Custodian and Depositary Banks

What is a custodian bank?

Custodian banks (also known as custodians) are very different from retail and commercial banks. They don't provide standard banking services such as accounts, credit cards and loans. Instead, they act like a high-security warehouse where the financial assets of businesses and individuals are held, either physically or electronically, to prevent them from being lost or stolen.

The assets held by custodian banks range from equities and bonds to precious metals, fine art and cash. As well as safeguarding these assets, custodian banks provide a number of related services including account administration and tax support, collecting dividends and interest payments, handling foreign exchange transfers, and settling transactions. They also distribute activity reports and information about annual general meetings and shareholder voting.

If they hold assets for their clients in multiple jurisdictions around the world using their own local branches, custodian banks are often referred to as global custodians. If the bank uses other local custodian banks, these banks are known as sub-custodian or agent banks. Assets held in this way are usually owned by larger institutions such as banks, insurance companies, mutual funds, hedge funds and pension funds.

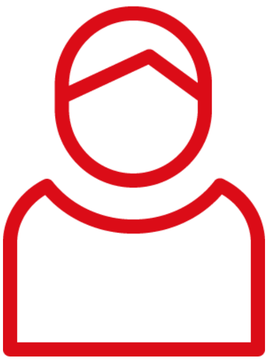
Because custodian banks are responsible for the safety of assets worth hundreds of millions or even billions of dollars, they tend to be large, reputable firms. Among the largest custodian banks in the world are BNP Paribas Securities Services, BNY Mellon, Citi, JPMorgan Chase and State Street Bank and Trust Company.

What is a depositary bank?

A depositary bank is a specialist financial institution that facilitates investment in securities markets with the trading of items such as stocks and bonds. In the EU, investment funds are legally required to appoint a depositary bank to safeguard the assets of the fund and ensure that it complies with the laws and regulations of its jurisdiction.

A depositary bank's services include monitoring cash flow, record keeping and overseeing fund operations such as valuations, risk analysis and investor subscription and redemption activity. Subject to increased regulation in recent years, depositary banks are fully liable for the loss of assets such as listed shares, bonds and derivatives – so they act as an insurance policy. For alternative assets such as real estate, a depositary bank isn't liable for losses, but it must ensure that all the controls are in place to minimise the risk of any loss.

What is the difference between a custodian bank and a depositary bank?



Clients

A depositary bank's clients are restricted to investment funds, while custodian banks can hold financial assets for a much wider range of businesses and individuals.

Responsibilities

A depositary bank's responsibilities go beyond safeguarding assets. They also have to monitor the activities of a fund or its management company to ensure compliance with local regulations. With greater control over the assets they hold, depositary banks act on their own judgement with respect to investments, transfers and other operations, while custodian banks act on the instruction of their clients.

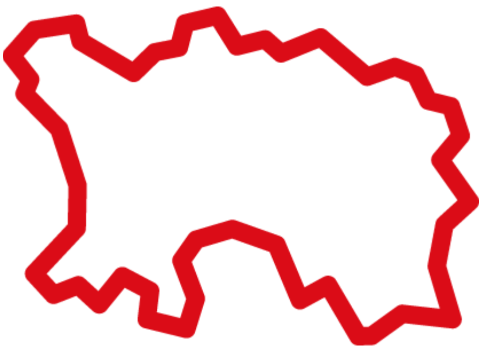
Liabilities

For standard assets such as listed shares, bonds and derivatives, a depositary bank is fully liable for any losses, while custodian banks are only liable in very specific cases.

Today, most global institutions act as both depositary and custodian for their clients to ensure proper monitoring and reporting of their activities and increased operational efficiency in the safeguarding and settlement of assets. Automated services which use artificial intelligence to search huge amounts of information to offer investment advice to individuals.

Summary of differences:

Why do custodian and depositary banks choose Jersey?



Jersey is home to a number of well-known banks that act as custodians and depositaries for clients across the globe. What brings these banks to the Island? Along with its robust infrastructure, proximity to the UK and political and economic stability, Jersey has a mature and well-regulated business environment in which a diverse range of highly skilled finance professionals provide a wealth of valuable experience and expertise.

Combining local expertise with global reach is a successful formula for the Jersey-based branches and subsidiaries of organisations such as BNP Paribas, JPMorgan Chase and Pershing, whose parent company BNY Mellon is the world's largest custodian bank.

- Jersey is custodian to £1.3 trillion of wealth and looks after a staggering £361 billion in fund assets for a global client base.

- There are 24 bank branches and subsidiaries located in Jersey - and they include nearly half of the top 25 banks in the world, measured by the level of their capital.

- More than 13,000 people work in the Island's finance industry - from fund administrators and custodians to depositaries and lawyers.

- Jersey's banking sector provides services to support the fast-growing alternative investment funds industry, in particular the real estate, private equity and hedge fund markets.

Where can I find more information?

For more information on banking in Jersey visit our dedicated banking page or to find out more about Jersey’s finance industry see our other Put Simply Banking explainers.