



A Trustee's Duty To Disclose In Texas

David F. Johnson

Shared Vision, Local Experience & Momentum for the Future

Fort Worth is a vibrant community—both economically and socially—and the business community is sophisticated and savvy. Those who call Fort Worth home are not only proud to be here, but want to do business with others who share their love of the city's heritage.

Winstead's Fort Worth office focuses in key industries that bring strength to the local business community: financial services; probate, estate and trust transactions and disputes; real estate; investment management & private funds; and energy. In addition, our attorneys live here, work here, and are actively involved in many local organizations and community activities.

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At Winstead, our attorneys learn your business inside and out so we can understand your needs—now and in the future. Then we take a no-nonsense, collaborative approach to meet your business objectives. Winstead attorneys and consultants serve as trusted advisors to mid-market and large businesses, providing a core range of legal services that are critical to their operation and success. The Fort Worth office serves a vast range of industries and businesses.

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Winstead has assembled an exceptional litigation and dispute resolution department in a broad array of areas. One of the core areas of practice for Winstead's Fort Worth office is dispute resolution related to probate, trust, and estate matters. We are acutely aware that nearly all of our clients want their lawsuit or dispute to go away—quickly, definitively, discreetly and inexpensively. When litigation is necessary, our goal is to work with our clients to develop and implement an effective and efficient strategy. We are fully committed to our clients and to their objectives. We work vigorously to protect your rights and interests in cases large and small, while helping you evaluate, manage and control the risks, costs and uncertainties associated with litigation.

Business & Transactions

Winstead attorneys help clients manage daily business decisions, and provide counsel for immediate planning and long-term strategies to achieve business goals. Winstead has one of the largest and most experienced business and transactional departments in the southwest region, assisting clients through prosperous and trying times. We work with privately held and publicly traded companies of all sizes from a variety of industries, including individual representation of business owners, corporate executives and other high net worth individuals with regard to personal wealth transfers and other transactional needs. Our representation spans virtually all aspects of banking, finance, mergers and acquisitions, operations, expansions, regulatory law, business restructuring, government relations, real estate development, taxation and more. Our attorneys work as an extension of your business team; we stay on top of industry trends and understand your specific business challenges. By being knowledgeable about your business goals, we offer legal solutions that are truly innovative.

David F. Johnson

Managing Shareholder - Fort Worth

817.420.8223 | dfjohnson@winstead.com

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WINSTEAD

ATTORNEYS

winstead.com

Offices

AUSTIN

401 Congress Avenue
Suite 2100
Austin, Texas 78701
512.370.2800 *office*
512.370.2850 *fax*

CHARLOTTE

201 N. Tryon Street
Suite 2000
Charlotte, North Carolina 28202
704.339.1799 *office*
704.339.1701 *fax*

DALLAS

500 Winstead Building
2728 N. Harwood Street
Dallas, Texas 75201
214.745.5400 *office*
214.745.5390 *fax*

FORT WORTH

300 Throckmorton Street
Suite 1700
Fort Worth, Texas 76102
817.420.8200 *office*
817.420.8201 *fax*

HOUSTON

1100 JPMorgan Chase Tower
600 Travis Street
Houston, Texas 77002
713.650.8400 *office*
713.650.2400 *fax*

SAN ANTONIO

300 Convent Street
Suite 2700
San Antonio, Texas 78205
210.277.6800 *office*
210.277.6810 *fax*

THE WOODLANDS

24 Waterway Avenue
Suite 500
The Woodlands, Texas 77380
281.681.5900 *office*
281.681.5901 *fax*

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Winstead has a long tradition of excellence in service to bank trust departments and private or corporate trustees. The firm's roster includes attorneys who have gained national prominence in matters involving wills, trusts and estates. Over the years, Winstead's experience on the transactional side of that area of practice has been matched periodically by the involvement of many of its attorneys on the controversy side of practice: will contests, suits by beneficiaries or third parties against bank trust departments or corporate trustees, and suits brought by trustees on a variety of civil actions, including controversies, tax matters, and trust modifications.

Recognizing that this area of law is likely to increase, perhaps geometrically, in the next several years (with the accumulated wealth of "baby boomers," technology entrepreneurs and others who are targets of litigation), Winstead has set about to coalesce its efforts on behalf of its many clients by establishing its Fiduciary Litigation Practice Group.

The Fiduciary Litigation Practice Group is comprised of individuals who over time have been involved in an impressive array of sophisticated and challenging matters, both on the transactional and controversy sides of practice. Reference to the resumes of the members of the Fiduciary Litigation Practice Group also makes readily apparent the scope, depth and breadth of our experience.

