deemed "incorporated" for purposes of federal deposit insurance]~~ **shall provide that its existence shall be perpetual, that the company shall be managed by managers, that no member of the company shall be individually liable for the debts of the company, other than to the extent of the member's investment therein and that any limitation on transferability of ownership interests shall exclude any transfer required by lawful order of the bank commissioner**.

320:10 Nondepository Trust Companies. RSA 392:3 is repealed and reenacted to read as

follows:

392:3 Organizational Instrument. Said organizational instrument shall set forth that the organizers thereto associate themselves with the intention of forming a trust company, and shall specifically state:

- I. The name by which the trust company shall be known.
- II. The purpose for which it is formed, including, for a nondepository trust company, an exclusion from taking deposits.
- III. The name of the registered agent and the address of the registered office.
- IV. The amount of its capital and the number of shares or interests into which the same is to be divided.
- V. Any other provisions consistent with the requirements of RSA 293-A if the trust company is in corporate form or RSA 304-C if the trust company is in limited liability form.

320:11 Trust Companies; Organizer's Business Address. RSA 392:4 is repealed and reenacted to read as follows:

392:4 Signing Organizational Instrument. Each organizer shall subscribe to the organizational instrument the organizer's name, business post office address, and the number of shares of stock or interests which the organizer agrees to take.

320:12 Trust Companies; Application for Charter. RSA 392:5 is repealed and reenacted to read as follows:

392:5 Petition.

I. A petition setting forth said organizational instrument or its terms, signed by the organizers and requesting that the board of trust company incorporation grant a charter shall be filed with the bank commissioner in the form prescribed by the commissioner. The commissioner shall designate in such form the questions, requests for information and certifications applicable only to deposit taking or lending institutions that need not be responded to by organizers of a nondepository trust company. An examination fee of \$5,000 shall be paid when the petition is filed. Sums collected under this section shall be payable to the state treasurer as restricted revenue and credited to the appropriation for the bank commissioner.

II. Upon receipt of a petition deemed to be complete by the commissioner, the commissioner shall promptly conduct an examination of all relevant facts connected with the formation of the proposed trust company. The commissioner may examine the following factors:

- (a) The proposed market or markets to be served.
- (b) Whether the proposed organizational and capital structure and the amount of initial capital appear adequate in relation to the proposed business and market or markets.
- (c) Whether the anticipated volume and nature of business indicate a reasonable probability of success and profitability based on the market or markets proposed to be served.
- (d) Whether the proposed officers and directors or managers, as a group, have sufficient experience, ability, standing, competence, trustworthiness, and integrity to justify a belief that the proposed trust company will be free from improper or unlawful influence and otherwise will operate in compliance with law, and that success of the proposed trust company is

reasonably probable.

(e) Whether the proposed name of the proposed trust company is likely to mislead the public as to its character or purpose or is the same as a name already adopted by an existing bank, savings association, or trust institution in this state, or so similar thereto as to be likely to mislead the public.

(f) Any other factor, as the commissioner may determine.

III. The failure of a petitioner to furnish required information, data, other material, or the required fee within 30 days after a request may be considered an abandonment of the petition.

320:13 Trust Companies; Investigation by Bank Commissioner. Amend RSA 392:5-a to read as follows:

392:5-a Investigations. For the purpose of any investigation under this chapter, the board **or the commissioner** shall have the power to subpoena witnesses and administer oaths in any adjudicative proceedings, and to compel, by subpoena duces tecum, the production of all books, records, files, and other documents and materials relevant to its investigation.

320:14 Trust Companies; Notice. RSA 392:6 is repealed and reenacted to read as follows:

392:6 Notice. Upon a determination by the commissioner that the petition is complete, he or she shall approve the form of a notice to be published in a newspaper of general circulation acceptable to the commissioner. The notice shall be published not later than 30 days after the date of approval. The notice shall state a date before which objections may be filed, which date shall not be later than 30 days after the publication of said notice. Any interested person may, within the time specified, file with the commissioner a statement of objection to the granting of such petition.

320:15 Trust Companies; Hearings. RSA 392:6-a is repealed and reenacted to read as follows:

392:6-a Hearing. The board may order within its discretion a public hearing on the petition. The board may approve or deny the petition with or without a public hearing. Any required public hearing shall be held at the time and place fixed by the board and a notice shall be published in accordance with the provisions of RSA 392:6. The board may prescribe reasonable procedural rules to govern the proceedings, including rules for maintaining the confidentiality of the portions of the petition, the commissioner's investigation, and the proceedings of the board that include confidential information or are determined by the board or the commissioner or otherwise determined by law to be confidential or to exempt a certain class of petitions from any public hearing requirement. The board shall keep a permanent verbatim record of all such evidence.

320:16 Repeal. RSA 392:7, relative to form of notice, is repealed.

320:17 Trust Companies; Decisions. RSA 392:8 is repealed and reenacted to read as follows:

392:8 Decision.

I. In deciding whether or not to grant the petition, the board shall consider the factors set forth in RSA 392:5, II. Upon reaching its decision, the board shall make a record thereof. If the petition is denied, it shall be dismissed and no new petition concerning the same

company may be filed within one year thereafter.

II. If in any case the board shall be of the opinion that the petition does not satisfy the factors in RSA 392:5, II by the exercise proposed by the trust company of all the powers and privileges which are included in the petition, but that the same would be satisfied by the exercise of a part thereof, it shall so notify the petitioners; and in such case the petitioners may have leave to withdraw, and may at once file another petition setting forth new organizational documents, upon which the same procedure shall be had as upon the original petition.

320:18 Repeal. RSA 392:9, relative to new agreement, is repealed.

320:19 Trust Companies; Decisions. Amend RSA 392 by inserting after section 9 the following new section:

392:9-a Confidentiality.

I. All confidential information received in connection with any petition or application of or concerning a family fiduciary services company shall be confidential communications, shall not be subject to subpoena, and shall not be made public unless, in the judgment of the commissioner, the ends of justice and the public advantage will be served by the publication of the information. The commissioner may, at his or her discretion on request or otherwise, determine that confidential information received in connection with any petition or application of or concerning a public trust company other than a family fiduciary services company should not be publicly available, in which case such information shall be confidential communications, shall not be subject to subpoena, and shall not be disclosed unless, in the judgment of the commissioner, the ends of justice and the public advantage will be served by the disclosure of the information.

II. The commissioner shall give to the affected trust company 10-days prior written notice of intent to disclose confidential information directly or indirectly to the public. Any trust company which receives a notice may object to the disclosure of the confidential information and shall be afforded the right to a hearing in accordance with the provisions of RSA 383. If a trust company requests a hearing, the commissioner may not reveal confidential information prior to the conclusion of the hearing and a ruling. Prior to dissemination of any confidential information, the commissioner shall require a written agreement not to reveal the confidential information by the party receiving the confidential information. In no event shall the commissioner disclose confidential information to the general public, any competitor, or any potential competitor of a trust company.

III. Nothing in this chapter is intended to preclude a law enforcement officer from gaining access to otherwise confidential records by subpoena, court order, search warrant, or other lawful means. Notwithstanding any other provision of this chapter, the commissioner shall have the ability to share information with other out of state or federal regulators with whom the department has an information sharing agreement. Nothing in this chapter is intended to preclude any agency of the state of New Hampshire from gaining access to otherwise confidential records in accordance with any applicable law, including in connection with an investigation or review of the secretary of state conducted in accordance with RSA 421-B.

320:20 Trust Companies; First Meeting. RSA 392:10 is repealed and reenacted to read as follows:

392:10 First Meeting. The first meeting of the organizers shall be called by a notice signed either by that organizer who is designated in the organizational instrument for the purpose, or by a majority of organizers, and such notice shall state the time, place and purpose of the

meeting.

320:21 Repeal. The following are repealed:

I. RSA 392:11, relative to notice of meeting of trust company.

II. RSA 392:12, relative to waiver of notice.

320:22 Trust Companies; Subscribers Powers. Amend RSA 392:13 to read as follows:

392:13 [Subscribers'] **Organizers** Powers. The [subscribers to the agreement of association] **organizers of a trust company in organization** shall hold the franchise until the organization has been completed.

320:23 Trust Companies; Organization. RSA 392:14 is repealed and reenacted to read as follows:

392:14 Organization. The organizers shall adopt bylaws which may be incorporated in an operating agreement if the company is a limited liability company, and shall also elect, or cause to be elected, such directors or managers and officers as may be required by the organizational instrument or bylaws. All directors, managers, and officers so elected shall be sworn to the faithful performance of their duties. A temporary clerk or secretary shall make and attest a record of the proceedings until the clerk or secretary has been chosen and sworn, including a record of such choice and qualification.

320:24 Trust Companies; Certificate. Amend RSA 392:15 to read as follows:

392:15 Certificate. A majority of the directors **or managers** who are elected at such first meeting shall sign and make oath to a certificate setting forth:

I. A true copy of the [agreement of association] **organizational instrument**, the names **and business post office address** of the [subscribers] **organizers** thereto, and the name[, residence] and **business** post office address of the **directors, managers, and** officers of the [corporation] **trust company**.

II. The date of the first meeting and the successive adjournments thereof, if any.

III. A copy of the records.

320:25 Trust Companies; Approval of. Amend RSA 392:16 to read as follows:

392:16 Approval of. Such certificate shall be submitted to [said board of incorporation] **the commissioner**, who shall examine the same, and who may require such amendment thereof or such additional information as [they] **he or she** may consider necessary. If [they] **he or she** [find] **finds** that the [public convenience and advantage will be promoted by the establishment of such corporation] **certificate is consistent with the decision of the board pursuant to RSA 392:8** and that the proceedings in other respects conform to the provisions of this chapter, [they] **he or she** shall so certify and indorse [their] **his or her** approval upon said certificate **and the organizational instrument**.

320:26 Trust Companies; Record of. RSA 392:17 is repealed and reenacted to read as follows:

392:17 Record of Organizational Instrument. Within 90 days after a favorable decision pursuant to RSA 392:8, petitioners shall file with the secretary of state the organizational instrument. The secretary of state, upon payment of a fee equal to the fee charged by the

secretary of state to business corporations under RSA 293:A if the trust company is a corporation or the fee charged to limited liability companies under RSA 304-C if the trust company is a limited liability company, shall cause the same, with the indorsement thereon, to be recorded.

320:27 Trust Companies; Certificate of Organization. RSA 392:18 is repealed and reenacted to read as follows:

392:18 Certificate of Organization. The secretary shall thereupon issue a certificate of organization in the following form:

STATE OF NEW HAMPSHIRE

Be it known, that whereas (the names of the organizers of the trust company) have associated themselves with the intention of forming a trust company under the name of (the name of the trust company), for the purpose (the purpose declared in the organizational instrument,), with capital of (the amount fixed in the organizational instrument), and have complied with the provisions of the statutes of this state as duly approved by the board of trust company incorporation and recorded in this office: Now, therefore, I (the name of the secretary), secretary of state, do hereby certify that said (the names of the organizers of the trust company), and their successors, are legally organized and established as, and are hereby made, an existing trust company under the name of (name of trust company), with the powers, rights and privileges, and subject to the limitations, duties, and restrictions, which by law appertain thereto.

Witness my official signature hereunto subscribed, and the seal of the state hereunto affixed, this _____ day of _____ in the year _____ (the date of the filing of the organizational instrument).

The secretary of state shall sign the certificate of organization and cause the seal of the state to be thereto affixed, and such certificate shall have the force and effect of a special charter.

320:28 Trust Companies; Certificate or Record as Evidence. Amend RSA 392:19 to read as follows:

392:19 Certificate or Record as Evidence. The secretary of state shall also cause a record of the certificate of [~~incorporation~~] **organization** to be made, and such certificate, or such record or a certified copy thereof, shall be conclusive evidence of the existence of such [~~corporation~~] **trust company**.

320:29 Trust Companies; When Organized; Beginning Business. RSA 392:20 is repealed and reenacted to read as follows:

392:20 When Organized; Beginning Business. The existence of such trust company shall begin upon the filing of the organizational instrument with the secretary of state. Any trust company organized under this chapter shall begin business within 2 years from the date of its organization; otherwise its charter shall be void, unless the board of trust company incorporation, for good cause shown, shall grant one extension for not more than one year.

320:30 Trust Companies; List of Owners. Amend RSA 392:22 to read as follows:

392:22 List of [~~Stockholders~~] **Owners**. When [~~the whole capital stock has been issued~~] **all of the initial investment in the capital of the trust company has been paid**, a complete list of the [~~stockholders~~] **investors**, with the name[, ~~residence~~] and post office address of each, and the number of shares **or interests** held by each, shall be filed with the bank commissioner, which list shall be verified by the president and clerk **or secretary** of the

[corporation] **trust company**.

