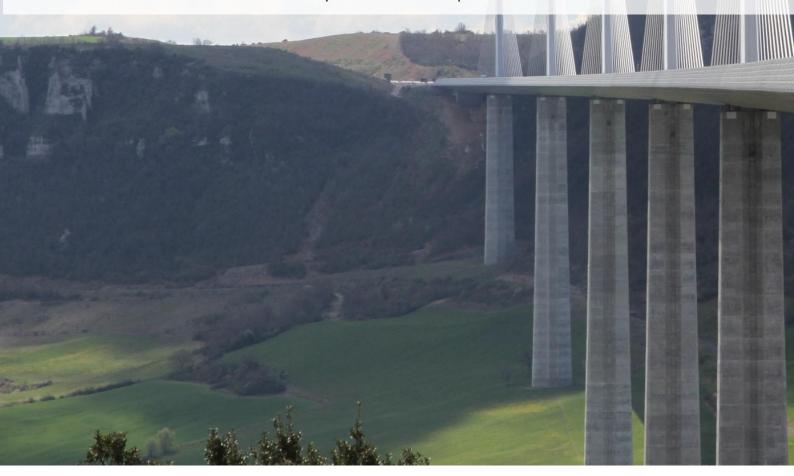


#### **DISCLAIMER**

This document does not represent professional or legal advice and will be subject to changes in regulation, interpretation, or practice. None of the products, services, practices or standards referenced or set out in this report are intended to be prescriptive for Market Participants. Therefore, they should not be viewed as express or implied required market practice. Instead, they are meant to be informative reference points which may help Market Participants manage the challenges in today's securities services environment. Neither ISSA nor the members of ISSA's Working Group warrant the accuracy or completeness of the information or analysis contained in this report.





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# 1 Executive Summary

#### Introduction

The International Securities Services Association (ISSA) is a global association that supports the Securities Services industry. ISSA's members include CSDs, custodians, technology companies and other firms who are actively involved in all aspects of the Securities Services value chain. By connecting its members and facilitating collaboration, ISSA provides the leadership necessary to drive change in the Securities Services industry. The focus is on finding progressive solutions to reduce risk and improve efficiency and effectiveness – from issuer through to investor – as well as on providing broader thought leadership to help shape the future of the industry.

### **Background**

The Securities Services industry has generated relatively stable revenues driven by the accumulation of both assets under custody or administration and underlying trading volumes. However, the multiple challenges of fee compression, reducing net interest margins, changing investor behaviour and expectations as well as disruptive technologies - combined with a global pandemic - have all been a significant catalyst for industry change. Consequently, we have seen an accelerated adoption of the digitization agenda for the Securities Services Industry.

As a result of these changes, in 2022, ISSA formed a Digitization Working Group (WG). Its primary objective is focused upon the ISSA members' digitization journey - post Covid. It aims to understand the challenges and opportunities to promote digital standardization, share best practice and enhance efficiency, risk reduction and provide an improved investor experience. Areas of focus include challenges which would benefit from best practice, industry standardization and interoperability between participants, as well as the education of our ISSA members and our wider community.

#### **ISSA Digital Transformation**

Although there are and have been drivers for positive change in communications - such as new regulations, accelerated settlement and, surprisingly, the Covid pandemic - many barriers to change remain. This paper explores the drivers and barriers to change which are identified through case studies, survey findings and discussions within the WG. The paper also provides potential ways that change can be accomplished.

### Key Findings of the paper include:

#### Persistent Manual Processes

Despite advances in technology, a significant portion of industry workflows - including affirmations, confirmations, tax/KYC documentation, mandatory and voluntary corporate actions and onboarding - still involve paper-based or manual interventions. In some processes, up to 50% of the effort and resource is still devoted to manual handling of communication which reduces the client satisfaction and drives up both costs and operational risk

### Drivers for Change

Primary motivators for digitization include improving client experience, regulatory pressures, reducing operational risk and cost and the evolving landscape of investor behaviour that expects greater transparency and more responsive service models. Global changes, such as the move to T+1 settlement in the US and COVID-related disruptions, have further accelerated digital adoption out of necessity



#### Barriers to Progress

Key obstacles include entrenched legacy infrastructure, jurisdictional and regulatory differences, stakeholder resistance to change, potentially high upfront investment requirements and a reliance on incremental system improvements rather than wholesale transformation. Smaller and less mature markets can be challenged by the scale and complexity of change. However, the newer markets may have the opportunity to leapfrog generations of legacy technology and move to the latest solutions immediately

#### Potential Solutions

Progress has already been made, and technology remains central to any solution. FinTechs and established IT providers are acting as major catalysts, offering technologies that automate routine tasks, enable straight-through processing (STP) and can provide digital interfaces for data and client interaction. There are services which go further and allow real time secure data sharing e.g. Access Fintech and Snowflake. Furthermore, the Gen AI providers are starting to see opportunity within communication and messaging. Collaboration between traditional service providers and FinTechs is accelerating innovation and mutualizing the cost of transformation

#### Case Studies and Innovations

Successful market transitions - such as the US T+1 settlement, digitization of Know Your Client (KYC) processes in retail banking and the regulatory response to allow e-signatures during Covid illustrate the tangible benefits of coordinated digitization providing enhanced efficiency, reduced risk as well as improved participation and client experience

The Securities Services industry is at a critical juncture. As investor, regulatory and operational demands intensify, the pressure to digitize is both a necessity and a strategic imperative. While significant hurdles remain - especially in harmonizing standards across markets and modernizing entrenched systems - the benefits of digitization are evident in both cost and client outcomes.

Firms that embrace automation, prioritize client-centric processes and collaborate across the ecosystem will be best positioned to thrive. Conversely, institutions that resist or delay digital transformation risk obsolescence as global markets set new benchmarks for efficiency, transparency and service quality.

This paper recommends industry-wide commitment to modernizing client communication channels, mutualizing innovation with fintech partners and pursuing harmonization and standardization wherever possible. This will ensure that the Securities Services industry remains resilient, efficient and responsive to rapidly changing market needs.

