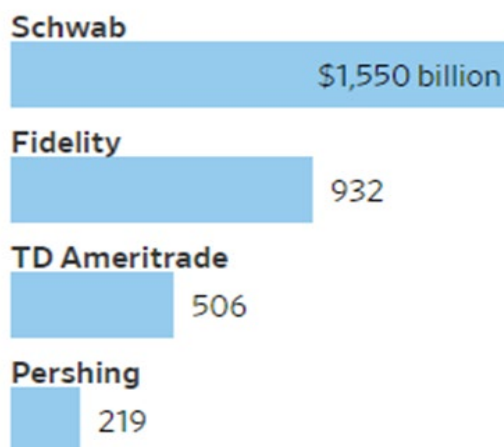


Charles Schwab made waves on Wall Street when the custodian announced that it was eliminating commissions on equity and exchange traded fund trades. The move forced TD Ameritrade, a rival custodian, to follow suit. The immediate result was that the economics for Schwab to acquire TD began to make sense given TD's collapsing profit margins. The transaction is slated as a stock-swap valued at \$26 billion. Schwab and TD locking arms results in about \$2.1 trillion in investment advisor assets custodied, making up 51% of that market (Cerulli Associates). The chart below shows Fidelity trailing at \$932 billion in custodial assets. While consolidation can offer economies of scale for both the advisor and their clients, service, at times, can suffer.

- Schwab serves over 7500 financial advisors, with TD Ameritrade at approximately 7000 advisors, and Fidelity servicing 3000 (Wall Street Journal).
- Custodians generate a meaningful level of revenue from interest on cash reserves.
- Further consolidation is anticipated among smaller firms such as Bank of New York Mellon (Pershing) and E*Trade Financial Corporation.
- In addition to benefiting from economies of scale among financial advisors, TD and Schwab both serve individual investors, offering potential revenue from the cash held among investors' cash holdings.

Estimated RIA assets in custody



Source: Cerulli Associates