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BlackRock Pulls Trillions From Custodian

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BlackRock Inc. is pulling some $2 trillion of assets out of State Street Corp.'s safekeeping, a move that will reduce the investing firm's reliance on a small number of parties and lower the fees it pays for back-office work.

For more than a decade, State Street served as the sole custodian to BlackRock's U.S. exchange-traded funds -- low-cost investment vehicles that have exploded in popularity in recent years. State Street services all of the roughly $2.3 trillion across those BlackRock funds.

While custody work often involves staid tasks such as maintaining investment records and handling and valuing assets, it is crucial to the smooth functioning of Wall Street and its multitrillion-dollar ETF machine.

Traders, pensions and central banks depend on ETFs to invest across stock and bond markets.

BlackRock, the world's largest ETF manager, is shifting some of the administrative and accounting tasks State Street had performed to Citigroup Inc., JPMorgan Chase & Co. and Bank of New York Mellon Corp.

The decision reflects both the market power BlackRock wields as the world's largest money manager and the fierce competition among the coterie of banks that vie for investment firms' servicing business. Custody banks have often fought for clients by cutting the fees they charge, a price war that has crimped profit margins. The shift to lower-cost investments has raised the fee pressure on money managers.

State Street warned its investors earlier this year that the move was coming. The portion of BlackRock's ETF business it expected to lose accounted for about 1.5% of its 2020 fee revenue, or $140 million, the bank's executives have said. That figure includes losses from BlackRock's Irish ETF business. The money manager is weighing custody bids for those funds.

State Street will continue to play a critical role going forward as a long-term partner to BlackRock's ETF business and the firm, State Street said. "Beyond ETFs, State Street continues to be a critical service provider to a diverse set of BlackRock funds," the custody bank said.

Derek Stein, BlackRock's global head of **technology** and operations, said the changes allow the ETF business to grow further and "mitigate concentration risk."

By parceling out the U.S. ETF business to three other custodians, BlackRock will lower the fees it pays for the work they provide.

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