Concrete recommendations from the WG are:

- Industry participants must increase their digitization of communications now
- Standards need to be adopted for all APIs and file transfers and ISSA recommends that these are based on the ISO 20022 structure business processes and syntax
- The industry, via ISSA, partners with The Electronic Signature and Records Association (ESRA)1 to promulgate the adoption of electronic signatures
- The industry stops accepting faxes and other unstructured, non-machine-readable data communications
- SSPs adopt CX measurement and improvement
- SSPs work to ensure both incident management and daily client communications are improved

<sup>&</sup>lt;sup>1</sup> Home | ESRA



SSPs and their clients work with the tax authorities in the G30 to digitize the tax processes

#### **Target Audience**

This paper is written for ISSA members and the broader Securities Services industry. Its objective is to provide a clear summary of the challenges around digitization and provide guidelines and concrete recommendations for how the industry can move forward. It will be of interest to the following:

- Market Infrastructures
- Vendors
- FinTechs
- Regulators

#### **Acknowledgements**

This paper is the result of efforts by a team of experts drawn from ISSA, that participated in the Digitization WG. This included Operating Committee members, the WG Co-Chairs from Broadridge and Bank of New York as well as other ISSA member firms. The names of the firms that have participated in creating this report are provided in the on the ISSA Website. The ISSA Executive Board wishes to thank the WG members for their contributions as well as their firms for having enabled their participation.



### 2 Introduction

# 2.1 Background

The Securities Services industry has maintained stable revenues due to asset accumulation and trading volumes, even during recent volatility. However, fee compression, lower net interest margins, evolving investor expectations and disruptive technologies have driven significant industry change and accelerated digitisation.

The WG's main goal is to guide ISSA participants through their post-Covid digitization journey by identifying challenges and opportunities, promoting digital standardization, sharing best practices and improving efficiency, risk management and investor experience. The focus includes establishing best practices, standardisation, interoperability and client education within the industry.

More recent, the WG has been focusing on digital transformation resulting in this new paper. The aim of this paper is to suggest approaches that make digitization easier to achieve, with an end goal of improving client service, and increasing capacity, resilience and efficiency within the industry.

#### 2.2 Definitions

Clients and their satisfaction is a core driver. The WG believe that digital transformation can and will create more efficient and effective client communication and therefore client satisfaction. There are multiple definitions available when looking at digital transformation and client communication. For the purposes of this paper, the following have been used.

### 2.2.1 Digital Transformation

Digital Transformation in Securities Services means the digitization of processes within and surrounding Securities Services. This is distinct from to the digitization of securities or currencies via tokenization and DLT which is out of scope of this paper.

### 2.2.2 Client Communication

Client Communication covers the exchange of information to and from end clients (both institutional and retail) as well as the exchange of information between elements of the securities value chain such as Global Custodian, Subcustodians and / or (I)CSDs.

#### 2.2.3 Communication Processes

- There are many different communication processes that are relevant when considering the above definition. These include (this list should not be seen as exhaustive): Affirmations and Confirmations
- Allocations
- Instructions
- Settlement instructions
- Standard Settlement Instruction changes
- Proxy voting
- Tax basis information
- foreign exchange executions and settlement



- Funding requirements
- Collateral calls
- Holding statements

### 2.2.4 Client Experience

Customers are unhappy with the Customer Experience (CX) - which for Securities Services is poor or perceived to be poor. Broadridge's 2024 CX and Communications Consumer Insights<sup>2</sup> showed that 70% of consumers, across a range of industries, are unsatisfied with the Customer Experience. This correlates to the number of businesses that deal with SSPs who also are unsatisfied.

One of the refrains that apparently drove the US to adopt T+1 was that securities should be "like Amazon" and have similar transparency from order to next day delivery (although ISSA would suggest that there were bigger factors driving the decision to move). The industry's defenders would respond by saying that the securities process is much more complex than ordering a household item. While this may be true, increased complexity does not have to lead to decreased transparency.

The advent of tools, such as Snowflake<sup>3</sup>, further enables a fully digital experience where data can be shared in a permissioned manner and client tools or analytics can be applied in near real time (without the historic slow exchange of data sets).

# 2.3 Objective of the Paper

The aim of the paper is not to address every single communication type in detail and to assess its possibility to be transformed or digitalized, but rather the areas of focus included topics that would benefit from best practice and industry standardization to facilitate interoperability in respect to client communication.

To transform the Securities Services industry to digitally diminish the gap between SSPs and their clients, the WG focused its investigation on client communications to include:

- Digital and analogue channels that are used by financial institutions to communicate with their clients
- Including any use of unstructured data even if electronically exchanged
- Rationale behind the channels used for client communication
- Various strategies employed by all types of intermediaries
- Partnerships and selection of strategic partners
- Weighting of communication media usage (absolute and relative)
- Amount, place, and rationale of remaining manual processes and the barriers for automation
- Scale, scope and time aspirations of digital transformation plans
- Buy vs build. Rationale and objectives behind the decision (e.g., Controls, risk reduction, client experience)
- Main barriers against success why have things not moved from legacy to digital?
- Harmonization needs for data exchanges and "data portals"
- Position of FinTechs to assist in the transformation
- Drivers for change (Business and Regulatory)

<sup>&</sup>lt;sup>2</sup> Broadridge 2024 CX and Communications Consumer Insights

<sup>&</sup>lt;sup>3</sup> Snowflake is a cloud-native data warehousing platform. Its architecture aims to separate compute from storage, allowing organizations to optimize costs and collaborate seamlessly across multiple cloud providers like AWS, Azure, and Google Cloud. For details see: Snowflake AI Data Cloud



# 2.4 Methodology

To better understand the key barriers to digital transformation, the WG participants conducted a survey. The survey was distributed to the ISSA membership and incorporated the key areas which were identified as areas of high opportunity and complimentary solutions included:

- Affirmations and confirmations
- Tax documentation both at source and reclaim processes
- Corporate Actions & Proxy Voting Achieving adoption of machine -readable and standardized formats which are interoperable between intermediaries and facilitate straight-through processing
- Manual processes that include hard copy documents & wet signatures
- Account Opening and Know your customer (KYC)

The responses were reviewed with the results of the analysis and conclusions forming the basis of this paper. It should be noted that the results, given the survey size, are not statistically significant but give an indication of the state of the industry.