The handling of transactional and controversy matters is only part of our mission. In an effort to assist fiduciaries in avoiding the controversy that oftentimes leads to expensive, time-consuming and wasteful litigation, Winstead offers a menu of presentations on topics of interest to clients. Most of the presentations qualify for continuing legal education credit and can be presented in a "Lunch & Learn" format. These offerings are in recognition of the fact that ours is a litigious society, and sophisticated clientele handling financial transactions in a fiduciary capacity are frequently viewed as "targets of opportunity" by third parties. In short, Winstead's Fiduciary Litigation Practice Group is as interested in preventing problems for our clients as we are in handling the problems if trouble beckons.

In addition to our experience in handling (or preventing) fiduciary litigation that involves bank or corporate trust departments and trustees, Winstead has also developed experience in another type of fiduciary litigation: the handling of claims of legal malpractice. Among our active practice group members are attorneys who have served on local and State Bar Grievance Committees, Texas Supreme Court—Legal Ethics and Professionalism Boards, and as general counsels to law firms. That experience, combined with well-recognized trial skills, allows the firm to serve two distinct yet complementary areas of practice.

Blog - TXFiduciaryLitigator.com

The Texas Fiduciary Litigator provides important legal news, updates on recently decided and pending case precedent, and commentary to directors, officers, managers, in-house counsel, trust officers, and wealth advisors who work for financial institutions that serve in fiduciary roles, as well as attorneys and court personnel who provide legal services in the fiduciary area.

The Texas Fiduciary Litigator serves as a go-to resource for those who need to stay current on legal cases and issues impacting the fiduciary field in Texas. Blog topics include summaries and commentary covering Texas Supreme Court opinions and Texas intermediate courts of appeals' opinions that impact the fiduciary field, as well as other topical issues that arise in fiduciary litigation.

Lead Writers



David Fowler Johnson

817.420.8223 direct
dfjohnson@winstead.com



Joseph P. Regan

817.420.8217 direct
jregan@winstead.com





David Fowler Johnson

Managing Shareholder - Fort Worth

Commercial Litigation; Appellate; Tort & Insurance Litigation; Fiduciary Litigation; Financial Services Industry

Fort Worth

817.420.8223 Direct
817.420.8201 Fax
dfjohnson@winstead.com

Baylor Law School

- J.D., 1997
- *magna cum laude*
- Mid-Year Law Award, *Baylor Law Review*
- Academic Dean's List
- Recipient of multiple scholarships

Baylor University

- B.B.A., Accounting, 1994

Through his trial and appellate experience, David aggressively strives to obtain the absolute best results possible for his clients. David maintains an active trial and appellate practice. David has consistently worked on fiduciary litigation matters as both lead trial and appellate counsel throughout his career. David has specialized in estate and trust disputes including will contests, mental competency issues, undue influence, trust modification/clarification, breach of fiduciary duty and related claims, and accountings. David's recent trial experience includes:

- Representing a bank in federal class action suit where trust beneficiaries challenged whether the bank was the authorized trustee of over 220 trusts;
- Representing a bank in state court regarding claims that it mismanaged oil and gas assets;
- Representing a bank who filed suit in probate court to modify three trusts to remove a charitable beneficiary that had substantially changed operations;
- Represented an individual executor of an estate against claims raised by a beneficiary for breach of fiduciary duty and an accounting; and
- Represented an individual trustee against claims raised by a beneficiary for breach of fiduciary duty, mental competence of the settlor, and undue influence.

David is the primary author of the Texas Fiduciary Litigator blog, which reports on legal cases and issues impacting the fiduciary field in Texas.

David is a unique lawyer in that he has extensive trial and appellate experience, which has resulted in his achieving board certifications in civil trial law, civil appellate, and personal injury trial law by the Texas Board of Legal Specialization. Out of approximately 84,000 licensed attorneys in Texas, David is one of less than twenty attorneys with this particular triple certification in civil appellate, civil trial and personal injury trial law. David is also a member of the Civil Trial Law Commission of the Texas Board of Legal Specialization. This commission writes and grades the exam for new applicants for civil trial law certification.

David's appellate experience includes:

- appeals from final judgments after pre-trial orders such as summary judgments or after jury trials;
- interlocutory appeals dealing with temporary injunctions, arbitration, special appearances, sealing the record, and receiverships;
- original proceedings such as seeking and defending against mandamus relief; and

- seeking emergency relief staying trial court's orders pending appeal or mandamus

David previously taught Appellate Advocacy at Texas Wesleyan University School of Law located in Fort Worth. David is licensed and has practiced in the U.S. Supreme Court; the Fifth, Seventh, and Eleventh Federal Circuits; the Federal District Courts for the Northern, Eastern, and Western Districts of Texas; the Texas Supreme Court and various Texas intermediate appellate courts. Although David is based in Fort Worth (Tarrant County, Texas), he has a state-wide and national appellate practice.

