


Is Poor Quality Custodian Data Constraining the Maturity of Your Performance Operating Model?

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Performance reporting plays a vital part in the investment management process, yet upstream systems rarely deliver the data required to support high quality returns. As a result, performance operations teams must compensate for these gaps by detecting true issues, conducting root cause analysis, and ensuring proper remediation, all while delivering final results on tight timelines and at scale.

Because performance reporting represents one of the most visible outputs of the investment organization, poor upstream data does more than create operational friction. It introduces risk to decision-making, erodes client trust, and limits scalability. Firms with a mature operating model address high-impact data issues at the source. When they cannot, they equip the performance operations team with an environment to easily assess and adjust the data to make it performance-ready.

These firms consistently achieve:

- High-quality returns released timely
- Strong advisor and client satisfaction due to fewer post-release defects
- Rapid resolution of previously undetected defects, often within minutes, using data correction tools

To better understand the data challenges affecting performance operations efficiency and advisor and client satisfaction, we conducted a survey of performance operations teams supporting wealth managers and asset managers. The survey focused on identifying root causes to data challenges and the approaches firms use to remediate them at scale.

Survey responses show that asset managers using an IBOR accounting source are better suited for straight-through-processing, especially for security-level performance calculations. Wealth managers relying on custodian data, by contrast, require more modifications to support client performance reporting needs.

Family offices and wealth management firms servicing HNW/UHNW clients face additional data challenges. These firms must aggregate data from multiple custodian sources, often spanning across brokerage and trust accounting systems, while also incorporating supplemental books of records for UMA/SMA products and alternative investments, such as hedge funds, private equity, and real estate.





Common Data Quality Issues

Below are the most common data challenges wealth management firms encounter when relying on custodian data from brokerage or trust accounting platforms, alongside the experience of asset managers using an IBOR accounting source.

➔ **Corporate Action Timing Discrepancies**

Custodians post new shares or cash on payment date to support cash-basis statements reporting. However, this payment date typically occurs later than the corporate action's effective date, which causes inaccurate daily performance returns at both the security and roll-up levels.

Alternatively, IBOR systems support effective-date reporting to meet the needs of asset managers. This enables straight-through processing, but errors still occur. Performance operations teams must continue to monitor returns for these types of data issues.

➔ **Corporate Action Transactions Flow Issues**

Corporate action transaction details often fail to meet performance calculation requirements. They frequently lack the proper values needed to correctly represent inflows and outflows for all securities impacted by events such as a spin-off or name change. Custodian-sourced data presents this issue more frequently, though IBOR data sources can exhibit similar gaps.

➔ **Pricing Issues**

Custodian data may include incorrect or missing prices for performance calculations and client reporting. For example, when custodians post a new security without pricing source being readily available, positions may appear with zero market value. In other cases, pricing sources update with a lag and require back-dated corrections, a common challenge with hedge fund processing.

IBOR systems typically require timely pricing to support asset manager operations, which makes data more readily available for performance calculations.

➔ **Accrued Income Missing or Incorrect**

Accrued income issues are more typical with custodian data than with IBOR sources.

- Performance calculation standards require bond interest, but accuracy is dependent on proper setup or a reliable data source.
 - Custodians may entirely omit accrued income from stocks and mutual funds, as they often reflect this income only on payment date.
 - Older systems may not provide daily accrued interest for money market sweep vehicles, which prevents performance systems from calculating time-weighted returns (TWR) for these instruments.
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Approaches to Remediate at Scale

No data source operates without defects. Firms must therefore establish reliable processes to detect issues before remediation can occur. This survey focused on the root causes and remediation rather than the mechanics of defect detection.

Survey respondents consistently fall into three remediation approaches, often using a combination of all three: correcting data at the source, adjusting data locally, or accepting the imperfect.

Correct at Source

Asset Managers most often rely on this approach when using an IBOR. They collaborate closely with their accounting service provider(s) to establish standard processes that support performance calculation requirements. These processes typically include:

- Delivering position and transaction extracts that incorporate corrections affecting quantities and transaction timing.
- Automatically resending historical data corrections to performance systems.
- Applying special procedures for corrections against closed periods, with the ability to automatically advance adjustments into the current open period.

