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Over the past five years, Spain has redefined its position within the European asset management landscape. What was once a market often characterized by conservative investment behavior and limited cross-border exposure has evolved into a vibrant ecosystem, marked by product innovation, distribution sophistication, and international engagement. This transformation has not occurred in isolation. It is the result of persistent investor confidence, agile regulatory frameworks, and a shift in the broader macro-financial narrative.

Spanish investors—retail and increasingly private banking clients—have embraced long-term investment vehicles with a consistency that stands out in Europe. While many global markets experienced erratic subscription patterns in recent years, Spain maintained a remarkable pace of net inflows across economic cycles. This reflects not only market optimism but a maturing investment culture that prioritizes diversification and stability.

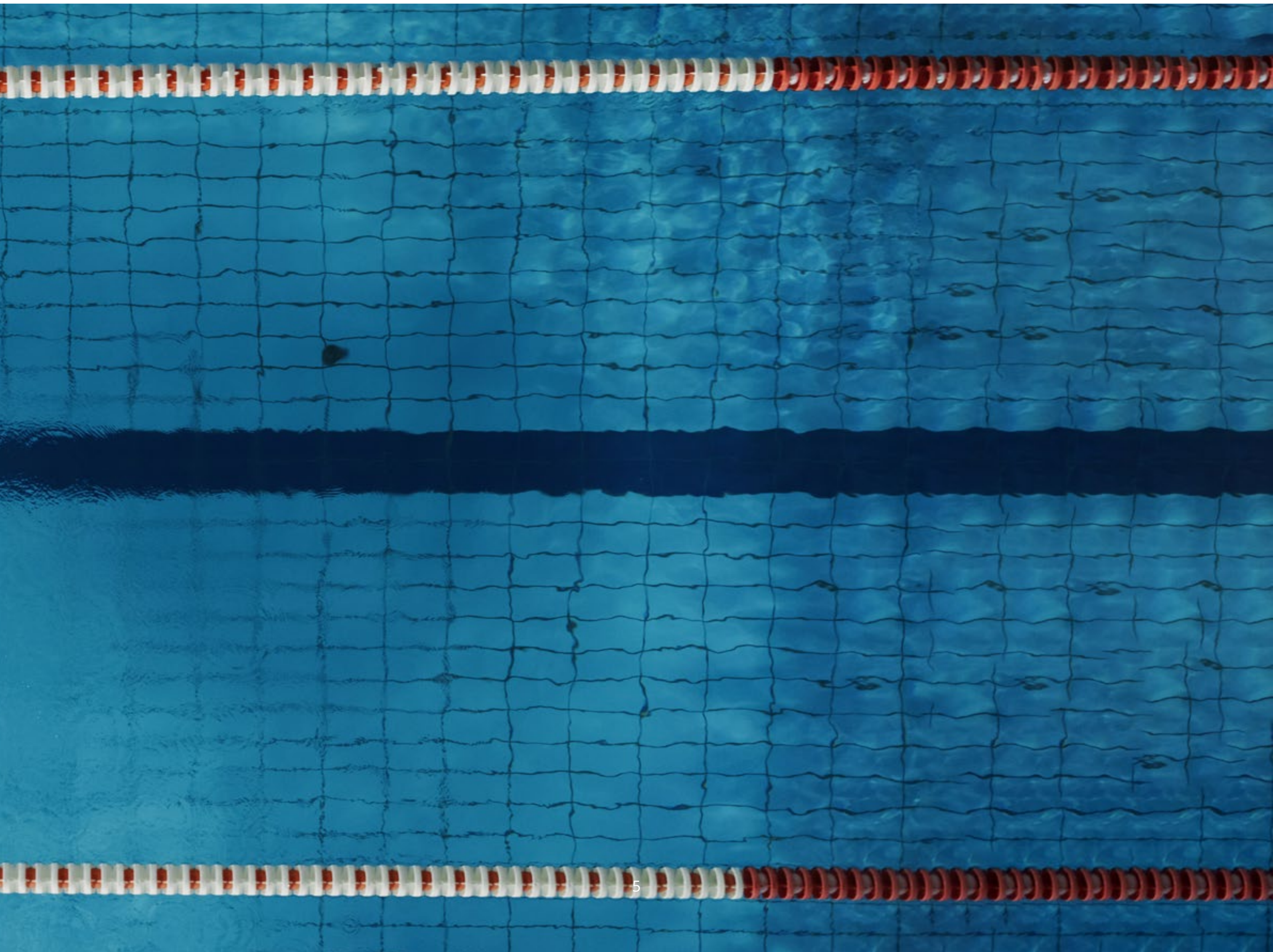
Global asset managers are rethinking their European expansion strategies, and Spain has become a key focal point.

The country's well-developed banking distribution networks, combined with its appetite for cross-border products, have made it an attractive entry hub for international fund houses. As a result, Spanish investors now have access to a wider selection of strategies, from thematic funds and alternative assets to ESG-integrated portfolios and target-date products. This democratization of investment options has enhanced financial inclusion and allowed more nuanced portfolio construction across investor segments.