David also served as an adjunct professor at Baylor University Law School, where he taught products liability and portions of health law. He has authored many legal articles and spoken at numerous legal education courses on both trial and appellate issues. His articles have been cited as authority by the Texas Supreme Court (twice) and the Texas Courts of Appeals located in Waco, Texarkana, Beaumont, Tyler and Houston (Fourteenth District), and a federal district court in Pennsylvania. David's articles also have been cited by McDonald and Carlson in their Texas Civil Practice treatise, William v. Dorsaneo in the *Texas Litigation Guide*, and various authors in the *Baylor Law Review*, *St. Mary's Law Journal*, *South Texas Law Review* and *Tennessee Law Review*.

Representative Experience

- Civil Litigation and Appellate Law

Professional & Community Involvement

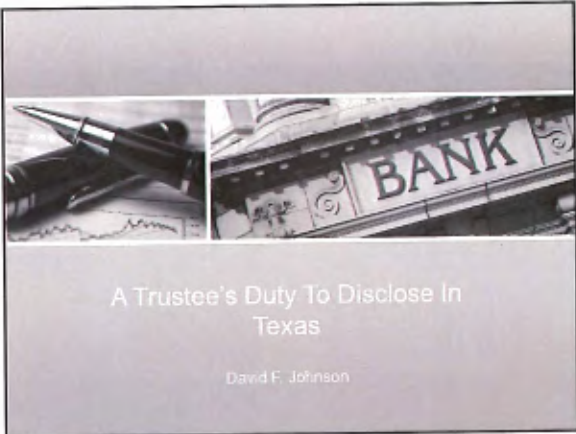
- Member of Texas Association of Bank Counsel
- Member of Tarrant County Probate Bar Association
- State Bar of Texas (Appellate Section)
 - Member Services Sub-Committee, 2005-2008; Co-Chair, 2007-2008
 - Rules Sub-Committee, Co-Chair 2009-2012
- Member of Bar Association of the Fifth Federal Circuit
- Eldon B. Mahon Chapter of the American Inns of Court (Master)
- Tarrant County Bar Association (Appellate Section)
 - CLE Committee, 2005-2008; Co-Chair 2007-2008
 - Appellate Section Leadership Committee, 2005-2007; Vice Chairperson 2008-2009; Secretary 2007-2008
- College of the State Bar of Texas
- Pro Bono Liaison for Winstead's Fort Worth Office
- Board of Directors, Junior Achievement of the Chisholm Trail
- Board of Directors, Fort Worth Sister Cities
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Awards & Recognition

- *The Best Lawyers in America*, Woodward/White Inc., 2014-2016
- Texas Super Lawyers, Thomson Reuters, 2013-2015
- Texas Rising Star, Thomson Reuters, 2004-2012
- Tarrant County's Top Attorneys, Fort Worth, Texas, 2004-2012
- The Best Lawyers in Dallas, *D Magazine*, 2008 and 2009
- Outstanding Lead Article, *Texas Tech Law Review*, 2007
- The Best Dallas Lawyers Under 40, *D Magazine*, 2004 and 2006
- 40 Under 40, *Fort Worth Business Press*, 2003

Admitted to Practice

- Texas, 1997



Introduction

- Trustees possess, manage, and control assets for beneficiaries – usually for compensation.
- This is significant authority and power.
- There are many corresponding duties: one of the most important duties is the duty to disclose information.
- This presentation is intended to provide the current legal authority in Texas dealing with a Trustee's duty to disclose.
- www.txfiduciarylitigator.com

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Sources For Duty To Disclose

- There are four independent sources for a duty to disclose in Texas:
 - The Trust Document;
 - Texas Statutory Law;
 - Texas Common Law; and
 - Litigation Rules.

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Trust Document's Duty To Disclose

- A trust document may have express provisions regarding the disclosure of information to beneficiaries that are more onerous than statutory or common law.
- Generally, the trust document governs and should be followed. Tex. Prop. Code §111.0035(b).



