



Discussion of Omnibus Recordkeeping

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Section 1. Executive Summary

The purpose of this paper is to provide information on Omnibus Recordkeeping (ORK) for mutual funds. Omnibus Recordkeeping (ORK) is a very popular method to automate mutual fund processing for funds, financial distributors and investors. Omnibus Recordkeeping is used internationally for an immense number of mutual fund shareholders in extremely high volume settings by many financial institutions. In the United States nearly 50% of the 400+ million investor accounts are processed using this method¹. In Europe omnibus record keeping is estimated to exceed over 50% of shareholder accounts. At the heart of any efficient mutual fund ‘Super Market’² or ‘Mutual Fund Advisory Program’³ is Omnibus Recordkeeping. Internationally there are now over 48,000 mutual funds and in the US there are 8,120⁴. Since, investors need choices to fulfill their investment objectives, ORK is clearly the most efficient and cost effective way for investors to own multiple funds from multiple fund families.

This paper defines the ‘what’, the ‘how’, the ‘who’ and the ‘why’ of Omnibus Recordkeeping processing. It defines the various models under which ORK is accomplished. It discusses the benefits to mutual funds, distributors and individual investors. It also covers the cost elements to the various parties servicing and offering mutual funds to individual investors. The paper also addresses how compliance requirements and legal considerations are solved using ORK.

ORK processing offers a very efficient and cost effective processing model to investors who require a single view of all their mutual fund assets to assess performance and take action within the same framework. The worldwide financial services industry is embracing an open finance model. According to Forrester Research this model is internet-driven and incorporates an open exchange of data among asset manufacturers (the fund managers), intermediaries (distributors) and individual customers. ORK is an important tool for supporting this model.

Mutual Funds are increasingly important to all types of financial institutions. These institutions must integrate both proprietary and non-proprietary mutual funds into their core products and delivery channels. Ultimately the financial institution must protect the relationship with the client while controlling the service levels to its clients.

Most mutual funds are bought primarily via Distributors (Intermediaries) as opposed to the investor purchasing directly from the fund. According to recent Investment Company Institute (ICI) reports, US distributors account for over 88% of new funds sales⁵. Investors need financial advice and as such the processing and trading model requires supporting both the distributor and the investor. ORK provides a critical component for efficient and error free servicing when financial products require the need for a financial advisor. ORK solves the consolidation issues for investors and distributors whose requirements include the use of more than one mutual fund family.

¹ KDS Survey see section 5

² See Glossary Definition of Super Market

³ See Glossary Definition of Mutual Fund Advisory Program

⁴ 2007 ICI Fact Book

⁵ 2007 ICI Fact Book



Omnibus Recordkeeping (ORK) allows a “third party” (a bank, distributor, administrator, etc.) to process its own mutual fund clients fund records. All trades with the funds it sells are recorded into a single account (Omnibus Account) at the fund. This ‘street or nominee name’ registration at the fund allows the “third party” to consolidate all its clients positions in the fund into the Omnibus account. The Omnibus Recordkeeping System (ORK) then provides the mechanism to keep track of the individual client positions. This means the Mutual Fund never directly records the “Distributor’s” client data. Through ORK a daily aggregation of fund orders is placed as a single buy and sell with the fund representing all fund orders received that day by the “Distributor”.

The benefits of using this subaccounting (ORK) approach for processing mutual fund accounting is significant both in the operational costs to clear and process fund trades as well as in the marketing advantages of directly retaining and servicing the distributors clients. ORK also provides an ‘Integration Strategy’ to make mutual funds a core product for a financial institution. This approach also allows the distributor the option to add other products to mutual funds or supplement its own proprietary group of funds. There are many examples of this approach including, Supermarkets, Money Fund sweeps, asset allocation or mutual fund advisory Programs and retirement based products

ORK is a ubiquitous processing method for mutual funds internationally. ORK has been in place in the United States since 1980. However its popularity skyrocketed in the past 8 to 10 years principally because of the increased number of funds created and their increased complexity. ORK’s growth slowed to a 10% increase in the US during 2005-2006 because unrelated compliance issues grabbed the attention of fund managers. These issues have been addressed and conversions from non-ORK processing are now again proceeding at a rapid pace. The adoption in Europe of ORK is even more than the US. However ORK will increase even more once a trading vehicle for cross border transactions similar to the US NSCC Fund/Serv systems is put into place.

An important note: Most terms used in this paper are defined in the glossary, however we define ORK to be the same as the following: Omnibus Recordkeeping, Subaccounting, and Sub-Transfer Agent. Likewise the use of the term Intermediaries will be synonymous with: Distributors, Brokers/Dealers, Banks, Insurance Companies, Trust Companies, Custodians, and Financial Advisors. Fund Companies are referred to as “Manufacturers” of financial products; in this case they create and manage the mutual fund itself.