The WG acknowledges that a number of other parties are looking at this challenge and we applaud the efforts of these groups such as the UK Digitization Taskforce. The focus of that group is the dematerialization of the UK equity markets. Associated with the dematerialization are several recommendations to improve shareholder identification and voting and the automation of the dividend payments. The WG accept these proposals and would like to see the implementation of such in other countries and regions.



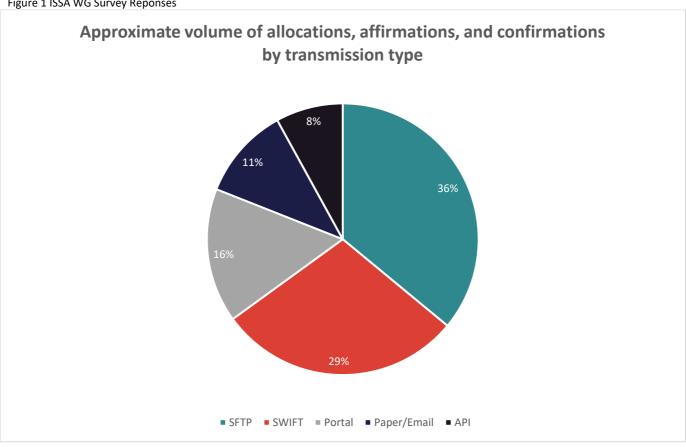
# Affirmations and confirmations

# 3.1 Survey Findings

Approximately 25% of the allocation, affirmations, and confirmations came either via paper, email or portal implying a significant amount of manual processing at either the client and/or provider's side. The respondent's view was this utilized a significant resource on their side, i.e. SSPs. The WG did not ask for an estimate of the resources used at the client side.

The market maturity had a significant impact on the levels of effort required i.e. frontier markets requiring significantly more effort to operate than developed ones. In addition, paper and email confirmations, unsurprisingly, took a disproportionate amount of the resources utilised in these processes. These findings are understandable in that generally frontier markets are developing the tooling required for higher levels of automation, are arguably more volatile and require a higher level of operation focus for loss risk mitigation. Manual inputs by definition require intervention, so there was no surprise finding in that outcome.







# 3.2 Drivers for change

The drivers for change are going to be a repeating theme for the digitization of securities services:

- It is the WG view that clients who are unable to adopt basic technologies will fail to survive in the longer term as it is believed that only those organisations that can harvest data efficiently and effectively, and utilise it in near real time will establish or maintain the ability to outperform index trackers
- Client Experience as finance continues to democratise clients and end clients will require access to real time data and visibility of their holdings and positions
- The move to shorter and bespoke settlement timelines required higher levels of automation in shorter timeframes
- The efforts on both client and SSP sides to deal with manual interventions when margin compression is rife is a significant cost driver
- Risk mitigation: 30% of recipients had incurred a loss due to accepting non-Straight Through Processing (STP) in the affirmations and confirmations processes. Whilst these had all been under USD1m value, losses still impacted the bottom line

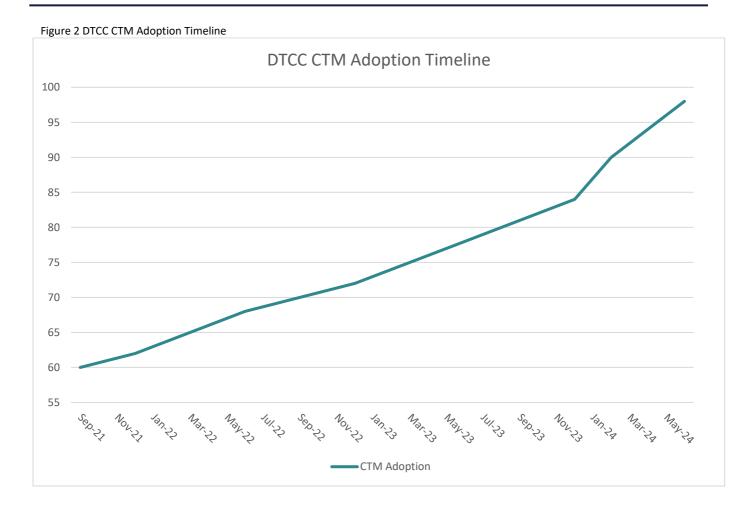
# 3.3 Barriers for Change

The barriers for change are unique for allocations, confirmations and affirmations. Due to cost pressures within the industry, investments that resolve regulatory changes have long been prioritized to the detriment of resolving the issues impacting affirmations and confirmations. There are tools available, at a cost, to allow the automation of the processes. These can be such things as the additional modules from the Order Management Systems, the use of tools such as DTCC's Central Trade Matching platform (CTM) or Access Fintech's solutions, or using the API provided by the SSPs. There could be a non-trivial implementation path, but this is unlikely. If an investment or asset manager cannot afford to build solutions for this flow, then the long-term success of their business is in doubt. The WG would encourage SSPs to help change the business case dynamics and charge full weighted costs for the service they are providing.

### 3.4 Improving the situation: Case Study

The US financial markets have completed the transition to a T+1 settlement cycle, where trades are settled on the day following the trade date. This move, reducing the previous T+2 standard by one day, aimed to enhance market efficiency, reduce risk, and align with global best practices. The transition required extensive preparations involving a wide array of participants—including global sell-side, buy-side, and custodial firms—to ensure consistent operations and avoid disruptions. The main challenges included coordinating communication across market participants, updating systems and processes, mitigating operational risks, and preparing for any unplanned events during the conversion period.