320:31 Trust Companies; Authorizing Business. Amend RSA 392:23 to read as follows:

392:23 Authorizing Business. Upon receipt of such list, the commissioner shall cause an examination to be made; and if, upon such examination, it appears that ~~[the whole capital stock and surplus fund have]~~ **the required capital has** been paid ~~[in]~~ **to the trust company** in cash, and that all requirements of law have been complied with, the commissioner shall issue a certificate authorizing such [corporation] **trust company** to begin the transaction of business. The cost of such examination shall be paid by the [corporation] **trust company** and shall be limited to a per diem charge for overall compensation costs, including the benefits portion thereof, and expenses as determined by the commissioner, provided, however, that no such [institution] **trust company** shall be charged or pay for less than one full day. Sums collected under this section shall be payable and credited in accordance with the procedure established under RSA 383:11, I.

320:32 Trust Companies; Unauthorized Acts. RSA 392:24 is repealed and reenacted to read as follows:

392:24 Unauthorized Acts. The transaction of a banking or trust business by such trust company prior to the issuance of a certificate of authority to engage in business issued by the commissioner as required by RSA 392:23 shall make the organization void; and in such case the organizers shall be liable as partners for the contracts, debts, and engagements of the company.

320:33 Trust Companies; Minimum Capital Requirement. RSA 392:25 is repealed and reenacted to read as follows:

392:25 Minimum Capital Requirements; Investment of Capital.

I. The initial capital required to organize a trust company shall be not less than \$500,000. The board of trust company incorporation may require, in the exercise of its discretion based on safety and soundness factors, as set forth in paragraph IV, additional capital at such levels as it determines is necessary to protect against the risks inherent in the business of the trust company. Once organized, a nondepository trust company shall maintain a minimum level of capital required by the commissioner to operate in a safe and sound manner based upon his or her examination of the company, provided that the level of capital shall not be less than \$500,000.

II. In addition to the minimum capital requirements, a trust company being organized as a nondepository trust company shall pledge to the commissioner securities or a surety bond for the benefit of the commissioner to defray the costs of a liquidation of the trust company by the commissioner in the event it should fail. The amount of the securities or the surety bond shall be determined by the commissioner in an amount that the he or she deems appropriate to defray such costs, but in no event shall exceed \$1,000,000. In the event of a receivership of a nondepository trust company, the commissioner may, without regard to any priorities, preferences, or adverse claims, reduce the pledged securities or the surety bond to cash and, as soon as practicable, utilize the cash to defray the costs associated with the receivership. If the nondepository trust company chooses to pledge securities to satisfy this provision, the securities shall be held at a depository institution or a Federal Reserve Bank approved by the commissioner. The commissioner may specify the types of securities that may be pledged. Any fees associated with holding such securities shall be the responsibility of the nondepository trust company. If the nondepository trust company chooses to purchase a surety bond to satisfy this provision, the surety bond shall be issued by a bonding company, approved by the commissioner, that is authorized to do business in this state and

that has a rating in one of the 3 highest grades as determined by a national rating service. The surety bond shall be in a form approved by the commissioner. The nondepository trust company may not obtain a surety bond from any entity in which the trust company has a financial interest. The commissioner may require any trust company to increase its capital funds from time to time as may be necessary to comply with reasonable banking and trust standards, as applicable, not inconsistent with law.

III. Nondepository trust companies organized prior to January 1, 2007, shall be required to increase and maintain their level of capital to \$500,000. Any nondepository trust company that has less than \$500,000 in capital on January 1, 2007, shall comply with the minimum capital requirement by January 1, 2010. At a minimum, such nondepository trust company shall increase and maintain its existing capital level by at least \$50,000 per year until January 1, 2010. In addition, a nondepository trust company shall pledge to the commissioner securities or a surety bond for the benefit of the commissioner in the same manner as specified in paragraph II to defray the costs associated with a receivership.

IV. The safety and soundness factors to be considered by the board or the commissioner in the exercise of their discretion include:

(1) The nature and type of business proposed to be conducted including, without limitation, whether the company will accept deposits or make loans.

(2) The nature and liquidity of assets proposed to be held in its own account.

(3) The amount of fiduciary assets projected to be under management.

(4) The type of fiduciary assets proposed to be held and the proposed depository of the assets.

(5) The complexity of fiduciary duties and degree of discretion proposed to be undertaken.

(6) The competence and experience of proposed management.

(7) The extent and adequacy of proposed internal controls.

(8) The proposed presence or absence of annual unqualified audits by an independent certified public accountant.

(9) The reasonableness of business plans for retaining or acquiring additional equity capital.

(10) The existence and adequacy of insurance proposed to be obtained by the trust company for the purpose of protecting its clients, beneficiaries, and grantors.

V. Based on the factors in paragraph IV, the commissioner may require any trust company to increase its capital funds from time to time as may be necessary for its safe and sound operation.

VI. Notwithstanding any other provisions of law to the contrary, a nondepository trust company may invest its funds for its own account in any type or character of equity securities or debt securities subject to the limitations provided by this section, which investments shall otherwise comply with the prudent investor standard described in RSA 564-B:9-902.

VII. Subject to paragraphs VIII and IX, the total investment in equity and investment securities of any one issuer, obligor, or maker held by a nondepository trust company for its own account shall not exceed an amount equal to 15 percent of the nondepository trust company's equity capital. The commissioner may authorize investments in excess of this

limitation if the commissioner concludes that the safe and sound operation of a nondepository trust company would not be adversely affected by a proposed investment exceeding this limitation.

VIII. In calculating compliance with the investment limits set forth in paragraph VII, a nondepository trust company shall not be required to combine:

(a) The nondepository trust company's pro rata share of the securities of an issuer in the portfolio of a collective investment vehicle with the nondepository trust company's pro rata share of the securities of that issuer held by another collective investment vehicle in which the nondepository trust company has invested; or

(b) The nondepository trust company's own direct investment in the securities of an issuer with the nondepository trust company's pro rata share of the securities of that issuer held by collective investment vehicles in which the nondepository trust company has invested under the provisions of this section.

IX. Notwithstanding paragraph VII, a nondepository trust company may purchase for its own account, without limitation and subject only to the exercise of prudent judgment:

(a) Bonds and other general obligations of a state, an agency, or political subdivision of a state, the United States, or an agency or instrumentality of the United States.

(b) A debt security that this state, an agency or political subdivision of this state, the United States, or an agency or instrumentality of the United States has unconditionally agreed to purchase, insure, or guarantee.

(c) Securities that are offered and sold under 15 U.S.C. section 77d(5).

(d) Mortgage-related securities as defined in 15 U.S.C. section 78c(a).

(e) Investment securities issued or guaranteed by the Federal Home Loan Mortgage Corporation, Fannie Mae, the Government National Mortgage Association, the Federal Agricultural Mortgage Association, or the Federal Farm Credit Banks Funding Corporation; and

(f) Investment securities issued or guaranteed by the North American Development Bank.

X. The commissioner may allow a nondepository trust company to make other investments of its corporate funds not specified in this chapter by rules, orders, or declaratory rulings.

320:34 Trust Companies; Par Value. RSA 392:26, relative to change in par value, is repealed.

320:35 Trust Companies; Petition. RSA 392:27 is repealed and reenacted to read as follows:

392:27 Petition. Any trust company organized under this chapter or chartered prior to the passage thereof may file with said board of incorporation a petition setting forth an amendment to its organizational instrument, within the provisions of this chapter, and praying for approval of the amended organizational instrument based on the considerations set forth in RSA 392:5, II.

320:36 Trust Companies; Procedure; Effect. Amend RSA 392:28 to read as follows:

392:28 Procedure; Effect. If the decision is favorable to the petition a copy of the said amended [~~certificate or charter~~] **organizational instrument**, certified by the clerk **or secretary**

of the [~~corporation~~] **trust company**, with the approval of said board indorsed thereon, shall be filed in the office of the secretary of state, accompanied by a fee equal to the fee charged by the secretary of state to business corporations under RSA 293-A **if the trust company is a corporation, or the fee charged to limited liability companies under RSA 304-C if the trust company is a limited liability company**, and thereupon the secretary of state shall cause the same, with the endorsement thereon, to be recorded as provided in RSA 392:17, and shall issue a certificate of such amended [~~incorporation~~] **organizational instrument**, which shall conform as nearly as may be to the form prescribed in RSA 392:18 and shall have the same force and effect, and thereafter such [~~corporation~~] **trust company** shall have all the powers and privileges provided for by such amended certificate or charter and shall be subject to all the provisions of this chapter.

320:37 Trust Companies; Election. Amend RSA 392:30 to read as follows:

392:30 Election. The [~~officers~~] **management** of [~~such corporation~~] **a trust company** shall [~~be~~] **include** a president, a clerk **or secretary**, a board of not less than 5 directors **or managers**, a treasurer, and such other officers as may be prescribed in its [~~bylaws~~] **organizational instrument or other organizational documents** and the laws of the state. Such officers, except the treasurer, shall be chosen annually.

320:38 Trust Companies; Treasurer. RSA 392:31 is repealed and reenacted to read as follows:

392:31 Treasurer. The treasurer shall be elected by the board of directors or managers and shall hold office during their pleasure.

320:39 Trust Companies; In General. RSA 392:33 is repealed and reenacted to read as follows:

392:33 In General.

I. A trust company may be authorized and empowered to receive on deposit, storage, or otherwise, money, securities, jewelry, documents, evidences of debt, and other personal property of a similar character, for safekeeping, upon such terms or conditions as may be agreed upon, which said deposits may be made by corporations and persons acting individually or in any fiduciary capacity; to collect and disburse the income and principal of said property when due; to negotiate, purchase, and sell stocks, bonds, and other evidences of debt; to do a general banking business; and to conduct a savings bank business, provided a non-depository trust company may not accept deposits.

II. In addition to the foregoing, and not limited to, a trust company may act as a fiduciary within or outside this state or in similar capacities generally performed by corporate trustees, and in so acting to possess, purchase, sell, invest, reinvest, safekeep, or otherwise manage or administer real or personal property of other persons, and exercise the powers of a business corporation or limited liability company organized under New Hampshire law and any incidental powers that are reasonably necessary to enable it to fully exercise, in accordance with commonly accepted banking and fiduciary customs and usages, a power conferred in this chapter or RSA 390.

III. Notwithstanding any other provision of law to the contrary, a trust company shall be authorized to make any type of secured or unsecured loan to any person, including without limitation any business or governmental entity except to the extent limited by its organizational instrument. With respect to secured loans, a trust company shall adopt prudent policies establishing loan-to-value ratios suitable for the type of property securing the loans. With respect to all loans, a trust company shall adopt prudent policies establishing the

creditworthiness of borrowers.

320:40 Trust Companies; Pledge of Assets. Amend RSA 392:34 to read as follows:

392:34 Pledge of Assets. Such [corporation] **trust company** may be authorized, by vote of its board of directors **or managers**, to pledge the assets of its commercial department to the United States when such action is necessary or desirable to secure deposits in said department by the United States government in connection with war loan deposit accounts or other similar accounts.

320:41 Trust Companies; Transfer Agent. Amend RSA 392:35 to read as follows:

392:35 Transfer Agent, Acting As. Such [corporation] **trust company** may be authorized and empowered to act as agent for the purpose of issuing, registering, or countersigning certificates of stock, bonds, or other evidence of indebtedness of any corporation, association, municipal corporation, county or state government, on such terms as may be agreed upon.

320:42 Trust Companies; Real Estate. Amend RSA 392:37 to read as follows:

392:37 Real Estate. Every such [corporation] **trust company** may acquire and hold real estate for its own use, in whole or in part, but its investment in such real estate, exclusive of any real estate which may be taken in good faith for debt or held as collateral security, shall not exceed an amount equal to 50 percent of the sum of its capital and surplus, except with the approval of the commissioner.

320:43 Trust Companies; Prohibited Loans and Purchases. Amend RSA 392:38 to read as follows:

392:38 Prohibited Loans and Purchases. No such [corporation] **trust company** shall make a loan or discount on the security of the shares [~~of its own capital stock~~] **or interests**, nor be the purchaser or holder of such shares **or interests** unless such security or purchase shall be necessary to prevent loss upon a debt previously contracted in good faith; and stock **or interests** so purchased or acquired shall within 6 months after its purchase be sold or disposed of at public or private sale, unless such time is extended by the commissioner.

320:44 Trust Companies; Redemptions. Amend RSA 392:38-a to read as follows:

392:38-a Redemption of Shares **or Interests**. Notwithstanding the provisions of RSA 392:38, any such [corporation] **trust company** which then has more than 500 holders of the shares **or interests** of its own capital stock shall be entitled, with the express written approval of the bank commissioner, to redeem any and all of such shares **or interests** from holders thereof who own in the aggregate 10 shares or less of such stock. Such redemption shall be pursuant to a tender offer, the form of which shall have been approved by the bank commissioner, and all shares **or interests** so redeemed shall be retired within 60 days of the expiration of the tender offer, thereby reducing the authorized capital stock of the [corporation] **trust company**. Within said 60 day period the [corporation] **trust company** shall file with the board of trust company incorporation, as required under RSA 392:27, an appropriate amendment reciting the change in outstanding shares **or interests**.

