

Transparency and Transfer Agents

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Prior to AIFMD and UCITS V, transfer agents (TAs) were unknown, however the need for greater transparency and trust has raised their profile.

Transfer agents play an important role in financial services. They fulfil a number of functions such as maintaining and managing the following:

- registers of shareholders for issuers
- recordkeeping, reporting and communications
- dividend payments
- corporate actions
- IPO services



Figure 1: Transfer Agent's Responsibilities

Depository banks' responsibilities:

Under the various fund regimes, depository banks are liable not just to the funds, but their clients and the underlying investors. This liability creates the need for depository banks to undertake monitoring and gather data from various sources.

The challenge means large amounts of data need to be collected and processed. How can firms manage and share such large data files without breaching data security requirements?

Understanding the risks:

One of the aims of introducing the AIFMD and UCITS V regimes was to improve transparency. Consequently, TAs are under greater scrutiny.

Funds are required to provide investors with information, seek consent, where applicable, and maintain information relating to the investors' assets. These duties may be outsourced to TAs to maintain accurate information.

In this way, TAs handle a vast amount of paperwork. Take a moment to consider the following tasks:

- Completing AML checks
- Regulatory reporting
- Document collation and dissemination
- Error reconciliations
- Corporate action processing

Now, consider that those same TAs may be undertaking the above tasks for a variety of funds. Imagine the volume of data being processed. It's vital that they ensure security of data throughout the lifecycle of their duties. This means understanding what data is held, where is it held, how it is stored and finally the ability to retrieve that information.

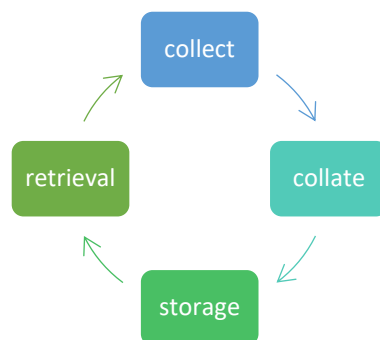


Figure 2: TA paper trail

Oversight of TAs:

As the funds are held responsible, it's vital that they engage competent TAs. This means that funds will be conducting, not just initial due diligence on TAs, but ongoing monitoring. The funds need to gain assurance that the TAs are fulfilling duties as well as ensuring the security and integrity of that data.

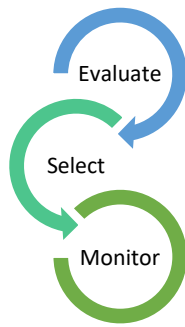


Figure 3: Fund Manager's responsibilities

TAs need robust systems and controls to manage their risks and those of their business partners. TAs need to demonstrate competence, but also good governance internally over the services provided to depositary banks. This is becoming increasingly important given the emphasis on operational resilience.

TAs need to respond quickly to requests for information. Failure to provide information in a timely manner could prompt an alert to depositary banks. Where a depositary is unable to obtain a clear picture of the TA, it may advise against investing in a fund.

Fund managers and depositary banks need to consider how they maintain oversight of their TA arrangements.

- How do you ensure the accuracy of records maintained by the TA?
- How easily can you obtain the data that you need to verify compliance with CASS requirements?

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