This document contains the detailed syllabus for the STEP Diploma in International Trust Management.

The Diploma comprises the following four papers:

- Trust Creation: Law and Practice,
- Company Law and Practice,
- Trust Administration and Accounts,
- Trustee Investment and Financial Appraisal.

This syllabus should be read in conjunction with the course brochure, which explains the method of delivery and assessment, entry requirements and personal and business benefits of completing the programme.

The course brochure, course dates and enrolment application form can also be found on the programme website www.cltint.com
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MODULE 1: REVIEW OF THE TRUST CONCEPT

This module covers:

• To define an Anglo-Saxon trust and explore the identities of and roles played by the main actors in the drama
• To review the function and capacity of the settlor
• To explore the legal ownership in trust property and explain the trustee’s role, powers and duties
• To explore the nature of the equitable ownership in trust property and identify the beneficiaries’ rights
• A comparison of the trust with other legal concepts such as
  • A company
  • A contract
  • A testamentary instrument
  • A civil law foundation (Stiftung)

By the end of this module you should be able to:

• To define a trust and describe its essential characteristics
• To advise a prospective settlor who is contemplating creating a new trust upon matters such as the settlor’s role, capacity, control and reserved powers
• To define a legal ownership interest and understand how such interest is transferred
• To appreciate the role, powers and duties of a trustee
• To understand the rights of the beneficiaries, in particular their in personam and in rem equitable rights
• Distinguish a trust from other legal concepts, in particular
  • A company
  • A contract
  • A will
  • A foundation
MODULE 2: MARKETING TRUST SERVICES AND ACCEPTING NEW BUSINESS

This module covers:

- Marketing trust services including
  - Selling the jurisdiction
  - Selling your institution
  - Selling the trust concept
- The pitfalls of over-selling the service or making unjustifiable claims
- The theoretical rules relating to trustees’ remuneration
- The ways in which trust services are rewarded and practical marketing strategies employed by those involved in the fee bargaining process
- A review of the recommended best practice procedures prior to and upon acceptance of new business, both in terms of accepting a new trust and upon taking on an existing trust, including
  - ‘Know your client’
  - The practice and procedures involved in the removal of an outgoing trustee
  - The appointment of an incoming trustee and vesting of trust property
  - The trustee’s duty upon accepting a trust

By the end of this module you should be able to:

- Appreciate how a trust company can market the provision of its trust services in a competitive environment
- Explain to a third party the virtues of the offshore jurisdiction from which you carry on business
- Be in a position to market the trust concept in a responsible manner and avoid the pitfalls of over-selling or making misrepresentations in relation to the trust product
- Understand some of the marketing strategies adopted in negotiations with prospective settlors or protectors concerning fees
- Appreciate the aspects of a trustee’s fiduciary duty that apply to the charging of fees – the so-called remuneration rule – and be able to draft or construe a charging clause
- Know the proper procedures to follow prior to accepting the office of trustee – ‘know your client’ and other preliminary duties
- Be in a position to comply with the appointment process, both
  - In relation to new trusts, and
  - In relation to taking on existing trusts
MODULE 3: ANTI-MONEY LAUNDERING: THE PROCEEDS OF CRIME

This module covers:

• The concept of money laundering from a global perspective so that ‘know your client’ provisions can be seen in context
• The theoretical laundering process, namely, the three stages of placement, layering and integration
• A review of the international initiatives to control money laundering
• An examination of some of the common themes running through the international initiatives
• A review of your statutory duties in relation to customer due diligence and suspicious transaction reporting
• The anti-money laundering provisions enacted in the jurisdiction where you work and a comparison with international standards

By the end of this module you should be able to:

• Understand the problems caused by money laundering from a global perspective
• Identify the three theoretical stages of the money laundering process, namely
  • Placement
  • Layering
  • Integration
• Review a number of international initiatives to control money laundering
• Be aware of common themes running through anti money laundering initiatives in relation to
  • Detection
  • Investigation
  • Prosecution of offenders
• Fulfil your statutory duty in relation to customer due diligence and suspicious transaction reporting
• Compare anti-money laundering provisions in force in the jurisdiction where you work, or have some connection, with internationally accepted standards
MODULE 4: ANTI-MONEY LAUNDERING: COUNTERING TERRORIST FINANCING, TAX EVASION AND CIVIL LIABILITY

This module covers:

• A review of international initiatives that counter terrorist financing
• An examination of the methodologies typically used to finance terrorism and explain the client due diligence and duty to disclose required in relation to such financial transactions
• The importance of getting to know your client, his business and the source of his funds, in order to avoid the risk of incurring both criminal and civil liability
• A continuing analysis of money laundering, with emphasis upon the thorny issue of laundering the profits derived from tax evasion
• Anti-money laundering provisions enacted in the jurisdiction where you work or have some connection, to compare offshore legislation against international standards
• A review of a third party’s civil liability for assisting another in laundering the proceeds of a breach of fiduciary duty, in particular a review of the principles of dishonest assistance

By the end of this module you should be able to:

• Identify the hallmarks of terrorist financing and be able to comply with your CDD and disclosure requirements in relation to such funds
• Understand the importance of getting to know your client, his business and the source of his funds in order to avoid the risk of incurring both
  • Criminal, and
  • Civil liability
• Appreciate that, in certain contexts, money laundering not only includes the laundering of the proceeds of crime, but also the profits that derive from domestic tax evasion
• Comply with your statutory duties in relation to disclosures when the predicate crime is tax related
• Be capable of comparing the anti-money laundering legislation in the jurisdiction where you work or have some connection against international standards
• Evaluate the liability incurred by service providers who assist third parties in laundering the proceeds of a breach of fiduciary duty, and be able to explain the principles of ‘dishonest assistance’
DIPLOMA IN INTERNATIONAL TRUST MANAGEMENT:
TRUST CREATION: LAW & PRACTICE

MODULES 5 AND 6: THE TRUST INSTRUMENT

These modules cover:

• The process of obtaining instructions from an international client to establish an offshore trust and to emphasise the importance of obtaining specialist onshore legal and tax advice
• The use of precedents in the drafting process and analysis of the pros and cons of using an off-the-shelf long form or short form trust instrument, or creating a tailor-made trust instrument from the outset
• The framework of a typical trust instrument
• A review of some of the standard dispositive provisions found in
  • an offshore discretionary trust
  • a settlor-directed trust
  • a life interest trust
• The use of typical administrative provisions in order that you may
  • decide whether a particular provision should be included in a draft trust instrument
  • explain the meaning thereof to the settlor or a third party
  • construe some of the standard provisions and powers that you may wish to exercise during the administration of a trust

By the end of these modules you should be able to:

• Appreciate some of the issues involved in obtaining instructions to establish an offshore trust for an onshore settlor (in particular, the importance of obtaining specialist onshore legal and tax advice)
• Be familiar with some drafting techniques and the use of precedents in the drafting process
• Consider the pros and cons of
  • Long form and short form precedent trust instruments
  • Drafting a tailor-made trust instrument from scratch
• Construe some of the standard dispositive provisions found in a typical offshore
  • Discretionary trust
  • Settlor-directed trust
  • Life interest trust
• Illustrate the use and purpose of typical administrative provisions in order that you may
  • Decide whether a particular provision should be included in a draft trust instrument
  • Explain the meaning of particular provisions to the prospective settlor or third party
  • Construe the typical provisions and some of the powers that you may wish to exercise during the administration of a trust.
MODULE 7: CHOICE OF LAW TO GOVERN THE TRUST

This module covers:

• To introduce some common law conflict of laws principles used to ascertain which system of law should govern a particular transaction or occurrence

• To explain the significance of conflict of laws rules in relation to multi-jurisdictional offshore trust issues whereby a trust is governed by its proper law

• To analyse typical modern statutory conflict of laws rules enacted in offshore jurisdictions in relation to the governing law of a trust to ascertain whether and in what circumstances the governing law of a trust may be changed to a new law

