



Off balance?

Three things that could signal an unsteady custodial relationship.



The single most important role a custodian performs is the safekeeping of client assets. But without a strong foundation, your custodian relationship could fall off balance.

Here are three things to consider as you weigh the stability—or fragility— of your custodian.

1 ● Are your clients' assets protected?

Since a custodian's primary role is the safekeeping of client assets, it's critical to consider how an enterprise actually does it.

Some custodians don't hold client securities directly in the client's name.

They hold them for the benefit of the client (sometimes referred to as a "street name") and may use those securities for purposes of borrowing and lending. This means if that custodian becomes insolvent, client securities may be at risk of seizure by the custodian's creditors, subject to any applicable insurance, such as the Securities Investor Protection Corporation (SIPC).

Conversely, some custodians, like banks and trust companies, are required to segregate client securities from their own assets. These custodians hold securities in the client's name and cannot use or commingle them with their own or other investors' funds. As a result, if the custodian were to become insolvent, the securities are returned to the client.



2 ● Can your custodian pass a five-year stress test?

When trying to assess the stability of your custodian, it's critical to understand their ownership structure.

Will your custodian be around in five years—or could a larger custodian acquire them?

The pervasive custodian consolidation trend can cause temporary—or chronic—frustration for you and your clients. It might even leave you to question whether or not your custodian will continue to prioritize independent advisors.

Equally important is being reassured that your custodian's commitment to you and your clients can sustain if there is prolonged market turbulence.

- Consider listening to an earnings call to help you understand your custodian's revenue drivers. Ask your relationship team to share examples of how they've weathered challenging times. Can your custodian stand the test of time?

3 ● Do your clients understand the fees they pay?

Transparency of custody fees is the cornerstone of building any trusted relationship. If you don't have trust, you have instability.

Your identity is rooted in placing your clients' interests ahead of your own. That exchange of trust should extend to your custodian.

Is your custody fee schedule succinct and easily understood?

Many custodians boast about "commission-free" trades. But often, "commission-free" isn't actually free—what you can't see is just as important as what you can.

- Dig deeper to see beyond the savings you see (such as commission-free trades). Ask details about the expenses your clients don't necessarily see or understand, like payment for order flow, paper statement fees, mutual fund surcharge transaction fees, and paper confirm charges.



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