320:45 New Subdivision; Family Fiduciary Services Companies. Amend RSA 392 by inserting after section 40 the following new subdivision:

Family Fiduciary Services Companies

392:40-a Definitions; Exemption From Certain Laws.

I. For purposes of this subdivision:

(a) "Designated relative" means the individual required to be named in the application under RSA 392:40-b, I(e) requesting an exemption from certain provisions of this chapter pursuant to RSA 392:40-a, III.

(b)(1) "Family member" means the designated relative and:

(A) Any individual within the fifth degree of lineal kinship to the designated relative;

(B) Any individual within the ninth degree of collateral kinship to the designated relative;

(C) The spouse of the designated relative and of any individual qualifying as a family member under subparagraphs (a) and (b);

(D) A company controlled by one or more family members, who shall possess, directly or indirectly, the power to direct or cause the direction of the management and policies of such company, whether through the ownership of voting securities, by contract, or otherwise;

(E) A trust established by a family member or by an individual who is not a family member if non-charitable beneficiaries who are family members represent a majority of interest in the trust;

(F) The estate of a family member; or

(G) A charitable foundation or other charitable entity created by a family member.

(2) For purposes of this subparagraph, a legally adopted individual shall be treated as a natural child of the adoptive parents.

(3) For purposes of this subparagraph, lineal kinship shall mean a family member who is in the direct line of ascent or descent from the designated relative. Collateral kinship shall mean a relationship that is not lineal, but stems from a common ancestor. Degrees are calculated by adding the number of steps from the designated relative through each person to the family member either directly in the case of lineal kinship or through the common ancestor in the case of collateral kinship.

(4) For purposes of this subparagraph, no company, trust, charitable foundation, or other charitable entity shall qualify as a family member if the commissioner determines such entity was organized or operated for the purpose of evading the limitations of RSA 392:40-a, I.

(c) "Transact business with the general public" means engaging in any sales, solicitations, arrangements, agreements, or transactions to provide trust business services, whether or not for a fee, to more than 15 natural persons that are not family members. In order for a person to be eligible to receive such trust business services, the person shall be:

(1) An employee of the family fiduciary services company or of a trust or company that is a family member; and

(2) Engaged principally in providing services to the family fiduciary services company or its fiduciary accounts.

II. A family fiduciary services company engaging in trust business in this state shall comply with all provisions of this chapter applicable to a nondepository trust company, unless

expressly exempted from this chapter by the commissioner pursuant to this section.

III. A family fiduciary services company or proposed family fiduciary services company may request in writing that it be exempted from specified provisions of title 35, including without limitation RSA 383:9, RSA 383:13-a, RSA 384:3, RSA 384:4, RSA 384:7, RSA 384:7-b, RSA 384:43, RSA 390:8, RSA 390:14, RSA 392:6-a, and RSA 392:30. The commissioner may grant or deny the exemption request in whole or in part. The commissioner also may issue rules, orders, or declaratory rulings granting exemptions to all family fiduciary services companies, or to family fiduciary services companies that meet specified conditions.

IV. The commissioner may examine or investigate the family fiduciary services company or proposed family fiduciary services company in connection with the application for exemption. Unless the application presents novel or unusual questions, the commissioner shall approve or deny the application for exemption no later than the 61st day after the date the commissioner considers the application complete and accepted for filing. The commissioner may require the submission of additional information in order to make an informed decision to approve or reject the proposed exemption.

V. Any exemption granted under the provisions of this section may be made subject to conditions or limitations imposed by the commissioner consistent with this subdivision, and those conditions or limitations shall be included in an order.

VI. If an application under this section is approved by the commissioner, the petition of the organizers for a charter for the proposed trust company shall be exempt from the notice, objection, and hearing provisions of RSA 392:6 and RSA 392:6-a, and any petition by a family fiduciary services company under RSA 392:27 shall be decided by the commissioner and exempt from any notice or hearing requirement, except as otherwise ordered in the particular case by the board.

VII. Rules, orders, or declaratory rulings of the commissioner may provide for other circumstances that justify exemption from specific provisions of this chapter or RSA 383, RSA 384, RSA 390 or RSA 392-A, specifying the provisions that are subject to the exemption request, and establishing procedures and requirements for obtaining, maintaining, or revoking exemptions.

392:40-b Requirements to Apply for and Maintain Status as a Family Fiduciary Services Company.

I. A family fiduciary services company or a proposed family fiduciary services company requesting an exemption from the provisions of this chapter pursuant to RSA 392:40-a shall file an application with the commissioner, in the form required by the commissioner, containing, preceded, or accompanied by:

(a) An application fee of \$1,500;

(b) A statement under oath of the reasons for requesting the exemption;

(c) A statement under oath showing that the family fiduciary services company is not currently transacting business with the general public and that the company will not transact business with the general public without the approval of the commissioner;

(d) A listing of the specific provisions of this chapter or RSA 383, RSA 384, RSA 390, or RSA 392-A from which exemption is requested; and

(e) The name of the designated relative whose relationship to other individuals determines whether the individuals are family members under RSA 392:40-a, I(b). The designated

relative must be living and 18 years of age or older at the time the application is made.

II. The commissioner may make further inquiry and investigation as the commissioner deems appropriate. Notwithstanding any other law to the contrary, information bearing on actual or proposed accounts of the family fiduciary services company or proposed family fiduciary services company applying for the exemption or the identity or residence address of the designated relative or any other family member is confidential and not subject to public disclosure.

III. To maintain its status as a family fiduciary services company and to maintain any exemptions from the provisions of this title granted by the commissioner, a family fiduciary services company shall file with the commissioner an annual certification that it is in compliance with the provisions of this subdivision and the conditions and limitations of all exemptions granted. This annual certification shall be filed in the form required by the commissioner and accompanied by a fee of \$100. The annual certification shall be filed on or before December 31 of each year. The commissioner may examine or investigate the family fiduciary services company periodically as necessary to verify the certification.

IV. In any transaction involving a family fiduciary services company for which an application is required under RSA 383, RSA 388, RSA 389 or RSA 389-A, any exemption from the provisions of this chapter granted to the family fiduciary services company shall automatically terminate upon the consummation of the transaction unless the commissioner approves the continuation of the exemption.

V. The commissioner may revoke any exemption from the provisions of this chapter granted to a family fiduciary services company in the following circumstances:

(a) An officer or director of the family fiduciary services company makes a false statement under oath on any document required to be filed by this chapter or by any rules or orders of the commissioner;

(b) The family fiduciary services company fails to submit to an examination by the commissioner as required by law;

(c) An officer or director of the family fiduciary services company withholds requested information from the commissioner;

(d) The family fiduciary services company violates any provision of this subdivision or fails to meet any condition on which the exemption is based; or

(e) The family fiduciary services company refuses to comply with any rule or order of the commissioner.

VI. If the commissioner determines from examination or other credible evidence that a family fiduciary services company has violated any of the requirements of RSA 392:40-a through RSA 392:40-c or fails to meet any condition or limitation on which an exemption from the provisions of this chapter is based, the commissioner may by personal delivery or registered or certified mail, return receipt requested, notify the family fiduciary services company that the family fiduciary services company's exemptions from the provisions of this chapter will be revoked unless the family fiduciary services company corrects the violation or failure or shows cause why any exemptions should not be revoked. The notification shall state grounds for the revocation with reasonable certainty and shall advise of an opportunity for a hearing. The notice shall state the date upon which the revocation shall become effective absent a correction or showing of cause why the exemption should not be revoked, which shall not be before the 30th day after the date the notification is mailed or delivered, except as provided

in paragraph VII. The revocation shall take effect for the family fiduciary services company on the date stated in the notice if the family fiduciary services company does not request a hearing in writing before the effective date. After the revocation takes effect, the family fiduciary services company shall be subject to all of the requirements and provisions of this chapter applicable to a nondepository trust company.

VII. If the commissioner determines from examination or other credible evidence that a family fiduciary services company appears to be engaging or attempting to engage in acts intended, designed, or likely to deceive or defraud the public, the commissioner may shorten or eliminate the 30-day notice period specified in paragraph VI, but shall promptly afford a subsequent hearing upon request to rescind the action taken.

VIII. If the family fiduciary services company does not comply with all of the provisions of this chapter or correct any failure to meet any condition or limitation on which an exemption is based within the notice period specified in paragraph VI, the commissioner may institute any action or remedy prescribed by this chapter or any applicable rule.

392:40-c Conversion to Nondepository Public Trust Company Transacting Business With the General Public.

I. Before transacting business with the general public, a family fiduciary services company shall file a notice on a form prescribed by the commissioner, which shall set forth the name of the family fiduciary services company and an acknowledgment that any exemption granted or otherwise applicable to the family fiduciary services company pursuant to RSA 392:40-a shall cease to apply once the commissioner terminates family fiduciary services company status. The family fiduciary services company shall furnish a copy of the resolution adopted by its board of directors authorizing the family fiduciary services company to commence transacting business with the general public, and shall pay the filing fee, if any, prescribed by rule of the commissioner.

II. The family fiduciary services company may commence transacting business with the general public on the 31st day after the date the commissioner receives the notice, unless the commissioner:

(a) Establishes an earlier or later date;

(b) Notifies the family fiduciary services company that the notice raises issues that require additional information or additional time for analysis; or

(c) Disapproves the termination of family fiduciary services company status.

III. If the commissioner gives a notification described in subparagraph II(b), the family fiduciary services company status may be terminated only on approval by the commissioner.

IV. The commissioner may deny approval of the proposed termination of family fiduciary services company status if the commissioner finds that the family fiduciary services company lacks sufficient resources to undertake the proposed conversion without adversely affecting its safety or soundness or if the commissioner determines that the family fiduciary services company could not within a reasonable period be in compliance with any provision of this chapter from which it previously had been exempted pursuant to RSA 392:40-a. Such determination shall be based on the factors set forth in RSA 392:5, II to the extent applicable.

320:46 Uniform Transfer on Death; Definitions. Amend RSA 563-C:2, V to read as follows:

V. "Registering entity" means a person who originates or transfers a security title by

registration, and includes a broker, **a bank defined in RSA 384-B:1, I, or a national bank or federal savings bank authorized to conduct business in this state** maintaining security accounts for customers and a transfer agent or other person acting for or as an issuer of securities.

320:47 Uniform Trust Code; Definitions. Amend RSA 564-B:1-103(10) to read as follows:

(10) "Power of withdrawal" means a presently exercisable general power of appointment other than a power exercisable by a trustee which is limited by an ascertainable standard [related to a beneficiary trustee's health, education, maintenance, or support,] or which is exercisable by another person only upon consent of the trustee or a person holding an adverse interest.

320:48 New Paragraphs; Uniform Trust Code; Definitions. Amend RSA 564-B:1-103 by inserting after paragraph (21) the following new paragraphs:

(22) "Ascertainable standard" means a standard related to an individual's health, education, support, or maintenance within the meaning of section 2041(b)(1)(A) or 2514(c)(1) of the Internal Revenue Code of 1986, as in effect on the effective date of this chapter, or as later amended.

(23) "Directed trust" means a trust where either through the terms of the trust, an agreement of the beneficiaries, or a court order, one or more persons is given the authority to direct or consent to a fiduciary's actual or proposed investment decision, distribution decision, or any other noninvestment decision of the fiduciary.

(24) "Excluded fiduciary" means any fiduciary excluded by the terms of the trust or by court order from exercising a power, or relieved by the terms of the trust or by court order of a duty, because, by the terms of the trust or by court order, such power or duty is vested in another person.

(25) "Include" and "including" means the same as "include, without limitation" and "including, without limitation" regardless of whether expressly specified.

(26) "Investment company" means an investment company as defined under the federal Investment Company Act of 1940.

(27) "Trust advisor" means any party whose appointment is provided for by the terms of the trust and whose powers are defined in RSA 564-B:12-1203 but excludes any person who does not have the authority to direct or consent to a fiduciary's actual or proposed investment decision, distribution decision, or any other noninvestment decision or who does not have any of the powers identified in RSA 564-B:7-711(c).

(28) "Trust protector" means any disinterested party whose appointment is provided for by the terms of the trust and whose powers are defined in RSA 564-B:12-1203 but excludes any person who does not have the authority to direct or consent to a fiduciary's actual or proposed investment decision, distribution decision, or any other noninvestment decision or who does not have any of the powers identified in RSA 564-B:7-711(b).

