Shattering the misconceptions around depositaries

David Griffin, Head of Depositary – UK, considers when you're required to appoint a third-party depositary, why you would rather build a relationship with a trusted provider that adds real value

Why are rugby referees respected so much more than football referees? In football, almost every decision is questioned; by the players, the fans, and the pundits. The introduction of television replays for key decisions has damaged referee reputations even further. A recent YouGov poll found that two-thirds of football fans believe VAR has made the game less enjoyable.

Compare that with professional rugby, where refs are viewed far more positively. In rugby, referees play a role that goes far beyond merely spotting an infringement. You often hear them offering on-field advice to players of both sides, preventing foul play before it happens, and helping to maintain the tempo and the quality of the game. It's no wonder that their relationship with the players is significantly better, and television replays help to support their decisions, not undermine them. They see it as their job to create conditions where everyone on the field can reach their full potential.

In all walks of life, you'll earn respect if you can show you add value and bring the best out of those around you. I think it's time the perception of depositary services started to move towards that way of thinking too. Right now, most of the fund management industry views it as a drag on business operations, or yet another regulatory expense driven more by a love of red tape than genuine client requirements. But if you're willing to look a bit more closely, you may find that providers who view depositary services as a core proposition have a lot more to offer their fund manager clients.

The alternative investment industry's demand for

depositaries

To give some context, since the Alternative Investment Fund Managers (AIFM) Directive was introduced back in 2013, alternative investment fund managers operating inside the European Union have been required to appoint an independent, third-party, depositary to oversee fund operations. Protection of investor interests is at the heart of this requirement, with the depositary tasked to deliver the following functions:

- **Cash monitoring:** including cashflow reconciliation and record keeping
- **Safekeeping:** including verification of fund assets, asset and disposal monitoring and reconciliation of manager and depositary records
- **Oversight:** full oversight of fund operations, including fund valuations, investment and risk limits and investor subscription and redemption activity.

As well as real-time monitoring across these areas, depositaries should also provide annual procedural reviews to make sure the manager addresses its obligations under the AIFMD.

Having a depositary: just another unwanted regulatory burden?

As you would expect, needing to appoint and work with a depositary can be a huge undertaking. And many fund managers view the depositary requirement as driven purely by 'red tape' bureaucracy rather than their own genuine requirements. But the reality is that choosing the right depositary to partner with can add a great deal of value to your firm, helping to save you time, money and reputation and to manage risk.

Consider your depositary as a valuable additional line of defence

Don't forget, depositaries are in a uniquely privileged position. They have top-level access to information, systems and people across your business. The best depositaries will use this knowledge to your advantage, offering analytical insight and critical yet independent thinking that can quite easily pay for the costs of the service many times over.

I know of instances where my team has helped clients rectify management fee miscalculations or highlighted investment restriction concerns before a “real” issue has occurred. In an industry where reputation is everything, having a strong relationship with your depositary, one where they are encouraged to share their thoughts and findings, can make a world of difference.

Be wary of ‘bolt-on’ depositary services priced on the cheap

There’s another misconception of depositaries that urgently needs to change. Within the investment industry itself, many fund administration providers offer their depositary capabilities almost as a second-tier, supplementary service. Loss-leading depositary fees are not uncommon, with the hope that they can then charge premiums on the more obviously value-add services. The downside with that type of approach, of course, is that we live in a world where you get what you pay for.

A depositary that considers their offering as a ‘core’ service will be able to demonstrate well-established and deeply ingrained controls and processes, and industry-leading technology, tailored specifically for the depositary world. They’ll do this while achieving economies of scale through utilising their existing, well-established, infrastructure and operating platform.

But more crucially, such a depositary will consider it their responsibility to deliver a premium-quality service that significantly enhances the client experience. You would demand this from any other service provider so deeply ingrained within your own business, so why should a depositary be offering you anything less?

Engagement leads to mutually rewarding relationships

In my experience, the best client/depositary relationships are built in partnership. There’s no cookie-cutter, one-size-fits all aspect to what we do. Instead, we look to create a tailored depositary service that integrates seamlessly with a client’s existing operations. We don’t just adopt industry-leading systems, we employ a team of specialists to use the technology as a tool to meet clients’ individual requirements. Rather than adopting a standard, process-driven approach led by

business functions, we have client-centric and proactive teams where operational knowledge and a clear understanding of day-to-day activities is shared and continually developed.

Is your depositary helping you reach the top of your game?

They say that the best referees in any sport are those that you don't notice. After all, referees are never supposed to be the star of the show. In the same way, your relationship with your depositary should be positive yet unobtrusive, efficient without being overbearing, and warm rather than impersonal.

In short, the relationship you have with your depositary has the potential to be so much more than just the result of a regulatory box-ticking exercise. Appointing the right depositary, one that understands their client's requirements and is motivated towards the same positive outcome, can add real value to your operations. In a world where adding value is so essential, perhaps it's time for the alternatives industry to reset its perception of what a depositary should be.

To find out more about our Depositary Services, please click here.