BNY MELLON
WEALTH MANAGEMENT

Family Office Custody: Many Models, One Solution

No two family offices are exactly alike—they are as different as the families they serve. But all family offices share a common need: flexible and cost-effective management of financial assets for their increasingly multinational and multijurisdictional families. Choosing the right operating model for a family office is key to addressing this need, and in order to do that, it's important to understand the role that the right custodian can play in helping families build, maintain and protect their wealth.

WHAT IS THE ROLE OF A CUSTODIAN?

The primary responsibilities of a custodian are:

- To safeguard an investor's financial assets
- To ensure that an investor's ownership of the assets is clearly established
- To provide an investor with quick and immediate access to his or her assets

Custodians also serve as a shield against issues that could undermine a family office's ability to protect the family's wealth, such as bookkeeping errors or fraud.

Additionally, custodians offer detailed reports on investors' holdings and provide services that allow the family office to operate more efficiently in other areas (such as the administration of their alternative investments, their lending structures and their performance measurements).

It's easy to overlook the important role that custody plays in how financial markets operate. Many family offices aren't even aware that their securities are already serviced by a custodian. However, it's critical that a family office makes sure they're working within a custody model that best suits their objectives and allows them to leverage their custodial relationship to make the family office operate more efficiently.

Choosing a Custody Model

There are three common custody models that family offices can adopt:

- Master global custodian model. A single custodian with international capabilities is used to protect assets around the world, wherever a family or their investment managers hold investments. The custodian also provides consolidated reporting of global assets and ensures consistent, streamlined internal family office processes with the aim of making the administration of each asset class more efficient. This is the most common model for newer family offices.
- Multicustodian model. Multiple custodians are typically used when family offices are active on the ground in multiple jurisdictions and don't believe, or are not aware, that a single institution can handle their various needs. Using multiple custodians increases complexity by adding to the number of participants in the operating model. It's also necessary to have a consolidated reporting solution across all the custodians.
- Investment manager custody model. The family allows each investment manager to select a custodian, which can result in assets being spread among potentially a dozen or more custodians. The family office relies on each manager to protect the assets and provide manager-specific reports. In turn, the family office must aggregate large volumes of information to create a single view.

Custodial selection often happens late in the process of forming the family office. However, waiting too long can have long-term repercussions. Once decisions are made by the family or its advisors about how assets are structured and who will manage them, the selection of the custody model often becomes less of a choice and more of a consequence. The degree of difficulty associated with changing custody relationships midcourse, combined with the time invested in current arrangements, means that the family office can be saddled with the wrong solution for years—perhaps forever. The multiple layers of custody often come with multiple layers of cost, which become permanently embedded in the family office's expense structure.

Rather than simply falling into a custody model by default, family offices should take the time to consider which one best suits their needs up front. When making a selection, the family office should take into consideration the type of investments the family holds and what the skills and competencies of the family office staff are. Legal or regulatory factors should be considered as well, given the important role a custodian plays in safekeeping the families assets across the globe. Selecting a custodian that is based in a jurisdiction with favorable laws and a stable, predictable political climate should be a priority, as it's important to ensure that assets remain accessible and that the rights of the family are respected.

THE CHALLENGES OF WORKING WITH MULTIPLE CUSTODIANS

On the surface, working with multiple custodians may seem like a good way to mitigate risk by diversifying where the family's assets are held. However, the best way to protect a family's assets is to select a custodian that has strong fundamentals and the financial resilience to withstand challenging market conditions.

In most cases, a single custodian with a good reputation and a strong balance sheet will be a safer bet than spreading assets among several custodians. Ironically, adding more custodians may just be adding more opportunities for failure by placing assets in firms of varying quality.

The complexity of record keeping and consolidated reporting is a serious challenge for family offices that work with multiple custodians. A substantial amount of effort is involved in reconciling the various inputs in order to produce consolidated reports. This can lead to mistakes, which could permanently undermine the confidence of the family in their staff.