320:49 Uniform Trust Code; Default and Mandatory Rules. Amend RSA 564-B:1-105(b)(8)-(13) to read as follows:

(8) [~~the duty under RSA 564-B:8-813 (c) and (d) to provide specified information to certain qualified beneficiaries and others who are treated as qualified beneficiaries of certain irrevocable trusts;~~]

[(9)] the effect of an exculpatory term under RSA 564-B:10-1008;

[(10)] **(9)** the rights under RSA 564-B:10-1010 through RSA 564-B:10-1013 of a person other than a trustee or beneficiary;

[(11)] **(10)** statutory periods of limitation for commencing a judicial proceeding;

[(12)] **(11)** the power of the court to take such action and exercise such jurisdiction as may be necessary in the interests of justice; and

[(13)] **(12)** the subject-matter jurisdiction of the court and venue for commencing a proceeding as provided in RSA 564-B:2-203 and RSA 564-B:2-204.

320:50 New Paragraph; Uniform Trust Code; Authority of Director of Charitable Trusts. Amend RSA 564-B:1-110 by inserting after paragraph (c) the following new paragraph:

(d) No provision of this chapter shall limit the authority of the director of charitable trusts to supervise and control charitable organizations.

320:51 Uniform Trust Code; Nonjudicial Settlement Agreements. Amend RSA 564-B:1-111(d) to read as follows:

(d) Matters that may be resolved by a nonjudicial settlement agreement include **without limitation**:

(1) the interpretation or construction of the terms of the trust;

(2) the approval of a trustee's report or accounting;

(3) direction to a trustee to refrain from performing a particular act or the grant to a trustee of any necessary or desirable power;

(4) the resignation or appointment of a trustee and the determination of a trustee's compensation;

(5) transfer of a trust's principal place of administration; [and]

(6) liability of a trustee for an action relating to the trust[-]; **and**

(7) the termination or modification of a trust.

320:52 Uniform Trust Code; Enforcement by Director of Charitable Trusts. Amend RSA 564-B:4-405(c) to read as follows:

(c) The settlor of a charitable trust **or the director of charitable trusts**, among others, may maintain a proceeding to enforce the trust. In any such proceeding **where the director of charitable trusts is not a party**, the director of charitable trusts shall be joined as a necessary party.

320:53 Uniform Trust Code; Noncharitable Trust Without Ascertainable Beneficiary. Amend RSA 564-B:4-409(1) and (2) to read as follows:

(1) A trust may be created for a noncharitable purpose without a definite or definitely ascertainable beneficiary or for a noncharitable but otherwise valid purpose to be selected by the trustee. [The trust may not be enforced for more than 21 years.]

(2) A trust authorized by this section may be enforced by a **trust advisor, a trust protector, a**

person appointed in the terms of the trust or, if no person is so appointed, by a person appointed by the court.

320:54 Uniform Trust Code; Modification or Termination Because of Unanticipated Circumstances or Inability to Administer Trust Effectively. Amend RSA 564-B:4-412(a) to read as follows:

(a) Upon petition by the trustee or trustees, the director of charitable trusts (*in the case of a charitable trust*) or an interested party other than the settlor, the court may modify the administrative or dispositive terms of a trust or terminate the trust if, because of circumstances not anticipated by the settlor, modification or termination will further the purposes of the trust. To the extent practicable, the modification must be made in accordance with the settlor's probable intention.

320:55 Uniform Trust Code; Discretionary Trusts. Amend RSA 564-B:5-504(b) to read as follows:

(b) Except as otherwise provided in subsection (c) [~~and (d)~~], whether or not a trust contains a spendthrift provision, a creditor of a beneficiary may not compel a distribution that is subject to the trustee's discretion, even if:

(1) the discretion is expressed in the form of a standard of distribution; or

(2) the trustee has abused the discretion.

320:56 Uniform Trust Code; Cotrustees. RSA 564-B:5-504(e) is repealed and reenacted to read as follows:

(e) A creditor or assignee of a beneficiary may not compel a distribution to the beneficiary solely because the beneficiary is a trustee if the beneficiary-trustee does not have the discretion to make or participate in making distributions to himself or herself, if the beneficiary-trustee's discretion to make or participate in making distributions to himself or herself is limited by an ascertainable standard, or if the beneficiary-trustee's discretion to make or participate in making distributions to himself or herself is exercisable only with the consent of a cotrustee or another person holding an adverse interest. Under such circumstances, the creditor or assignee may compel a distribution only to the extent the creditor or assignee otherwise may compel a distribution were the beneficiary not acting as trustee or cotrustee.

320:57 New Paragraph; Uniform Trust Code; Cotrustees. Amend RSA 564-B:7-703 by inserting after paragraph (h) the following new paragraph:

(i) A trustee shall keep each cotrustee and any other fiduciary designated by the terms of the trust reasonably informed about the administration of the trust, to the extent the trustee has knowledge that the other cotrustee or other fiduciary designated by the terms of the trust does not have of the trustee's actions, or regarding other material information (or the availability of such information) related to the administration of the trust that would be reasonably necessary for the cotrustee or other fiduciary designated by the terms of the trust to perform his or her duties as a trustee or other fiduciary of the trust.

320:58 Uniform Trust Code; Compensation of Trustee. Amend RSA 564-B:7-708 to read as follows:

564-B:7-708 Compensation of Trustee.

(a) If the terms of a trust do not specify the trustee's, *trust advisor s*, or *trust protector s* compensation, [a trustee] *each such fiduciary* is entitled to compensation that is reasonable

under the circumstances.

(b) If the terms of a trust specify the trustee's, **trust advisor s, or trust protector s** compensation, [the trustee] **each such fiduciary** is entitled to be compensated as specified, but the court may allow more or less compensation if:

(1) the duties of the trustee, **trust advisor, or trust protector** are substantially different from those contemplated when the trust was created; or

(2) the compensation specified by the terms of the trust would be unreasonably low or high.

320:59 Uniform Trust Code; Reimbursement of Expenses. Amend RSA 564-B:7-709 to read as follows:

564-B:7-709 Reimbursement of Expenses.

(a) A trustee, **trust advisor, or trust protector** is entitled to be reimbursed out of the trust property, with interest as appropriate, for:

(1) expenses that were properly incurred in the administration of the trust; and

(2) to the extent necessary to prevent unjust enrichment of the trust, expenses that were not properly incurred in the administration of the trust.

(b) An advance by the trustee, **trust advisor, or trust protector** of money for the protection of the trust gives rise to a lien against trust property to secure reimbursement with reasonable interest.

320:60 New Sections; Uniform Trust Code; Directed Trusts. Amend RSA 564-B by inserting after section 7-710 the following new sections:

564-B:7-711 Directed Trusts.

(a) If the terms of the trust requires a fiduciary to follow the direction of a trust protector or trust advisor and the fiduciary acts in accordance with such direction, the fiduciary shall be treated as an excluded fiduciary under the provisions of RSA 564-B:12-1206 and RSA 564-B:12-1207.

(b) Any person authorized by the terms of the trust instrument or by court order either to appoint a trust protector or to direct or consent to a fiduciary's actual or proposed decisions other than an investment decision shall be considered to be a trust protector under RSA 564-B:1-103(27).

(c) Any person authorized by the terms of the trust or by court order either to appoint a trust advisor or to direct or consent to a fiduciary's actual or proposed investment decisions shall be considered to be a trust advisor under RSA 564-B:1-103(26).

(d) If a court order requires a fiduciary to follow the direction of a trust protector or trust advisor and the fiduciary acts in accordance with the direction, the fiduciary shall be treated as an excluded fiduciary under the provisions of RSA 564-B:12-1206 and RSA 564-B:12-1207.

564-B:7-712 Vacancy; Directed Trusts.

(a) Except as otherwise provided by the terms of the trust upon obtaining knowledge of a vacancy in the office of trust advisor, the trustee shall be vested with any fiduciary power or

duty that otherwise would be vested in the trustee but that by the terms of the trust was vested in the trust advisor, until such time that a trust advisor is appointed pursuant to the terms of the trust or by a court upon the petition of any interested person.

(b) Except as otherwise provided by the terms of the trust, upon obtaining knowledge of a vacancy in the office of trust protector, the trustee shall petition the court to fill the vacancy if the trustee determines that the terms of the trust require the vacancy to be filled.

(c) Notwithstanding the provisions of subsection (a), a trustee shall not be liable for failing to exercise or assume any power or duty held by a trust advisor and conferred upon the trustee by subsection (a) for the 60 day period immediately following the date the trustee obtains knowledge of such vacancy.

320:61 Uniform Trust Code; Duty of Loyalty. RSA 564-B:8-802(f)-(h) are repealed and reenacted to read as follows:

(f) The following transactions, if fairly priced and in accordance with the interest of the beneficiaries and the purposes of the trust, are not presumed to be affected by a conflict between the trustee's personal and fiduciary interest provided that any investment made pursuant to the transaction otherwise complies with the prudent investor rule of article 9:

(1) an investment by a trustee in securities of an investment company or investment trust to which the trustee, or its affiliate, provides services in a capacity other than as trustee provided that any investment made pursuant to the transaction otherwise complies with the prudent investor rule of Article 9 of RSA 564-B.

(2) the placing of securities transactions by a trustee through a securities broker that is a part of the same company as the trustee, is owned by the trustee, or is affiliated with the trustee;

(3) any loan from the trustee or its affiliate;

(4) an investment in an insurance contract purchased from an insurance agency owned by, or affiliated with, the trustee, or any of its affiliates;

(5) an agreement between a trustee and a beneficiary relating to the appointment or compensation of the trustee, or any of its affiliates;

(6) payment of reasonable compensation to the trustee, or any of its affiliates;

(7) a transaction between a trust and another trust, decedent's estate, guardianship or conservatorship of which the trustee is a fiduciary or in which a beneficiary has an interest;

(8) a deposit of trust money in a financial institution operated by the trustee or an affiliate;

(9) a delegation and any transaction made pursuant to the delegation from a trustee to an agent that is affiliated or associated with the trustee; or

(10) an advance by the trustee of money for the protection of the trust.

(g) If compensation, in addition to the trustee's fees charged to the trust is paid, to the trustee, its affiliate, or associated entity for any transaction or for the provision of services described in subsection (f) the trustee shall at least annually notify the persons that would be entitled under RSA 564-B:8-813 to receive a copy of the trustee's annual report of the rate or method by which the compensation was determined.

(h) In voting shares of stock or in exercising powers of control over similar interests in other

forms of enterprise, the trustee shall act in the best interests of the beneficiaries. If the trust is the sole owner of a corporation or other form of enterprise, the trustee shall elect or appoint directors or other managers who will manage the corporation or enterprise in the best interests of the beneficiaries.

(i) The court may appoint a special fiduciary to make a decision with respect to any proposed transaction that might violate this section if entered into by the trustee.

320:62 Uniform Trust Code; Delegation by Trustee. Amend the introductory paragraph of RSA 564-B:8-807(a) to read as follows:

(a) A trustee may delegate duties, powers and investment and management functions **to any person, even if such person is associated or affiliated with the trustee**, that a prudent trustee of comparable skills could properly delegate under the circumstances. The trustee shall exercise reasonable care, skill, and caution in:

320:63 Uniform Trust Code; Powers to Direct. Amend RSA 564-B:8-808(c) to read as follows:

(c) The terms of a trust may confer upon a trustee or other person a power to direct the modification or termination of the trust.

320:64 New Paragraphs; Uniform Trust Code; Duty to Inform and Report. Amend RSA 564-B:8-813 by inserting after paragraph (i) the following new paragraphs:

(j) If the trustee is bound by any written confidentiality restrictions with respect to an asset of a trust, a trustee may require that any beneficiary who is eligible to receive information pursuant to this section about such asset shall agree in writing to be bound by the confidentiality restrictions that bind the trustee before receiving such information from the trustee.

(k) A trust advisor, trust protector, or other fiduciary designated by the terms of the trust shall keep each excluded fiduciary designated by the terms of the trust reasonably informed about (1) the administration of the trust with respect to any specific duty or function being performed by the trust advisor, trust protector, or other fiduciary to the extent that the duty or function would normally be performed by the excluded fiduciary or to the extent that providing such information to the excluded fiduciary is reasonably necessary for the excluded fiduciary to perform its duties and (2) any other material information that the excluded fiduciary would be required to disclose to the qualified beneficiaries under subsection (b) regardless of whether the terms of the trust relieve the excluded fiduciary from providing such information to qualified beneficiaries. Neither the performance nor the failure to perform of a trust advisor, trust protector, or other fiduciary designated by the terms of the trust as provided in this subsection shall affect the limitation on the liability of the excluded fiduciary provided by RSA 564-B:12-1206 and RSA 564-B:12-1207.