The transition from a T+2 settlement cycle to T+1 forced firms to adopt automation and data standards. When the transition was announced in September 2021, approximately 60% of US buy side and sell side firms had adopted DTCC's Central Trade Manager (CTM), its platform for post trade central matching and allocation. In May 2024, adoption had risen to 98% in June 2024.





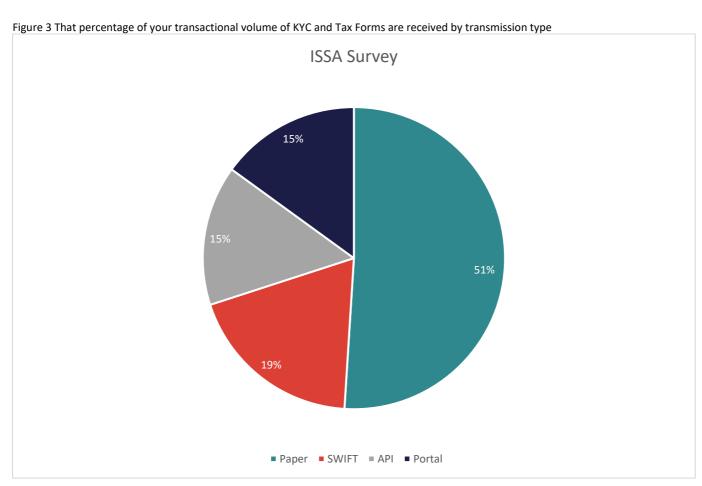
# 4 Tax documentation – both at source and reclaim processes

# 4.1 Survey Findings

Over 50% of Know Your Client (KYC) and Tax documents are still paper based and approximately 50% respondents' staff are allocated to manual processing of KYC and Tax forms. This represents a significant amount of manual processing at the client side and utilises a significant resource for both parties. Market maturity had a significant impact on the levels of effort required i.e. emerging and frontier markets requiring significantly more effort to operate than developed ones.

It is unsurprising that all respondents indicated that KYC and tax forms were the areas that they were most focused on in their digitization journey. All firms responded that they either considered the investment in digitization of KYC and Tax forms either of strategic significance or of the highest priority. All respondents indicated that this consideration was driven by clients, regulators, internal risk management, cost savings or a combination of the aforementioned.

These findings are understandable in that processes that require the most manual intervention carry with them significant costs, operational risks and the potential for a decreased client experience.





# 4.2 Drivers for change

The drivers for change are going to be a repeating theme for the digitization of securities services with some nuances depending on the regulatory environment the process operates in:

- Client Experience as finance continues to democratise clients and end clients will require access to easy to use and non-duplicative forms
- The efforts on both client and SSP sides- to deal with manual interventions when margin compression is rife leads to a cost driver
- Increased uptake of Application Program Interface (API) in the industry SSPs and clients have increased their usage of APIs as a secure method of digital communication. 25% of respondents indicated that they are looking to implement APIs in their KYC and Tax processes
- Solutions such as GLEIF's Legal Entity Identifier and SWIFT's KYC portal are gaining traction

# 4.3 Barriers for Change

While respondents indicated that tax forms did have an increased focus on their digitization journey, none of the respondents indicated that they would implement new systems. Instead, they are looking to improve their existing systems or leveraging Robotic Process Automation (RPA) to remove the human factor from the equation, and/or introducing APIs. Key barriers to change include:

- Reliance on legacy systems according to the survey, 50% respondents relying on either improving legacy systems and/or developing Robotic Process Automation (RPA)
- Long and complicated processes many jurisdictions have divergent regulations and procedures for KYC and tax reclaims, which are further complicated by language barriers, and document complexities and discrepancies
- Scale because of these divergent regulations, processes, language barriers, and document discrepancies
  of markets that SSPs with a global footprint operate in makes it difficult to scale the reclaim process and
  reduce the costs incurred by the SSPs
- Most tax authorities still require paper-based tax refund applications

### 4.4 Improving the situation: Case Study

To address challenges in situations where investors are subject to withholding taxes (WHT) on dividends or interest payments in countries other than their residence, the European Commission proposed the FASTER Directive (Faster and Safer Relief of Excess Withholding Taxes) in June 2023. To reclaim overpaid taxes, investors were often required to prepare extensive documentation (e.g., certificates of tax residence, proof of ownership), submit paper-based claims in the local language to multiple tax authorities and wait on average 10–18 months for reimbursements. This process incurred significant administrative burdens and costs and resulted in abandoned claims, especially for smaller dividend amounts.



FASTER's aim is to simplify and accelerate the refund process, enhance tax compliance as well as reduce the risks of tax abuse. FASTER will mandate EU countries to introduce standardized digital procedures (fast-track and quick refund systems), establish a common EU digital tax residence certificate usable across all Member States, set maximum deadlines for refunds (25 days for fast-track, 50 days for quick refunds), require financial entities to participate in relief processes and share due diligence information to prevent fraud like "cum-cum" or "cum-ex" schemes, and create a secure EU-wide reporting system for cross-border payments.

FASTER was published in the Official Journal of the European Union on 10 January 2025 and entered into force on 30 January 2025. Member States will have to transpose the provisions into national law by 31 December 2028, in time for application from 01 January 2030.



# 5 Voluntary Corporate Actions and Proxy Voting

Voluntary corporate actions - including tender offers, proxy voting, rights issues and exchange offers - require timely instructions from investors. Historically, these processes have been manual, involving paperwork, multiple intermediaries and tight deadlines, leading to operational inefficiency and elevated risk. Issues with understanding the issuer's intent, along with inconsistent data formats, fragmented communication across multiple parties and varying instruction requirements are the high-level key pain points for the industry when processing complicated voluntary events that carry significant financial risk.

# **5.1** Survey Findings

The volume of notifications received via digital/fully electronic connectivity represents approximately 87% of the total. However, the remaining 13% are received manually and require 31% of the effort to process them i.e. a small number of events are consuming substantial amounts of effort.