• The terms of a typical trust instrument that
  • Makes an express choice of law and forum selection
  • Provides for a change of governing law
  • Contains a flee clause
By the end of this module you should be able to:

- Have grasped some of the basic common law conflict of laws principles in order to be able to determine which system of law to apply to a multi-jurisdictional transaction, including broad knowledge of the meaning of
  - Forum
  - Characterisation
  - Conflict of laws, and
  - Renvoi
- Understand the significance of conflict of laws rules in relation to issues affecting a multi-jurisdictional trust
- Appreciate that, at common law, a trust is governed by its proper law and be able to establish the proper law of a trust
- Be in a position to identify those areas of the common law that are uncertain and unsatisfactory
- Construe modern offshore statutory provision whereby the validity of a trust, its interpretation and administration, etc. are determined by the governing law
- Analyse simple conflict of laws problems affecting an offshore trust, to identify its governing law and appreciate the broad exceptions to the general rule whereby the governing law will not apply to certain issues and controversies
- Understand whether and in what circumstances the governing law of a trust may be changed to a new law
- Be familiar with the terms of a typical trust instrument that makes an express choice of law and forum selection, and contains a flee clause
MODULE 8: THE ROLE AND STATUS OF A PROTECTOR

This module covers:
- An introduction to the role of the trust protector
- Who may be appointed as protector
- The typical powers conferred upon the protector by the settlor in the trust instrument
- The duties of the protector including
  - Express restrictions on the exercise of the protector’s powers
  - Implied restrictions which attach to the powers of a protector so that they may only be exercised for a proper purpose
  - Implied obligations, in particular, obligations of a fiduciary nature whereby the protector must exercise his powers to safeguard the interests of the trust, its assets and the beneficiaries
- A review of some of the typical rights conferred upon the protector in offshore trust instruments
- An analysis of the position of a trustee who is obliged to administer the trust alongside a protector
- A summary of the position of the beneficiaries in relation to the protector

By the end of this module you should be able to:
- Appreciate why a settlor may wish to appoint a protector
- Identify the various types of protector and be able to advise upon which type is most suitable in given circumstances
- Be familiar with the typical powers given to a protector
  - dispositive and administrative
  - positive and negative powers
- Be aware of the duties owed by a protector to comply with the terms of the trust, and to exercise his powers in a fiduciary manner and with reasonable care and skill
- Know how to manage a trust which confers extensive dispositive and/or administrative powers upon a protector
- Summarise the broad rights and remedies of the beneficiaries against the trust protector
MODULE 9: ESTATE PLANNING AND FORCED HEIRSHIP ISSUES

This module covers:

• The basics of estate planning
• An explanation of the meaning of forced heirship in contradistinction to testamentary freedom
• An illustration as to how forced heirship provisions affect
  • Testamentary gifts on death
  • Inter vivos transfers
• Domestic laws of succession and international conflict of laws principles that determine which country’s law of succession should apply
• The interrelationship between forced heirship provisions of a foreign state and the validity of a trust created offshore by a settlor who is domiciled in, and a national of, that foreign state, reviewing in particular
  • The type of attack upon the trust and its assets that the trustees may encounter in the forum of the foreign state
  • The type of attack upon the trust and its assets that the trustees may encounter in the forum of the offshore jurisdiction
  • The statutory provisions enacted by a number of offshore jurisdictions that clarify the conflict of laws position to preserve the trust
MODULE 9: ESTATE PLANNING AND FORCED HEIRSHIP ISSUES CONTINUED

By the end of this module you should be able to:

• Understand basic estate planning methods

• Understand basic forced heirship provisions and be able to distinguish the concept from freedom of testamentary disposition

• Appreciate the opportunity to market *inter vivos* offshore trusts to persons from civil law jurisdictions who wish to take advantage of estate planning

• Illustrate not only how forced heirship provisions affect testamentary gifts on death, but also how claw back provisions have an impact upon the recipients of certain gifts made during the lifetime of the deceased (including the creation of an *inter vivos* trust)

• Understand the interrelationships between forced heirship provisions of a foreign state and the validity of a trust created offshore by a settlor domiciled in and a national of that foreign state. In particular, you should be able to advise upon:
  • The type of claim that the trustees may face in the forum of the foreign state
  • The type of claim that the trustees may face in the forum of the offshore jurisdiction
  • The terms of typical offshore statutory conflict of laws rules that confirm that all questions concerning the validity of the offshore trust and disposition of property thereto should be governed by the laws of the offshore jurisdiction
MODULE 10: ASSET PROTECTION TRUSTS

This module covers:

• An introduction to the concept of asset protection planning
• The common law principle that an individual’s assets should be available to meet his debts
• The protection afforded to creditors of the settlor by the Statute of Elizabeth and the factual scenarios in which the powers of the court are exercised
• The modern asset protection legislation enacted in a number of offshore jurisdictions that replaces the Statute of Elizabeth.
• A review of common themes of modern asset protection legislation
• An analysis of which type of trust structure is the most effective in terms of offering protection to the trust assets
• How a settlor’s bankruptcy may result in his earlier trust being set aside by a court-appointed trustee in bankruptcy
• Typical bankruptcy legislation enacted offshore
• How offshore trusts may protect family wealth from the effects of asset division upon divorce

By the end of this module you should be able to:

• Appreciate the ethical tension between the common law principle that an individual’s assets ought to be available to meet his unpaid debts, and the asset protection objective to safeguard and preserve assets transferred into trust
• Understand how a trust may safeguard assets from claims brought against the settlor by third parties
• Explain how the Statute of Elizabeth sought to protect the interests of honest creditors
• Be in a position to advise upon how offshore asset protection legislation has repealed the Statute of Elizabeth in key areas
• Know how to structure an asset protection trust
• Understand how bankruptcy legislation empowers the trustee in bankruptcy may set aside transfers (including trusts) made by a bankrupt within [x] years prior to being declared bankrupt
• Apply asset protection principles to a typical divorce scenario
MODULE 11: PURPOSE TRUSTS

This module covers:

• The reasons why trusts established for the benefit of a purpose rather than persons are invalid under generally accepted equitable principles
• The common law exceptions to the invalidity of purpose trusts
  • An anomalous group of private trusts of imperfect obligation
  • Trusts in favour of incorporated associations
  • Charitable trusts
• An examination of modern trust legislation that permit trusts to be created in favour of a purpose, in particular the following statutory models
  • The first generation of Bermudian legislation based upon the Trusts (Special Provisions) Act 1989 of Bermuda
  • The Trusts (Special Provisions) Amendment Act 1998 of Bermuda
  • Alternative models such as the Special Trusts (Alternative Regime) Law 1997 of the Cayman Islands
• The practical uses of purpose trusts, including their use for commercial purposes

By the end of this module you should be able to:

• Appreciate the reasons why trusts that have purportedly been established for the benefit of purposes rather than persons are invalid under common law principles, and be able to explain
  • The beneficiary principle
  • The rule requiring certainty of objects
  • The rule against perpetuities
• Identify the common law exceptions to the general rule prohibiting purpose trusts, namely, those trusts
  • Of imperfect obligation
  • In favour of unincorporated associations
  • That are wholly and exclusively charitable in nature
• Understand the basic terms of the first generation of purpose trust legislation, and be able to explain the model form found in The Trusts (Special Provisions) Act 1989 of Bermuda
• Understand the basic terms of the second generation of purpose trust legislation, and be able to compare and contrast the approaches taken by
  • The Trusts (Special Provisions) Amendment Act 1998 of Bermuda, and
  • The Special Trusts (Alternative Regime) Law 1997 of the Cayman Islands
• Appreciate some of the practical uses of purpose trusts, including their use in commercial transactions
MODULE 12: PRIVATE FOUNDATIONS