320:65 Uniform Trust Code; Discretionary Powers; Tax Savings. Amend RSA 564-B:8-814(b) (1) to read as follows:

(1) A person other than a settlor who is a beneficiary and trustee of a trust that confers on the trustee a power to make discretionary distributions to or for the trustee's personal benefit may exercise the power only in accordance with an ascertainable standard [~~relating to the trustee's individual health, education, support, or maintenance within the meaning of Section 2041(b)(1)(A) or 2514(c)(1) of the Internal Revenue Code of 1986, as in effect on the effective date of this chapter, or as later amended~~]; and

320:66 Uniform Trust Code; Diversification. Amend RSA 564-B:9-901(b) to read as follows:

(b) The prudent investor rule may be expanded, restricted, eliminated, or otherwise altered by

the terms of the trust except as provided in RSA 564-B:1-105(b)(2) and (3). A trustee is not liable to a beneficiary to the extent that the trustee acted in reasonable reliance on the provisions of the trust ***or court order or determined not to diversify the investments of a trust in good faith in reliance on the express terms of the trust or a court order or pursuant to RSA 564-B:9-903.***

320:67 New Article; Uniform Trust Code. Amend RSA by inserting after article 11 of RSA 564-B the following new article:

ARTICLE 12

TRUST PROTECTORS AND TRUST ADVISORS

564-B:12-1201 Trust Protector. The powers, duties and discretions of a trust protector shall be expressly set forth in the trust instrument and may, in the best interests of the beneficiaries, be exercised or not exercised in the sole and absolute discretion of the trust protector and shall be binding on all other persons. The powers, duties and discretions may include, without limitation, the following:

(a) To modify or amend the trust instrument to achieve favorable tax status or because of changes in the Internal Revenue Code, state law, or the rulings and regulations implementing such changes.

(b) To amend or modify the trust instrument to take advantage of changes in the rule against perpetuities, laws governing restraints on alienation, or other state laws restricting the terms of the trust, the distribution of trust property, or the administration of the trust.

(c) To appoint a successor trust protector.

(d) To review and approve the accountings of a trustee.

(e) To change the governing law or principal place of administration of the trust.

(f) To remove and replace any trust advisor for the reasons stated in the trust instrument.

(g) To remove a trustee, cotrustee, or successor trustee, for the reasons stated in the trust instrument, and appoint a successor.

(h) To consent to a trustee's or cotrustee's action or inaction in making distributions to beneficiaries if this power is not given exclusively to a trust advisor.

(i) To increase or decrease any interest of the beneficiaries in the trust, to grant a power of appointment to one or more trust beneficiaries, or to terminate or amend any power of appointment granted in the trust; however, a modification, amendment or grant of a power of appointment may not grant a beneficial interest in a charitable trust with only charitable beneficiaries to any non-charitable interest or purpose and may not grant a beneficial interest in any trust to the trust protector, the trust protector's estate, or for the benefit of the creditors of the trust protector.

564-B:12-1202 Trust Protector as a Fiduciary. Trust protectors are fiduciaries and the provisions of this chapter applicable to trustees shall be applicable to trust protectors, but only to the extent of the powers, duties and discretions granted to them under the terms of the trust instrument.

564-B:12-1203 Trust Advisor. The powers, duties and discretions of a trust advisor shall be expressly set forth in the trust instrument and may, in the best interests of the beneficiaries,

be exercised or not exercised in the sole and absolute discretion of the trust advisor and shall be binding on all other persons. Such powers, duties and discretions may include, without limitation the following:

- (a) To perform a specific duty or function that would normally be required of a trustee or cotrustee.
- (b) To advise the trustee or cotrustee concerning any beneficiary.
- (c) To consent to a trustee's or cotrustee's action or inaction relating to investments of trust assets.
- (d) To direct the acquisition, disposition, or retention of any trust investment.
- (e) To consent to a trustee's or cotrustee's action or inaction in making distributions to beneficiaries if this power is not given to a trust protector.

564-B:12-1204 Trust Advisor as a Fiduciary. Trust advisors are fiduciaries and the provisions of this chapter applicable to trustees shall be applicable to the trust advisors but only to the extent of the powers, duties, and discretions granted to them under the terms of the trust instrument.

564-B:12-1205 Trust Advisor and Trust Protector Subject to Court Jurisdiction. By accepting appointment to serve as a trust advisor or trust protector, the trust advisor or the trust protector submits to the jurisdiction of the courts of this state even if investment advisory agreements or other related agreements provide otherwise, and the trust advisor or trust protector may be made a party to any action or proceeding relating to a decision, action, or inaction of the trust advisor or trust protector.

564-B:12-1206 Duty to Review Actions of Trust Advisor or Trust Protector. An excluded fiduciary has no duty to review the actions of a trust protector or trust advisor including, without limitation, any duty or responsibility to perform investment reviews and make recommendations with respect to any investments to the extent the trust advisor or trust protector has the duty to direct the acquisition, disposition, or retention of any such investment.

564-B:12-1207 Fiduciary's Liability for Action or Inaction of Trust Advisor and Trust Protector. An excluded fiduciary is not liable for any loss resulting from any action or inaction of a trust advisor or trust protector or for any loss that results from the failure of a trust advisor or trust protector to take any action proposed by the excluded fiduciary that requires authorization of a trust advisor or trust protector if the excluded fiduciary timely sought but failed to obtain that authorization.

320:68 New Chapter; Uniform Principal and Income Act. Amend RSA by inserting after chapter 564-B the following new chapter:

CHAPTER 564-C

UNIFORM PRINCIPAL AND INCOME ACT

Article 1

Definitions and Fiduciary Duties

564-C:1-101 Short Title. This chapter may be cited as the Uniform Principal and Income Act.

564-C:1-102 Definitions. In this chapter:

(1) "Accounting period" means a calendar year unless another 12-month period is selected by a fiduciary. The term includes a portion of a calendar year or other 12-month period that begins when an income interest begins or ends when an income interest ends.

(2) "Beneficiary" includes, in the case of a decedent's estate, an heir, legatee, and devisee and, in the case of a trust, an income beneficiary and a remainder beneficiary.

(3) "Fiduciary" means a personal representative or a trustee. The term includes an executor, administrator, successor personal representative, special administrator and a person performing substantially the same function.

(4) "Income" means money or property that a fiduciary receives as current return from a principal asset. The term includes a portion of receipts from a sale, exchange, or liquidation of a principal asset, to the extent provided in article 4.

(5) "Income beneficiary" means a person to whom net income of a trust is or may be payable.

(6) "Income interest" means the right of an income beneficiary to receive all or part of net income, whether the terms of the trust require it to be distributed or authorize it to be distributed in the trustee's discretion.

(7) "Mandatory income interest" means the right of an income beneficiary to receive net income that the terms of the trust require the fiduciary to distribute.

(8) "Net income" means the total receipts allocated to income during an accounting period minus the disbursements made from income during the period, plus or minus transfers under this chapter to or from income during the period. During any period in which the trust is being administered as a unitrust, either pursuant to the powers conferred by RSA 564-A:3-c or pursuant to the terms of the will or the trust, "net income" means the unitrust amount, if the unitrust amount is no less than 2 percent and no more than 8 percent of the fair market value of the trust assets whether determined annually or averaged on a multiple year basis.

(9) "Person" means an individual, corporation, business trust, estate, trust, partnership, limited liability company, association, joint venture, government, governmental subdivision, agency, or instrumentality, public corporation, or any other legal or commercial entity.

(10) "Principal" means property held in trust for distribution to a remainder beneficiary when the trust terminates.

(11) "Remainder beneficiary" means a person entitled to receive principal when an income interest ends.

(12) "Terms of a trust" means the manifestation of the intent of a settlor or decedent with respect to the trust, expressed in a manner that admits of its proof in a judicial proceeding, whether by written or spoken words or by conduct.

(13) "Trustee" includes an original, additional, or successor trustee, whether or not appointed or confirmed by a court.

(14) "Internal Revenue Code" means the Internal Revenue Code of 1986, as then amended and in effect.

564-C:1-103 Fiduciary Duties; General Principles.

(a) In allocating receipts and disbursements to or between principal and income, and with respect to any matter within the scope of articles 2 and 3, a fiduciary:

(1) shall administer a trust or estate in accordance with the terms of the trust or the will, even if there is a different provision in this chapter;

(2) may administer a trust or estate by the exercise of a discretionary power of administration given to the fiduciary by the terms of the trust or the will, even if the exercise of the power produces a result different from a result required or permitted by this chapter and no inference that the fiduciary has improperly exercised the discretion arises from the fact that the fiduciary has made an allocation contrary to the provisions of this chapter;

(3) shall administer a trust or estate in accordance with this chapter if the terms of the trust or the will do not contain a different provision or do not give the fiduciary a discretionary power of administration; and

(4) shall add a receipt or charge a disbursement to principal to the extent that the terms of the trust and this chapter do not provide a rule for allocating the receipt or disbursement to or between principal and income.

(b) In exercising the power to adjust under RSA 564-C:1-104(a), the power to convert into a unitrust or reconvert or change the unitrust payout percentage pursuant to RSA 564-A:3-c or a discretionary power of administration regarding a matter within the scope of this chapter, whether granted by the terms of a trust, a will, this chapter or other applicable law, a fiduciary shall administer a trust or estate impartially, based on what is fair and reasonable to all of the beneficiaries, except to the extent that the terms of the trust or the will express an intention that the fiduciary shall or may favor one or more of the beneficiaries. The exercise of discretion by a fiduciary in accordance with this chapter is presumed to be fair and reasonable to all of the beneficiaries.

564-C:1-104 Trustee's Power to Adjust.

(a) A trustee may adjust between principal and income to the extent the trustee considers necessary if the trustee invests and manages trust assets as a prudent investor, the terms of the trust describe the amount that may or must be distributed to a beneficiary by referring to the trust's income, and the trustee determines, after applying the rules in RSA 564-C:1-103 (a), that the trustee is unable to comply with RSA 564-C:1-103(b).

(b) In deciding whether and to what extent to exercise the power conferred by subsection (a), a trustee may consider factors to the extent they are relevant to the trust and its beneficiaries, including, but not limited to, the following factors:

(1) the nature, purpose, and expected duration of the trust;

(2) the intent of the settlor;

(3) the identity and circumstances of the beneficiaries;

(4) the needs for liquidity, regularity of income, and preservation and appreciation of capital;

(5) the assets held in the trust; the extent to which they consist of financial assets, interests in closely held enterprises, tangible and intangible personal property, or real property; the extent to which an asset is used by a beneficiary; and whether an asset was purchased by the trustee or received from the settlor;

(6) the net amount allocated to income under the other sections of this chapter and the

increase or decrease in the value of the principal assets, which the trustee may estimate as to assets for which market values are not readily available;

(7) whether and to what extent the terms of the trust give the trustee the power to invade principal or accumulate income or prohibit the trustee from invading principal or accumulating income, and the extent to which the trustee has exercised a power from time to time to invade principal or accumulate income;

(8) the actual and anticipated effect of economic conditions on principal and income and effects of inflation and deflation;

(9) the anticipated tax consequences of an adjustment; and

(10) the investment return under current economic conditions from other portfolios meeting similar fiduciary requirements.

(c) A trustee may not make an adjustment between principal and income:

(1) that diminishes the income interest in a trust that requires all of the income to be paid at least annually to a spouse and for which an estate tax or gift tax marital deduction would be allowed, in whole or in part, if the trustee did not have the power to make the adjustment;

(2) that reduces the actuarial value of the income interest in a trust to which a person transfers property with the intent to qualify for a gift tax exclusion;

(3) that changes the amount payable to a beneficiary as a fixed annuity or a fixed fraction of the value of the trust assets;

(4) from any amount that is permanently set aside for charitable purposes under a will or the terms of a trust unless both income and principal are so set aside;

(5) if possessing or exercising the power to make an adjustment causes an individual to be treated as the owner of all or part of the trust for income tax purposes, and the individual would not be treated as the owner if the trustee did not possess the power to make an adjustment;

(6) if possessing or exercising the power to make an adjustment causes all or part of the trust assets to be included for estate tax purposes in the estate of an individual who has the power to remove a trustee or appoint a trustee, or both, and the assets would not be included in the estate of the individual if the trustee did not possess the power to make an adjustment;

(7) if the trustee is a beneficiary of the trust; or

(8) if the trust is being administered as a unitrust pursuant to the trustee's exercise of the power to convert to a unitrust provided in RSA 564-A:3-c or pursuant to the terms of the will or the terms of the trust.

(d) If subsection (c)(5), (6), or (7) applies to a trustee and there is more than one trustee, the other cotrustee (if there is only one) or a majority of the other cotrustees (if there is more than one) to whom the provision does not apply may make the adjustment unless the exercise of the power by the remaining trustee or trustees is not permitted by the terms of the trust.

(e) A trustee may release the entire power conferred by subsection (a) or may release only the power to adjust from income to principal or the power to adjust from principal to income if the trustee is uncertain about whether possessing or exercising the power will cause a result

described in subsection (c)(1) through (6) or if the trustee determines that possessing or exercising the power will or may deprive the trust of a tax benefit or impose a tax burden not described in subsection (c). The release may be permanent or for a specified period, including a period measured by the life of an individual.