Working with multiple custodians may also create a greater potential risk of financial loss. The more custodians a family office works with means the office must use different procedures for each transaction, increasing the potential for errors. More custodians also means a greater number of cash transactions to move money between banks, which increases the risk of theft by cyber criminals or internal staff. While it can be difficult to ensure that basic controls are applied consistently across multiple custodians, a high-quality master custodian can offer more control over the movement of assets.

Finally, the increased volume of administrative work that comes with managing multiple custodians can distract family office staff from their core responsibilities, which might lead the family to question how much value the family office is delivering.

THE ADVANTAGES OF MASTER GLOBAL CUSTODY

Working within the master global custody model offers family office executives in all global markets the opportunity to make the choice of custodian up front and take advantage of the additional benefits—security, consolidated reporting, transparency and administrative efficiency—that a master custodian offers.

A master global custody structure addresses the many challenges family offices face, providing clients with core solutions regardless of where they are in the world. In helping family offices meet these challenges, the master global custodian becomes not just a provider to the family office, but an extension of it. In this role, the master global custodian anticipates a number of challenges and offers solutions to help family offices overcome them:

Challenge: When assets are held by various investment managers across multiple regions, it's often unclear who is serving as their custodian and whether the assets are safe or accessible in the event of a breakdown in the financial markets.

Solution: In the master global custodian model, families can feel confident that their assets are kept safe in a stable bank that has the ability to protect assets across regions and the balance-sheet strength to withstand a downturn in the markets.

Challenge: Family office staff spends significant amounts of time managing operational tasks that are necessary to reconcile the idiosyncrasies of multiple custody processes, losing focus on their core mission.

Solution: The master global custodian model provides a single point of contact, enabling family office investment professionals to focus on their primary mandates: setting strategy, uncovering compelling investment opportunities and preserving capital.

Challenge: Family office staff must sift through reports from investment managers all over the world and reconcile their disparate reporting methods in order to keep valuations current.

Solution: The master global custodian model provides consolidated reporting — by region, asset type and investment manager — ensuring that the family office always has an accurate, comprehensive view of the performance of the family's holdings.

Challenge: A family office may need to engage with a number of external vendors to handle essential tasks, such as performance reporting, capital markets trade executions and private equity administration.

Solution: The master global custodian can integrate these key disciplines and is supported by a dedicated relationship team composed of seasoned professionals, reducing the number of additional vendors needed to carry out these important tasks.

Challenge: A family office has little visibility into trades executed by the investment managers, and any errors they may commit can take time to surface. Further, the length of time between a trading or settlement error and its discovery can be lengthy and expensive to correct.

Solution: The master global custodian settles all trades for each manager across all regions of the world through its capital markets infrastructure, using a single system that provides end-to-end visibility into execution and settlement.

BUILT FOR FAMILY OFFICES

BNY Mellon Wealth Management has championed the idea of master global custody services to address the unique challenges faced by family offices in providing highly personalized and increasingly complex solutions for global families. These services are designed to help family offices achieve cost and operational efficiencies regardless of where the family office or its assets are located.

Our master global custody services provide a holistic view of a family's financial position, including non-custodied assets, and streamlines family office processes like reporting, trade execution, and hedge fund and private equity administration. This single-provider approach can mitigate risks unique to family offices and the assets they protect.

Additionally, for family office executives there is the assurance that comes with knowing BNY Mellon Wealth Management is fully invested in their business. Not only do we provide innovative solutions and services to meet the current challenges faced by family offices, but we also deliver new solutions as the family's wealth evolves and grows.

Our commitment to being the preferred custody partner for family offices in key global markets comes with over 230 years of banking and investment management experience. Whether your family office is in Europe, North America, Asia or the Middle East, you can take comfort in the selection of BNY Mellon Wealth Management as your master global custodian to help you not only meet your expectations, but exceed them.

To learn more about BNY Mellon Wealth Management's global custody capabilities, call us at (844) 332-4316.

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