

All Aboard: Omnibus Recordkeeping Gathers Steam

It's time to get on the bus. Do you have your ticket?

By Lisa Shea and Barbara Nelligan

Omnibus recordkeeping is on the rise. It's been a topic at mutual funds industry conferences, a point of discussion between funds and financial intermediaries (firms), and it's changing the way we look at servicing the broker/dealer community.

Omnibus recordkeeping seems simple on the surface. The firm maintains one single account held with the fund's transfer agent, in the firm's name for the exclusive benefit of its customers. Underlying client information is held on the firm's books, and trades are typically aggregated for transmission to the fund.

Omnibus accounts have been on the books for years. Some of the largest firms have long maintained omnibus accounts, performing sub-accounting internally. Today, an increasing percentage, by some estimates as much as 40%, of shareholder accounts in mutual funds are held through omnibus arrangements with firms, rather than directly.

As more firms head down the omnibus path, transfer agents will need to be prepared to support the shift in their business model as well as the changing services needs for both the firms and the funds they support. Whereas traditionally, the transfer agent maintained the majority of accounts, the number of accounts on the transfer agent's books will continue to decrease. This, in turn, will have an effect on fees. However, because the funds do not have access to complete information across omnibus shareholder accounts, the transfer agent's role as information provider and conduit will become increasingly important.

Transfer agents will need to prepare themselves for the data exchanges from the funds to the firms. While some firms opt to "network" their omnibus accounts, and leverage existing capability for sharing information to facilitate distributions, reconciliation and fund information, others require direct file transmissions from transfer agents in customized formats. To meet these diverse needs, transfer agents will need to support multiple file formats

and transmissions. So while transfer agents can expect to spend less time on certain tasks, such as resolving trade rejects and enacting transfers between accounts, they likely will spend more time on delivering and pursuing data.

The bigger challenge is facilitating the exchange of data from firms to funds. Because the firms provide aggregated client information to the funds, the move to omnibus recordkeeping obscures the underlying trade details, shareholder details and sales information. This information, however, is crucial to the proper support of many aspects of a fund's business, including compliance, control and sales efforts. Transfer agents, with their access to investor-level data, have long provided funds the data they need to successfully run their businesses, whether it involves mitigating risk by allowing funds to monitor for compliance with regulations, or allowing funds to obtain details on who is selling their products. This dependence on transfer agents for information is unlikely to change under an omnibus arrangement.

Historically, the limited availability of sales data from firms has been a challenge for funds pursuing a traditional wholesaling model. Transfer agents receive only limited information from firms to populate representative profiles, and without full access to representative information, the "thank you" call becomes more difficult to make. While frustrating, the issue has not received much formal attention, and funds have had to look to a variety of resources for data.

Over the past few years, the changing



Lisa Shea



Barbara Nelligan

regulatory landscape has highlighted the need for the efficient exchange of information. While Rule 22c-2 made information-sharing agreements between funds and firms a requirement, the exchange of data that takes place today to satisfy the rule still does not provide funds with the level of detail many would like to have. As the regulatory environment evolves, so will the need for more detailed investor-level data. With pay-to-play, 12b-2 and cost basis reporting, the exchange of detailed data will become even more critical. Although not all rules will apply to transfer agents directly, funds and advisers will continue to require support with data exchange.

The Depository Trust & Clearing Corporation (DTCC) has created files to support the transmission of activity and position information from firms to funds. The key to use of these files, however, is the firms' participation and what the funds do with the information. Transfer agents and the funds they service will need to work together to determine where the underlying data can or should be stored, what relevant data can be culled from the files to suit the funds' compliance and sales needs, and which firms will provide the data.

Transfer agents can help to meet funds' needs by partnering with firms to share information. Dealer servicing will evolve to a new model. If we approach the changing model with a focus on meeting new challenges while seeking to resolve long-standing issues, we can effectively work together to ensure a more comprehensive end-to-end communication and meet the needs of both funds and firms in the future. The bus is here—let's climb aboard. **MFG**

Lisa Shea is a Senior Vice President and Division Manager for the North American Transfer Agency group at Northern Trust. Barbara Nelligan is a Senior Vice President and Product Manager at Northern Trust and is responsible for Fund Accounting, Fund Administration and Transfer Agency products supporting US Registered Mutual Funds.