This module covers:
- A review of the development of foundations in offshore centres
- A definition of a private foundation and a summary of its essential characteristics
- A review of the procedure to establish a private foundation
- A familiarisation with the constitutive documents of a foundation
- An explanation of how assets are endowed upon (transferred to) a foundation
- A review of the governance of a foundation and an explanation of the roles, rights and duties of
  - The founder
  - The council
  - The guardian or protector
- An explanation of the legal position and identification of the typical rights of beneficiaries
- A discussion of factors that determine whether a private foundation or a trust is the most suitable structure for a client

By the end of this module you should be able to:
- Understand the origins and characteristics of a private foundation and be able to give a working definition
- Explain how to establish a foundation
- Be aware of conflict of laws issues that could affect the validity of the endowment of assets to a foundation
- Be familiar with the constitutive documents of a foundation and construe their provisions
- Understand the governance issues and how to manage a foundation and, in particular, appreciate the division of power between founder, foundation council and guardian/protector
- Understand the legal position of the beneficiaries and be familiar with typical dispositive provisions usually found in the regulations
- Give objective advice to a high net worth individual client upon the pros and cons of the foundation when compared with a trust
MODULE 1: AN INTRODUCTION TO COMPANY LAW AND PRACTICE

This module covers:

• An introduction to company law and the practice of private company management

• A review of the position of the offshore company in context, i.e. as part of a structure used by trustees, private banking institutions and other firms to hold and manage clients’ assets

• A summary of the role of the text, a brief overview of the study of company law and an introduction to what is to come in forthcoming modules

By the end of this module you should be able to:

• Appreciate the use made by trustees, private bankers and other service providers of a trust and company combo

• Understand the function of the study text

• Know what to expect in forthcoming modules
MODULE 2: CHARACTERISTICS OF A COMPANY

This module covers:

• A traditional definition of a company and an analysis of whether that definition translates into the language of the offshore world

• An outline of the development and evolution of company law in England and its effect on company law in other common law jurisdictions, particularly the offshore centres

• A consideration of some of the fundamental features of a company and a comparison with other forms of undertaking

• An introduction to the companies legislation applicable to the jurisdiction where you work or with which you have a substantial connection

• A description of the common features of, and advantages that accrue to, a company incorporated either onshore or offshore

• An analysis of the arguments for and against the integrity of ‘one-man’ companies and the limited liability of shareholders

• An exploration of the typical use made of companies incorporated in an offshore jurisdiction
MODULE 2: CHARACTERISTICS OF A COMPANY
CONTINUED

By the end of this module you should be able to:

• Understand the broad features of a private limited company
• Appreciate the fundamental economic principles behind much company legislation
  • To provide a structure whereby entrepreneurs may raise capital from the public
  • To enable investors to contribute capital to an enterprise without having to manage and control the business on a day-to-day basis
  • To make investment less risky and therefore more attractive to the public by limiting shareholders’ liability for the debts of the company
  • To facilitate the transferability of an owner’s interest in a business undertaking
  • To protect the capitalist investor and the public against the actions of a rogue director abusing his position
• Put the private limited company into context by comparing it with other business media, in particular a partnership structure
• Appreciate that the company legislation in the common law offshore jurisdictions derives from English statutory provisions, tweaked here and there to take into account local conditions, practices and procedures
• Identify and describe the common features of an incorporated company
• Understand the implications that flow from a company having a separate legal personality
• Explain the significance of the ‘veil of incorporation’ and how it can be pierced
• Appreciate the typical uses made of companies incorporated offshore
MODULE 3: COMPANY FORMATION AND RELATED ISSUES

This module covers:

- The role of promoters, both offshore and onshore, their duties to the company upon incorporation and their right, if any, to be reimbursed expenses
- The issues, at common law, affecting the enforceability of pre-incorporation contracts and an exploration of how problems are solved by modern offshore companies legislation
- A review of the theoretical and practical aspects of incorporation of a private limited company in a hypothetical offshore jurisdiction
- Some of the statutory procedures required to incorporate a company in the jurisdiction where you work or have some other substantial connection
- An introduction to the skill of drafting (in the context of minutes of the first meeting of directors)
- A review of some of the preliminary issues in relation to the migration of companies
- The main features and characteristics of a variety of offshore vehicles including
  - Resident companies
  - IBCs and similar vehicles (including the BVI BC and the exempt company of Bermuda and the Cayman Islands)
  - (Tax) exempt companies (found in certain low-tax jurisdictions)
  - International companies (found in some of the European low-tax offshore jurisdictions)
  - Non-resident companies
  - Limited duration companies
  - Companies limited by guarantee
  - Hybrid companies
  - Protected cell companies
  - Companies incorporated in certain high tax centres
MODULE 3: COMPANY FORMATION AND RELATED ISSUES CONTINUED

By the end of this module you should be able to:

• Appreciate the role, duties and rights of a promoter

• Understand the issues, at common law, affecting enforceability of pre-incorporation contracts and be able to indicate how problems are solved by modern offshore legislation

• Analyse the theoretical and practical aspects of incorporation of a private limited company in a hypothetical offshore jurisdiction

• Understand the statutory procedures required to incorporate a company in the jurisdiction where you work or have some other substantial connection

• Draft certain key documents, in particular minutes of the first meeting of directors

• Identify some of the preliminary issues in relation to the migration (or re-domiciliation) of companies

• Describe some of the distinguishing features of a number of different type of company and, in particular, the types of company that you tend to manage in the office, in practice
MODULE 4: THE COMPANY’S CONSTITUTION

This module covers:

• A review of the historical development of the corporate constitution

• The principles behind modern rules and, in particular, that they are often based upon a corporate model developed to cater for an actively trading, publicly owned company, rather than one that exists merely to hold assets for a single investor

• An examination of the functions and typical content of the memorandum of association and determine how it can be moulded, within the framework of the requirements of applicable companies legislation, to meet the requirements of the client

• An analysis of corporate capacity and the evolution of the ultra vires doctrine

• An examination of if, and how, the memorandum may be altered

• A review of the functions and typical content of the articles of association and how model articles can be moulded to meet the requirements of the client

• An examination of how the articles may be altered

By the end of this module you should be able to:

• Appreciate the historical development and current theories relating to the constitution of a company and that the constitution of a traditional corporate structure comprises
  • The memorandum, and
  • The articles of association

• Understand the typical content of the memorandum of association, and to determine how it can be moulded, within the legislative framework, to meet the requirements of the client

• Analyse the capacity of a company to transact business under modern companies legislation that repeals the ultra vires doctrine

• Alter the memorandum

• Determine the rights, powers of and procedures affecting the shareholders, directors and officers of a company

• Understand the functions and typical content of the articles of a company, and to determine how they can be moulded, within the legislative framework, to meet the requirements of the client

• Determine how, and in what circumstances, the articles may be altered
MODULE 5: CAPITAL

This module covers:

- An introduction to the concept of ‘capital’ in the context of company law and the capital maintenance doctrine
- An explanation of how a company may issue shares to raise capital and must allocate and preserve the consideration received
- How the capital maintenance rules restrict the funds that can be used to distribute as dividends to shareholders
- To investigate how such restrictions are circumnavigated by
  - Funding the company by a nominal share capital and substantial shareholder loan, and
  - The amendment or total repeal of the capital maintenance doctrine by modern offshore companies legislation

By the end of this module you should be able to:

- Appreciate what is meant by the term ‘capital’ in the context of a business, company law generally and the doctrine of capital maintenance
- Understand the capital structure of a company, how capital is allocated between share capital and share premium, how shares may be divided into different classes and how shares are issued
- Understand the principles of, and justification for, the capital maintenance rules
- Apply the capital maintenance principles to the start-up funding of an asset holding company, know how a company issues shares and be able to carry out such tasks on behalf of a managed company
- Compare typical onshore regulations with the liberal practices followed in relation to a managed asset holding company incorporated offshore
- Appreciate the flexible distributions provisions that exist in most offshore jurisdictions and be able to implement a distribution from a typical offshore company, either
  - Under flexible IBC and similar legislation, or
  - Under less flexible legislation by repayment, in whole or part, of the shareholder loan
MODULE 6: DIRECTORS PART I – ROLE, APPOINTMENT AND REMOVAL OF DIRECTORS