(f) Terms of a trust that limit the power of a trustee to make an adjustment between principal and income do not affect the application of this section unless it is clear from the terms of the trust that the terms are intended to deny the trustee the power of adjustment conferred by subsection (a).

(g) Nothing in this section or chapter is intended to create or imply a duty to make an adjustment, and a fiduciary is not liable for not considering whether to make an adjustment or for choosing not to make an adjustment.

(h) A trustee may give notice of a proposed action regarding a matter governed by this section as provided in this subsection. For purposes of this subsection, a proposed action includes a course of action and a determination not to take action. For purposes of this subsection, the representation rules of article 3 of RSA 564-B shall apply.

(1) The trustee shall mail notice of the proposed action to all qualified beneficiaries (as defined in RSA 564-B:1-103(12)) who are adults and to those persons who have the rights of a qualified beneficiary with respect to the trust under RSA 564-B:1-110. Notice may be given to any other beneficiary. Notice of the proposed action need not be given to any person who consents in writing to the proposed action. The consent may be executed at any time before or after the proposed action is taken.

(2) The notice of proposed action must state that it is given pursuant to this paragraph and must contain the following:

(A) the name and mailing address of the trustee;

(B) the name and telephone number of a person who may be contacted for additional information;

(C) a description of the action proposed to be taken and an explanation of the reasons for the action;

(D) the time within which objections to the proposed action can be made, which must be at least 30 days from the mailing of the notice of proposed action;

(E) the date on or after which the proposed action may be taken or is effective;

(F) a statement that the beneficiary or person who has the rights of the beneficiary may petition for a judicial determination of the proposed action; and

(G) a form on which consent or objection to the proposed action may be indicated.

(3) A beneficiary or a person who has the rights of a qualified beneficiary may object to the proposed action by mailing a written objection to the trustee at the address stated in the notice of proposed action within the time period specified in the notice of proposed action.

(4) If a trustee does not receive a written objection to the proposed action from the beneficiary within the applicable period, the trustee is not liable for the action to a beneficiary if:

(A) notice is mailed to the beneficiary, or a person who may represent and bind the

beneficiary under the provisions of article 3 of RSA 564-B or the person who has the rights of a qualified beneficiary at the address determined by the trustee after reasonable diligence;

(B) the beneficiary or a person who may represent and bind the beneficiary under the provisions of article 3 of RSA 564-B or the person who has the rights of a qualified beneficiary receives actual notice; or

(C) the beneficiary or a person who may represent and bind the beneficiary under the provisions of article 3 of RSA 564-B or the person who has the rights of a qualified beneficiary consents in writing to the proposed action either before or after the action is taken.

(5) If the trustee receives a written objection within the applicable time period, either the trustee, a beneficiary or a person who has the rights of a qualified beneficiary may petition the court to have the proposed action performed as proposed, performed with modifications, or denied. In the proceeding, a beneficiary objecting to the proposed action or a person who has the rights of a qualified beneficiary objecting to the proposed action has the burden of proof as to whether the trustee's proposed action should not be performed. A beneficiary who has not objected or a person who has the rights of a qualified beneficiary who has not objected is not estopped from opposing the proposed action in the proceeding. If the trustee decides not to implement the proposed action, the trustee shall notify the qualified beneficiaries of the trust who are adults and those persons who have the rights of a qualified beneficiary of the decision not to take the action and the reasons for the decision, and the trustee's decision not to implement the proposed action does not itself give rise to liability to any current or future beneficiary. A beneficiary or a person who has the rights of a qualified beneficiary may petition the court to have the action performed and has the burden of proof as to whether it should be performed.

(6) Nothing in this subsection limits the right of a trustee or beneficiary to petition the court pursuant to RSA 564-C:1-105 for instructions as to any action, failure to act, or determination not to act regarding a matter governed by this section in the absence of notice as provided in this subsection. In any such proceeding, any beneficiary filing such a petition or objecting to a petition of the trustee has the burden of proof as to any action taken, any failure to act, or determination not to act, by the trustee.

(i) Following the exercise of the power conferred by subsection (a) to adjust from principal to income, the trustee shall consider in the following order:

(1) the amount so adjusted as paid from ordinary income for federal income tax purposes to the extent not allocable to net accounting income;

(2) the amount so adjusted, after calculating the trust's capital gain net income described in section 1222(9) of the Internal Revenue Code, as paid from net short-term capital gain described in section 1222(5) of the Internal Revenue Code, and then from net long-term capital gain described in section 1222(7) of the Internal Revenue Code; and

(3) any remaining amount so adjusted as coming from the principal of the trust.

564-C:1-105 Judicial Control of Discretionary Power.

(a) The court may not order a fiduciary to change a decision to exercise or not to exercise a discretionary power conferred by this chapter unless it determines that the decision was an abuse of the fiduciary's discretion. A fiduciary's decision is not an abuse of discretion merely because the court would have exercised the power in a different manner or would not have exercised the power.

(b) The decisions to which subsection (a) applies include:

(1) a decision under RSA 564-C:1-104(a) as to whether and to what extent an amount should be transferred from principal to income or from income to principal.

(2) A decision regarding the factors that are relevant to the trust and its beneficiaries, the extent to which the factors are relevant, and the weight, if any, to be given to those factors, in deciding whether and to what extent to exercise the discretionary power conferred by RSA 564-C:1-104(a).

(c) If the court determines that a fiduciary has abused the fiduciary's discretion, the court may place the income and remainder beneficiaries in the positions they would have occupied if the discretion had not been abused as equity requires, according to the following guidelines:

(1) to the extent that the abuse of discretion has resulted in no distribution to a beneficiary or in a distribution that is too small, the court may order the fiduciary to distribute from the trust to the beneficiary an amount that the court determines will restore the beneficiary, in whole or in part, to the beneficiary's appropriate position.

(2) to the extent that the abuse of discretion has resulted in a distribution to a beneficiary which is too large, the court may place the beneficiaries, the trust, or both, in whole or in part, in their appropriate positions by ordering the fiduciary to withhold an amount from one or more future distributions to the beneficiary who received the distribution that was too large or ordering that beneficiary to return some or all of the distribution to the trust.

(3) to the extent that the court is unable, after applying subsection (c)(1) and (2), to place the beneficiaries, the trust, or both, in the positions they would have occupied if the discretion had not been abused, the court may order the fiduciary to pay an appropriate amount from its own funds to one or more of the beneficiaries or the trust or both.

(d) A fiduciary may petition the court having jurisdiction over a trust or estate for a determination by the court whether a proposed exercise or nonexercise of a discretionary power conferred by this chapter will result in an abuse of discretion. If the petition describes the proposed exercise or nonexercise of the power and contains sufficient information to inform the beneficiaries of the reasons for the proposal, the facts upon which the fiduciary relies, and an explanation of how the income and remainder beneficiaries will be affected by the proposed exercise or nonexercise of the power, a beneficiary who challenges the proposed exercise or nonexercise has the burden of establishing that it will result in an abuse of discretion.

(e) A fiduciary shall be reimbursed for any and all costs, including without limitation all attorneys' fees and costs of defense, and all liabilities that the fiduciary may incur in connection with any claim or action relating in any way to the fiduciary's exercise of its discretion under this chapter, except to the extent that the beneficiary establishes that the fiduciary did not exercise its discretion in good faith and with honest judgment. All attorneys' fees and costs shall be advanced to the fiduciary as incurred and shall only be collected from the fiduciary after it has been determined that the fiduciary did not exercise its discretion in good faith and with honest judgment.

Article 2

Decedent's Estate or Terminating Income Interest

564-C:2-201 Determination and Distribution of Net Income. After a decedent dies, in the case of an estate, or after an income interest in a trust ends, the following rules apply:

(1) A fiduciary of an estate or of a terminating income interest shall determine the amount of net income and net principal receipts received from property specifically given to a beneficiary under the rules in articles 3 through 5 which apply to trustees and the rules in subsection (5). The fiduciary shall distribute the net income and net principal receipts to the beneficiary who is to receive the specific property.

(2) A fiduciary shall determine the remaining net income of a decedent's estate or a terminating income interest under the rules in articles 3 through 5 which apply to trustees and by:

(A) including in net income all income from property used to discharge liabilities;

(B) paying from income or principal, in the fiduciary's discretion, fees of attorneys, accountants, and fiduciaries; court costs and other expenses of administration; and interest on death taxes, but the fiduciary may pay those expenses from income of property passing to a trust for which the fiduciary claims an estate tax marital or charitable deduction only to the extent that the payment of those expenses from income will not cause the reduction or loss of the deduction; and

(C) paying from principal all other disbursements made or incurred in connection with the settlement of a decedent's estate or the winding up of a terminating income interest, including debts, funeral expenses, disposition of remains, family allowances, and death taxes and related penalties that are apportioned to the estate or terminating income interest by the will, the terms of the trust, or applicable law.

(3) A fiduciary shall distribute to a beneficiary who receives a pecuniary amount outright the interest or any other amount provided by the will or the terms of the trust from net income determined under subsection (2) or from principal to the extent that net income is insufficient. If a beneficiary is to receive a pecuniary amount outright and no interest or other amount is provided for by the will or by the terms of the trust then, if the pecuniary amount is not distributed to the beneficiary within one year of the date of death of the testator or the date the income interest ends, the fiduciary shall distribute to the beneficiary interest at the rate prescribed in RSA 336:1, II.

(4) A fiduciary shall distribute the net income remaining after distributions required by subsection (3) in the manner described in RSA 564-C:2-202 to all other beneficiaries, including a beneficiary who receives a pecuniary amount in trust, even if the beneficiary holds an unqualified power to withdraw assets from the trust or other presently exercisable general power of appointment over the trust.

(5) A fiduciary may not reduce principal or income receipts from property described in subsection (1) because of a payment described in RSA 564-C:5-501 or RSA 564-C:5-502 to the extent that the will, the terms of the trust, or applicable law requires the fiduciary to make the payment from assets other than the property or to the extent that the fiduciary recovers or expects to recover the payment from a third party. The net income and principal receipts from the property are determined by including all of the amounts the fiduciary receives or pays with respect to the property, whether those amounts accrued or became due before, on, or after the date of a decedent's death or an income interest's terminating event, and by making a reasonable provision for amounts that the fiduciary believes the estate or terminating income interest may become obligated to pay after the property is distributed.

564-C:2-202 Distribution to Residuary and Remainder Beneficiaries.

(a) Each beneficiary described in RSA 564-C:2-201(4) is entitled to receive a portion of the net income equal to the beneficiary's fractional interest in undistributed principal assets, using

values as of the distribution date. If a fiduciary makes more than one distribution of assets to beneficiaries to whom this section applies, each beneficiary, including one who does not receive part of the distribution, is entitled, as of each distribution date, to the net income the fiduciary has received after the date of death or terminating event or earlier distribution date but has not distributed as of the current distribution date.

(b) In determining a beneficiary's share of net income, the following rules apply:

(1) The beneficiary is entitled to receive a portion of the net income equal to the beneficiary's fractional interest in the undistributed principal assets immediately before the distribution date, including assets that later may be sold to meet principal obligations.

(2) The beneficiary's fractional interest in the undistributed principal assets must be calculated without regard to property specifically given to a beneficiary and property required to pay pecuniary amounts not in trust.

(3) The beneficiary's fractional interest in the undistributed principal assets must be calculated on the basis of the aggregate value of those assets as of the distribution date without reducing the value by any unpaid principal obligation.

(4) The distribution date for purposes of this section may be the date as of which the fiduciary calculates the value of the assets if that date is reasonably near the date on which assets are actually distributed.

(c) If a fiduciary does not distribute all of the collected but undistributed net income to each beneficiary as of a distribution date, the fiduciary shall maintain appropriate records showing the interest of each beneficiary in that net income.

(d) A fiduciary may apply the rules in this section, to the extent that the fiduciary considers it appropriate, to net gain or loss realized after the date of death or terminating event or earlier distribution date from the disposition of a principal asset if this section applies to the income from the asset.

Article 3

Apportionment at Beginning and End Of Income Interest

564-C:3-301 When Right to Income Begins and Ends.

(a) An income beneficiary is entitled to net income from the date on which the income interest begins. An income interest begins on the date specified in the terms of the trust or, if no date is specified, on the date an asset becomes subject to a trust or successive income interest.

(b) An asset becomes subject to a trust:

(1) on the date it is transferred to the trust in the case of an asset that is transferred to a trust during the transferor's life;

(2) on the date of a testator's death in the case of an asset that becomes subject to a trust by reason of a will, even if there is an intervening period of administration of the testator's estate; or

(3) on the date of an individual's death in the case of an asset that is transferred to a fiduciary by a third party because of the individual's death.

(c) An asset becomes subject to a successive income interest on the day after the preceding

income interest ends, as determined under subsection (d), even if there is an intervening period of administration to wind up the preceding income interest.

