# Transfer Agents Doing Less but Charging the Same: Report

By Chris Larson, *BoardIQ*, September 8, 2015 [subscription required]

The rise of omnibus accounting in recent years has led to a reduction in the services that transfer agents undertake for funds. It has also made it harder for fund boards to exercise strong oversight, particularly when it comes to understanding and overseeing the related fees.

In fact, in many cases, the fees funds pay their transfer agents haven't been adjusted accordingly. The upshot for boards and management is that they may be paying more than they should for transfer agent activities, experts say. They point to numerous steps that directors should take – and also note potential changes are in the works that could make the situation better.

Change is necessary, these experts agree. "As the structure has changed, it has introduced a variety of changes in the economics," says Robert Kurucza, a partner at **Goodwin Procter**. "All of this has increased the complexity for mutual fund boards and people who advise them."

The evolution of the transfer agent's role came as more investors made investments through intermediaries rather than buying shares directly from a fund company. That led to the growth of omnibus accounting, with an intermediary taking on some or all of the recordkeeping and investor servicing tasks that transfer agents did previously.

Those intermediaries naturally want money for their efforts, and payments to intermediaries have jumped over the past six years, **PwC** notes in a new report, "Evolution of the mutual fund transfer agent: Embracing the challenges and opportunities." Since 2009, the report says, the percentage of overall transfer agent fees funds pay to intermediaries for subaccounting has increased to 57% from 26%.

Yet this shift in responsibilities and duties, and in who is getting paid for what, has not been paired with a corresponding reassessment of fees. "Fee structures generally follow what was previously established for transfer agents," the PwC report says. That could mean funds are paying more than they should for shareholder servicing, recordkeeping and other fees.

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"Directors must seek competitive pricing," says Niels Holch, a partner at **Holch & Erickson** and executive director of the Coalition of Mutual Fund Investors, who wants to see boards use requests for proposals or competitive bidding when hiring for such services.

“If you can get recordkeeping costs down, that’s good for the fund.” This doesn’t happen very often, he says, “because the sub-TA function is embedded in the brokerage relationship that the fund has with a particular platform.” That, he says, needs to change.

Boards should also embrace a certain level of skepticism, Kurucza says. “It’s about asking the right questions and about being appropriately skeptical, which I think is a good standard,” he says. “The relationship between advisers and sponsors doesn’t have to be adversarial. But it needs to be about respecting the obligations and differences between the different parties.”

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Still, the changes are slow in coming, experts say. “I don’t see the industry changing rapidly in this direction,” Holch says.