This module covers:

- An initial academic review of corporate governance under the traditional onshore corporate model, which provides for a separation of ownership (in the hands of shareholders) and control (in the hands of the board of directors)
- An illustration of how the traditional Anglo-American corporate model has been used as a template by
  - Legislators in the offshore common law jurisdictions, when drafting their companies legislation, and by
  - Professionals and service providers engaged in offshore company management, when drafting and registering articles of association of newly incorporated companies
- An examination of the provisions conferring powers of management upon the directors, namely standard articles and typical offshore companies legislation
- An analysis of the different methods adopted offshore to appoint the initial directors during the incorporation process
- A review of typical articles dealing with the removal of directors and the appointment of subsequent directors

By the end of this module you should be able to:

- Appreciate what is meant by the ‘traditional corporate model’ (which provides for the separation of ownership and control of a company) and the term ‘corporate governance’ (whereby the directors manage the business but are accountable wholly to the company, i.e. to the ordinary shareholders)
- Appreciate how the traditional corporate model has been used
  - By legislators of offshore jurisdictions in drafting companies legislation
  - By professional corporate service providers when drafting standard articles.
- Construe standard articles conferring powers of management upon the directors, namely
  - Art. 80, Table A, Companies Act 1948
  - Art. 70, Table A, Companies Act 1985
- Know how to appoint the initial directors upon incorporation of a company
- Construe typical articles dealing with the removal of old directors and the appointment of new ones
- Understand the powers of the court or regulator to disqualify a person from being a director
MODULE 7: DIRECTORS PART II – DIRECTORS’ POWERS AND DUTIES

This module covers:

• A review of the powers usually conferred upon directors
• An introduction to the mechanics of board meetings and the directors’ decision-making process
• An analysis of the legal effect of a transaction purportedly entered into on behalf of a company, but which was beyond the powers conferred upon the directors
• An outline of the duties owed by the directors to their company.
• An examination of the constituent parts of a director’s fiduciary duty, namely
  • To act in good faith
  • To exercise powers for their proper purpose
  • To be loyal to the company, and to avoid conflicts of interests
• An examination of a director’s duty to exercise his powers of management with appropriate care and skill
• The position of a director of an offshore company and analyse the standard of care expected in common factual situations encountered in offshore company management practice
• A review of methods whereby a director may protect himself from liability for what may otherwise amount to a breach of duty, including
  • Obtaining approval and ratification of the directors’ actions by shareholders
  • Exculpatory and indemnity provisions in the articles of a company
  • Exculpatory provisions in the company management agreement
  • Indemnity insurance
• How directors may become personally liable for company debts
By the end of this module you should be able to:

- Construe the usual powers conferred upon the directors by model articles of association
- Understand the basic procedures involved in the directors’ decision-making process
- Advise upon the legal effect of a transaction entered into by the directors but which involved the exercise of powers the directors did not possess
- Appreciate the constituent parts of a director’s fiduciary duty to the company, and be able to apply the relevant principles to typical factual scenarios encountered in offshore corporate practice
- Understand the directors’ duty to use appropriate care and skill in the management of the company, both at common law and under modern companies legislation, and be able to apply the relevant principles to typical factual scenarios encountered offshore
- Understand what constitutes a breach of duty and appreciate the methods whereby a director may avoid or protect himself from liability (to the company or to third parties) for what may otherwise amount to a breach of duty
MODULE 8: OTHER OFFICERS OF A COMPANY: SECRETARY AND REGISTERED AGENT

This module covers:

- Company officers
- The procedures for the appointment, removal and retirement of company secretaries
- A review of the usual duties of a company secretary and an outline of his functions
- The potential liability of the company secretary
- A review of the role, powers and duties of a registered agent under specific statutory provisions

By the end of this module you should be able to:

- Describe the procedures for the appointment, removal and retirement of company secretaries of companies under the management of your organisation
- Appreciate the requirements of companies legislation with respect to the company secretary
- List the usual duties of a company secretary
- Demonstrate an understanding of the functions and practice of the company secretary
- Advise upon the potential liability of the company secretary
- Appreciate the role, powers and duties of a registered agent under specific statutory provisions
MODULE 9: COMPANY DECISION-MAKING PROCEDURES

This module covers:

- The difference between the powers of the directors and the powers of shareholders of a company
- A review of the procedures involved in convening and conducting general meetings
- A review of the procedures involved in convening and conducting meetings of the directors
- A summary of decision-making procedures
- Drafting skills, with particular emphasis on drafting notices, resolutions and minutes of meetings

By the end of this module you should be able to:

- Differentiate between the powers of the directors and the powers of the members
- Know the steps to take to convene, hold and conduct general meetings of the shareholders of a company
- Convene, hold and conduct meetings of directors
- Draft notices, resolutions and minutes of meetings for a variety of situations
MODULE 10: TAXATION OF COMPANIES: TAX PLANNING

This module covers:

• An analysis of some of the fundamental principles in relation to the taxation of corporate entities from a global perspective
• A review of some of the tax planning opportunities that accrue to a company incorporated offshore in certain circumstances
• An explanation of typical onshore anti-tax avoidance provisions
• A review of the withholding tax procedures in the US under the Qualified Intermediary Rules 2000 affecting all bank and brokerage account holders that invest in, and receive income from, US securities

By the end of this module you should be able to:

• Appreciate the fundamental principles in relation to the taxation of corporate entities from a global perspective
• Understand some of the tax planning opportunities that accrue in certain circumstances to a company incorporated offshore
• Recognise typical onshore anti-tax avoidance provisions
• Know how to comply with the disclosure requirements of offshore account holding companies under the withholding tax procedures of the US pursuant to the Qualified Intermediary Rules, 2000, which affect all bank and brokerage account holders that invest in, and receive income from, US securities
MODULE 11: THE PROVISION OF COMPANY MANAGEMENT SERVICES IN OFFSHORE CENTRES

This module covers:

• A description of the range of company services that are provided from offshore centres

• The contents of typical documentation used by service providers offshore
  • Company management agreement
  • Directors’ appointment agreement
  • Nominee shareholder declaration

• The due diligence requirements owed by service providers

• The potential problems associated with the beneficial owner of a company having too much control

• The trends and the arguments for, and against, the regulation of company management business

By the end of this module you should be able to:

• Describe the range of company services that are provided from offshore centres including
  • Incorporation
  • Registration and continuance
  • Provision of directors and officers
  • Provision of shareholders
  • Registered office facilities
  • Corporate filing and general secretarial services

• Appreciate the importance of, and be able to construe, standard documentation including
  • Company management agreements
  • Directors’ appointments
  • Nominee shareholder declarations

• Avoid problems associated with the beneficial owner having too much control over the affairs of his company, and be able to respond to frequently asked questions relating to this
MODULE 12: REGULATION OF COMPANY MANAGEMENT BUSINESS

This module covers:

• A review of international initiatives relating to the regulation of company management business, summarise their recommendations and examine the rationale behind them

• An examination of how the provision of corporate management services has been regulated in a number of offshore jurisdictions

• An analysis of the concept of transparency and how this affects the provision of company management, with particular emphasis upon establishing beneficial ownership and preventing nominee director abuse

• A description of what is meant by information sharing, and to examine the criteria to be met before regulator-to-regulator information sharing can take place under advance commitments given to OECD

By the end of this module you should be able to:

• Name and describe four recent international initiatives relating to the regulation of company management business

• Describe how the provision of company management services is regulated by licensing requirements and how such provision is supervised

• Understand the concept of transparency, why the OECD considers it desirable and how it may be achieved