(d) An income interest ends on the day before an income beneficiary dies or another terminating event occurs, or on the last day of a period during which there is no beneficiary to whom a trustee may distribute income.

564-C:3-302 Apportionment of Receipts and Disbursements when Decedent Dies or Income Interest Begins.

(a) A trustee shall allocate an income receipt or disbursement other than one to which RSA 564-C:2-201(1) applies to principal if its due date occurs before a decedent dies in the case of an estate or before an income interest begins in the case of a trust or successive income interest.

(b) A trustee shall allocate an income receipt or disbursement to income if its due date occurs on or after the date on which a decedent dies or an income interest begins and it is a periodic due date. An income receipt or disbursement must be treated as accruing from day to day if its due date is not periodic or it has no due date. The portion of the receipt or disbursement accruing before the date on which a decedent dies or an income interest begins must be allocated to principal and the balance must be allocated to income.

(c) An item of income or an obligation is due on the date the payer is required to make a payment. If a payment date is not stated, there is no due date for the purposes of this chapter. Distributions to shareholders or other owners from an entity to which RSA 564-C:4-401 applies are deemed to be due on the date fixed by the entity for determining who is entitled to receive the distribution or, if no date is fixed, on the declaration date for the distribution. A due date is periodic for receipts or disbursements that must be paid at regular intervals under a lease or an obligation to pay interest or if an entity customarily makes distributions at regular intervals.

564-C:3-303 Apportionment when Income Interest Ends.

(a) In this section, "undistributed income" means net income received before the date on which an income interest ends. The term does not include an item of income or expense that is due or accrued or net income that has been added or is required to be added to principal under the terms of the trust.

(b) Except as provided in subsection (c), when a mandatory income interest ends, the trustee shall pay to a mandatory income beneficiary who survives that date, or the estate of a deceased mandatory income beneficiary whose death causes the interest to end, the beneficiary's share of the undistributed income that is not disposed of under the terms of the trust.

(c) If immediately before the income interest ends the beneficiary described in subsection (b) has an unqualified power to revoke more than 5 percent of the trust, the undistributed income from the portion of the trust that may be revoked must be added to principal.

(d) When a trustee's obligation to pay a fixed annuity or a fixed fraction of the value of the trust's assets ends, the trustee shall prorate the final payment if and to the extent required by applicable law to accomplish a purpose of the trust or its settlor relating to income, gift, estate, or other tax requirements.

Allocation of Receipts During Administration of Trust

Part 1

Receipts from Entities

564-C:4-401 Character of Receipts.

(a) In this section, "entity" means a corporation, partnership, limited liability company, regulated investment company, real estate investment trust, common trust fund, or any other organization in which a trustee has an interest other than a trust or estate to which RSA 564-C:4-402 applies, a business or activity to which RSA 564-C:4-403 applies, or an asset-backed security to which RSA 564-C:4-415 applies.

(b) Except as otherwise provided in this section, a trustee shall allocate to income money received from an entity.

(c) A trustee shall allocate the following receipts from an entity to principal:

(1) property other than money;

(2) money received in one distribution or a series of related distributions in exchange for part or all of a trust's interest in the entity;

(3) money received in total or partial liquidation of the entity; and

(4) money received from an entity that is a regulated investment company or a real estate investment trust if the money distributed is a capital gain dividend for federal income tax purposes.

(d) For purposes of subsection (c)(3):

(1) money is received in partial liquidation:

(A) to the extent that the entity, at or near the time of a distribution, indicates that it is a distribution in partial liquidation; or

(B) if the total amount of money and property received in a distribution or series of related distributions is greater than 20 percent of the entity's gross assets, as shown by the entity's year end financial statements immediately preceding the initial receipt.

(2) money is not received in partial liquidation, nor may it be taken into account under subsection (d)(1)(B), to the extent that it does not exceed the amount of income tax that a trustee or beneficiary must pay on taxable income of the entity that distributes the money.

(e) A trustee may rely upon a statement made by an entity about the source or character of a distribution if the statement is made by the entity's board of directors or other person or group of persons authorized to exercise powers to pay money or transfer property comparable to those of a corporation's board of directors.

564-C:4-402 Distribution from Trust or Estate. A trustee shall allocate to income an amount received as a distribution of income from a trust or an estate in which the trust has an interest other than a purchased interest, and shall allocate to principal an amount received as a distribution of principal from such a trust or estate. If a trustee purchases an interest in a trust that is an investment entity, or a decedent or donor transfers an interest in such a trust to a trustee, RSA 564 C:4-401 or RSA 564-C:4-415 applies to a receipt from the trust.

564-C:4-403 Business and Other Activities Conducted by Trustee.

(a) If a trustee who conducts a business or other activity determines that it is in the best interest of all the beneficiaries to account separately for the business or activity instead of accounting for it as part of the trust's general accounting records, the trustee may maintain separate accounting records for its transactions, whether or not its assets are segregated from other trust assets.

(b) A trustee who accounts separately for a business or other activity may determine the extent to which its net cash receipts must be retained for working capital, the acquisition or replacement of fixed assets, and other reasonably foreseeable needs of the business or activity, and the extent to which the remaining net cash receipts are accounted for as principal or income in the trust's general accounting records. If a trustee sells assets of the business or other activity, other than in the ordinary course of the business or activity, the trustee shall account for the net amount received as principal in the trust's general accounting records to the extent the trustee determines that the amount received is no longer required in the conduct of the business.

(c) Activities for which a trustee may maintain separate accounting records include:

- (1) retail, manufacturing, service, and other traditional business activities;
- (2) farming;
- (3) raising and selling livestock and other animals;
- (4) management of rental properties;
- (5) extraction of minerals and other natural resources;
- (6) timber operations; and
- (7) activities to which RSA 564-C:4-414 applies.

Part 2

Receipts Not Normally Apportioned

564-C:4-404 Principal Receipts. A trustee shall allocate to principal:

- (1) To the extent not allocated to income under this chapter, assets received from a transferor during the transferor's lifetime, a decedent's estate, a trust with a terminating income interest, or a payer under a contract naming the trust or its trustee as beneficiary;
- (2) Subject to any contrary rules set forth in articles 4 or 5 of this chapter, money or other property received from the sale, exchange, liquidation, or change in form of a principal asset, including realized profit, subject to this article;
- (3) Amounts recovered from third parties to reimburse the trust because of disbursements described in RSA 564-C:5-502(a)(7) or for other reasons to the extent not based on the loss of income;
- (4) Proceeds of property taken by eminent domain, but a separate award made for the loss of income with respect to an accounting period during which a current income beneficiary had a mandatory income interest is income;
- (5) Net income received in an accounting period during which there is no beneficiary to whom

a trustee may or must distribute income; and

(6) Other receipts as provided in part 3.

564-C:4-405 Rental Property. To the extent that a trustee accounts for receipts from rental property pursuant to this section and not as provided in RSA 564-C:4-403, the trustee shall allocate to income an amount received as rent of real or personal property, including an amount received for cancellation or renewal of a lease. An amount received as a refundable deposit, including a security deposit or a deposit that is to be applied as rent for future periods, must be added to principal and held subject to the terms of the lease and is not available for distribution to a beneficiary until the trustee's contractual obligations have been satisfied with respect to that amount.

564-C:4-406 Obligation to Pay Money.

(a) An amount received as interest, whether determined at a fixed, variable, or floating rate, on an obligation to pay money to the trustee, including an amount received as consideration for prepaying principal, must be allocated to income without any provision for amortization of premium.

(b) An amount received from the sale, redemption, or other disposition of an obligation to pay money to the trustee more than one year after it is purchased or acquired by the trustee, including an obligation whose purchase price or value when it is acquired is less than its value at maturity, must be allocated to principal. If the obligation matures within one year after it is purchased or acquired by the trustee, an amount received in excess of its purchase price or its value when acquired by the trust must be allocated to income.

(c) This section does not apply to an obligation to which RSA 564-C:4-409, 410, 411, 412, 414, or 415 applies.

564-C:4-407 Insurance Policies and Similar Contracts.

(a) Except as otherwise provided in subsection (b), a trustee shall allocate to principal the proceeds of a life insurance policy or other contract in which the trust or its trustee is named as beneficiary, including a contract that insures the trust or its trustee against loss for damage to, destruction of, or loss of title to a trust asset. The trustee shall allocate dividends on an insurance policy to income if the premiums on the policy are paid from income, and to principal if the premiums are paid from principal.

(b) A trustee shall allocate to income proceeds of a contract that insures the trustee against loss of occupancy or other use by an income beneficiary, loss of income, or, subject to RSA 564-C:4-403, loss of profits from a business.

(c) This section does not apply to a contract to which RSA 564-C:4-409 applies.

Part 3

Receipts Normally Apportioned

564-C:4-408 Insubstantial Allocations Not Required.

(a) If a trustee determines that an allocation between principal and income required by RSA 564-C:4-409, 410, 411, 412, or 415 is insubstantial, the trustee may allocate the entire amount to principal unless one of the circumstances described in RSA 564-C:1-104(c) applies to the allocation. This power may be exercised by a cotrustee in the circumstances described in RSA 564-C:1-104(d) and may be released for the reasons and in the manner described in

RSA 564-C:1-104(e).

(b) An allocation is presumed to be insubstantial if:

(1) the amount of the allocation would increase or decrease net income in an accounting period, as determined before the allocation, by less than 10 percent; or

(2) the value of the asset producing the receipt for which the allocation would be made is less than 10 percent of the total value of the trust's assets at the beginning of the accounting period.

(c) Nothing in this section imposes a duty on the trustee to make an allocation under this section, and the trustee is not liable for failing to make an allocation under this section regardless of whether or not the trustee has made allocations under this section in the past.

564-C:4-409 Deferred Compensation, Annuities, and Similar Payments.

(a) In this section, "payment" means a payment that a trustee may receive over a fixed number of years or during the life of one or more individuals because of services rendered or property transferred to the payer in exchange for future payments. The term includes a payment made in money or property from the payer's general assets or from a separate fund created by the payer, including a private or commercial annuity, an individual retirement account, and a pension, profit-sharing, stock-bonus, or stock-ownership plan.

(b) To the extent that a payment is characterized as interest or a dividend or a payment made in lieu of interest or a dividend, a trustee shall allocate it to income. The trustee shall allocate to principal the balance of the payment and any other payment received in the same accounting period that is not characterized as interest, a dividend, or an equivalent payment.

(c) If no part of a payment is characterized as interest, a dividend, or an equivalent payment, and all or part of the payment is required to be made, a trustee shall allocate to income 10 percent of the part that is required to be made during the accounting period and the balance to principal. If no part of a payment is required to be made or the payment received is the entire amount to which the trustee is entitled, the trustee shall allocate the entire payment to principal. For purposes of this subsection, a payment is not "required to be made" to the extent that it is made because the trustee exercises a right of withdrawal.

(d) If, to obtain an estate tax marital deduction for a trust, a trustee must allocate more of a payment to income than provided for by this section, the trustee shall allocate to income the additional amount necessary to obtain the marital deduction.

(e) This section does not apply to payments to which RSA 564-C:4-410 applies.

564-C:4-410 Liquidating Asset.

(a) In this section, "liquidating asset" means an asset whose value will diminish or terminate because the asset is expected to produce receipts for a period of limited duration. The term includes a leasehold, patent, copyright, royalty right, and right to receive payments under an arrangement that does not provide for the payment of interest on the unpaid balance. The term does not include a payment subject to RSA 564-C:4-409, resources subject to RSA 564-C:4-411, timber subject to RSA 564-C:4-412, an activity subject to RSA 564-C:4-414, an asset subject to RSA 564-C:4-415, or any asset for which the trustee establishes a reserve for depreciation under RSA 564-C:5-503.

(b) A trustee shall allocate to income 10 percent of the receipts from a liquidating asset and

the balance to principal.

564-C:4-411 Minerals, Water, and Other Natural Resources.

(a) To the extent that a trustee accounts for receipts from an interest in minerals or other natural resources pursuant to this section, the trustee shall allocate them as follows:

(1) if received as a nominal bonus, nominal delay rental or nominal annual rent on a lease, a receipt must be allocated to income.

(2) if received from a production payment, a receipt must be allocated to income if and to the extent that the agreement creating the production payment provides a factor for interest or its equivalent. The balance must be allocated to principal.

(3) if an amount received as a royalty, shut-in-well payment, take-or-pay payment, bonus, or delay rental is more than nominal, 90 percent must be allocated to principal and the balance to income.

(4) if an amount is received from a working interest or any other interest not provided for in subsection (1), (2), or (3), 90 percent of the net amount received must be allocated to principal and the balance to income.

(b) An amount received on account of an interest in water that is renewable must be allocated to income. If the water is not renewable, 90 percent of the amount must be allocated to principal and the balance to income.

