

Report of the Director, West Yorkshire Pension Fund, to the meeting of Joint Advisory Group to be held on 31 January 2019

Z

Subject: Northern Pool - appointment of a Common Custodian

Summary statement:

In March 2018 the Northern Pool Shadow Joint Committee approved the appointment of Northern Trust, as the Pool's common custodian bank. Officers across the Pool have been working with Northern Trust to agree contractual terms. This is mainly to ensure that terms agreed during the dialogue procurement process are fully reflected in the final contract. Whilst, we have made significant progress in the last few weeks, Northern trust have been very slow in moving on key elements of the contract. We gave Northern Trust two deadlines:

- 1.) 30 November 2018 to agree the master contractual agreement (MCA)
- 2.) 31 March 2019 to conclude on all subsidiary contracts under the custody contract.

In light of the delays in agreeing contractual terms, we have postponed transferring our financial assets from HSBC to Northern Trust. WYPF and GMPF officers have looked at reprogramming this transfer and determined that the next available period we can safely transfer custody of financial assets from HSBC and JP Morgan to Northern Trust will be late summer 2019, after completion of final account audit for 2018/19 financial year.

RECOMMENDATION

- That this report is noted

Rodney Barton
Director WYPF

Portfolio:

Report Contact: Ola Ajala
Financial Controller WYPF
Phone: (01274) 434 534
E-mail: ola.ajala@wypf.org.uk

Overview & Scrutiny Area:

1. BACKGROUND

- 1.1 In December 2016 the Northern Pool made a decision to appoint a common custodian to provide custodial services to all funds within the Pool. This decision strengthened the Pool's decision to allow funds within the Pool to work collaboratively and at the same time to provide FCA regulation within the Pool. The tender project started in April 2017 and concluded in March 2018, with the appointment of Northern Trust.
- 1.2 We have been working with Northern Trust to agree contractual terms, Northern Trust have been very slow in adding concessions agreed during procurement into their standard contracts. Equally both WYPF and GMPF have refused to accept terms that are not an improvement to those already negotiated during procurement.
- 1.3 In early October 2018 we gave Northern Trust a final copy of our terms, majority of these terms have now been accepted by Northern Trust directors. However, a small number of terms and clauses proposed by Northern Pool, with our improvement of terms, these have been referred back to Northern Trust Board for approval. We also gave Northern Trust two deadlines:
 - a) 30 November 2018 to agree the Master Contractual Agreement (MCA).
 - b) 31 March 2019 to conclude on all subsidiary contracts under the custody contract.
- 1.4 We have made significant progress on the MCA, and the latest draft contract is been reviewed by DLA Piper – a specialist legal firm appointed by NP for this purpose.

2. CUSTODY CONTRACT

- 2.1 The contract with Northern Trust covers two work areas with a master contract for the Pool:
 - Global securities custody
 - Private equity custody and administration
- 2.2 The private equity part of the contract is now live and fully operational, it is the main quoted stock custody part that is delayed. In spite of this delay and as a result of the positive progress made on the contract for Global Security Custody in October 2018 and the quality of services we have seen, we are reporting that this contract will add value in terms of operations and cost of investment management.

3. WYPF TRANSITIONAL PLAN

- 3.1 We started working on our transition plan with HSBC and Northern Trust in May 2018. A detailed plan was drawn up and agreed with Northern trust, HSBC and WYPF key services in late May 2018.
- 3.2 We have completed 95% of all activities needed to transfer assets to Northern Trust, however, due to delays on the contract terms we are rescheduling the remaining 5% of activities. We conducted a dry run in November 2018, this was successful and will be doing same again in the summer of 2019 before the full transfer.

4. TRANSFER DATE SUMMER 2019

The project will take 9 weeks to complete and we are looking at a transfer date of between August and September 2019 from HSBC to Northern Trust. The project plan includes key sign-off processes and due diligence actions before the project will be closed.

5. HSBC BANKING AND GLOBAL SECURITY CONTRACT

- 5.1 We currently have a single contract with HSBC for banking and global securities custody services. With the transfer of global securities to Northern Trust, we will be left with banking services with HSBC. In order to manage the complexity and service risks associated with financial assets our plan is to extend the current contract with HSBC for banking and global securities custody for two years. The current contract with HSBC is a rolling contract, and in light of the delays we have experienced with Northern Trust we will revisit the contract with HSBC once we have completed the transfer of assets to Northern Trust next year.
- 5.2 We will only pay for the services we receive and the two year extension will allow us to focus on the services we are transferring to Northern Trust to ensure these perform as expected.

6. OTHER CONSIDERATIONS

None.

7. FINANCIAL & RESOURCE APPRAISAL

This report is a financial document and there no additional resource implications for the fund or CBMDC.

8. RISK MANAGEMENT AND GOVERNANCE ISSUES

This report is a key financial and risk management document, within the governance process for WYPF.

9. LEGAL APPRAISAL

There are no legal implications resulting from the report.

10. OTHER IMPLICATIONS

None

11. RECOMMENDATION

- That this report is noted