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Exploring The Possibilities Of Subaccounting

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Today more than 150 million mutual fund accounts are cleared through the use of subaccounting, up from 20.8 million in 2001, an increase of more than 600% over the past 10 years. In comparison to the 95 million networked accounts clearing today through a transfer agent, subaccounting has grown to be the preferred method of clearing mutual fund accounts. As the industry has shifted from networked to subaccounts the relationships between broker-dealers and mutual fund companies have evolved as well.

At first, transfer agency was the preferred option, and transfer agents were responsible for being the "front line" of service for fund shareholders. Broker-dealers were at a disadvantage, as most of the customer information was held directly at the fund company and at the transfer agent. Households owning mutual fund shares have increased their use of financial intermediaries, which, combined with the transition from transfer agency to subaccounting, has allowed broker-dealers to access more information about their clients, which helped improve the way money was being managed across a client's mutual fund accounts. Service levels also increased through improvements in the timing of information, resulting in confirmations being sent out the same day a trade was executed and

dividends calculated on the same day they were paid.

In the current market environment, broker-dealers and fund companies are both looking at ways to increase transparency and share information in order to achieve growth. While broker-dealers aim to use this information to give their clients a holistic view of their investments, fund companies look at the data as a way of creating more effective sales reports and improving distribution. At the same time, service providers are examining long-term strategies to help both broker-dealers and fund companies succeed in this area.

One of the most effective ways for service providers to help facilitate the relationship between fund companies and broker-dealers is to improve the transparency around client account data. Currently, DTCC has created the OmniServ initiative, which would help broker-dealers and fund companies transmit data through one, centralized point at DTCC. One of the advantages of the OmniServ reconciliation process is the enhancement that will be made to the networking industry files, which will provide enhanced data elements to help simplify omnibus reconciliation. Service providers will need to build tools that let fund companies and broker-dealers easily view, report on and utilize this data

in meaningful ways. Standards and tools around fund information would also help mine the wealth of data being provided through DTCC.

Expanding subaccounting beyond traditional mutual funds into spaces such as 529 plans and fund-sponsored IRAs can be an important part of this effort as well, helping to grow distribution. As subaccounting capabilities expand to a greater product set, it allows broker-dealers to aggregate more of their clients' accounts, with the ultimate goal of viewing all of the client's assets at once. Such a broad view of a client's accounts could help with many aspects of financial advice, from tax planning to monitoring a client's overall asset allocation. Subaccounting can also make the timing of dividend payments run more smoothly, limiting confusion about multiple statements.

Service providers have only begun to uncover ways that they may facilitate the use of aggregated data by fund companies and broker-dealers. In the years to come, it is possible that subaccounting will expand to other parts of the world such as Europe and Canada. Opportunities abound as new ways of using this data are developed into effective tools, helping broker-dealers distribute mutual funds to their clients, and helping fund companies manage assets efficiently.

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As BNY Mellon's managing director of subaccounting client services, Ms. Colkitt is responsible for working with executive management on the overall strategic business direction for subaccounting while ensuring the continued growth and client satisfaction of the subaccounting brokerage client base. Elisa is an active participant in industry organizations having worked on SEC, FINRA and ICI taskforce dealing with industry enhancements and regulatory issues. She continues to be a member of the ICI Broker Dealer Advisory Committee and is a frequent speaker at industry conferences.

Ms. Colkitt holds a Bachelor's degree in Mass Communications, Public Relations from Bloomsburg University and has participated in the Executive Education Program at The University of Pennsylvania, Wharton School of Business.