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What is an SPV Custodial Institution for CRS? Is it possible to determine the Controlling Persons?

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An SPV Custodial Institution is an entity, that may be related or not, that holds assets on behalf of a single party who usually established the Custodial Institution.

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Accounts and Balance Sheet of Custodial Institution

- Traditionally, financial institutions and custodians do not reflect custodial assets on their balance sheets;
- Instead, custodial assets receive off-balance sheet accounting treatment, mainly because customers retain ownership of their assets, and the custodians are prohibited from "touching" these assets or subjecting them to predatory trading.

How to be categorized as a Custodial Institution for CRS

- It's an entity;
- That holds assets for the account of others;
- At least 20% of its gross fees are the following six custody-like fees:
 - Custody, account maintenance, and transfer fees;
 - Commissions and fees earned from executing and pricing securities transactions concerning Financial Assets held in custody;
 - Income earned from extending credit to customers concerning Financial Assets held in custody (or acquired through such extension of credit);
 - Income earned on the bid-ask spread of Financial Assets held in custody;
 - Fees for providing financial advice concerning Financial Assets held in (or potentially to be held in) custody by the entity;
 - Fees for clearance and settlement services.

For CRS, the difference between a Corporate Nominee and a Custodial Institution

- A Custodial Institution need not be regulated, supervised, or subject to the financial and oversight laws of a jurisdiction to qualify as a Financial Institution for CRS.
- If a Corporate Nominee maintains an account at a Reporting FI, the FI must report on whose behalf the Nominee is holding the account
- However, if the Corporate Nominee is categorized as a Custodial Institution, the Custodial Institution is a non-reportable Person
- If the CI is non-participating then no CRS reporting occurs

Can a CRS Reporting FI determine the Controlling Persons of an SPV Custodial Institution?

How would CARF/CRS look through a Custodial Institution holding an Investment Entity? Hint: It cannot.

Purpose of a Custodial Institution

- A custodian financial institution keeps the securities owned by individuals and organizations safe.
- A custodian bank holds financial assets for safekeeping to minimize the risk of theft or loss.
- Investment advisors are required to arrange for a custodian for assets they manage for their clients.
- These assets may be stored in physical or electronic form.
- Custodian banks can also manage financial accounts, handle settlements, and deal with compliance and tax issues.
- Custodian banks can serve as mutual fund custodians.

How a Custodian Works

- Since they are responsible for the safety of assets and securities worth hundreds of millions or even billions of dollars, custodians tend to be large and reputable firms, such as banks. Investment Advisory firms routinely use custodian banks to safeguard the assets they manage for their clients.
- A custodian also may be appointed to maintain control of the assets of a minor child or an incapacitated adult and manage them on their behalf.

Other Custodial Services Provided

- Most custodians offer related services such as account administration, transaction settlements, the collection and distribution of dividends and interest payments, tax support, and foreign exchange management.

Important ⚡

- A custodian bank may handle investment activities for customers.
- This could involve placing orders with a brokerage to buy or sell securities, transferring funds to and from accounts, overseeing investment account activities, and reporting account activity to customers.
- Custodians may also prepare the necessary tax filings related to investment activities for customers.
- The fees for their services depend on exactly what they provide and can be based on the value of assets held.

Custodian vs traditional banks

- The difference between custodian banks and traditional banks is their primary roles.
- Custodian banks are responsible for, above all, the safekeeping of financial assets belonging to individuals or institutions. They may also offer services related to that primary role. However, they don't offer the same types of services provided by traditional banks.
- Traditional banks are financial institutions with the primary role of taking and holding deposits for customers and extending loans to them. Bank customers should be familiar with such activities and the products that represent them.
- These products can include checking and savings accounts, certificates of deposit, money market accounts, personal loans, car loans, and mortgage loans. All are related to their primary role.
- Traditional banks may offer other related and beneficial services such as check cashing, credit cards, investment services, and business banking.
- A traditional bank may also offer custody services and therefore function as a custodian bank as well.


Custodians for minors

- If an account beneficiary is a minor, a custodian is often required.
- In such cases, the custodian may be a responsible individual rather than an institution. The custodian has the authority to make investment decisions regarding the assets in the account, but the funds are ultimately intended for use only by the named beneficiary by a certain age.
- Each account can have only one beneficiary, the minor account holder, and one custodian, a designated adult representative. The custodian remains in place until the beneficiary reaches adulthood.
- Other people can contribute to a minor's account, but they have no authority over how the funds are managed once they are deposited.

What Other Services Do Custodian Banks Offer?

- Provide accounting and settlement services, such as managing dividends or interest that has been distributed to the account or managing stock splits.
- The custodian bank performs such actions in the client's name.

=====END=====



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