• Appreciate the rationale behind information sharing, particularly in connection with criminal and tax related matters, and how OECD hope that regulator-to-regulator information sharing will be achieved under advance commitments given, and TIEAs agreed, by a number of offshore jurisdictions
MODULE 13: TERMINATION OF COMPANIES

This module covers:

• An outline of the ways in which an insolvent company may continue to trade in some jurisdictions
• A review of the usual process and procedures involved in
  • A compulsory winding-up or liquidation of a company
  • A voluntary winding-up
• An explanation of the difference between dissolution and striking off

By the end of this module you should be able to:

• Understand how creditors can try to recover moneys owed to them when a company is in difficulties
• Explain the steps directors can take to try to avoid liquidation
• Understand the role and tasks of a receiver and manager, where appointed
• Explain how directors may seek a compromise arrangement with creditors
• Appreciate the objectives of insolvency legislation onshore and the differences between UK legislation and that enacted offshore
• Explain the grounds for compulsory winding-up, the role of the court, the consequences of making a winding-up order and the role of the liquidator
• Explain the circumstances in which a members’ voluntary winding-up may occur and the procedures to be followed and the differences from a creditors’ voluntary winding-up
• Appreciate the rules governing payment of debts of a wound-up company, striking off the Register of Companies, and reinstatement of previously liquidated companies
MODULE 1: INTRODUCTION TO THE LAW IN RELATION TO TRUST BOOKKEEPING AND THE PREPARATION OF PERIODIC TRUST ACCOUNTS

This module covers:

• A review of the duty owed by a trustee in relation to record keeping and the preparation of accounts
• An analysis as to whom a trustee’s duty (to keep and render proper accounts) is owed and whether, and if so how, the duty can be cut down or modified
• The consequences faced by a trustee who is in breach of his duty to keep or render proper accounts
• The requirements as to the form of a trustee’s books and records and the format of accounts rendered, including the frequency of accounting and the accounting date
• When and in what circumstances an audit is necessary, and, if so, how to retain auditors and determine the appropriate extent and scope of the audit to be undertaken

By the end of this module you should be able to:

• Comply with the duty owed by trustees in relation to trust records and accounts, specifically
  • To keep accurate financial data of trust property that allow a history of the trust assets to be periodically constructed, and
  • To render a summary of the financial position of the trust to interested persons periodically and when called upon to do so
• Establish to whom the duty to account is owed
• Appreciate the consequences of failing to keep accurate financial records or failing to furnish accounts to persons entitled to them
• Understand the requirements as to form and content of a trustee’s books and records, and the frequency and format of a trustee’s periodic accounting
• Appreciate when and in what circumstances an audit of trust accounts may be necessary, and be familiar with how auditors are retained and how they report their findings
MODULE 2: INTRODUCTION TO TRUSTEE’S RECORD KEEPING

This module covers:
• What information trustees have to record
• The defects of single-entry bookkeeping
• An explanation of the fundamental accounting equation
• Double-entry bookkeeping
• The importance of the trust ledger
• How information technology assists in the accounting process

By the end of this module you should be able to:
• Explain the need for a double-entry accounting system
• Understand the fundamental accounting equation
• Make simple ledger entries relating to a trust
• Explain the structure of the trust ledger
• Appreciate how modern practice uses IT systems in trust accounting

MODULE 3: TRUST ACCOUNTS

This module covers:
• The purpose of preparing accounts for trusts
• Factors that influence the form of the accounting records of a trustee
• The preparation of annual accounts of a trust from straightforward data recorded in the trustee’s books and records
• The key financial statements
• The implications of trust assets being held by an underlying company

By the end of this module you should be able to:
• Be aware of the purpose of preparing trust accounts
• Be able to identify relevant factors that influence the form of trust accounts
• Understand the nature of the key financial statements
• Be capable of drawing up a simple set of annual trust accounts from straightforward data
• Appreciate the accounting implications for a trustee in circumstances where the trust’s assets are held through the medium of an underlying company
MODULE 4: ACCOUNTS OF OFFSHORE ASSET-HOLDING COMPANIES UNDERLYING A TRUST

This module covers:

- The need for a separate set of company accounts in addition to accounts prepared by the trustee
- Underlying accounting principles
- A review of the documents that constitute a set of typical company accounts
- The components of the separate documents that comprise the final accounts of a company and their meaning
- An analysis as to why conventional formats are not wholly suited to a typical offshore, passive, asset-holding investment company
- An illustration of a set of final accounts
- The accounting responsibilities of trustees when holding active, operating companies
- The information trustees should consider when reviewing the accounts of active, operating companies

By the end of this module you should be able to:

- Appreciate that there is a need for both company and trust accounts in circumstances when a company has been set up in order to hold trust assets
- Be familiar with the documents that comprise the essential elements of a set of final accounts of a company, and the basis on which the information contained therein has been prepared
- Understand where the information contained and set out in a set of offshore company accounts may well diverge from a set of typical trading company accounts
- Understand the information conveyed by a set of final accounts of a typical offshore company underlying a trust
- Prepare some elementary final accounts from information contained in the trust and/or company records
- Understand the responsibilities of trustees when holding active trading or operating companies, including their fiduciary responsibilities and the need to monitor the accounts
- Analyse the accounts of an active trading company to determine if the company represents undue risk to the trustee
MODULE 5: TRUST MANAGEMENT – RESERVED POWERS AND ‘SHAM’

This module covers:

- A foundation for later modules, particularly Module 6 through Module 11 dealing with the administration and disposition of trust assets, for delegates who are more familiar with settlor-directed trusts
- An (re)introduction of *sham trust syndrome*
- An analysis of some preliminary management issues by distinguishing the standard plain vanilla discretionary trust from a trust with extensive reserved powers enabling the settlor (or protector) to influence or control the exercise of some of the trustee’s administrative and dispositive powers
- A review of the typical modern reserved powers legislation
- Whether a trust can be established in a valid manner, but then administered without integrity by successive breaches of trust, which would convert what was otherwise a valid trust into one capable of being set aside as a (substantive) sham by a third party

By the end of this module you should be able to:

- Understand why a settlor may wish to reserve powers to retain some control over trust assets, and how this is often achieved in the trust instrument
- Appreciate the theory that supports the view that the greater the powers reserved by the settlor, the greater the risk that the trust may be set aside as a sham
- Summarise the provisions of modern reserved powers legislation, and its purpose and effect
- Appreciate that some of the independent decision-making issues that apply to the management and investment of, and disposition from, a typical plain vanilla discretionary trust do not apply to a settlor-directed trust
- Understand how the trustee’s conduct in administering a trust can give rise to a challenge on the grounds that it is a substantive sham, and appreciate how such risk can be avoided by adopting best practice
MODULE 6: TRUSTEE INVESTMENT – LAW AND PRACTICE

This module covers:

- A foundation to your understanding of this topic by tracing the historical evolution of the law and practice relating to a trustee’s power of investment in England, both at common law and by early statutory provision, and to illustrate how such powers were traditionally exercised.
- An examination of the typical offshore legislation conferring upon trustees implied investment powers that operate in default of any express provisions to the contrary.
- How express powers of investment conferred upon a trustee by the trust instrument oust the trustee’s statutory powers.
- The standard of care that trustees must observe when exercising their powers of investment, both
  - At common law, and
  - Under modern statutory provisions.
- The restrictions that apply at common law to reduce a trustee’s ability to delegate part of his investment function to agents, such as investment managers and advisers.
- An emphasis that it is often prudent to obtain advice upon when, how and where to invest from investment advisers or to delegate the investment function to qualified investment managers.
- Modern provisions enabling a trustee to delegate his investment powers to agents and thereby obtain a release from liability for any loss suffered by the trust fund arising from the negligence or other default of the agent.
- The performance of investments made with trust funds on behalf of the beneficiaries must be continually monitored.
MODULE 6: TRUSTEE INVESTMENT – LAW AND PRACTICE CONTINUED

By the end of this module you should be able to:

• Understand how a trustee’s powers of investment evolved in England and how, historically, they were traditionally exercised

