Billing Challenges of the Buy-Side and Global Custody

Fee schedule changes can present complicated challenges for billing teams. This is a story about Client Resets and Aggregate Tiering and the obstacles that accompany them.

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Verrazano Consulting Solutions LLC is a business advisory and systems implementation global consultancy, with deep subject matter expertise in niche financial services applications and key standards and industry mandates.

Our firm provides a unique methodology called “ISOTOPE” to ensure business and IT unified solutions are delivered to our Customers.

Our subject matter experts have a unique combination of extensive lines of business functional domain knowledge, across various market segments involving key business processes and niche financial services applications and standards-based expertise to provide the maximum value to our Customers.

Our global Customers include Tier 1 and Tier 2 financial services organizations and the treasury departments of Fortune 100 and Fortune 500 corporations.

Fee billing in custody and asset management has had its challenges over the years. However, they never fail to surprise me. I am a Business Systems Analyst with Verrazano Consulting. I've worked with many clients over the years such as stock exchanges, wire houses, asset managers and custodians. Every year I see something new.

This past year, I was tasked with helping a global custodian's collateral management business convert their largest institutional clients from a legacy billing application to a more prominent modernized billing platform.

The focus of this line of business was on its largest institutional clients with assets in excess of $20 billion USD. In part, because their largest clients had the most complex of billing requirements.

One of the most significant challenges that our team faced during this conversion was adopting different billing methodologies on behalf of their largest clients; one of which had assets of more than $29.5 billion USD. This one client in particular had expressed their dissatisfaction to Senior Management with their basis point driven fees and was threatening to move their business to a competing firm. The other larger clients had also expressed concern over basis point driven fees for very much the same reason.

In an effort to retain their largest clients, Senior Management decided to offer different billing methods to assess these clients' custodial fees.

While the Fee Schedule is the controlling document and the basis points per market as defined within the Fee Schedule must be represented within the billing system, the billing methodology is not defined within the Fee Schedule and is subject to interpretation. I was brought into these meetings with Senior Management to discuss the new billing methodologies under consideration to be adopted for the invoicing of their largest clients.

To begin this effort, all assets for over 100 markets and all transactional activities were imported into the new billing system. Billing rules with security identifiers were created so that the asset and transactional activities could be aggregated systematically and ultimately invoiced to its clients. Client Templates in the billing system were created based on the Fee Schedules. Fee calculations and equations were built in the system to support the billing of all asset and transactional activities. The client billing requirements were derived from the Fee Schedules along with any subsequent amendments to the billing contracts and were invoiced based not only on the basis points defined per market in the Fee Schedule, but also based on the client's total asset portfolio, either assessed individually by account or within a client relationship of multiple accounts. There were two main Fee Structures born out of this effort for complex portfolio billing requirements which were created through fee patterns, activities and equations.

The first method was the concept of Client Resets where the total portfolio was calculated within their billing system. If total assets exceeded a defined asset threshold, a new set of billing rates would apply.

The second was described as Aggregate Tiering whereby the assets are assessed by market and are proportionately billed based on the percentage levels of each market in relation to the total asset value.

My team and I created Excel spreadsheets for several discrete billing months for twenty of their largest institutional clients to represent the fees should either one of these two billing methods were to be adopted. These spreadsheets were completed through the use of SQL queries which represented the asset holdings per client for each defined billing month. As a result of this work, it was shown that these new methodologies would represent a significant savings to the client as they were previously billed by basis point regardless of the amount per market of their holdings. Client Resets allows a new (lower) set of basis points to apply if the overall portfolio exceeds a defined threshold.

Aggregate Tiering allows the charge per market to be apportioned based upon the individual market size. If the market tiers exceed a defined level for any given tier threshold, the residual of the market holding is charged at a lower rate. We then presented these findings to the billing platform's independent software vendor (ISV) in a BRD for their development of these new models. When the ISV's development efforts were completed, we then deployed it to the parallel testing environment. My team was then tasked with determining if the results matched the expected outcomes. Test invoices were generated on a monthly or quarterly fee cycle and were validated using SQL queries.

When our testing was successfully completed, we then presented the invoices from the parallel environment to Senior Management for their review and approval. Senior Management then had to decide which methods to adopt for each client. Because of the successful reconfiguration of these new billing methodologies, the bank was able to satisfy their largest client and take positive steps to retain the rest of their top twenty client accounts.