



The Complexities of Collective Investment Trusts (CITs)

Challenges and Solutions

Collective Investment Trusts (CITs) are becoming an increasingly popular investment vehicle in the retirement plan space.

Their cost-effectiveness, flexibility, and unique regulatory framework make them an attractive alternative to mutual funds for plan sponsors. However, managing CITs presents distinct challenges, particularly due to the lack of standardization in pricing, transparency and regulatory oversight. This inconsistency complicates regulatory compliance, workflow efficiency, data management, and operational risks, requiring firms to navigate a complex and often fragmented landscape.

This eBook explores these challenges and provides best practices and solutions for successfully managing CITs.

INTRODUCTION

Structure and Operation of CITs

Collective Investment Trusts (CITs), also known as collective investment funds or collective trust funds, are pooled investment vehicles organized as trusts and maintained by a bank or trust company.

CITs are primarily designed for qualified retirement plans, offering a unique blend of regulatory oversight, cost effectiveness, and investment flexibility.

A CIT's structure involves three key players:



The Trustee

A bank or trust company, responsible for the administration, safekeeping of assets, and compliance with all relevant regulations. The trustee acts as a fiduciary, responsible for the interests of the plan participants.



The Investment Manager/Advisor

Responsible for managing the underlying investment portfolio of the CIT, following a pre-defined investment strategy. They make investment decisions on behalf of the trust.



The Custodian



Safekeeps the assets of the CIT, ensuring security and proper record-keeping.



The CIT itself operates under a trust agreement, which outlines the investment objectives, restrictions, and operational procedures. CITs typically offer daily valuation and streamlined transaction processing, **making them more accessible than traditional pooled investment options.**

CITs versus Mutual Funds: A Comparative Analysis

While both CITs and mutual funds offer pooled investment opportunities, key distinctions exist:

CIT	VS.	MUTUAL FUND
Primarily qualified retirement plans	 <p>INVESTORS</p>	Individuals, institutions, retirement plans
ERISA, OCC/state banking regulators	 <p>REGULATION</p>	SEC
Typically not registered with the SEC	 <p>REGISTRATION</p>	Registered with the SEC
Often lower due to economies of scale	 <p>FEES</p>	Can vary widely
High, but information primarily for plan participants	 <p>TRANSPARENCY</p>	High, information publicly available
Trust	 <p>STRUCTURE</p>	Corporation or limited partnership
Typically not publicly offered	 <p>DISTRIBUTION</p>	Publicly offered

THE PROBLEM

Industry Challenges in Managing CITs

Regulatory Complexity

- CITs are regulated by the OCC rather than the SEC, creating a different compliance environment.
- Fiduciary responsibility under ERISA adds another layer of regulatory oversight.
- Ambiguities exist in who is responsible for policing investments—distributors or asset managers?

Workflow Inefficiencies

- Managing CITs involves extensive paperwork and administrative coordination. Lack of standardization in documents and attribute inclusion adds time and inefficiency to onboarding.
- Multiple parties—consultants, advisors, plan sponsors, and trustees—each play a role, making the process complex.
- Onboarding new CITs and executing transactions require efficient systems to prevent delays.

Data Management Issues

- Unlike mutual funds, CIT data is not always readily available, making reporting and reconciliation difficult.
- Some CIT data is registered through the NSCC, while others remain private, leading to inconsistency.
- Firms need a robust data management system to integrate and access CIT information efficiently.

Operational Risks

- CITs require careful oversight to mitigate risks associated with transparency and compliance.
- A lack of standardized processes can result in errors in valuation, NAV calculations, and reporting.
- Inconsistent tracking and reconciliation pose financial and regulatory risks.

OPPORTUNITIES

Best Practices and Solutions

Navigating the Regulatory Landscape

- Establish clear internal policies to ensure compliance with ERISA and OCC regulations.
- Work closely with regulatory bodies and maintain up-to-date documentation.
- Implement governance frameworks to mitigate regulatory risks.

Optimizing CIT Workflows

- Automate administrative processes to reduce paperwork and human errors.
- Develop standardized workflows for onboarding, transactions, and reporting.
- Enhance collaboration between key stakeholders through integrated systems.

Improving CIT Data Management

- Consolidate CIT data across multiple sources to ensure accuracy and accessibility.
- Invest in data aggregation tools that integrate with industry-standard reporting platforms.
- Enable real-time data access for better decision-making and compliance monitoring.

Reducing Operational Risks

- Implement internal controls for transaction oversight and compliance monitoring.
- Enhance transparency with real-time reporting capabilities.
- Standardize reconciliation processes to reduce the risk of valuation errors.




LOOKING AHEAD

The Future of CITs

The market for CITs has experienced significant growth in recent years, driven by increasing demand for cost-effective investment options within retirement plans and the adoption of more sophisticated investment strategies.

This trend is expected to continue, although regulatory changes and market fluctuations could impact future growth. To support this expansion and enhance operational efficiency, industry groups like ICI and DTCC are actively exploring ways to standardize CIT data.

These efforts aim to bring greater consistency and transparency, making CITs easier to manage and more accessible across the investment industry.



HOW CAN FIRMS CAN STAY AHEAD?



Adopt technology-driven solutions to streamline operations



Stay informed on regulatory changes to ensure proactive compliance



Foster industry collaboration to enhance best practices in CIT management

CONCLUSION

Optimizing Your CIT Management Strategies

CITs offer a compelling investment option for retirement plans but come with distinct challenges in regulation, workflow, data management, and operational risk.

By adopting best practices and leveraging technology-driven solutions, plan sponsors, asset managers, and trustees can navigate these complexities effectively.

Understanding and addressing these challenges today will help firms optimize their CIT management strategies for the future.

Next Steps

Contact Delta Data to learn how technology can help address best practices and solutions in a rapidly growing CIT market.



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