



## Asset servicing: The path to *modernization*

Asset servicing stands out as one of the most complex aspects of post-trade operations due to the intricate and high-stakes processes it entails. It involves a range of administrative and operational activities to support the management – and optimization – of financial assets. A key focus is the management of corporate actions such as dividends, stock splits, rights issues and mergers. Custodians play a critical role in ensuring investors have the information they need to secure these entitlements.

There are a number of factors that make this process complicated. Firstly, investors, such as fund managers or sovereign wealth funds, typically own assets of varying types across dozens or even hundreds of global markets. This increases complexity as markets and jurisdictions have different rules, timelines and practices for handling corporate actions, some of which are extremely outdated. In the UK, for instance, checks are still used to facilitate dividend payments.

With the introduction of new asset types, such as digital assets, fragmentation is intensifying. Custodians have to be able to adapt their safekeeping and asset services to support clients. The growing importance of environmental, social and governance (ESG) issues – and the concurrent ballooning of data associated with sustainability – also adds immense complexity to the information that must flow to investors.

Custodians must navigate a patchwork of regulations and practices and adapt to differing formats for event notifications, tax treatments and settlement procedures. Typically, custodians have several corporate action data sources that they must maintain and validate manually. FX conversions add further complications. Overall, the operational demands are immense, requiring a level of coordination unmatched in other parts of the post-trade ecosystem.

Secondly, corporate actions are not only varied but demand active decision making from a client. They often entail precise execution and tight deadlines – especially for optional actions such as cash or stock offers. Moreover, corporate actions can significantly impact the value of investments. For example, a dividend payment might shift a stock's price, affecting its use as collateral or its appeal in lending markets. For a client to make an informed decision, they must properly understand and identify the relevant event: this necessitates extensive counterparty data reconciliation and validation. Without accurate, timely data, the client risks making poor trading decisions and incurring financial costs. Yet, according to

Barnaby Nelson, CEO of The ValueExchange, a standard five-day turnaround event often leaves portfolio managers with just 1.5 days to make their election, while the rest of the time is consumed by intermediaries in the chain.

Thirdly, asset servicing is reliant on a multi-layered network of intermediaries, including issuers, registrars, custodians and sub-custodians. In some cases, up to 450 individuals can be involved across the lifecycle of a single event, according to recent research from The ValueExchange.<sup>1</sup> Information must pass through numerous steps, often requiring translation, verification and standardization before reaching the end client. This disjointed process not only introduces delays but also amplifies the potential for inaccuracies to be introduced along the chain. For example, lack of clarity (i.e. mistranslation of a key offer term) is the cause of 20% of corporate action errors.<sup>2</sup>

Fourthly, the acceleration of settlement times – from T+2 to T+1 in the US and Canadian markets since 2024, set to be followed by European, UK and Asian markets in the coming years – adds pressure on a model that is already creaking. T+1 compounds the operational challenges associated with asset servicing, as there is less time to rectify problems.

### Technology and regulation are part of the solution

Just as challenges facing the asset servicing world are many and varied, so is the range of potential solutions. Key to enabling these solutions are technology and regulation.

One important technology is single event processing, which offers a streamlined approach to managing event information that can do much to enhance the quality of asset servicing. It is designed to deliver data to clients more quickly and efficiently, facilitating better-informed decisions.

“Traditionally, events have been processed separately at various levels – local custody, global custody, and platform services – often requiring multiple layers of data validation and handoffs between systems. With single event processing, these redundancies are eliminated by creating and managing each event only once within a unified platform.”

Jeff King, Global Head of Asset Servicing Product Management, Custody, Investor Services, Citi.

Single event processing removes friction and delays caused by batch processing and messaging transfers between local and global operations. Instead, a single event captures all positions across all the different custody layers, and these are sent directly to clients without additional processing. This ultimately eliminates the latency typically seen between sub-custody and global custody services with the added benefits of greater speed, consistency and accuracy of the delivery of information. This improves efficiency across the asset servicing chain, which is crucial to reducing operational friction and enhancing service delivery.

