Administration of Assets

What are the Roles of the Custodian?

The term Custodian describes a set of services relating to the administration of investments made both within and outside the client's domicile

The role of the Custodian is to:

Administration of Assets

- Make the necessary arrangements for the receipt and delivery of securities and cash in settlement of purchases and sales in multiple jurisdictions
- Manage Corporate Actions, Proxy Voting, Dividends, Interest and Tax

Administration Of The Assets

Settlements

- Contractual settlement in all the markets
- Highly automated full SWIFT functionality
- 100s of millions of trades per annum

Settlements

What is being settled?

A transaction is an agreement, carried out between two parties, involving the exchange of securities and money

Example

1. Our client agrees a transaction, using an intermediary (broker)
2. Our client is buying securities and must therefore pay money to the broker
3. As we, the Custodian, hold the client's securities in custody our client/their investment manager needs to send us an instruction to deliver the shares to the counterparty in the market

In the securities industry, each party to a trade (the buyer and the seller) needs to process a settlement instruction into the Central Securities Depository. An instruction has the details of the market order

The Custodian proactively receive these details from our clients. They will usually instruct us to:

- Deliver Securities if they are selling, in exchange for payment (DVP – Delivery versus Payment)
- Receive Securities if they are buying, in exchange for payment (RVP – Receipt versus Payment)

Administration Of The Assets

Corporate actions

- Management of all capital events i.e. Mergers, Takeovers, Rights Issues etc.
- Notification, updates throughout event and processing of Investment Manager decisions
- The Custodian proactively monitor client instructions ensuring all voluntary positions are instructed

Corporate Actions

Two types of corporate actions

Voluntary

Require response from the shareholders, before any actual change occurs in the number of shares of the relevant securities

Right Issue, Takeover, Merger, Conversion of Warrants, Dividend with Options, etc.

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Corporate Actions

Two types of corporate actions

Mandatory
Number of shares/par value changes without any response from the shareholders
Bonus Issues, Share Splits, Reverse Share Splits. Dividend, etc.

Corporate Actions

The responsibilities of the Custodian in processing Corporate Actions
To identify Corporate Actions events occurring in our client's assets we hold in Custody
To notify clients of any corporate events
To reconcile entitled positions with those of our Sub-custodians to ensure accuracy
To ensure accurate and timely processing of client instructions

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Corporate Actions

The responsibilities of the Custodian in processing Corporate Actions
To monitor and chase uninstructed positions
To manage event diaries
To settle corporate events in accordance with terms and conditions
To settle resultant positions across client accounts held with the Custodian
To protect market positions (trade, stock loans) subject to corporate events

Administration Of The Assets

Income

- Collection of all dividends and income due to the client/Pension Fund
- Contractual payment of income in all the markets
- Notification upon announcement, at ex-date and upon payment or delivery

Income

What is Income?

Income is the payments (cash and stock) made to shareholders or creditors and normally takes the form of dividend or interest

Example

1. GlaxoSmithKline announces a dividend of 25p per share
2. Custodian receives confirmation from Data Provider which includes

Rate of dividend | Ex Dividend rate | Record Date | Pay Date

The Custodian advises their client of the forthcoming dividend

The Global Custody system auto calculates client's dividend according to holdings and their accounts credited accordingly when income is paid

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Administration Of The Assets

Tax

- Relief at source and Reclamation
- Documentation management
- Consultancy and industry representation

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TAX

The Custodian's Responsibility

The Custodian ensures the correct amount of tax is deducted form our client's income

Some clients are exempt from paying taxes in certain markets (Pensions Funds, charities, etc)

In order to process tax correctly we need to ensure our clients have provided the correct tax documentation

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TAX

The Custodian's Responsibility

This includes documentation for clients who trade in overseas markets, as the tax regulations differ form country to country

If incorrect documentation is provided the client might overpay tax and would need to reclaim it

Reclaims are time consuming to process and can take a long time to be resolved

Redemption better than reclamation!

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