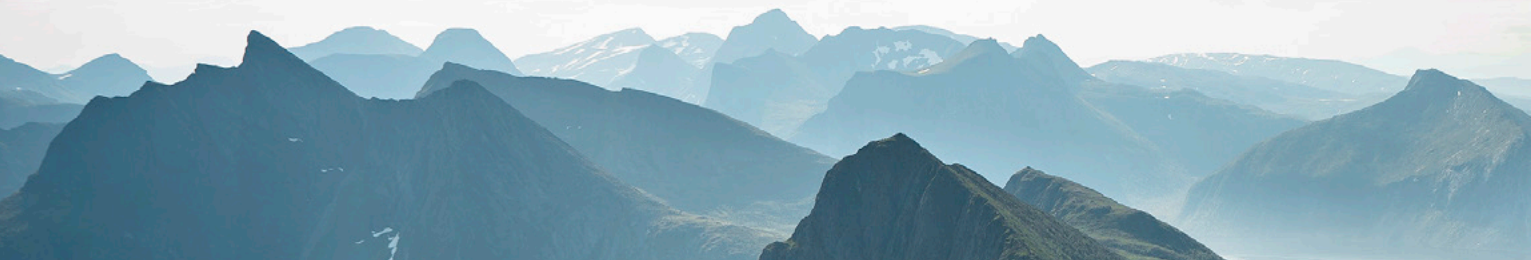
Regulation on the horizon

Custody, data services, fund services

As the asset servicing industry welcomes in 2025, there are a number of potential regulatory shifts to look out for. In part two of these predictions, the industry focuses on the custody, data services, fund services space

Jack McRae reports



Custody

In 2024, the custody space had to respond to developing geopolitical tensions and maintain resilience throughout. Jesús Benito, head of domestic custody and trade repositories operations at SIX, credits central securities depositories (CSDs) for maintaining financial stability in turbulent times.

“This past year, CSDs have proven their resilience, helping the system navigate a tough geopolitical environment while continuing to underpin financial stability,” he begins. “At the same time, we have seen significant consolidation and closer collaboration, with tools like TARGET2-Securities (T2S) which have made cross-border settlements almost as straightforward as domestic ones.”

Cross-border settlements are also the focus of Adam Cottingham, product manager for asset servicing at SmartStream. He explains that, “asset servicing is building momentum for the adoption of ISO 20022. Key custodians are moving their processing onto the standard with testing starting in 2025.”

In order to get to that standard, Cottingham says, the industry needs to enhance its technology. “Compatibility of legacy systems and infrastructure along with the testing of these changes is now becoming a top priority,” he says.

“When changing technology, firms also need to take into consideration the evaluation of a T0 operation, automation, AI co-piloting, beneficial owner enablement, and of course operational resilience as critical requirements.”

Looking towards the coming year, SIX’s Benito believes that “CSDs will play an even bigger role in shaping the future of Europe’s Capital Markets Union.”

He continues to state that, unlike in the US where a single framework makes one CSD more logical, the EU needs a “network of connected and interoperable CSDs that work together seamlessly while still encouraging competition. This means focusing on further harmonisation across tax and legal systems and breaking down the remaining barriers that hold back true cross-border efficiency.”

Benito is emphatic as he insists that “CSDs have already shown they’re up to the task, and with the right support, they can be a driving force in creating a more connected and competitive financial market across Europe.”

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Data services

Dan Reid, chief technology officer of Xceptor, believes that "one of the most significant regulatory shifts set to reshape the financial industry in 2025 is preparing for the transition to T+1 settlement cycles in the UK and EU".

Key to addressing that shift will come in the form of converging AI and data automation, Reid says. He explains that firms will adopt "AI-driven automation tools to optimise internal processes, enhance predictive analytics, and automate tasks from decision-making to risk management, boosting efficiency and reducing operational risks."

Data is going to be imperative for the asset servicing industry in 2025. Reid claims that "unlocking new data sources, including unstructured and unconventional data types, will become essential.

"Similarly, an emphasis on data lineage — the ability to trace data back to its source — will be particularly crucial for compliance and operational insights. Tools that provide clear, auditable data trails will become non-negotiable in the quest to meet stringent reporting requirements."