# 5.2 Drivers for change

Multiple drivers of change were highlighted by the survey respondents:

- Regulatory demands: Financial authorities and market infrastructures increasingly expect transparent, timely processing and comprehensive audit trails, incentivizing automation. The move to shorter and bespoke settlement timelines requires higher levels of automation in shorter timeframes
- Operational risk reduction: Manual processes are susceptible to missed deadlines, misinterpretation of instructions, and fraud. Digitization offers automation, robust controls and monitoring
- Client experience: End investors and institutional clients expect the convenience of digital interfaces, clear information, and tracking of their election status in real time, even more so as finance continues to democratize
- Industry initiatives: Including golden operational record, harmonization and standardisation by standards bodies—such as ISO20022 messaging and SWIFT enhancements—provide the technological backbone for digital end-to-end corporate action processing
- Operational efficiency: The efforts on both client and SSP sides- to deal with manual interventions when margin compression is rife leads to a cost driver

### **5.3** Barriers for Change

Whilst there are multiple drivers of change, there are a number of barriers which are impacting the ability for the industry to move forward:

- Market fragmentation: Differences in formats, timelines, and regulations across markets make standardization and automation complex
- Legacy infrastructure: Many firms rely on legacy mainframe-based platforms that are inflexible and costly to upgrade for straight-through processing
- Stakeholder alignment: Voluntary corporate actions involve numerous players issuers, CSDs, custodians, asset managers - requiring coordinated upgrades and agreement on common standards
- Cost concerns: Upfront investment in new technologies and staff training can be a significant obstacle, particularly for smaller institutions



# 5.4 Improving the situation: Case Study

Through working with its clients in the U.S. and globally, Broadridge has an in-depth knowledge of the challenges associated with Corporate Actions sourcing and worked with DTCC and S&P on a Proof of Concept to standardise mandatory and voluntary corporate actions announcement in the US Market. The proof of concept highlights the benefits its implementation will bring to the industry and U.S. market. The industry continues to utilise manual processes. This leads to time-consuming back-and-forth communication between DTCC, agents and issuers, delays in receiving complete, accurate announcements due to missing or unclear information, and duplicative data validation. It also increases operational risk, a key material risk in the industry, as information is passed from party to party, increasing operational risk especially for voluntary events where investors must make timely elections.

Whilst the U.S. market has adopted ISO20022 for outbound corporate actions notifications, no standardized model exists for how issuers and agents should submit information to DTCC. This lack of industry-wide harmonization exacerbates inefficiencies and delays. There is no centralized hub for collaboration and agreement on corporate actions announcement content, which frequently results in data inconsistencies and miscommunication across the value chain.

Drawing upon this collaborative industry effort, DTCC outlined a two-pronged solution:

- New Agent/Issuer Interface (GUI/Portal): A modern, web-based portal will offer standardized templates for each corporate action event type, allowing agents and issuers to submit data directly to DTC in a consistent structured manner. The portal will reduce delays due to missing/erroneous information, minimize manual data entry and follow-up communication, and provides adaptability for future technology integration (e.g., microservices)
- Messaging and API-Based Automation: For higher-volume or technically equipped agents/issuers, DTC plans to provide an API and messaging infrastructure based on ISO20022, enabling machine-to-machine transmission of corporate action data. Straight-through, real-time processing. Automation reduces reliance on manual touchpoints, supports full audit trails and end-to-end workflow visibility, and enables faster, more accurate dissemination and more informed, timely investment decisions

The DTCC improvements in the US market promise industry-wide benefits, from custodians and brokers to asset managers and end investors. These mirror success stories from other global markets such as Japan and Singapore, where standardized templates drastically improved speed, accuracy and transparency and reinforce the expected industry benefits.

A further example of success in the corporate action arena is the delivery by Clearstream of the digitization of corporate action management. The rollout of Clearstream's ISO20022-compliant platform, automates data processing and enables real-time reporting, and serves as another strong example of how end-to-end digitization reduces manual intervention, minimizes errors, and strengthens client confidence.<sup>4</sup>

<sup>&</sup>lt;sup>4</sup> https://www.clearstream.com/clearstream-en/securities-services/asset-services/c23007-3495302



# 5.5 Examples of manual requirements in corporate governance

Figure 4 Country specific examples of corporate governance inefficiency

MARKET	r specific examples of corporate govern  MANUAL REQUIREMENT	WHY
Aatual!-		The Issuer agent does not support SWIFT so requires a faxed document
Australia	Fax document	for proxy votes to be accepted
Accetuia	COH sent alongside MX	It is a market requirement to submit a certificate of holdings (COH) with
Austria	messages	beneficial owner details as supporting documentation to the vote
	Proxy card signed and often posted	The Issuer agent requires a signed proxy card to be returned
Belgium		electronically and often requires the original to be posted for the vote to
		be accepted
France	Proxy card signed	it is a Market Requirement for proxy card to be signed when submitting
Trance		voting
Germany	COH sent alongside MX	It is a market requirement to submit a certificate of holdings (COH) with
Germany	messages	beneficial owner details as supporting documentation to the vote
Hungary	Meeting specific POAs required	It is a Market requirement to submit a meeting specific power of attorney
riungur y		POA to support voting
Italy	Return Italian POAs with	it is a Market Requirement to submit a signed power of attorney (POA)
reary	signature via email	electronically for voting to be accepted
Ivory Coast	Meeting specific POAs required	It is a Market requirement to submit a meeting specific power of attorney
		POA to support voting
Luxembourg	Additional meeting specific	It is a Market requirement to submit a meeting specific power of attorney
	document requirements	POA to support voting
Mexico	Meeting attendance required	It is a market requirement that voting instructions to be represented in
		person with Power of Attorney to support voting
Morocco	Meeting specific POAs required	It is a Market requirement to submit a meeting specific power of attorney
		POA to support voting
New Zealand	Fax document	The Issuer agent does not support SWIFT so requires a faxed document
		for proxy votes to be accepted
New Zealand	Meeting specific POAs required	It is a Market requirement to submit a meeting specific power of attorney
		POA to support voting
Peru	Meeting specific POAs required	In some cases there is a requirement to submit a meeting specific power
		of attorney POA to support voting
Portugal	Meeting specific POAs signed	The Issuer requires signed meeting specific POA's as well as a declaration
	and declaration of participation	of participation for votes to be accepted
Slovenia	Meeting specific POAs required	It is a Market requirement to submit a meeting specific power of attorney
Casia	Dhusiaal massus as and	POA to support voting
Spain	Physical proxy card	Some issuers require physical proxy cards for votes to be accepted.
1117	Proxy card signed and often	The Issuer agent requires a signed proxy card to be returned
UK	posted	electronically and often requires the original to be posted for the vote to
		be accepted