Trust Document's Duty To Disclose

- "The trustee shall administer the trust in good faith according to its terms and the Texas Trust Code." *Tolar v. Tolar*, No. 12-14-00228-CV, 2015 Tex. App. LEXIS 5119 (Tex. App.—Tyler May 20, 2015, no pet.).
- "The powers conferred upon the trustee in the trust instrument must be strictly followed." *Id.*
- If a trust instrument provides additional disclosure requirements, a trustee should follow them or else risk a breach of duty claim.



Trust Document's Duty to Disclose

- In *Alpert v. Riley*, the trusts required the trustee to notify the beneficiaries annually of their right to withdraw an amount equal to the aggregate amount contributed by each donor for that calendar year or \$20,000, whichever is less. 274 S.W.3d 277 (Tex. App.—Houston [1st Dist.] 2008, pet. denied).
- Based on the terms of the trust, the court concluded that a rational trier of fact could conclude that the trustee breached his fiduciary duty by failing to communicate the amount the beneficiaries could withdraw.



Trust Document's Duty To Disclose

- A settlor may want to limit the duty to disclose.
- For example, the "silent trust" where the trust document instructs the trustee to not disclose the existence of the trust.
- There are practical reasons why a fiduciary would not want to be involved in a silent trust.
- This creates an awkward position where a trustee is required to keep the trust a secret, which may mean he has little interaction with the beneficiaries, but may still have the discretion to make distributions where he does not know their circumstances.
- It probably increases risk of fiduciary claims.

WINDHEAD

Trust Document's Duty To Disclose

- Can a settlor limit disclosure obligations?
- A settlor may limit disclosure obligations in a revocable trust – the settlor can always revoke it or change beneficiaries.
- Some limited precedent in other jurisdictions that would support a duty to disclose to beneficiaries in revocable trust situations.
- Also, duty may arise if the settlor becomes incompetent.
- However, in an irrevocable trust, statutes limit what a settlor can do regarding limiting the duty of disclosure.

WINDHEAD

Trust Document's Duty To Disclose

- A trust document may not limit a trustee's duty to respond to a demand for an accounting if the demand is from a beneficiary who is entitled or permitted to receive distributions or would receive a distribution if the trust terminated at the time of the demand. Tex. Prop. Code §111.0035(b)(4).
- A trust document may not limit a trustee's common-law duty to keep a beneficiary who is 25 years of age or older informed at any time during which the beneficiary is entitled or permitted to receive distributions or would receive a distribution if the trust terminated at the time of the demand. *Id.* at §111.0035(c).

WINDHEAD

Trust Document's Duty To Disclose

- Other than these two exceptions, a settlor may restrict or eliminate the right of any other beneficiary to demand an accounting or otherwise have common laws rights to disclosure.
- Example: Beneficiaries under 25 and contingent remainder beneficiaries
- Accordingly, a trustee should carefully review a trust document to see if there are any changes regarding the duty to disclose.



Statutory Duty to Disclose

- After reviewing the trust document, a trustee should be aware of statutory duties of disclosure.
- "A trustee shall administer the trust in good faith according to its terms and this subtitle. In the absence of any contrary terms in the trust instrument or contrary provisions of this subtitle, in administering the trust, a trustee shall perform all of the duties imposed on trustees by the common law." Tex. Prop. Code §113.051.



Statutory Duty to Disclose

- In 2005, the Texas Legislature enacted Texas Property Code Section 113.060 that imposed on trustees a duty to keep beneficiaries reasonably informed concerning the trust's administration and "the material facts necessary for the beneficiaries to protect [their] interests."
- This created certain problems regarding whether this displaced the common law and whether it imposed higher burdens than required by the common law.



Statutory Duty to Disclose

- So, in 2007, the Texas Legislature repealed Section 113.060 stating:
- "The enactment of Section 13.060 was not intended to repeal any common-law duty to keep a beneficiary reasonably informed, and the repeal of this Act of Section 113.060 does not repeal any common-law duty to keep a beneficiary informed. The common-law before January 1, 2006, is continued and in effect."



Statutory Duty to Disclose

- There is no specific statutorily defined duty to disclose in Texas.
- Rather, the statutes state that a trustee has to act in good faith and consistent with all common-law duties – including the common-law duty to disclose.



Demand for Accounting

- The Texas Property Code provides for a right of beneficiaries to demand an accounting. See Tex. Prop. Code §113.151.
- A beneficiary may give a written demand for accounting, and a trustee has 90 days to provide a written accounting covering all transactions since the last accounting or the creation of the trust, whichever is later.



Demand for Accounting

- If the accounting is not provided in 90 days (or the court does not allow an extension), the beneficiary can bring suit to compel.
- A court may award attorney's fees and costs to the beneficiary as against the trustee (individually or against trust).
- Trustee cannot be compelled to do an accounting more than once a year, unless a court orders otherwise.

