Redefining the Custody Landscape

Global custody is moving on. Today a good custodian is a provider of investor services solutions, not just a securities processor, employing a modular approach that can be tailored to any client challenge at any stage in the securities lifecycle.
In a recent research report on the securities processing industry, Booz & Company, the management consultants, highlighted the key role securities processors are playing in helping investment managers keep a lid on costs and handle a spectrum of non-core services in the current difficult climate. That said, Booz meant securities processors should not be retrenching during the crisis. The report concludes: “Instead, they should be improving their offerings in three ways – re-engineering processes, automating services and optimising the use of the global facilities.” They should also be enhancing their offerings in the middle-office, the report concluded.

For Citi, the Booz report is, in many respects, old news. Citi’s global custody offering already features end-to-end automation based on a single global platform, which is now supported by a network of more than a dozen regional centres of excellence where everything from trade processing to pricing can “follow-the-sun” to deliver the most timely results for clients. Citi has also anticipated the Booz advice on enhancing middle-office services and continues to develop new initiatives here.

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Adding Value

Vital as it is, a processing powerhouse is only part of the story. ‘We believe the role of a custodian has shifted from traditional safe-keeping and settlement to more of a risk management and cost-containment function,’ says Nick Titmuss, Head of Global Custody EMEA, Global Transaction Services, Citi. ‘It is about reducing the total cost of ownership for a client through the entire investment lifecycle. At Citi, we have a fully integrated execution-to-custody approach. It allows us to deliver direct access to markets at one end of the chain and remove cost and improve transparency at the other. We call it enhanced custody – and it is about delivering tailored solutions that can draw on one or more of our capabilities at any point in the securities value chain.’

The two key targets are in helping clients manage risk and improve cost efficiency. In the traditional area there has been a number of new services introduced to the industry. In the hedge fund market, there have been demands for more transparency in the wake of the Stanford and Madoff affairs. Citi has used the leverage of its twin roles as prime broker and custodian to develop a hybrid service called Prime Custody. This allows a hedge fund’s unencumbered assets to be held by the custody arm while delivering combined reporting for all the assets – including those held at the prime brokerage.

The same driver has increased the number of asset classes Citi is being asked both to process and to safekeep. ‘With our continued investment, we have expanded our middle-office trade operations to deliver a complete solution in both exchange-traded and Over-the-Counter (OTC) products,’ says Nick Burr, Investment Administration Product Head EMEA, Global Transaction Services, Citi. ‘Using the data flow, we can deliver a full risk management and analytics service to help clients manage and monitor their exposures.’

Separately, Citi has built a comprehensive custody and cash-analytics solution that consolidates reporting for daily portfolio accounting, compliance, risk and performance – all on one integrated platform. Treasury Analytics, part of CitiDirect® for Securities, fully integrates a client’s portfolio management, trading, operations and reporting functions to facilitate timely decision-making, irrespective of where the assets are held.

End-to-End

The ability to deliver added value at different parts of the trade cycle – irrespective of whether or not the investment manager is a Citi custody client – is the key element of the solution mix.

Foreign-exchange execution is a case in point. Clients that manage
large numbers of segregated accounts often have to deal with multiple custodians. Citi can capture trade data from the middle-office and, through its AutoFX service, give clients the benefit of its renowned pricing power in foreign exchange to deliver better execution.

In the drive for cost efficiencies, Citi can often deliver major savings on the back of scale economies that only a global provider can achieve. Take the middle-office. ‘With a single, global technology set, we are able to leverage our regional centres of excellence to deliver major efficiency savings. We offer same-day confirmation and have been achieving Straight-Through Processing (STP) rates in excess of 95 per cent,’ says Mr Burr. Citi offers a complete range of middle-office outsourcing services, including a fully automated service for full, front-to-back OTC derivatives trade processing and valuation.

‘New centres of excellence are constantly evolving to cater for different asset classes,’ says Mr Burr. ‘These provide pools of expertise into which we can plug. We can service clients more holistically in a consistent, 24/7 service environment while still communicating with them locally.’

Offering Full Execution-to-Custody

Nowhere is the end-to-end integration of services more apparent than in Citi’s Execution-to-Custody (E2C) service that was launched in 2008. It is a single integrated solution that draws on both Citi’s capital-markets and securities-processing capabilities to deliver an end-to-end trading, settlement and custody service spanning all major execution venues. Clients can trade through either Citi Global Markets or a third-party broker.

‘It delivers enormous efficiencies for clients,’ says Mr Titmuss. ‘E2C was originally launched with small- or medium-sized broker-dealers in mind. They can use it either to access markets where direct access is uneconomic or take a bundled service for all markets. But increasingly bigger institutions are using E2C, prompted by the best execution rules introduced with the Markets in Financial Instruments Directive (MiFID). E2C saves them having to shop around for the best price,’ he says. E2C remains the only service of its kind supported by a comprehensive custody service.

Taking the Modular Approach

Throughout its span of custody and related services, Citi’s approach is modular — a requirement that is all the more important for investment managers according to the, Citi sponsored, CREATE-Research report (see page 2).

To prepare their businesses for the future, investment managers are turning to providers who can provide the blend of customised and ‘off-the-peg’ solutions consistently across multiple markets. Through Citi’s leading network and platform, clients can access local execution and services while still enjoying a global and consistent view of their account – with a single point of access and consolidated reporting.

With a continuing flow of new products and services, and a commitment to ongoing investment, Citi is fast redefining what custody means. Old-fashioned, back-office definitions are a thing of the past. Enhanced custody reaches into every operational area, including front-office execution, in an integrated manner. It is as much about accessing trading platforms and market infrastructures in a fully automated process as it about post-trade asset servicing and safekeeping. Securities processing has evolved into investor servicing.