



## **Analyzing Custody Costs for ERISA Plans: The Impact of New Rule Changes on Transparency, Fees and Reporting**

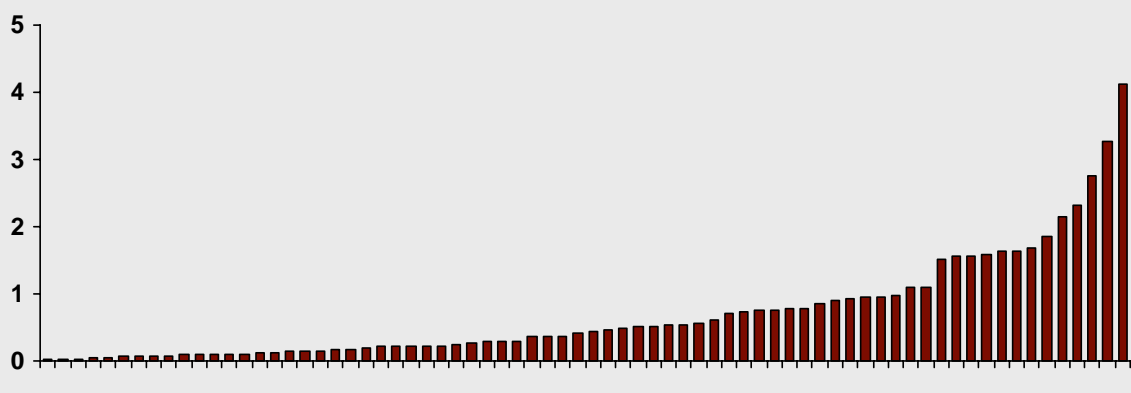
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Recent and expected changes to ERISA plans will have a lasting impact on plan fiduciaries. This article discusses the complications arising from ERISA mandates to publish compensation for service providers, particularly custodians, and to ensure that fiduciaries are paying fair and reasonable fees. The article also reviews what actions ERISA plan managers might take to meet these new obligations.

While there are at least five major changes to ERISA in discussion today, reporting compensation to service providers as directed by Section 408(b)2 Interim Final Regulations will become effective in July 2011. This rule requires disclosure of custodial and other service provider fees in some detail. The types of service providers affected include broker-dealers, recordkeepers, third-party administrators, fund complexes, investment managers, trustees/custodians, accountants and lawyers, and consultants. For many of the providers affected, reasonable fees are already well known in the marketplace. For example, trading commissions paid to broker-dealers may vary by \$0.01 to \$0.03 but almost always fall within a known range depending on what other research or bundled services are received. Obtaining quotes from multiple third-party administrators and investment managers for the same portfolio reveals similar ranges of standardized pricing.

In custody however, this situation is not as uniform. A long-term trend of bundling custodial costs along with auxiliary services has led to pricing distortions in the marketplace, such that what one plan fiduciary considers reasonable compensation may be far away from what another fiduciary might think. Analysis by Finadium of 91 public defined benefit plans showed "custody" fees ranging from 0.1 to 4 basis points in 2009 as a percentage of assets under management (see Exhibit 1). We then confirmed that many funds were paying for a different set of services as defined in this spending line. Variances in pricing depend on what specific services a custodian is providing as well as on what additional offerings, including securities lending, foreign exchange and transition management, that a plan was using.

**Exhibit 1:**  
**US public plan sponsor reported custody fees as a percent of assets under management, latest annual reports**  
**(Basis points)**



Section 408(b)2 Interim Final Regulations offer an opportunity for substantial market confusion, but also a potential increase in transparency that goes far in creating a fair price for custody and the services that can accompany it. For more information, please contact Finadium at 1-978-318-0920 or [info@finadium.com](mailto:info@finadium.com).

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