WHS16AD

Demand for Accounting

- In *Grinnell v. Munson*, a court of appeals affirmed a trial court's summary judgment on a beneficiary's claim that a fiduciary had failed to prepare an accounting on demand when the fiduciary had previously provided a detailed accounting less than a year before. 137 S.W.3d 706, 721-22 (Tex. App.—San Antonio 2004, no pet.).

WHS16AD

Demand for Accounting

- An "interested person" can seek an accounting.
- An "interested person" means a trustee, *beneficiary*, or any other person having an interest in or a claim against the trust or any person who is affected by the administration of the trust." Tex. Prop. Code §111.004(7) (emph. added).
- A "beneficiary" means a person for whose benefit property is held in trust, regardless of the nature of the interest. *Id.* at §111.004(2).
- Absent a contrary provision in the trust instrument, a trustee must respond to any demand for an accounting by any beneficiary, including contingent beneficiaries.

WHS16AD

Demand for Accounting

- Absent a request or other term of the trust instrument, a trustee is under no duty to prepare an accounting.
- In *Malone v. Malone*, the court of appeals held that a trustee did not breach a duty by failing to provide accountings to a beneficiary where the evidence did not indicate that the beneficiary ever requested one and the trust document did not otherwise require it. No. 02-08-157-CV, 2009 Tex. App. LEXIS 6589 (Tex. App.—Fort Worth August 20, 2009, pet. denied).
- However, a trustee is under a duty to maintain adequate records to be able to prepare an accounting at any time.



Demand for Accounting

- The accounting should include:
 - All assets that belong to the trust (whether in the trustee's possession or not);
 - All receipts, disbursements, and other transactions, including their source and nature, with receipts of principal and interest shown separately;
 - Listing of all property being administered;
 - Cash balance on hand and the name and location of the depository where the balance is maintained; and
 - All known liabilities owed by the trust.
- Tex. Prop. Code §113.152



Demand for Accounting

- In *Beaty v. Bales*, a beneficiary wanted an audited or verified accounting, which the trial court did not require. 677 S.W.2d 750 (Tex. App.—San Antonio 1984, no writ).
- Court of appeals held that the trial court did not abuse discretion in determining that an unaudited accounting was sufficient.
- The trial court was concerned with the financial burden on the trust corpus and a CPA testified that unaudited accountings were sufficient with banks and IRS.
- Court held that it could interfere with a trial court's discretionary powers only in cases of fraud, misconduct, or a clear abuse of discretion.



Demand for Accounting

- A beneficiary may simply be impossible to please, no matter the accountings and disclosures given.
- Repeated and detailed requests for accountings can be a substantial cost to the trust – a cost that may impact other beneficiaries.
- Accordingly, a trustee should consider the cost in responding to difficult beneficiaries.
- Further, a trustee may seek protection from a court via a declaratory judgment suit from unreasonable requests for information. See Tex. Civ. Prac. & Rem. Code §37.005 (court may declare rights to any question arising from administration of trust).



Demand for Accounting

- Texas Property Code 115.001(9) provides that a district court has jurisdiction to require an accounting, review trustee fees, and settle interim or final accounts.
- This provision allows trustees to file suit for a final accounting and judicial discharge, which can usually be avoided if the beneficiaries will sign an adequate receipt, release, and refunding agreement.



Common-Law Duty To Disclose

- Texas precedent on the common-law duty to disclose has not been particularly clear.
- The Texas Supreme Court has stated that "trustees and executors have a fiduciary duty of full disclosure of all material facts known to them that might affect [the beneficiaries'] rights." *Huie v. DeShazo*, 922 S.W.2d 920 (Tex. 1996). See also *Valdez v. Hollenbeck*, 465 S.W.3d 217 (Tex. 2015).
- The existence of strained relations between parties does not minimize the fiduciary's duty of full and complete disclosure. *Montgomery v. Kennedy*, 669 S.W.2d 309, 313 (Tex. 1984).



Common-Law Duty To Disclose

- In *Estate of Benson*, court affirmed an appointment of a receiver over trust assets where the trustee had violated his duty to disclose. No. 04-15-00087-CV, 2015 Tex. App. LEXIS 9477 (Tex. App.—San Antonio September 9, 2015, pet. dism'd. by agr.).
- Section 114.008(a)(5) of the Texas Property Code authorizes a court to "appoint a receiver to take possession of the trust property and administer the trust" if the court finds that "a breach of trust has occurred or might occur."
- "[The trustee's] abrupt severance of all communications with the Trust beneficiaries, his undisclosed transfer of funds that could have negatively impacted the market value of [trust assets], ... and his concealment of the Trust bookkeeper from the Trust beneficiaries constitute some evidence ... of a failure to disclose material facts that might have affected the rights of the beneficiaries."