Wealth managers often cannot correct data at the source. Custodians design extracts primarily for prior-day or month-end reporting and do not support the selective correction retransmission required for daily performance calculation. Resending all historical records across all accounts is impractical, which forces firms to pursue alternative solutions.

Adjust the Data Locally

Asset managers may implement an Extract, Transform, and Load (ETL) layer to apply targeted adjustments to IBOR transactions, especially when they outsource accounting data. This approach complements source-level corrections and minimizes reliance on manual workflows.

Wealth managers typically require more complex solutions. Many incorporate a portfolio accounting or normalization layer between external data sources and performance and reporting systems. This middle layer aggregates and normalizes one or more custodian data source feeds to reflect correct effective dates, flows, pricing, and accruals. It may also calculate positions and accruals for daily records. Modern platforms enable operation teams to define rules that automate these data adjustments, thus minimizing manual intervention.

However, this added data layer increases technology complexity and creates additional reconciliation effort to align adjusted data with source systems.



Accept the Imperfect

Mature performance operating models focus resources on material defects rather than attempting to resolve every defect detected. These teams use contribution-to-return analysis to determine materiality and rely on month-to-date return variance thresholds to significantly reduce the number of defects requiring investigations. Teams leave immaterial issues or those that self-correct within the same month unaddressed.

To reduce data gaps with back-dated trades or late postings, some wealth managers simply use post-date instead of trade-date or effective-date. While this approach does not meet the definition of true trade-date performance, it delivers reasonably accurate, supportable results when firms face limited operational capacity.

Conclusion

Asset managers benefit from IBOR platforms that deliver performance-ready data and support mature operating models capable of producing high-quality performance results.

Wealth managers leverage a combination of remediation approaches depending on the data sources, operating constraints, and available resources. Adjusting custodian data to support performance reporting requires significant operational effort. When firms lack sufficient resources or cannot correct data at the source, they must often accept imperfect data as a practical necessity.

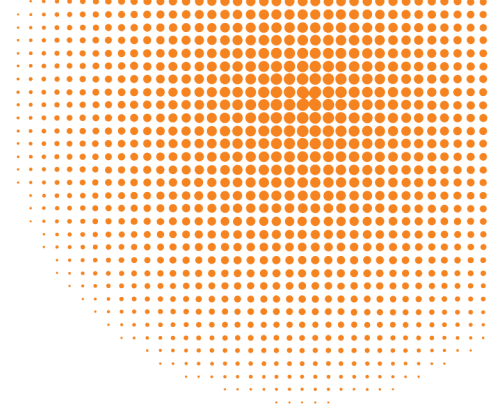
To improve performance operating model maturity, wealth management firms should follow these guiding principles:

- Push for reliable upstream processes to minimize “noise” and reduce the need for reposting and reprocessing.
- Design and implement effective quality checks that run daily and monthly to identify true defects requiring remediation, with expectations that AI capabilities will continue to enhance these processes as they come to market.
- Automate data corrections using rules and multiple inputs, as necessary.
- Enable performance operations teams to perform manual data corrections for material defects to support timely delivery of final returns.
- Integrate dashboards across performance and upstream operations to oversee identified issues through to resolution, and identify trends to inform future automation.

How Meradia Can Help

Meradia works with large organizations that operate complex performance and accounting environments to define and implement modern, scalable operating models. Clients engage Meradia to assess their current state operating model, define target state and implement the roadmap to achieve a mature operating model.

Meradia consultants serve as subject matter experts (SMEs) and program leads throughout the transformation journey. We fill resource and knowledge gaps between vendors and clients, apply proven project accelerators, and help organizations move from manual remediation to sustainable, performance-ready operating models.



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Tina is an investment operations expert who guides clients through complex business transformations. With over 30 years of industry experience, Tina has mastered the ability to drive technological change while meeting key business objectives. She deeply understands the investment operations lifecycle, spanning client reporting, data cleansing, performance measurement, and client portal implementations.

Tina has worked with many registered investment advisors, trust companies, asset managers, and multi-family offices throughout her career. She brings a unique perspective to vendor selections, having worked at both technology systems and wealth management companies.

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