(c) This chapter applies whether or not a decedent or donor was extracting minerals, water, or other natural resources before the interest became subject to the trust.

(d) If a trust owns an interest in minerals, water, or other natural resources on the effective date of this chapter, the trustee may allocate receipts from the interest as provided in this chapter or in the manner used by the trustee before the effective date of this chapter. If the trust acquires an interest in minerals, water, or other natural resources after the effective date of this chapter, the trustee shall allocate receipts from the interest as provided in this chapter.

564-C:4-412 Timber.

(a) To the extent that a trustee accounts for receipts from the sale of timber and related products pursuant to this section, the trustee shall allocate the net receipts:

(1) to income to the extent that the amount of timber removed from the land does not exceed the rate of growth of the timber during the accounting periods in which a beneficiary has a mandatory income interest;

(2) to principal to the extent that the amount of timber removed from the land exceeds the rate of growth of the timber or the net receipts are from the sale of standing timber;

(3) to or between income and principal if the net receipts are from the lease of timberland or from a contract to cut timber from land owned by a trust, by determining the amount of timber removed from the land under the lease or contract and applying the rules in subsections (a) (1) and (2); or

(4) to principal to the extent that advance payments, bonuses, and other payments are not allocated pursuant to subsections (a)(1), (2), or (3).

(b) In determining net receipts to be allocated pursuant to subsection (a), a trustee shall

deduct and transfer to principal a reasonable amount for depletion.

(c) This chapter applies whether or not a decedent or transferor was harvesting timber from the property before it became subject to the trust.

(d) If a trust owns an interest in timber land on the effective date of this chapter, the trustee may allocate net receipts from the sale of timber and related products as provided in this chapter or in the manner used by the trustee before the effective date of this chapter. If the trust acquires an interest in timber land after the effective date of this chapter, the trustee shall allocate net receipts from the sale of timber and related products as provided in this chapter.

564-C:4-413 Property Not Productive of Income.

(a) If a marital deduction is allowed for all or part of a trust whose assets consist substantially of property that does not provide the spouse with sufficient income from or use of the trust assets, and if the amounts that the trustee transfers from principal to income under RSA 564-C:1-104 and distributes to the spouse from principal pursuant to the terms of the trust are insufficient to provide the spouse with the beneficial enjoyment required to obtain the marital deduction, the spouse may require the trustee within a reasonable time from being notified by the spouse to make property productive of income, convert property within a reasonable time or exercise the power conferred by RSA 564-C:1-104(a). The trustee may decide which action or combination of actions set forth above to take without regard to the specific action or actions requested by the spouse, if any.

(b) In cases not governed by subsection (a), proceeds from the sale or other disposition of an asset are principal without regard to the amount of income the asset produces during any accounting period.

564-C:4-414 Derivatives and Options.

(a) In this section, "derivative" means a contract or financial instrument or a combination of contracts and financial instruments which gives a trust the right or obligation to participate in some or all changes in the price of a tangible or intangible asset or group of assets, or changes in a rate, an index of prices or rates, or other market indicator for an asset or a group of assets.

(b) To the extent that a trustee does not account under RSA 564-C:4-403 for transactions in derivatives, the trustee shall allocate to principal receipts from and disbursements made in connection with those transactions.

(c) If a trustee grants an option to buy property from the trust, whether or not the trust owns the property when the option is granted, grants an option that permits another person to sell property to the trust, or acquires an option to buy property for the trust or an option to sell an asset owned by the trust, and the trustee or other owner of the asset is required to deliver the asset if the option is exercised, an amount received for granting the option must be allocated to principal. An amount paid to acquire the option must be paid from principal. A gain or loss realized upon the exercise of an option, including an option granted to a settlor of the trust for services rendered, must be allocated to principal.

564-C:4-415 Asset-Backed Securities.

(a) In this section, "asset-backed security" means an asset whose value is based upon the right it gives the owner to receive distributions from the proceeds of financial assets that provide collateral for the security. The term includes an asset that gives the owner the right to

receive from the collateral financial assets only the interest or other current return or only the proceeds other than interest or current return. The term does not include an asset to which RSA 564-C:4-401 or RSA 564 C:4-409 applies.

(b) If a trust receives a payment from interest or other current return and from other proceeds of the collateral financial assets, the trustee shall allocate to income the portion of the payment which the payer identifies as being from interest or other current return and shall allocate the balance of the payment to principal.

(c) If a trust receives one or more payments in exchange for the trust's entire interest in an asset-backed security in one accounting period, the trustee shall allocate the payments to principal. If a payment is one of a series of payments that will result in the liquidation of the trust's interest in the security over more than one accounting period, the trustee shall allocate 10 percent of the payment to income and the balance to principal.

Article 5

Allocation of Disbursements During Administration of Trust

564-C:5-501 Disbursements from Income. A trustee shall make the following disbursements from income to the extent that they are not disbursements to which RSA 564-C:2-201(2)(B) or (C) applies:

(a) So much of the compensation of the trustee and of any person providing investment advisory or custodial services to the trustee, and expenses for accounting, judicial proceedings, or other matters that involve the income and remainder interests as shall be determined by the trustee.

(b) All of the other ordinary expenses incurred in connection with the administration, management, or preservation of trust property and the distribution of income, including interest, ordinary repairs, regularly recurring taxes assessed against principal, and expenses of a proceeding or other matter that concerns primarily the income interest; and

(c) Recurring premiums on insurance covering the loss of a principal asset or the loss of income from or use of the asset.

564-C:5-502 Disbursements from Principal.

(a) A trustee shall make the following disbursements from principal:

(1) the remaining 1/2 of the disbursements described in RSA 564-C:5-501(1) and (2) except as otherwise ordered by court;

(2) all of the trustee's compensation calculated on principal as a fee for acceptance, distribution, or termination, and disbursements made to prepare property for sale;

(3) payments on the principal of a trust debt;

(4) expenses of a proceeding that concerns primarily principal, including a proceeding to construe the trust or to protect the trust or its property;

(5) premiums paid on a policy of insurance not described in RSA 564-C:5-501(4) of which the trust is the owner and beneficiary;

(6) estate, inheritance, and other transfer taxes, including penalties, apportioned to the trust; and

(7) disbursements related to environmental matters, including reclamation, assessing environmental conditions, remedying and removing environmental contamination, monitoring remedial activities and the release of substances, preventing future releases of substances, collecting amounts from persons liable or potentially liable for the costs of those activities, penalties imposed under environmental laws or regulations and other payments made to comply with those laws or regulations, statutory or common law claims by third parties, and defending claims based on environmental matters.

(b) If a principal asset is encumbered with an obligation that requires income from that asset to be paid directly to the creditor, the trustee shall transfer from principal to income an amount equal to the income paid to the creditor in reduction of the principal balance of the obligation.

564-C:5-503 Transfers from Income to Principal for Depreciation.

(a) In this section, "depreciation" means a reduction in value due to wear, tear, decay, corrosion, or gradual obsolescence of a fixed asset having a useful life of more than one year.

(b) A trustee may transfer to principal a reasonable amount of the net cash receipts from a principal asset that is subject to depreciation, but may not transfer any amount for depreciation:

(1) of that portion of real property used or available for use by a beneficiary as a residence or of tangible personal property held or made available for the personal use or enjoyment of a beneficiary;

(2) during the administration of a decedent's estate; or

(3) under this section if the trustee is accounting under RSA 564-C:4-403 for the business or activity in which the asset is used.

(c) An amount transferred to principal need not be held as a separate fund.

564-C:5-504 Transfers from Income to Reimburse Principal.

(a) If a trustee makes or expects to make a principal disbursement described in this section, the trustee may transfer an appropriate amount from income to principal in one or more accounting periods to reimburse principal or to provide a reserve for future principal disbursements.

(b) Principal disbursements to which subsection (a) applies include the following, but only to the extent that the trustee has not been and does not expect to be reimbursed by a third party:

(1) an amount chargeable to income but paid from principal because it is unusually large, including extraordinary repairs;

(2) a capital improvement to a principal asset, whether in the form of changes to an existing asset or the construction of a new asset, including special assessments;

(3) disbursements made to prepare property for rental, including tenant allowances, leasehold improvements, and broker's commissions;

(4) periodic payments on an obligation secured by a principal asset to the extent that the amount transferred from income to principal for depreciation is less than the periodic payments; and

(5) disbursements described in RSA 564-C:5-502(a)(7).

(c) If the asset whose ownership gives rise to the disbursements becomes subject to a successive income interest after an income interest ends, a trustee may continue to transfer amounts from income to principal as provided in subsection (a).

564-C:5-505 Income Taxes.

(a) A tax required to be paid by a trustee based on receipts allocated to income must be paid from income.

(b) A tax required to be paid by a trustee based on receipts allocated to principal must be paid from principal, even if the tax is called an income tax by the taxing authority.

(c) A tax required to be paid by a trustee on the trust's share of an entity's taxable income must be paid proportionately:

(1) from income to the extent that receipts from the entity are allocated to income; and

(2) from principal to the extent that:

(A) receipts from the entity are allocated to principal; and

(B) the trust's share of the entity's taxable income exceeds the total receipts described in subsections (c)(1) and (2)(A).

(d) For purposes of this section, receipts allocated to principal or income must be reduced by the amount distributed to a beneficiary from principal or income for which the trust receives a deduction in calculating the tax.

564-C:5-506 Adjustments between Principal and Income Because of Taxes.

(a) A fiduciary may make adjustments between principal and income to offset the shifting of economic interests or tax benefits between income beneficiaries and remainder beneficiaries which arise from:

(1) elections and decisions, other than those described in subsection (b), that the fiduciary makes from time to time regarding tax matters;

(2) an income tax or any other tax that is imposed upon the fiduciary or a beneficiary as a result of a transaction involving or a distribution from the estate or trust; or

(3) the ownership by an estate or trust of an interest in an entity whose taxable income, whether or not distributed, is includable in the taxable income of the estate, trust, or a beneficiary.

(b) If the amount of an estate tax marital deduction or charitable contribution deduction is reduced because a fiduciary deducts an amount paid from principal for income tax purposes instead of deducting it for estate tax purposes, and as a result estate taxes paid from principal are increased and income taxes paid by an estate, trust, or beneficiary are decreased, each estate, trust, or beneficiary that benefits from the decrease in income tax shall reimburse the principal from which the increase in estate tax is paid. The total reimbursement must equal the increase in the estate tax to the extent that the principal used to pay the increase would have qualified for a marital deduction or charitable contribution deduction but for the payment. The proportionate share of the reimbursement for each estate, trust, or beneficiary whose income taxes are reduced must be the same as its

proportionate share of the total decrease in income tax. An estate or trust shall reimburse principal from income.

Article 6

Miscellaneous Provisions

564-C:6-601 Severability Clause. If any provision of this chapter or its application to any person or circumstance is held invalid, the invalidity does not affect other provisions or applications of this chapter which can be given effect without the invalid provision or application, and to this end the provisions of this chapter are severable.

564-C:6-602 Application of Chapter to Trusts and Estates.

(a) The effective date of this chapter shall be January 1, 2007.

(b) Except as otherwise provided in this chapter, on the effective date of this chapter, the chapter shall apply:

(1) to every inter vivos trust created on or after the effective date of this chapter except as otherwise expressly provided in the terms of the trust or in this chapter;

(2) to any inter vivos trust created before the effective date of this chapter upon the election of the trustee to apply this chapter made in writing and delivered to the beneficiaries then entitled to receive income and principal from the trust;

(3) to any estate existing or testamentary trust of a decedent who dies on or after the effective date of this chapter;

(4) to any estate or testamentary trust upon the approval by a court of competent jurisdiction, upon either (A) a petition filed by an interested person or (B) the court on its own motion.

(c) Nothing in this section imposes a duty on the trustee or any other fiduciary to make an election under this section, and the trustee or any other fiduciary is not liable for failing to make an election under this section.

(d) Nothing in this chapter shall be construed to affect or change the form of accounting required under the rules of the probate court.

320:69 Board of Trust Company Incorporation; Membership. Amend RSA 392:1 to read as follows:

392:1 Incorporation Board. The bank commissioner, the state treasurer, or a deputy treasurer, and the attorney general, or a designee from the office of the attorney general, shall constitute a board for the incorporation of trust companies and other corporations of a similar character, shall be known as the board of trust company incorporation, and shall receive no compensation for services on this board. ***The secretary of state, or designee shall be a nonvoting member of the board for the sole purpose of monitoring filings required to be made with the secretary of state.*** The deputy bank commissioner shall serve as clerk of the board. Provided, that if on May 31, 1985 there shall be pending any matter before the board as constituted prior to May 31, 1985, the board as so constituted shall remain in existence with respect to such matter and shall retain jurisdiction thereof until final decision shall have been rendered thereon.

320:70 Effective Date. This act shall take effect 60 days after its passage.

Approved: June 20, 2006

Effective: August 19, 2006