

Salem Trust Company

A Division of Argent Institutional Trust Co.



“An Authentic Difference®”

Florida Public Pension Trustees Association

Certified Public Pension Trustee Designation

Winter Trustee School

Basic Program – The Custodian

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The Duties of a Custodian

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The Duties of a Custodian

A Little Bit of History

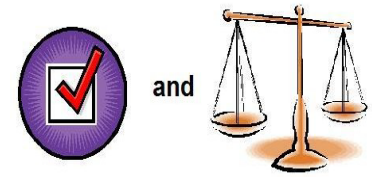


- Property and custody have been connected for many years.
 - The origin is traced to the Feudal era in the 11th century.
 - With the duty of a Lord to fight distant battles, someone had to protect the Lord's property.
 - That duty fell to a custodian, from Medieval Latin *custos*, “a keeper, watchman or guard”.
- Property has changed through the years.
 - With the rise of mercantilism in the 14th century, “property” became a written certificate of a claim to a ship's cargo.
 - People started exchanging these certificates usually in coffee houses– the forerunner of stock certificates and exchanges.
 - Which gave rise to businesses that recorded the transaction and guarded those certificates.
- Custody services still involve a third party protecting the assets of another along with ensuring all rights of the asset are received.



The Duties of a Custodian

Reasons to Use a Custodian



- To perform administrative functions delegated by the Board to a fiduciary of the pension plan.
- To improve checks and balances/internal controls by separating duties.
- To facilitate reporting to the Board and support of service providers.
- And because you are encouraged to:
 - 2019 Florida Statutes: Title X Public Officers, Employees, and Records: Chapter 112 Public Officers and Employees: General Provisions;
Section 661- Investment policies, (10) Third-Party Custodial Agreements – “The investment policy shall provide appropriate arrangements for the holding of assets of the board. Securities should be held with a third party...” and reinforced by the need to have strong internal controls and reporting [(13) Internal Controls].



The Duties of a Custodian

Primary Services of a Custodian



- Hold the investments of the pension plan.
- Report the market value of the investments.
- Settle investment transactions.
- Collect income from investments.
- Deposit cash receipts.
- Receive and post contributions.
- Assist service providers of the board.
- Take direction from the Trustees.

<input type="checkbox"/> VOID <input type="checkbox"/> CORRECTED		1040-RT (10-17-19) 2019		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.	
1 PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and phone no.		2 Gross distribution		3 Taxable amount	
4 PAYER'S TIN		5 RECIPIENT'S TIN		6 Recipient's name	
7 Distribution code(s)		8 Other		9 Total employee contributions	
10 Amount allocated to RRA		11 1st year of		12 State tax withheld	
13 Amount number (see instructions)		14 Date of payment		15 Local tax withheld	
16 Name of locality		17 Local distribution		18 State distribution	

Form 1099-R
www.irs.gov/Form1099-R
Department of the Treasury Internal Revenue Service

The Duties of a Custodian Other Services



- Process recurring and lump sum benefit payments.
- Provide tax reporting of benefit payment transactions.
- Process properly authorized invoice payments.
- Provide foreign tax reclamation assistance.
- Support and process claims of class action filings.
- Provide securities lending and commission recapture services.



Items to Consider About a Custodian



- **Services**
 - Core products to support current needs.
 - Optional/other products to support future needs.
- **Organization**
 - Importance of custody service as a business.
 - Location of primary service office and manager.
 - Number of relationships per administrator.
- **Safety and Soundness**
 - Regulatory violations.
 - Effective controls evidenced in “System and Organization Controls” (“SOC”) report.
 - Insurance coverages and limits.
- **Personnel**
 - Average number of years of institutional custody experience.
 - Education and designations (“CPPT”).
 - Non-custody duties of the administrator.
- **Service Level**
 - Service support structure.
 - Service request timeframes and flexibility.
 - Written service pledge.
- **Compensation**
 - Basis point fee for core services or unbundled charge per each service.
 - Charge for optional services/discounts.
 - Term of the agreement, cancellation provisions and compensation guarantee.



The Duties of a Custodian

Conclusion



- The services of a custodian are intricate and interdependent with various system applications and service providers.
- Custodian services are broad and can be customized to the needs of the pension plan.
- But custodian services do vary - by business focus, expertise, functional support and personal interaction.
- Custodian compensation is not standardized.
- And yet, all custodians have the same goal...