Battle Lines Drawn on Managed Account Operations

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High-profile players in the managed account industry are butting heads over the National Securities Clearing Corporation's plan for a standardized communication platform. Spearheaded by CheckFree Investment Services, opponents of the initiative question the cost of building the hub and the per-transaction costs of using it.

But supporters of the plan — potentially the fulfillment of the Money Management Institute's (MMI) efforts to standardize how data is sent and received by managed account makers and distributors — say that CheckFree, an outsourcer that helps participants exchange managed account data, is mounting a rear-guard action to protect its own market share.

In any case, say industry observers, the spat suggests that implementing the standards won't be as easy as it seemed just weeks ago. "The various interests are staking out their positions," says Scott MacKillop, a principal of Trivium Consulting. "On one side, CheckFree and others have spent millions on managed account capabilities; the MMI, meanwhile, has staked its reputation on this."

Instead of letting the NSCC run a data exchange platform, CheckFree would prefer to see the standards in the public domain, says Hilary Fiorella, a senior v.p. at the Atlanta-based outsourcer. That would permit CheckFree — and its rivals, Fiorella is quick to add — to compete for the business of implementing them.

"If everybody had access to the standards, the toll road the NSCC is building would be redundant," she says.

But putting the standards up for grabs could compromise them, according to the MMI. "We need a cop on the beat to enforce the standards," says Chris Davis, executive director of the managed account industry association. He adds that the NSCC's "catastrophe recovery" capabilities - which the SEC requires of those who transmit primary financial data - are "more robust than anything anybody else can provide."

Few oppose the standards in and of themselves. Regulating the way managed accounts are opened and maintained is generally seen as a key to growth for the industry. As matters stand, some participants — especially on the asset management side — have to trigger dozens of separate communication channels to process a single transaction.

The standards purport to streamline those processes by transmitting data in an order that can easily processed by all participants. With participants using the same data forms, the need for multiple channels decreases.

"It's like everyone agreeing to drive on the right side of the road," says Jim Horan, a senior v.p. at Kansas City, Mo.-based DST Systems, a competitor of CheckFree that supports the NSCC plan. "Asset managers with experience in the mutual fund industry tell me they're astounded at how primitive the whole managed account industry is right now."

The comparison with the mutual fund industry is pointed. In the 1980s the NSCC, a not-for-profit, self-regulating organization, rolled out Fund/Serve, a system for regulating mutual fund data. Recently the NSCC has applied to the Securities and Exchange Commission for permission to extend a similar offering to the managed account industry, as previously reported in *FundFire*.

Supporters of the NSCC may not expect to see the managed account space grow a thousandfold in a repeat of the mutual fund industry's expansion over the past two decades. But they eagerly point to that success when arguing on behalf of the NSCC's new plan.

In CheckFree's view, however, the analogy between managed accounts and mutual funds is tenuous. "We're not where we were in the 1980s," Fiorella argues. "There's much more automation now."

CheckFree argues that inefficiencies are bound to arise from what it calls a "quasi-governmental" agency's involvement in regulating managed account data. "We think the private sector can do this," says Fiorella. "We think that building a new infrastructure isn't the way to go and we think it can be done at a lower cost on the Internet."

CheckFree's stance is understandable given its position in the managed account food chain, says Daniel Seivert, a managing partner at 3C Financial Partners, a Manhattan Beach, Calif.-based investment banking consulting firm. "In theory there's an order of benefit from the MMI initiative," he says. "The first beneficiaries might be investors, then advisors, then managers and lastly the sponsors. CheckFree doesn't view itself as a beneficiary as things stand. You have to keep in mind that no one has put more money into communication capabilities already than CheckFree and some of the big sponsors."

A wirehouse insider put opposition to the NSCC plan in similar terms. "Here's the thing: I've already put all kinds of money into our systems and now they're saying I have to turn around and put more money into this initiative? And do that now, after three horrible years?"

Although the extent of wirehouse participation in the NSCC plan isn't clear, Morgan Stanley, Prudential and UBS took part in the testing phase of the platform. Smith Barney and Merrill Lynch, which together distribute about 70% of managed accounts, have yet to signal their approval.

That said, Bevin Crodian, CEO of Market Street Advisors, a start-up hoping to compete with CheckFree , warns against undue emphasis on the breadth of participation in the NSCC plan. "I don't know where this idea came from, that everybody has to be involved from the start or it's a failure. Of course certain firms aren't going to spend the money until they have to, but I think they'll be drawn into this; kicking and screaming maybe, but they'll be drawn in eventually."

But Trivium's MacKillop believes that the reluctant sponsors and CheckFree are sending the MMI and the NSCC a message they would be advised to heed. "This all goes to show that you can't implement solutions in a vacuum," he says. "Everybody's interests and viewpoints have to be taken into account."

The Depository Trust & Clearing Corporation, the NSCC's parent, declined to comment prior to the SEC's ruling on its subsidiary's application.

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