Common-Law Duty to Disclose

- Does a plaintiff have to have expert testimony to prove a breach of a duty to disclose?
- No. In *Wells Fargo Bank, N.A. v. Crocker*, the court held:
 - "We cannot conclude that expert testimony is necessary to establish a breach of this simple and straightforward duty. The disclosure of details concerning the Crocker sisters' interest in their father's estate, including the \$ 230,000 from the disputed account, is not outside the common experience and understanding of the average layman. An expert was not required to testify that Wells Fargo, having the fiduciary duty to disclose material facts, should have disclosed information to the beneficiaries concerning the disputed account."
- No. 13-07-00732-CV, 2009 Tex. App. LEXIS 9791 (Tex. App.—Corpus Christi December 29, 2009, pet. denied).
- Further, testimony from an attorney/expert on the scope of a duty to disclose may be inadmissible. See *Greenberg Traurig of N.Y., P.C. v. Moody*, 161 S.W.3d 56 (Tex. App.—Houston [14th Dist.] September 30, 2004, no pet.).



Common-Law Duty To Disclose

- The specific information that should be disclosed may vary depending on the terms of the trust, state law, and other factors such as the nature of the beneficiary's interest, age, capacity, and sophistication, the nature of the trust assets and transactions, and the identity of the trustee.
- Disclosure may include the trust instrument, information about the trustee, trustee compensation, conflicts-of-interest, expenses, trust assets and investment policies or strategies, performance, liabilities, receipts, disbursements, discretionary actions by trustee, tax matters, and other items.



Common-Law Duty To Disclose

- Is there an affirmative duty to disclose?
- Yes and no.
- There is a duty to affirmatively disclose certain matters, such as conflicts-of-interest, fiduciary breaches, or information that a trustee has that may significantly impact a beneficiary's interest.
- However, there may not be a duty to disclose routine trust activities. See Restatement (Third) Trusts, §82(1)(b), cmt. d.

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Common-Law Duty To Disclose

- The Restatement (Third) of Trusts, Section 82(1) provides that a trustee has a duty to:
 - Promptly inform beneficiaries of the existence of the trust, their right to obtain further information, and basic information concerning the trusteeship;
 - Inform beneficiaries of significant changes in their beneficiary status; and
 - Keep beneficiaries reasonably informed of changes involving the trusteeship and about other significant developments concerning the trust and its administration, particularly material information needed by beneficiaries for the protection of their interests.

WHD15AD


Common-Law Duty To Disclose

- Who is entitled to disclosure?
- Certainly, any active beneficiary that currently may receive a distribution is entitled to information.
- Whether remote beneficiaries are also entitled to information is not entirely clear.
- Once again, the Texas Property Code would seem to indicate that remote beneficiaries are entitled to information absent a trust provision to the contrary.
- Restatement (Third) of Trusts, Sec. 82 cmt. a(1) would indicate that disclosure to remote beneficiaries is not required.

WHD15AD


Common-Law Duty To Disclose

- What if the beneficiary has capacity issues?
- Unfortunately, there is not a lot of precedent in Texas on this issue.
- The Restatement of Trusts Section 82 is very helpful and provides as follows:
 - A duty to provide information to a beneficiary who is under a disability may be satisfied for purposes of Subsection (1), by providing the information to the beneficiary's conservator, agent under a durable power of attorney, legal or natural guardian, or other suitable person(s), such as one or more trust beneficiaries whose concerns can be expected reasonably to coincide with those of the disabled beneficiary.
- In many Texas Supreme Court cases addressing trusts, the Court cites the Restatement and uses it as guidance.




Common-Law Duty To Disclose

- On a related issue, the Texas Trust Code allows the parent of a minor child to bind the child/beneficiary to a judgment if there is no conflict of interest between them (Tex. Prop. Code Sec. 115.013(c)(3)).
- Also, a minor child can be bound to a release agreement or other agreement with a trustee where the child's parent signs it and there is no conflict of interest (Tex. Prop. Code Sec. 114.032(c)).
- So, these provisions, would support a trustee providing disclosures to parents or those with powers of attorney where there is no conflict between the minor/disabled beneficiary and his or her representative.