# 6 Manual processes that include hard copy documents and wet signatures

The Securities Services industry traditionally relied on physical documentation and wet signatures for processes such as account opening, Power of Attorney (POA) authorizations and transaction approvals. These manual practices are outdated and can lead to delays, higher operational risk and inefficiencies, especially in cross-border contexts.

# **6.1 Survey Findings**

An internal survey of ISSA Working Group members echoed other industry surveys and revealed that the majority of asset servicing and custody providers cite manual paperwork and physical signatures as top contributors to onboarding delays and operational bottlenecks. These inefficiencies became especially apparent during the COVID-19 pandemic, when movement restrictions and remote work made it difficult to access and share physical documents. Clients ranked the elimination of hard-copy requirements among their top three priorities for digital transformation.

# **6.2** Drivers for change

The following are drivers for change regarding physical documentation and wet signatures:

- Operational efficiency: Digitization promises faster turnaround times for client onboarding, account maintenance, and transaction processing
- Regulatory flexibility: During the SARS Covid-19 pandemic, several regulators and industry bodies issued
  guidance or temporary relaxations to facilitate remote operations. While many markets have rolled back
  regulatory changes implemented during the SARS Covid-19 pandemic, some markets have retained them
  because of the increased efficiency
- Client expectations: Investors increasingly expect paperless, digital-first experiences that align with other areas of financial services
- Risk management: Digital records reduce the risks of document loss, forgery, and unauthorized changes

### 6.3 Barriers for Change

Barriers to change are evident though, both from a legal and regulatory perspective as well as operationally:

- Legal and regulatory constraints: Many markets still legally mandate wet signatures or notarized hard copies for certain securities services, restricting the full adoption of digital alternatives
- Client and stakeholder readiness: Some institutional clients and counterparties remain hesitant to embrace electronic signatures, citing concerns over security or legal enforceability
- Technology integration: Adapting legacy systems to authenticate and archive digital documents, and to interact securely with e-signature platforms, can be complex and costly



# 6.4 Improving the situation: Case Study

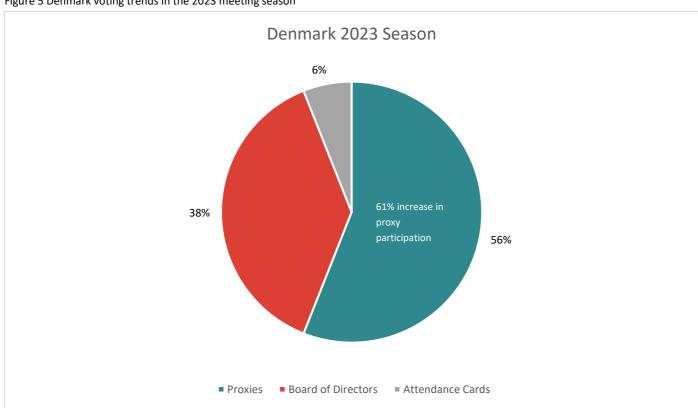
# 6.4.1 Case1: Changes in POA Documentation Requirements in Belgium

Pre-Pandemic, Belgian law required a wet-ink signature on POA forms for investors engaging with custodians and agents. During COVID-19, recognizing operational disruptions, the local regulator – the Financial Services and Markets Authority (FSMA) - issued guidance allowing scanned PDFs and certified e-signatures to temporarily substitute for originals. Market participants collaborated with fin-techs to deploy e-signature solutions that met both regulatory and internal compliance standards, dramatically reducing processing turnaround from days to hours.

### 6.4.2 Case 2: Removal of POA requirement for proxy voting in Denmark

In 2022, Denmark scrapped the requirement for a POA document from the beneficial owner when a professional nominee, such as a custodian, voted for shares that were registered in the nominee's name. In 2023, corporate issuers in Denmark experienced not only a marked 20 percent increase in participating share capital, but also a 61 percent increase in proxy participation, meaning that the removal of barriers to participation particularly benefitted smaller shareholders.





<sup>&</sup>lt;sup>5</sup> Source – Danish Market Review 2023 (Broadridge – Data provided by Euronext Denmark)



# 7 Account Opening and Know your customer (KYC)

# 7.1 Survey Findings

Over 50% of KYC documents are still paper based and approximately 50% respondents' staff are allocated to manual processing of KYC forms. This represents a considerable amount of manual processing at the client side and utilizes a significant resource. A substantial impact on the levels of effort required is market maturity where emerging and frontier markets require significantly more effort to operate than developed ones.

It is unsurprising that all respondents indicated that KYC forms were one of the areas that they were most focused om in their digitization journey. All firms responded that they either considered the investment in digitization of KYC forms either of strategic significance or of the highest priority. All respondents indicated that this consideration was driven by clients, regulators, internal risk management, cost savings or a combination of the aforementioned.

These findings are understandable in that processes that require the most manual intervention carry with them significant costs, operational risks and the potential for a decreased client experience.