• Appreciate how express investment powers may be conferred upon trustees by the trust instrument and that statutory powers of investment apply in default

• Have established the extent of the statutory powers of investment given to trustees in your jurisdiction

• Comply with the standard of care expected of a professional trustee when exercising his investment powers, both under the common law criteria and under new principles found in modern trust legislation

• Appreciate why it is necessary to obtain advice from, or to delegate your discretion as to when, how and where to invest, to investment advisers and qualified managers, having regard to the complexities of global investment opportunities

• Understand the position with regard to a trustee’s ability to delegate part of his fiduciary functions to agents, and ensure that, having properly delegated the investment function, you are duly protected from liability for loss suffered by the trust fund arising from the negligence or other default of the investment manager or adviser
MODULE 7: MANAGING TRUST ASSETS I – STOCKS, SHARES AND OTHER SECURITIES

This module covers:

• Why it is prudent for a trustee to delegate his powers of investment to experts
• The advantages of delegating the power to invest on a discretionary basis
• How the appointment of an investment manager is undertaken, including factors to be addressed and the procedures involved in making an informed choice
• How to set the investment objectives of a trust by reviewing factors such as
  • The type, size and duration of the trust
  • Ethical constraints
  • Risk tolerance
• How to set a benchmark, namely a framework for the portfolio, giving details of an appropriate spread of investments (between cash, bonds and equities, between different sectors and between different currencies and geographical markets)
• How an investment manager creates a portfolio by investing the trust fund, and to give a brief description of various types of monetary instruments, bonds, stocks and collective investment vehicles
• How a trustee should monitor the performance of an investment portfolio by comparing performance to the benchmark by
  • Simple comparison, and/or
  • A detailed analysis of the securities that comprise the benchmark indices

By the end of this module you should be able to:

• Explain why it is prudent for a trustee to delegate his powers of investment
• Identify the advantages of delegating the power to invest on a discretionary basis
• Be capable of making an informed choice when appointing investment advisers/managers
• Establish the investment objectives of a trust and risk profile
• Set both a simple and a composite benchmark for the trust investments
• Understand and be able to give a basic description of different types of cash instruments, bonds, collective investment vehicles and equities
• Monitor meaningfully the performance of a trust portfolio by
  • Comparing performance with the benchmark by simple comparison, and
  • Making a detailed analysis of the securities that comprise the benchmark indices
MODULE 8: MANAGING TRUST ASSETS II – REAL ESTATE

This module covers:

- The management requirements of a portfolio of real estate and a portfolio of stocks and shares in order to illustrate that ownership of real estate is more complex and involves more onerous and time consuming responsibilities.
- How trustees establish the investment objectives of a trust that comprises real estate.
- How and why it is necessary for trustees to appoint:
  - A property investment manager and/or
  - A managing agent, in respect of real estate held in trust.
- How to set a benchmark in order to measure the performance of real property held by a trustee both in terms of net rental income received and capital appreciation (or depreciation).
- How a real estate portfolio is created by the acquisition (and subsequent letting) of:
  - Commercial property
  - Agricultural property and/or
  - Residential property
- The importance of periodically monitoring the performance of a real estate portfolio.

By the end of this module you should be able to:

- Appreciate that ownership of real estate is far more complex and time consuming, and involves far more responsibility, than ownership of a portfolio of stocks and shares.
- Establish the investment objectives of a trust that includes real estate.
- Decide whether it is necessary (and, if so, how) to appoint:
  - A property investment manager, and/or
  - A managing agent.
- Set a benchmark.
- Understand how a real estate portfolio is created by the acquisition (and subsequent letting) of commercial, agricultural and/or residential property.
- Measure the investment performance of real estate held by trustees both in terms of net rental income and capital appreciation.
MODULE 9: MANAGING TRUST ASSETS III – MOVABLE CHATTELS

This module covers:

- A trustee’s duties in relation to, and some of the procedures involved in, accepting chattels into trust or otherwise acquiring them by way of:
  - Voluntary transfer and/or
  - Purchase
- Whether a trustee is empowered to invest in the purchase of chattels and consider whether it is prudent to do so
- Ways to minimise risk when purchasing chattels and transporting works of art and antiquities (for instance, by making ownership searches and obtaining guarantees, opinions on attribution, valuations and export licences, if applicable)
- When and in what circumstances a trustee may acquire chattels for the purpose of enjoyment by a beneficiary
- Some of a trustee’s special duties in relation to chattels held in trust, including the duty:
  - To prepare an inventory
  - To protect the chattels and keep them safe
  - To insure

By the end of this module you should be able to:

- Appreciate the extent of a trustee’s duty, and the procedural mechanics involved, in accepting chattels into trust or otherwise acquiring them by way of:
  - Voluntary transfer, and/or
  - Purchase
- Establish whether you, as trustee, have the power to invest in the purchase of chattels and consider whether it is prudent to do so
- Know when to minimise the risks inherent in purchasing chattels and transporting works of art and antiquities across borders
- Establish when and in what circumstances a trustee may acquire chattels for the purpose of enjoyment by a beneficiary
- Appreciate and comply with a trustee’s special duties in relation to chattels, including the duty:
  - To prepare an inventory
  - To protect the chattels and keep them safe
  - To insure
MODULE 10: MANAGING TRUST ASSETS IV – A CONTROLLING INTEREST IN THE SETTLOR’S FAMILY BUSINESS EMPIRE

This module covers:

• Some of the reasons why a prospective settlor may wish to transfer the shares of his private trading or investment company into trust

• The standard of care owed by a trustee to monitor the affairs of a private trading or investment company (whose shares are held in trust) and to supervise the actions of its directors

• Ways in which trustees may keep themselves informed of the company’s business activities; and ways in which the trustees may interfere in management whenever they determine that action is required to protect the trust assets and the value of their shares

• Some of the ways in which a trust may be established in order to protect the trustee by modifying the Bartlett duty to monitor the affairs of the underlying company, including
  • Express provisions and standard exoneration clauses
  • An indemnity from the settlor
  • The use of a special purpose asset-holding vehicle, namely a company (with voting and non-voting shares) or a limited partnership (with general and limited partners)
  • The use of a private trust company
  • Built in protection at the level of the private company
  • Built in protection at the level of the private company
  • The use of modern offshore trust legislation
  • Estate planning options for the continued good management of the private trading or investment company after the settlor’s death including
    • Family succession to management
    • Non-family succession to management
    • Public flotation/IPO
    • A sale of the business as a going concern
  • Some of the dispositive provisions that may be included in a trust comprising shares in a private company, and related issues
MODULE 10: MANAGING TRUST ASSETS IV – A CONTROLLING INTEREST IN THE SETTLOR’S FAMILY BUSINESS EMPIRE CONTINUED

By the end of this module you should be able to:

• Appreciate why a settlor may wish to transfer the shares in his private business to trustees

• Describe a trustee’s standard of care to monitor the affairs of the business (held in trust) and supervise the actions of its directors, and to apply that test to typical factual situations

• Know the importance of keeping informed of the company’s business activities and know how to interfere in circumstances when you determine that action is required to protect the trust assets

• Modify the Bartlett duty (to monitor the affairs of the company) by the use of express exculpatory provisions in the trust instrument, indemnity, special purpose vehicles, private trust companies, etc.

