



# Custodial and Safekeeping Options

## Frequently Asked Questions (FAQs)

Corporate One serves credit unions' safekeeping/custodial needs at Bank of New York Mellon (BNY) and provides an option to use Pershing LLC through its relationship with Multi-Bank Securities, Inc. Pershing LLC is a subsidiary of BNY Mellon. Custodial services are also offered through Primary Financial's SimpliCD Program. Within each program, there are differences in the parties involved and the procedures for which each credit union is responsible. Included in this document is information to help you make an informed decision as to where to safekeep your credit union's securities.

### **WHAT IS A CUSTODIAL ACCOUNT?**

Under a custodial arrangement, there is an independent third party (such as BNY Mellon) called a "securities intermediary" that makes a book entry for the security in "street name" in the credit union's account. A custodian holds no security interests of their own and their business is simply as a service provider. The credit union has a "security entitlement," which means in the case of insolvency of the intermediary, the securities held by the intermediary for custodial clients will not be subject to the claims of the intermediary's creditors. Most intermediaries charge for this service in the form of monthly maintenance fees and per item fees for principal and interest payments, and for the delivery and receipt of securities.

### **WHAT IS A SAFEKEEPING ACCOUNT?**

Under a safekeeping arrangement, there can also be an independent third party that makes a book entry for the security in "street name." These safekeeping accounts are offered through securities firms and, more often than not, provide this service for free. Some brokerage or financial firms do not provide for third party safekeeping, but act as both the broker and the safekeeper; however, one of the most important protections against fraud is the separation of the safekeeping and custody functions from the investment functions.

Brokerage firms can be either "clearing and carrying" firms where they house your account and security positions or an "introducing firm," which does not house accounts holding customer securities. Multi-Bank has an arrangement with their clearing firm, Pershing LLC, to safekeep securities for their clients as a third party. Assets are thus segregated from the broker/dealer's holdings to avoid commingling and the intermediary is prohibited from using the customer's securities in their own business. Additionally, the intermediary cannot assign a security interest in any holdings without the client's permission and fully paid for assets cannot be hypothecated.

### **WHAT REGULATORY COMPLIANCE ISSUES MUST I CONSIDER?**

Under NCUA Reg 703.60, a credit union must have a written custodial/safekeeping agreement with third parties that specifies that they will exercise ordinary care in protecting the securities they hold. Ordinary care holds the custodian or safekeeper responsible for losses from their acts or omissions, such as willful misconduct, bad faith or negligence.

*For questions or additional information about safekeeping services and compliance, please contact a Corporate One representative at 800/366-2677.*

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