

Chairman Jim Kelly
House Committee on Financial Institutions
and Rural Development
Kansas State Capitol
300 SW 10th Ave.
Topeka, KS 66612

RE: Testimony in **SUPPORT** of HB 2398

Chairman Kelly and members of the Committee:

Thank you for allowing me the opportunity to present written testimony in support of HB 2398. This important piece of legislation authorizes the chartering of a “technology enabled fiduciary financial institution” or “TEFFI”. Below, I have summarized some of the salient features of this legislation.

What is a TEFFI?

A TEFFI is a specialized trust company that is subject to review and examination by the Office of the State Banking Commissioner.

What does a TEFFI do?

TEFFIs provide custody trust services and products designed for individual investors in “alternative assets,” a term which refers to professionally managed investments which are not publicly traded. Examples include private equity, private real estate funds, venture capital, etc. These are the same investments held by large institutional investors (such as KPERS). It is important to note that alternative assets **do not** include crypto currencies and crypto currencies **are not** utilized or involved in a TEFFI’s operations.

Large institutional investors possess two distinct advantages over individual investors when it comes to alternative assets: (i) large institutional investors have internal investment professionals who can supervise the alternative asset and provide complete and transparent reporting of the underlying investments and (ii) large institutional investors can access liquidity from their alternative assets whereas individuals generally cannot. This second disadvantage is particularly challenging since individuals often have a more immediate and pronounced need for liquidity due to life events such as death, divorce or financial distress.

TEFFIs correct these deficiencies and “level the playing field” between the institutional and individual investor by providing trust services and financing for these individual investors.

Why is legislation needed?

TEFFIs currently operate in multiple states to avail themselves of clear statutory guidelines for certain aspects of their business. HB 2398 consolidates existing statutes from several states (Kansas, Delaware, South Dakota, Texas and Wyoming) into one cohesive statutory framework. This consolidation will incentivize TEFFIs to consolidate operations and will position Kansas as the preferred jurisdiction for such purposes.

What are the benefits to Kansas?

HB 2398 provides significant benefits to the State of Kansas, including:

1. Funding of economic growth zones in Kansas - which will spur job and income growth, main street economic expansion, education facility improvements, healthcare and senior facility improvements, etc.
2. Enabling Kansas banks and trust companies to benefit from and participate in the economic development of Kansas communities afforded by the funding described above.
3. Facilitating deposits of the TEFFI's cash accounts (i.e., the cash held in the Kansas trusts administered by TEFFIs) in Kansas banks.
4. Highlighting and promoting Kansas as a leader in the financial services industry.

Finally, the examination and oversight of TEFFIs in the State of Kansas is entirely self-funded by the TEFFIs themselves. No funding is required from the State of Kansas.

What is the Pilot Program?

HB 2398 creates a pilot program (funded solely by the pilot program TEFFI) which:

1. Promotes immediate economic development in Kansas by requiring the pilot program TEFFI to make an upfront contribution of at least \$9 million to an economic growth zone and the Department of Commerce.
2. Provides immediate resources to the OSBC in the amount of \$1 million to fund the formation of the OSBC examination team and all necessary and applicable resources.
3. Enables the pilot program TEFFI to partner with the OSBC to develop and refine appropriate policies, procedures, and examination standards, as contemplated by HB2398.
4. Facilitates coordination between the pilot program TEFFI, the OSBC and the Legislature to further amend the legislation as necessary to assure the optimal functioning and oversight of TEFFI operations prior to issuing charters to any new applicants.

This legislation delivers significant benefits to communities in the State of Kansas and will further position Kansas as a leader in the financial services industry. Thank you again for your time and for permitting me to testify in favor of HB 2398.

Sincerely,



Derek L. Fletcher
President and Chief Fiduciary Officer