• Be capable of discussing estate planning options with a settlor for the continued good management of the company after his death

• Consider dispositive provisions of a typical trust of shares of a private company and related issues
MODULE 11: DISTRIBUTIONS – LAW, PRACTICE AND PROCEDURE

This module covers:

• A trustee’s duty to distribute in accordance with the beneficial interests created by the trust, and his dispositive powers to distribute in his discretion

• The different types of beneficial interests that exist in trust property and how the beneficial rights of the beneficiaries correspond to the duties owed by the trustee

• Some typical dispositive powers conferred upon a trustee by trust legislation, and by express terms set out in the trust instrument

• The duties owed by a trustee in relation to distributions of trust property, including the duties owed when exercising a dispositive power

• The factors to consider in the decision-making process in relation to the exercise of dispositive powers

• Typical procedures involved in making distributions

By the end of this module you should be able to:

• Distinguish a duty to distribute and a power to do so

• Explain typical dispositive powers conferred upon a trustee by
  • Trust legislation
  • Common express terms of the trust instrument

• Appreciate the rights enjoyed by the beneficiaries and the corresponding duties owed by the trustee in respect of different types of beneficial interests, particularly
  • A life interest
  • An interest in remainder
  • A contingent interest
  • An interest under a discretionary trust

• Comply with the trustee’s duties when considering whether to distribute trust funds pursuant to a discretionary dispositive power

• Identify proper considerations that affect a trustee’s decision-making process regarding distributions

• Understand, and duly employ, appropriate distribution procedures typically adopted by trust companies
MODULE 12: CONFIDENTIALITY AND COMPULSORY DISCLOSURE

This module covers:

- Introduce the concept of confidentiality and how it affects a trustee
- Explore when and in what circumstances a trustee is obliged to disclose trust accounts and other information to beneficiaries, the settlor, the protector, the regulator, the money laundering authority, and the courts.
- Explore when and in what circumstances a trustee is obliged to disclose trust documents and other information as part of his public duties.
- Introduce recent statutory disclosure rules and international measures that affect client confidentiality: the US QI rules, FATCA, Intergovernmental Agreements, OECD automatic information exchange, EU measures on information exchange.

By the end of this module you should be able to:

- Appreciate how and why the duty of confidentiality arose and how it affects the provision of financial services.
- Ascertain when and in what circumstances a beneficiary is entitled to trust accounts and other information relating to the trust.
- Ascertain when and in what circumstances a third party related to the trust, such as the settlor or the protector, is entitled to trust accounts and other information relating to the trust.
- Understand the extent of your public duty to disclose documents and other information relating to the trust to the regulator, the money laundering authority and/or the courts.
- Understand how the US QI Rules have been supplemented, converged with and extended by FATCA.
- Describe how the British government pre-empted automatic exchange of information requirements by introducing their own “Son of FATCA” Intergovernmental agreements.
- Understand the implications of the OECD declaration on automatic exchange of information.
MODULE 13: VARIATION AND TERMINATION OF TRUSTS

This module covers:

• Consider the extent to which provisions of an existing trust may be varied or terminated by the settlor, the trustees or the beneficiaries
• Look at typical legislation that enables the court to approve a variation

By the end of this module you should be able to:

• Understand when and in what circumstances a trust may be revoked, varied or brought to an end by either one or more of
  • The settlor
  • The trustee
  • The beneficiaries
• Explain the rule in Saunders v Vautier and its limitations
• Appreciate when and in what circumstances the court may approve a variation of an existing trust, under powers granted by trust legislation based upon the Trustee Act 1925, and the Variation of Trusts Act 1958
MODULE 1: TRUSTEE INVESTMENT: AN INTRODUCTORY OVERVIEW

This module covers:
- An introduction to the concept of investment and review some preliminary definitions
- An exploration of the relationship between risk and return
- An introduction to the financial markets and their broad purpose, that is, to act as a marketplace where governments and commercial trading entities in need of capital can meet investors with money to invest, in order to raise capital by way of
  - Loan
  - Issuing bonds
  - Selling equity
- A review of the role of a professional trustee carrying on trust business from an international financial centre in relation to the investment of trust property
- The need to consult experts or delegate the trustee’s investment powers
- The three essential components of a balanced portfolio, namely
  - Liquidity
  - Stability and
  - Growth
- The aims and objectives of the Diploma study text and the areas of study in forthcoming modules

By the end of this module you should be able to:
- Have developed some basic knowledge of investments
- Appreciate the relationship between risk and return and understand how risk-averse and risk-tolerant investors behave
- Understand the broad purpose of the financial markets
- Appreciate the role of a professional trustee in relation to the investment of trust property, and in particular to appreciate the need to consult experts or delegate the trustee’s investment powers
- Identify the three essential components of a balanced portfolio namely
  - Liquidity
  - Stability
  - Growth
- Know where your future studies are heading in the modules which follow
MODULE 2: INVESTING IN CASH AND THE MONEY MARKETS

This module covers:

- A review of a trustee’s options when investing trust funds in liquid assets (so that cash is readily available in order to cover foreseeable expenses and immediate needs)
- The common types of account used for holding cash
- An analysis of some of the component parts of the money markets, namely
  - The inter-bank market
  - The money market securities market
- An introduction to the money market securities market and, in particular, a review of the salient features of Treasury bills, negotiable certificates of deposit and commercial paper
- An explanation of how a trustee may gain access to the money markets by
  - Retaining money market brokers
  - Opening a money market account, or
  - Via a money market fund

By the end of this module you should be able to:

- Appreciate the options available to trustees when investing trust funds in cash or an equivalent liquid security in order to cover immediate needs
- Describe the salient features of the common types of account used for holding cash
- Understand some of the component parts of the money markets, namely
  - The inter-bank market
  - The money market
  - Securities market
- Appreciate the features of the main money market securities, namely T-bills, negotiable CDs and CP
- Gain access to the money markets with the assistance of money market brokers or via a money market account or fund
MODULE 3: AN INTRODUCTION TO THE BOND MARKETS

This module covers:
- An introduction to the concept of debt
- A definition of the type of security known as a bond and an analysis of its general characteristics to explore some technical features of, and terminology used in, the money and bond markets
- An analysis of the behaviour of bond prices and the identification of factors that influence the price of a bond and the rate of interest payable to a bondholder, namely
  - Risk
  - Maturity date
  - Liquidity
  - Supply and demand
  - Rate of inflation
- A review of yields, distinguishing the coupon rate of interest payable on a bond, its current yield and its yield to maturity, by taking into account
  - The price paid for a bond (rather than its face value)
  - Its redemption value upon maturity
- A description of the credit rating system that acts as a guide to investors in order that the markets may appreciate the risk and assess an appropriate yield

By the end of this module you should be able to:
- Appreciate some of the technical features of, and market terminology used on, the bond markets
- Analyse what is meant by the rate of interest payable to an investor who has lent money to a borrower on the financial markets (by, for instance, purchasing a bond, bill or note)
- Understand the behaviour of bond prices generally and identify factors that affect bond prices and their yields, namely
  - Risk
  - Maturity date
  - Liquidity
  - Supply and demand
  - Rate of inflation
  - Distinguish coupon interest, current yield and yield to maturity
- Use the credit rating systems as a guide when investing trust funds in order to assess risk and an appropriate market rate of interest
MODULE 4: TYPES OF BOND

This module covers:

• A compare and contrast of the money and bond markets
• The distinction between the domestic and the international (Eurobond) bond markets
• The different types of bond, categorised according to the issuer, namely
  • Government bonds
  • Semi-sovereign bonds such as municipal, local authority and public sector bonds
  • Corporate bonds and their many variations including callable, puttable and convertible bonds, debentures and warrants
  • Mortgage bonds and other asset-backed securities
  • Foreign bonds
  • Junk bonds
  • Zero interest bonds and stripped bonds
• An exploration of the historical background to the emergence and growth of
  • Eurobonds and the emergence of the terms Eurodollars and Eurocurrency
• An investigation of the Eurobond market
• An explanation of the meaning of, and practice relating to
  • Currency and interest rate swaps
  • Coupon stripping
**MODULE 4: TYPES OF BOND CONTINUED**

By the end of this module you should be able to:

