

Nominee or Custodian

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A nominee holds securities on behalf of investors, the latter being the beneficial owners of the securities.

In markets where this is common practice (which includes the UK) holding securities through nominees is cheaper. The main reason is that investors do not need their own membership of the securities depository used. Instead the nominee as custodian holds securities on behalf of institutional investors or individuals.

- The main reason for custodian to hold assets, rather than the institution that owns or manages the assets are cost savings. The cost economies come from that fact that custodian usually act as custodians for many investors. As a result of this, they are able to invest more in systems that provide lower costs and to exploit economies of scale in general.
- The cost savings are particularly large where investors invest in markets in which they themselves do not have local operations. In these markets, custodians have the systems and expertise to deal with issues such as local withholding taxes.
- Because large investors invest globally, many large banks offer global custody services that, as the name suggests, allow fund managers to use a single custodian across all (or nearly all) the markets they invest in. They usually use sub-custodians in for at least some markets.
- In addition to the traditional safekeeping and administrative services, many custodians now offer higher margin value added services such as performance and risk measurement and reporting to regulators.
- The benefits of using custodians are similar to those of other forms of outsourcing.
- Shareholders will not directly lose financially by holding securities through a nominee - entitlements to dividends, rights issues etc. are unaffected, although these are received or exercised indirectly by instructing the nominee, rather than by dealing directly with the issuer.

There are certain types of nominee relationships that do allow shareholders to vote. Using these is usually more expensive.

The role of a nominee is similar to that of a custodian, however the types and level of services offered by a custodian to large institutional investors can be very different from those offered by nominees to small shareholders.