Common-Law Duty To Disclose

- A trustee does not have a duty to disclose:
 - Non-material facts;
 - Facts about a trustee's non-trust related activities;
 - Negotiations concerning the purchase or sale of trust assets (if disclosed, possible cure is a confidentiality agreement);
 - Private information (financial, medical, etc.) about other beneficiaries; and
 - Attorney/client communications.



Common-Law Duty To Disclose

- In *Estate of Sloan*, No. 02-15-00198-CV, 2016 Tex. App. LEXIS 6426 (Tex. App.—Fort Worth June 16, 2016, pet. filed), the court held that a trustee did not have a duty to disclose to the beneficiaries when he purchased estate/trust property at “market value” because the will allowed the trustee to do so.



Common-Law Duty To Disclose

- In *Wood v. Victoria Bank & Trust Co., N.A.*, a court held that a trustee did not breach fiduciary duties (including the duty to disclose) by utilizing statutes that allowed the transfer of fiduciary appointments without court intervention. 170 S.W.3d 885 (Tex. App.—Corpus Christi 2005, pet denied) (opinion on rehearing).
- This would also apply to mergers, acquisitions, name changes, etc.
- Superseded opinion reversed summary judgment for the bank held that there was fact issue on the duty to disclose: “Appellants argue that TCB breached this duty by failing to disclose information regarding the purpose for which TCB was transferring the fiduciary accounts to its subsidiary, its conflict of interest, and its financial interest in the transaction.”



Common-Law Duty To Disclose

- In *Punts v. Wilson*, executor did not breach duty to disclose to beneficiaries regarding assets in P.O.D. accounts that were not a part of the estate. 137 S.W.3d 889 (Tex. App.—Texarkana 2004, no pet.).
- “However, it is axiomatic that Wilson did not owe any fiduciary duty to Punts with regard to funds not included in Kelly’s estate.”



Common-Law Duty To Disclose

- Where a trust owns stock or partnership interests in closely held businesses, may a beneficiary obtain access to the businesses' information?
- Yes, if the business is wholly owned by the trust.
- Maybe, if the business is only partly owned by the trust (may set up a conflict situation for the trustee – duty to business versus duty to beneficiaries).



Common-Law Duty To Disclose

- Texas draws a line between the actions and duties of a trustee and the actions of a representative of another entity owned all or in part by the trust even where the same person wears both hats. *Adam v. Harris*, 564 S.W.2d 152 (Tex. Civ. App.—Houston [14th Dist.] 1978, writ ref'd n.r.e.).
- The actions of the entity representative will not be subject to fiduciary duties.
- The books and records of an entity in which a trust owns an interest may be discoverable in litigation to the extent such records are within the trustee's possession, custody, and control. *In re Vance*, No. 10-10-00137-CV, 2010 Tex. App. LEXIS 5940 (Tex. App.—Waco July 21, 2010, original proceeding); *In re Rogers*, 200 S.W.3d 318, 322 (Tex. App.—Dallas 2006, original proceeding).



Common-Law Duty To Disclose

- A trustee is required to keep full, accurate, and orderly records concerning the status of the trust estate and all acts performed thereunder. *Beaty v. Bales*, 677 S.W.2d at 754.
- Potentially, a trustee has a duty, upon demand, to allow a beneficiary on a reasonable basis to inspect the non-privileged books and records of the trust. Restatement of the Law of Trusts 3rd §82.
- No Texas case addresses this duty of inspection.



Disclosure In Litigation

- Texas Property Code Section 115.012 states that all actions are to be governed by the Texas Rules of Civil Procedure and other statutes and rules that are applicable in civil actions generally.
- So, if a trustee is in litigation with a beneficiary, it will have to follow the normal rules of disclosure of information that litigants have to follow.



Disclosure In Litigation

- Rules generally provide for disclosure via:
 - Requests for disclosure;
 - Requests for production (documents and things);
 - Interrogatories;
 - Depositions and pre-suit depositions;
 - Physical and mental examinations; and
 - Access to real property.




Disclosure In Litigation

- The harm in not disclosing information in litigation is that a court may sanction a party for failing to disclose when there is an obligation to do so.
- These sanctions can be severe and case dispositive. *See, e.g., Polos v. Polos*, No. 01-04-0048-CV, 2005 Tex. App. LEXIS 3853 (Tex. App.—Houston [1st Dist.] May 19, 2005, pet. denied) (court struck trustee's pleading after repeated violations of discovery rules).




Disclosure In Litigation

- There is an issue as to whether a trustee's common-law duty to disclose is in addition to discovery during litigation, such that a trustee only has to respond to discovery and not informal requests for information.
- Multiple authors have different views on this issue.
- The safest course is to disclose all material facts that may impact a beneficiary's interest – whether requested in discovery or via informal means.