As data gets more complex and more crucial, Reid adds that "firms must prioritise building adaptable systems that evolve in real-time with changing requirements. By leveraging data automation tools, operations teams can independently manage processes, enabling firms to respond proactively as new regulations, such as T+1 settlement in the UK and EU, take effect."

Andrea Remyn Stone, CEO of Zema Global, also believes data will be at the heart of major changes in the industry — labelling it as a "critical driver of decision-making".

Remyn Stone says that "the shift toward predictive analytics will accelerate, with firms leveraging low-latency, real-time data from operational systems and market sources to anticipate risks and seize opportunities."

She continues to state that AI and machine learning will help transform the way data is integrated with trading, risk management, and compliance workflows.

"At the same time, the rise of data-as-a-service platforms is democratising access to high-quality, curated data, enabling organisations of all sizes to innovate without the need for extensive infrastructure investments," she says before adding: "In 2025, the true differentiator will be the ability to turn data into actionable insights that drive resilience and growth."

Similarly, Nick Wood, AI product manager at FINBOURNE, believes AI will be vital to enhancing data services, although its slow adoption across the industry may prove a slight challenge.

"This hold up is largely due to a lack of confidence in the incumbent data management processes, which need to be designed to support AI technologies," Wood says. "While AI can certainly act as a feature and capability in an overall workflow, firms must be able to explain the models and trust the quality of the underlying data to get there. With AI showing so much promise, prioritising modern data infrastructures to address data quality concerns will be a priority for many asset managers next year."

Steve Walsh, director of product and solutions at Duco, focuses on two major regulatory frameworks that made 2024 "one of the most consequential years for financial market regulation in a decade".

"EMIR Refit's primary motivation was to improve data quality and transparency in the European derivative markets with mandatory data reconciliation requirements and obligations to report material issues to national competent authorities," he says. "While the transition was largely successful, regulators next year will need to address lingering issues around data accuracy and integrity on data reported to trade repositories."

Walsh also considers the impact of the shift to T+1 in North America which he says has "created operational difficulties, highlighting data quality and transformation issues as well as poor processes and a lack of automation throughout."

Going forward, he believes that the UK and Europe must look to resolve these issues ahead of their respective shift by the end of 2027. "European firms need to start preparing while learning from their American peers," Walsh adds.

It is clear that data will become one of the major focuses across the industry in 2025. This is of little surprise to Marion Leslie, head of financial information at SIX, who explains that "our 'Future of Finance' report found that 37 per cent of investment banks cite enhancing their data and analytics capabilities as the biggest enabler for growth over the next three years, while 41 per cent view historical data as the top priority for increased spending."

Investment banks will continue to place emphasis on data quality. Leslie says that "risk management as a function has grown in importance for all types of financial institutions in the years following the 2008 financial crisis. Investment banks take so much value from historical datasets”.

Leslie is clear and direct as she adds finally that, ”it will enable them investment banks, roughly stress test and ensure their strategies are robust.”

Leslie is clear and direct as she adds finally that, “it makes sense that they anticipate consuming more of this data type in response to recent shock events across financial markets.”

Fund services

Frank Koudelka, senior vice president for ETF Product Solutions at State Street, describes when the US Securities and Exchange Commission (SEC) approves the ability for mutual fund managers to launch an ETF share class as the “elephant in the room” for US regulation.

“There are approximately three dozen filings for permission to establish this structure and the firms in scope have trillions of dollars in mutual fund assets in play,” he says. “Multi-share class provides investors expanded choice and an easier path — via a tax free exchange — to move from the mutual fund class to the ETF class. With a new administration coming into the SEC in 2025, we are bullish on the prospects that these filings will get more attention.”

Koudelka continues to highlight that the attention share class has received in the US ETF market could make an impact in Europe — notably in the listed and unlisted share class. He says: “We’ve supported two of our UCITS clients to launch this structure in 2024 and are having numerous conversations with other clients and prospects. The recent move by the Central Bank of Ireland (CBI) to change its position on nomenclature to align with other domiciles should create additional momentum.”

Koudelka concludes by adding that “we’ve also seen a pickup in Australia and Canada amongst our clients to leverage the share class model as an entry point to the ETF burgeoning market.” ■

As members of the industry have suggested, 2025 will be a fascinating year for regulatory developments in the custody, data services, and fund services space. Read the previous issue of Asset Servicing Times to see what the impact of regulation on clearing and settlement, digital assets, and ESG could be by some of the leading experts in their respective fields.