# Choosing The Right Custodian For Your Firm

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## Advisor Insights

*Providing clients with access to the right custodian, given the clients' needs, is essential to success for a registered investment advisor (RIA) or family office. From large brokerage firms and behemoth custody banks to a dwindling number of smaller boutique firms, the decision for advisors can ultimately impact client relationships if the arrangement doesn't work. And many often find that frustrations can emerge at the very outset, when it takes weeks for the newly appointed custodian to open a client's account or when reporting falls far short of expectations for anything more than plain vanilla asset allocations. From an advisor's perspective, the custodian relationship can often present a glaring weak link in managing the overall client experience, particularly as the largest players in the space now seem to favor automation over a more robust and attentive service offering.*

*As you are contemplating what custody arrangement is right for both you and your clients, here are a few key questions to consider.*

### Learn More:

For more information on Fiduciary Trust's custody, trust, and other services for RIAs and Family Offices, visit:

www.fiduciary-trust.com/for-advisors

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**"Can my custody relationship evolve as my clients' accounts become more complex?"**

### A bank custodian versus a brokerage custodian – is there a difference?

During the financial crisis of 2008, the fundamental difference between a bank custodian and a brokerage custodian became clear in the aftermath of events such as the failure of Lehman Brothers and Bank of America's emergency purchase of Merrill Lynch. As it turns out, all assets are not registered equally. If your firm considers itself to have a fiduciary duty to your clients, the safety and security of the bank custody model should be of paramount importance.

Assets held in bank custodial accounts generally never become assets or liabilities of the bank (the title is held by the owner(s) of the accounts) and therefore should not be subject to the claims of the bank's creditors. As a result, a failure of a bank should have no adverse effect on custodial accounts since they remain the property of the account's owner(s). Assets held at a brokerage firm may be included on that firm's balance sheet and may also be lent or otherwise "re-hypothecated" behind the scenes. If a brokerage firm should fail, during the receivership period it's likely that your clients will be required to "get in line" with other creditors and hope that SIPC and any supplemental insurance policies help ease the pain.

### What are the provider's accounting and reporting capabilities?

Not all core custody accounting platforms are equal. Bank custodians have always performed tax lot accounting, harkening back to the days when many were founded as local trust companies. The brokerage firms have been late to the cost accounting party, only beginning to do so after successful cost basis legislation made it a requirement.

If your client base has a number of irrevocable trusts in particular, selecting a custodial provider with a strong core accounting engine capable of principal and income segregation is both necessary and required. Also, if your clients are accustomed to seeing tax lot level gain loss information on their statements, a bank custodian will typically offer this level of granularity, whereas brokerage account statements usually are only capable of reporting assets at the position level.

### What types of assets do my clients hold, and in what types of accounts?

If your clients' accounts are smaller and the asset allocation is mainly domestic bonds, equities, and mutual funds, a brokerage platform is probably sufficient for reporting on these assets. However, if your clients are diversified in both domestic and global assets, and have investments in limited partnerships, private equity, or other alternative investments, many brokerage platforms will not support the custody of those types of assets. A bank custodian with full global custody capabilities would be the better choice.

Additional questions remain: Can my custody relationship evolve as my clients' accounts become more complex? Maybe your client's investment profile is a traditional 60/40 equity and fixed income allocation now, but will it be five years from now? Another question to consider: How are the accounts themselves structured? As investment strategies become more complex, so, too, can the account structures holding the assets. Trusts, partnerships, LLCs, and other complex structures can all be "side-effects" of a more sophisticated investment program. You need to be sure to choose a custodian that will not be outgrown in the medium to long term as clients' requirements change.

**"We provide a highly engaged and personally tailored model"**

### What type of custody experience is important for my clients and my firm?

Advisors who recognize that their time is better spent counseling clients rather than navigating the bureaucracy of the largest custodians will want to ask themselves: Do my clients want a form for everything, or would we prefer to talk to a real person? When we do talk to someone, can this person get things done for me and my clients?

Remember, there are now many investment options available for your clients and prospects, particularly through the recent explosion of robo-advisors and other fintech initiatives. When the decision for your clients is purely based on a performance number on a quarterly statement, that money can become transient. For an investment management firm or family office to be successful, differentiating yourself through a personal client relationship is key. The custodial relationships you choose can either complement your overall value proposition, or detract from that relationship when tasks become difficult, requirements become inflexible, and error rates become inexcusable.

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There are many choices for custody out there, but ultimately RIAs and family offices should partner with a custodial provider that can both grow and scale with their clients' needs. Advisors should choose a custodial provider that is flexible, nimble, and values client service.

At Fiduciary Trust, we've been a bank custodian for over 130 years, spanning events such as the Great Depression, the Great Recession, and two World Wars. Through it all we have demonstrated a soundness and permanence in a tumultuous world. We employ world-class trade-date trust accounting software that provides full tax-lot accounting and reporting as well as a true segregation of principal and income cash. We have experience with accounts of all shapes and sizes, and the technology and expertise to account for client situations today and as their needs evolve.

Although we view robust systems as essential, we never attempt to replace human interactions with technology simply to enhance our margins. We provide a highly engaged and personally tailored model that will get things done right for your clients the first time. With Fiduciary Trust, you get precision, timeliness, and decisions rooted in common sense. We have been a trust company for over a century and our record demonstrates a legacy of excellence in fiscal management.

Disclosure: The opinions expressed in this article are as of the date issued and subject to change at any time. Nothing contained herein is intended to constitute investment, legal, tax or accounting advice and clients should discuss any proposed arrangement or transaction with their legal or tax advisors.

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