# 7.2 Drivers for change

The drivers for change for KYC are in line with the recurring theme of this paper:

- Client Experience as finance continues to democratise clients and end clients will require access to easy to
  use and non-duplicative forms digitization will drive client benefits
- The efforts on both client and SSP sides- to deal with manual interventions when margin compression is rife leads to a cost driver. There is an opportunity to garner process efficiency gains for both the SSP and the clients
- Increased uptake of Application Program Interface (API) in the industry SSPs and clients have increased their usage of APIs as a secure method of digital communication. 25% of respondents indicated that they are looking to implement APIs in their KYC and Tax processes
- Adoption of new technologies Gen AI and other technologies are increasingly finding a place within KYC processes, potentially increasing efficiency and accuracy
- Adaption to new technologies as SSPs are supporting new products around crypto and are use-cases for associated technologies, such as blockchain, they may find unique challenges to KYC compliance that require specialised approaches and tools
- Importance of KYC compliance KYC plays a key part for preventing money laundering, fraud, and terrorist financing. Non-compliance can lead to severe penalties, reputational damage, and increased regulatory scrutiny
- Risk handling / mitigation errors lead to costs be they operational risk materialising or fines for noncompliance. Improving and automating the onboarding and KYC processes reduces the risk



# 7.3 Barriers for Change

While respondents indicated that KYC did have an increased focus on their digitization journey, none of the respondents indicate that they would implement new systems. Alternatively, respondents were looking to improve their existing systems or leveraging Robotic Process Automation (RPA) to remove the human factor from the equation, and/or introducing APIs.

The findings highlighted included:

- Consequences of non-compliance risk averseness for the consequences of non-compliance, such as financial penalties, reputational damage, and increased regulatory scrutiny, may lead to a decrease in adoption of unproven innovative technologies and tools
- Reliance on legacy systems according to the survey, 50% respondents relying on either improving legacy systems and/or developing Robotic Process Automation (RPA)
- Long and complicated processes many jurisdictions have divergent regulations and procedures for KYC
  and tax reclaims, which are further complicated by language barriers, and document complexities and
  discrepancies
- Scale because of these divergent regulations, processes, language barriers, and document discrepancies
  of markets that SSPs with a global footprint operate in makes it difficult to scale the reclaim process and
  reduce the costs incurred by the SSPs

# 7.4 Improving the situation: Case Study

In Europe, most retail banks have embarked on their digital transformation journeys to streamline their (KYC) and account opening processes. Traditionally, banks required each client to visit branches in person, provide physical identification, proof of address and complete extensive paperwork—often leading to account opening times of several days.

Most banks, using in-house technology, have transitioned to using mobile apps and cloud-based solutions to support a new digital process of KYC. These digital processes enable clients to initiate account creation from their smartphones, upload identification documents and use facial recognition technology for identity verification. Al-driven document recognition instantly validated personal data against government databases and anti-money laundering (AML) watchlists, drastically reducing manual intervention.

The impact has been significant. Retail banks have seen a considerable decrease in onboarding costs and processing errors and are seen by consumers as providing the best overall client experience.

### 7.4.1 Case 1: Indian CSD

The Indian CSD's (NSDL and CSDL) have utilized the power of the "Aadhaar" identification number and associated processes to enable them to onboard literally millions of customers a year. This is certainly a great example of using technology to solve a problem but, in the WG participants' view, this could also be applied to firms.



#### 7.4.2 Case 2: European ICSD

A European ICSD initiated a project that aimed to increase efficiency of the account opening and KYC process, reduce operational errors and provide a client friendly interface. The goal was to provide a web-based solution which allows client users to request and manage account openings, as well as modifications or deletions, directly in an efficient way and without a media break. The implementation of an overall interface for clients and the CSD to manage all accounts will be delivered by end of 2026.

Whilst these are case studies around a particular SSP, the ISSA Digital Identity and Onboarding paper has considered how the whole industry and supporting industries need to collaborate to change the way that the industry onboards.

The WG, made up of over 20 firms, has produced a comprehensive second paper, aimed to set out the hurdles of client on boarding and digital identification. The starting point for the paper is SSPs are not meeting client expectations for onboarding and the paper calls out both issues that are within SSP's control others that will require industry-wide collaboration.

The primary objective of this second paper is to restart the debate and to recommend solutions to the problems identified in the research completed from the first paper on Digital Identity and Onboarding and to suggest implementation options that can be executed.



# 8 FinTechs and Client Experience

The Working Group approached this topic from a thought leadership perspective, drawing upon research previously conducted by specialist firms and data obtained from survey results. Integrating these perspectives enabled a well-considered and clear framework for evaluating FinTechs and Client Experience.

The Securities Services industry, which is responsible for the custody, settlement and administration of financial instruments, has historically relied on manual processes, legacy infrastructure and complex chains of intermediaries. In recent years, however, Fintech firms have emerged as transformative agents, driving the industry's digitization efforts by developing scalable solutions for the industry. The digitization and automation led by technology companies is improving efficiency and reducing risks and costs associated with manual processes, while being able to mutualize the development costs across multiple market participants.

One of the most profound impacts of FinTechs on Securities Services has been the automation and streamlining of traditionally cumbersome processes such as trade settlement, reconciliation and asset servicing. Through the use of cloud computing, artificial intelligence (AI) and machine learning (ML), FinTech solutions automate manual tasks, reduce data entry errors and accelerate communication between market participants. Robotic process automation (RPA) is widely used to handle routine tasks such as corporate action processing, while advanced analytics can help identify and mitigate risks more quickly.

By introducing straight-through processing (STP) and replacing paper-based workflows with digital alternatives, FinTechs have contributed significantly to reducing settlement times and enhancing operational resilience. This is particularly notable as global markets move towards shorter settlement cycles, which demand high-speed and error-free processing.

FinTechs are also reshaping the client experience in Securities Services. Via user-friendly digital portals and APIs, they grant institutional and retail clients real-time access to reporting, analytics and bespoke solutions. Advanced biometrics and cybersecurity frameworks improve the safety and convenience of onboarding and servicing clients, while open banking protocols encourage seamless data sharing among authorized parties.