- Appreciate the features of the money and the bond markets
- Distinguish the domestic and the international (Eurobond) bond markets
- Explain the central characteristics of different types of bond, categorised according to the issuer, namely
  - Government bonds
  - Local authority and public sector bonds
  - Mortgage bonds and other asset-backed securities
  - Corporate bonds
  - Foreign bonds
  - Junk bonds
  - Zero interest bonds and stripped bonds
- Understand price quotations
- Explain the historical background to the emergence and growth of Eurodollars, Eurocurrencies and Eurobonds and appreciate the importance of the Eurobond market
- Realise that there are many variations on the Eurobond theme
- Understand the meaning and purpose of, and practice relating to currency and interest rate swaps
MODULE 5: THE EQUITY MARKETS

This module covers:

- An introduction to the concept of equity finance and a comparison of it with debt
- A review of the characteristics of stocks, a comparison of common stock with typical features associated with preferred stock and a look at other market categorisations
- The distinction between the primary and secondary equity markets
- A review of the regulation of, and the practices and procedures common to most of the world’s major primary equity markets when a corporate raises capital by the issue of new stock
- A review of the common practices and procedures of some of the world’s major secondary equity markets when investors trade shares on an exchange, including
  - How shares are traded by operating brokerage accounts
  - How the exchanges work
  - The clearing and settlement of trades
- How to measure the performance of equity markets by consulting indexes and averages
- An exploration of some of the challenges faced by traditional stock exchanges

By the end of this module you should be able to:

- Appreciate the main characteristics of stocks
- Discuss the broad characteristics of some of the world’s equity markets
- Distinguish between the primary and secondary equity markets
- Understand the common practices and procedures of the primary equity markets when a corporate raises capital in exchange for the issue of new stock (by way of new issues of shares, rights issues, open issues, scrip issues and splits)
- Understand the common practices and procedures of the secondary equity markets when investors trade shares on an exchange including
  - How shares are traded by operating brokerage accounts
  - How the exchanges work
  - The clearing and settlement of trades
- Measure the performance of equity markets and monitor individual investment portfolios by consulting indexes and averages
MODULE 6: INVESTMENT ANALYSIS

This module covers:

- The role of the investment analyst
- The distinct schools of thought to which analysts belong, namely fundamental analysis and technical analysis
- A description of a number of popular investment systems, such as
  - The Dow theory
  - The relative strength system
  - The filter system
  - The price volume system
  - The diversify, buy and hold strategy
- A consideration of some of the significant investment theories upon which investment systems may be based, namely
  - Modern portfolio theory
  - The capital-asset pricing model
  - Using beta coefficients.
- An explanation of analysts’ recommendations

By the end of this module you should be able to:

- Be familiar with the role of an investment analyst
- Appreciate the difference between the fundamental analyst and the technical analyst (or chartist) and the two schools of thought to which they belong
- Be aware of a number of investment systems used by technical analysts
- Understand in broad terms what is meant by the efficient market hypothesis
- Explain the concepts of modern portfolio theory, the capital-asset pricing system and beta coefficients
- Understand analyst’s recommendations
MODULE 7: FINANCIAL APPRAISAL AND THE USE OF RATIO ANALYSIS

This module covers:

- An introduction to the concept of financial appraisal
- The use of ratio analysis as a tool for the investor or investment analyst who subscribes to the fundamental school of thought
- A consideration of the important solvency ratios, namely
  - Net worth calculations
  - The current ratio and quick liquidity ratio
  - Debt to equity ratios
- The main profitability ratios, measuring
  - Return on assets
  - Return on equity
  - Profit margin
  - Asset turnover
- The main investor ratios, namely
  - Earnings per share
  - Dividends per share
  - The payout ratio (dividend cover)
  - Dividend yield
  - The P/E ratio
  - Earnings yield

By the end of this module you should be able to:

- Understand how ratio analysis can assist an investor and an investment analyst in deciding which stocks to buy, hold and/or sell
- Calculate, and interpret the meaning of, a number of the solvency ratios
- Calculate, and interpret the meaning of, a number of the profitability ratios
- Calculate, and interpret the meaning of, a number of ratios specifically concerned with return to the investor
- Appreciate how analysts appraise a company and assess its solvency, liquidity, profitability, leverage, efficiency, growth, and whether its stock price offers value-for-money
- Appreciate some of the limitations of ratio analysis as a tool for comparison
MODULE 8: COLLECTIVE INVESTMENT FUNDS AND EXCHANGE-TRADED FUNDS

This module covers:

- An introduction to collective investment as an alternative to direct investment in stocks, bonds or other securities
- The advantages of collective investment funds
- Different legal structures that can be adopted by collective investment funds
- A review of some of the more usual investment strategies that may be followed by a fund manager and a description of special types of fund
- How to buy shares in a collective investment company and the importance and content of the prospectus
- How to monitor performance of a mutual fund, mutual fund quotations and typical performance figures
- An explanation of how, and in what circumstances, investment funds may be a useful investment medium for a trustee with trust funds to invest
- A consideration of an alternative investment, Exchange-traded funds

By the end of this module you should be able to:

- Be familiar with the concept of collective investment vehicles
- Explain the advantages of collective investment
- Understand the different structures adopted by collective investment companies
- Interpret investment strategies published by investment fund managers
- Appreciate how to buy and sell shares in a mutual fund company
- Be familiar with mutual fund quotations and appreciate how to monitor the performance of a typical fund
- Appreciate how and in what circumstances collective investment funds may be used by a trustee with trust funds to invest
MODULE 9: OPTIONS AND DERIVATIVES MARKETS

This module covers:

- An introduction to derivative products and an outline of who invests in them, where and with what objectives
- A definition of the product known as an option and a review of the standard terms of options contracts
- A review of stock options and the typical rights acquired by purchasing call and put stock options
- An exploration of when and in what circumstances a stock option should be abandoned, exercised or traded
- An explanation of the value of options by breaking their value down into an intrinsic value and a time value, to ascertain whether the premium sought by option writers is fair
- A review of other types of options, specifically those derived from
  - An index, and
  - Bonds
- Some typical and some esoteric option strategies for the sophisticated investor

By the end of this module you should be able to:

- Appreciate the character of derivative products and know who invests in them, where and with what objectives
- Understand the topic of stock options and appreciate typical rights acquired by purchasing call options and put options
- Explain when and in what circumstances an option may be abandoned, exercised or traded
- Understand how option premiums are priced, be able to break the value of an option down into an intrinsic value and a time value in order to analyse the pros and cons of the various options available for a particular stock
- Appreciate the concept of index options and how they may be used to hedge or speculate upon anticipated movements in the market as a whole
- Apply your basic understanding of stock options to cope with issues arising in relation to options to buy or sell bonds, and appreciate how the concept of bond (or interest rate) options can be used to hedge or speculate upon anticipated movements in interest rates in an economy
- Understand the terms used for typical and/or esoteric option strategies for the sophisticated investor
MODULE 10: FUTURES

This module covers:

• An introduction to the futures markets and their evolution through cash markets, to forward contracts and into the modern futures markets first established in Chicago in the nineteenth century
• The users of the futures markets, namely the hedger and speculator, and an explanation of typical hedging techniques and the relationship between prices in the hedge market and prices in the physical market
• The distinction between commodity futures and financial futures
• A definition of a commodity futures contract; typical practices, procedures and investment strategies and, in particular, an illustration of how futures contracts may, in due course, be closed out
• A review of financial futures, and in particular a definition and explanation of typical practices and strategies of
  • Stock index futures, and
  • Bond (sometimes known as interest rate) futures

By the end of this module you should be able to:

• Understand the nature of futures and futures trading and appreciate the rationale behind the futures market, namely that it enables an investor
  • To hedge against future adverse price movements or
  • To speculate thereon
• Explain hedging techniques and the relationship between prices in the hedge market and prices in the real or physical market
• Understand the nature of commodity futures, know how and why they are traded, and be able to distinguish between
  • The cash markets
  • Forward contracts and
  • Futures
• Appreciate the nature of financial futures, know how and why they are traded, and be able to distinguish between
  • Bond futures, often referred to as interest rate futures, and
  • Stock index futures
For full details of the programme visit:
www.cltint.com/stepdiplomaint

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