Disclosure In Litigation

- Texas Rule of Civil Procedure 172 allows a court to appoint an auditor to state the accounts between the parties and to make a report thereof to the court.
- The auditor shall verify the report via an affidavit.
- Court will award compensation to the auditor to be taxed as costs.



Ramifications For Failure To Disclose

- There are many potential ramifications for a trustee breaching a duty to disclose.
- Claim for damages by beneficiaries.
- Removal. Texas Property Code Section 113.082 provides that a trustee may be removed if: (1) the trustee materially violated a term of the trust or attempted to do so and that resulted in a material financial loss to the trust; (2) the trustee fails to make an accounting that is required by law or by the terms of the trust; or (3) the court finds other cause for removal.



Ramifications For Failure To Disclose

- A court may compel a trustee to perform its duties and, specifically, may order a trustee to account. Tex. Prop. Code § 114.008.
- Court may reduce or deny a trustee compensation for breaches of duty. *Id.*; §114.061.
- A plaintiff only needs to prove a breach (and not causation or damages) when she seeks to forfeit some portion of trustee compensation. *Longaker v. Evans*, 32 S.W.3d 725, 733 n.2 (Tex. App.—San Antonio 2000, pet. withdrawn).



Ramifications For Failure To Disclose

- Texas Property Code Section 114.064 provides: "In any proceeding under this code the court may make such award of costs and reasonable and necessary attorney's fees as may seem equitable and just."
- So, if a beneficiary sues for breach of the duty of disclosure, a court may order the trustee, individually, to pay the beneficiary's attorney's fees.



Ramifications For Failure To Disclose

- Another ramification is that limitations may not accrue on an underlying claim.
- In *Ward v. Stanford*, the settlor defaulted on a \$2 million dollar note owed to the trust with the principle due in 2000. 443 S.W.3d 334 (Tex. App.—Dallas 2014, pet. denied).
- The trustees never raised a claim for the note, and in 2008, a beneficiary sued the trustees for breach of fiduciary duty.
- Trial court granted summary judgment on limitations.
- A cause of action generally accrues when: 1) a wrongful act 2) causes some legal injury.



Ramifications For Failure To Disclose

- The court held: "just as the question of whether a party breached a fiduciary duty is generally treated as a fact question, we conclude the date on which the Trustees' inaction can be said to cross the line into a breach of their fiduciary obligations to appellant remains a fact question."
- Court also held that there were fact issues on discovery rule and fraudulent concealment.
- So, a decision and communication of the decision would have constituted a "wrongful act" that would have started limitations and would have precluded any discovery rule or fraudulent concealment allegations.



Ramifications For Failure To Disclose

- A trustee may also have other defenses such as consent, acquiescence, laches, ratification, waiver, and estoppel. See, e.g., *Burnett v. First Nat'l Bank*, 536 S.W.2d 600 (Tex. Civ. App.—Eastland 1976, writ ref'd n.r.e.).
- Those defenses may not apply where the trustee fails to disclose information.



Ramifications For Failure To Disclose

- A beneficiary who has legal capacity and is acting on full information may relieve a trustee from any duty, responsibility, restriction, or liability, including liability for past violations. Tex. Prop. Code §114.005.
- Releases are enforceable if the beneficiary has full knowledge of the circumstances surrounding the agreement. Tex. Prop. Code §114.032.
- A court may not enforce a release if disclosure was not adequate. *Hale v. Moore*, 2008 WL 53871 (Ky. Ct. App. January 4, 2008). See also *Uzzell v. Roe*, No. 03-06-00402-CV, 2009 Tex. App. LEXIS 5239 (Tex. App.—Austin July 8, 2009, no pet.) (document was not enforceable where trustee failed to properly disclose its contents and ramifications).
- Release agreements should have detailed disclosures in the recitals and there should be written disclosures explaining release language.



Ramifications For Failure To Disclose

- Trustees have potential liability for co-trustee's actions if the trustee does not act with reasonable care. See Tex. Prop. Code §114.006.
- Trustee should exercise reasonable care to prevent a co-trustee from committing a serious breach of trust and compel a co-trustee to redress same.
- Trustee may need to seek accountings and disclosures from a co-trustee to meet its duty to prevent breaches.



Conclusion

- Trustees take on significant duties when they accept the position.
- One of the most important duties is the duty of disclosure.
- Due to the potentially extreme consequences for failing to meet this duty, trustees should be very cautious.
- The Author hopes that this presentation was helpful in analyzing the duty to disclose.