Recognizing the value FinTechs bring, traditional custodians and SSPs are increasingly collaborating with - rather than merely competing against - FinTechs. Banks frequently invest in or partner with FinTechs to access innovation and accelerate their own digital transformation. This collaboration often results in hybrid operating models, where legacy expertise is combined with FinTech agility and technological prowess.

# **8.1** Client Experience

If the Client Experience is not perceived as great, what can SSPs can to change it? It has been noted that the level of monitoring of client satisfaction is low. Other industries apparently do a better job at measuring the level of the client experience with things such as Net Promoter Scores<sup>6</sup>, regular feedback surveys, email and phone call sentiment analysis and other tools. The opportunity to learn from these continuous feedback loops is beneficial for the SSP and if the corrective actions are taken for the clients.

<sup>&</sup>lt;sup>6</sup> ING: Banking on Net Promoter | Introducing NPS at ING



### 8.2 Communication Channels - Business as usual

One of the key observations from the WG participants was that, despite the proliferation of communication methodologies and standards, the anticipated levels of automation and transformation have not materialised. Initially, communication relied on fax, telephone, and email. Over time, SSPs responded to client demand by introducing access portals to enable self-service capabilities for reports, elections, and data extraction. While these portals were made available, client adoption has remained limited and inconsistent.

One of the reasons for that, in the view of the WG participants, is that a substantial number of asset managers may have many SSPs serving different aspects of their portfolio. The proliferation of sites, and the fragmentation of report formats, did not bring the benefits required for the client to adopt wholesale. Therefore, the industry is back where it was in the 1990s (although fewer faxes) but dealing mainly with email and phone calls.

However, more recently, "chat" solutions, such as Taskize - which offers an Inter-Company Workflow platform allowing instant chat messaging between agents and clients (and amongst other actors within those firms) – are starting to see traction and uptake. The WG participants foresee this evolving further where AI bots can communicate within such a framework to resolve queries in real time.

It should also be recognized that client expectations have changed, with a requirement for tracking holdings and corporate actions in real time. The WG participants do not have all the answers to this demand, as tools such as Confidential Compute are only just being adopted. However, even with existing tools (such as Snowflake) and the optimal use of APIs, SSPs can share a real time or close to real time view of holdings and corporate action statuses.

#### 8.3 Communication Channels - Incidents

Feedback received by the WG participants shows this to be one of the biggest failings of Client Experience. The SSPs are not providing a satisfactory client experience on the day-to-day business and incident management is one area where the clients do feel that poor management may cause them to move, given the potential risk to asset safety.

SSPs should monitor their systems in real time and have a method of communicating issues to the clients quickly. One client stated that they appeared to be aware of a SSP having issues before the SSP did. This is visible partly as SSPs have opened their systems through APIs so that the client can see that nothing has processed despite instructions having been sent. However, firms need to be cognizant of this visibility and ensure that their escalation procedures and client communication can respond appropriately. There is legislation in Europe - Digital Operational Resilience Act (DORA)<sup>7</sup> which brings transparency requirements to how the SSPs must respond to an incident be it system outages, cyber incidents or data breaches.

<sup>&</sup>lt;sup>7</sup> <u>Digital Operational Resilience Act (DORA) - EIOPA</u>



# 9 Conclusion

The Securities Services industry is at a transformational crossroads, facing persistent operational inefficiencies and risks due to legacy technology, manual processes, fragmented data formats and paper-based workflows. Across key domains—affirmations and confirmations, tax documentation, voluntary and mandatory corporate actions, account opening and KYC—survey findings consistently point to considerable resource allocation for manual tasks. There is a clear desire for digitization, especially as market demands, client expectations and regulatory pressures intensify.

The drivers for change are well established: enhanced client experience, the necessity of operational efficiency as margins compress, risk reduction and the drive to remain competitive in an industry rapidly embracing automation and digital solutions. Case studies from major markets—such as the successful US T+1 transition, innovations in KYC onboarding, and streamlined documentation requirements during the COVID-19 pandemic—highlight how coordinated efforts, technology adoption and regulatory flexibility can deliver measurable gains in efficiency, risk mitigation, and participation.

Yet, significant barriers remain. Reliance on legacy infrastructure, jurisdictional fragmentation, varying stakeholder readiness and the up-front cost of transformation continue to impede progress. This is particularly acute in less mature markets and for smaller institutions.

The WG, as noted above, believe the following recommendations are required to be implemented across the industry:

- Industry participants must increase their digitization of communications now
- Standards need to be adopted for all APIs and file transfers, and ISSA recommends that these are based on the ISO 20022 structure business processes and syntax
- The industry, via ISSA, partners with The Electronic Signature and Records Association (ESRA)<sup>8</sup> to promulgate the adoption of electronic signatures
- The industry stops accepting faxes and other unstructured, non-machine-readable data communications
- SSPs adopt CX measurement and improvement
- SSPs should work to ensure both incident management and daily client communications are improved
- SSPs and their clients work with the tax authorities in the G30 to digitize the tax processes

However, progress has been made. The industry's shift toward enhancement tends to focus on upgrading existing systems, process automation and leveraging APIs, rather than wholesale system replacement. This pragmatic approach to transformation recognizes both the complexity of operational ecosystems and the risk aversion prevalent in highly regulated environments.

Additionally, FinTech's are acting as powerful catalysts, enabling straight-through processing and client-facing digital solutions that are driving both efficiency and competition. Industry-wide collaboration, as seen in partnerships between established providers and fintech innovators, will be essential to overcoming barriers and scaling digital adoption.

The path forward for the Securities Services industry lies in persistent and coordinated digitization, collaboration among all stakeholders and a willingness to reimagine traditional processes. The tangible benefits demonstrated in leading markets provide both a blueprint and an imperative for action. Firms that fail to adapt risk obsolescence. Whereas firms that invest in automation, client-centricity and strategic partnerships will be positioned to thrive as global securities markets continue to evolve.

<sup>&</sup>lt;sup>8</sup> Home | ESRA