As well as streamlining event processing, it is important to improve the management of disparate sources of data and how they are supplied to investors. Inconsistent interpretations of events across different sources remain problematic, with 65% of investors surveyed reporting this as a significant challenge.<sup>3</sup> The goal must be to make it easier for clients to ingest and share multiple sources of data (both proprietary and third-party) in order to facilitate more efficient corporate actions workflows.

Technologies such as application programming interfaces (APIs), cloud-based solutions, and advanced data-sharing methods are valuable in achieving this objective – for example, Citi has partnered with Snowflake to provide a data solution for post-trade processes that utilizes these technologies.<sup>4</sup> Meanwhile, the adoption of ISO 20022 messages could pave the way for greater standardization of communication and data exchange in relation to asset servicing on an industry-wide basis. This is particularly applicable in areas such as proxy voting and would create opportunities to improve straight-through processing rates and lower costs. However, uptake remains low, with only 17% of event notifications currently being sent using ISO 20022 messages, according to a recent survey by The ValueExchange<sup>5</sup>, highlighting the need for further industry-wide adoption and integration.

On the regulatory front, progress is also being made. The EU's revised Shareholder Rights Directive (SRD II) introduced a modernized and standardized framework for proxy voting, disclosure, corporate actions and record-keeping across the EU. Its most significant impact has been in the proxy space, where it has replaced an outdated, paper-driven process with more efficient, electronic communication. Solutions, such as those provided by Citi startup Proximity (which has since been spun off) and Broadridge, have subsequently helped bring proxy voting into the modern era.

However, while SRD II has been a step forward, it has not gone far enough, especially in the area of corporate actions. The directive's effectiveness depends heavily on how each EU member state implements it, leading to inconsistencies across markets. Many in the industry agree that the directive should be followed by more robust regulations to address these gaps, as current frameworks have failed to deliver comprehensive improvements.

## A holistic approach is critical to progress

While technology and regulatory changes are important drivers of change in asset servicing, there remain myriad individual shortcomings in existing arrangements. To take the specific example of UK dividends cited earlier, a switch from checks to electronic payments through systems like Crest has not occurred, simply because there is currently no incentive for registrars and issuer agents to do it.

Equally, to raise a perennial investor complaint, custodians can sometimes provide different event dates for an issuer, when these could theoretically be the same. The challenge lies in the lack of standardized formats among issuers (and issuer agents), which – even when it does not result in inconsistencies – slows down information delivery to investors as custodians must spend time verifying its accuracy.

The persistence of such seemingly easy-to-solve problems highlights the core challenge facing the industry: progress can only be made if all parties – custodians, issuers, central securities depositories (CSDs), issuer agents, and investors – are on board. For example, custodians may be willing to invest in improvements, but their efforts might be hampered by their reliance on messaging from CSDs or event notifications from issuer agents that are not aligned. And with 85% of issuers seeing minimal downside risk to inaction, and a further 75% of investors willing to remove a stock from their portfolio due to poor event data, there is very little urgency for change.<sup>6</sup>

To that end, harmonization and standardization are key to creating the consistency and reliability that is needed to drive progress across the asset servicing space.

“ Ultimately, asset servicing's inherent complexity lies in its central role in connecting the many moving parts of global financial markets.

While settlement cycles remain a priority for the industry, asset servicing deserves equal attention to ensure operational efficiency and client satisfaction. Only collaboration across the industry – powered by technological innovation and enlightened regulation – can address longstanding inefficiencies and deliver asset servicing fit for the digital era.

Jeff King, Investor Services, Citi.

<sup>1</sup> [The ValueExchange – Asset Servicing Automation](#)

<sup>2</sup> [The ValueExchange – Asset Servicing Automation](#)

<sup>3</sup> [The ValueExchange – Asset Servicing Automation](#)

<sup>4</sup> [Press Release: Snowflake and Citi Securities Services Re-Imagine Data Flows Across Financial Services Transactions](#)

<sup>5</sup> [The ValueExchange – Asset Servicing Automation](#)

<sup>6</sup> [The ValueExchange – Asset Servicing Automation](#)

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CBS39005 03/25