However, the road ahead is not without complexity. The rapid growth of retail assets under management highlights a structural imbalance: institutional participation remains disproportionately low. Unlike other European markets where pension funds, insurers, and sovereign institutions form the backbone of fund allocations, Spain's institutional base is still in early development. To address this, market participants must collaborate with policymakers to design investment vehicles that meet the liquidity, governance, and diversification needs of institutional investors. Innovation alone is not enough, fit-for-purpose structures are essential.

Another critical gap is the underutilization of pension savings instruments. With longevity increasing and demographic shifts accelerating, the need for a more balanced, multi-pillar retirement system is becoming urgent. Spain's current pension landscape remains heavily reliant on public provision, exposing future retirees to funding risks and economic uncertainty. Legislative support for occupational pension plans, along with tax incentives and improved financial literacy, will be key to reversing this trend.

In this 2025 edition of *Performance*, we examine these dynamics in depth, from capital markets union initiatives and cross-border fund passporting to the digitization of portfolio management and the evolving role of artificial intelligence in investment decisions. Our goal is to provide strategic perspectives for decision-makers navigating a rapidly changing global environment. We hope you find this edition both insightful and actionable as we collectively shape the future of the asset management industry. Happy reading.



EDITORIAL

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Since the onset of the COVID-19 crisis, the Spanish asset management industry has nearly doubled its assets under management in just under five years. This impressive growth has primarily been driven by net subscriptions. For over 20 consecutive quarters, Spanish investors have consistently increased their investments in mutual funds, undeterred by economic fluctuations and market volatility.

This growth trend has benefitted both domestic and foreign investment funds distributed within the Spanish market. Both the number of vehicles and international managers present in the Spanish market have increased considerably, enhancing the accessibility of new investment strategies and innovative products for private and institutional banking clients. Consequently, the Spanish market has emerged as one of the most attractive In Europe, characterized by its growth potential and stability.

The promising present and future of the Spanish asset management industry does not imply an absence of significant challenges that need to be addressed to continue this path of success. The first major challenge for the asset management industry is to increase the weight of investment in funds by institutional investors. Currently, the weight of retail in the Spanish industry is much higher than that of our peers in Europe, due to the limited participation of institutional clients in this market. It is necessary for regulators to take decisive action by promoting the creation of investment vehicles adapted to meet of institutional investors. These vehicles should offer increased flexibility and innovation in investment strategies, along with a broader range of assets for investment.

The second major challenge is to align the proportion of GDP allocated to pension funds with that of our European counterparts. Today, Spain allocates less than 10% of GDP to pension funds. In an aging society with increasing demands to supplement public pensions, strong Pillar 2 and Pillar 3 are essential to sustain the current level of well-being. Public policies must be enhanced to equally strengthen all the pillars of social welfare.

In this edition of ***Performance***, these challenges will be discussed alongside other relevant issues impacting not only the Spanish asset management industry but all the players in the global industry. We are privileged to present our perspectives on key topics in the industry, with the hope that they will prove useful in decision-making processes.

Reshaping Spain's investment landscape: key insights

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INTRODUCTION

The Spanish asset management industry is experiencing a period of significant growth, attracting considerable interest from both domestic and international investors. This expansion is reshaping the market landscape, especially with the increasing presence of international fund managers. Alongside this growth, there are notable challenges within Spain's pension fund sector, which starkly contrasts with broader European trends. A critical issue driving these challenges is the low demand for financial products among European citizens. The European Commission is also urged to address concerns about the future sustainability of public finances in its annual reviews of EU countries.

Dive into this interview between Performance Magazine and Ángel Martínez-Aldama from the Spanish Association of Investment and Pension Funds (INVERCO) to explore the dynamics behind Spain's financial sector transformation, the key challenges faced, and the broader implications for European financial policies.

Ángel joined INVERCO in January 1995, bringing over three decades of experience in financial analysis and asset management. He serves on the boards of EFAMA and FIAP and has been the Chairman of PensionsEurope. His roles also include positions in EAMA, CEOE, and advisory roles with CNMW and DGFSP. Ángel holds degrees in Law and Business Administration.

Performance Magazine (PM): **Will the positive trend in Spain's collective investment vehicles, currently at record high, continue in the future?**

Ángel Martínez-Aldama (AMA): The Spanish asset management industry is going through a very good period with more than four years of positive monthly subscriptions, currently reaching €715 billion in investment funds and investment companies (SICAVs), including Spanish and international collective investment schemes (CIS).

And this trend will likely continue because Spain's economic growth forecasts are very positive.

Two factors that support this forecast are that bank deposits make up 35% of the financial assets of Spanish households—but will offer lower returns than financial markets in the future—and the increasing importance of financial education.

PM: **In recent years the Spanish market has been particularly attractive for non-local entities distributing funds in Spain. In your opinion, will the Spanish market's attractiveness for international players continue to grow?**

AMA: International fund managers play a major role in the investment choices in Spanish households, especially in private banking and Fund of Funds with international assets. This has grown rapidly due to the rise of discretionary portfolio management and advisory services. Three out of four CIS are channeled through these two services, compared to the 25% via direct distribution. Regulatory requirements have driven these significant changes in business models.

The weight of international CIS has risen from 12% of total in 2008, to 42% in 2024, although it is true that this is mainly not through distribution to retail clients.

PM: **Are the conservative investor profile and retail-focused client base structural characteristics of the Spanish market or could they change in the near future? Should new products be developed to attract institutional clients?**

AMA: Spanish investors have a conservative investment profile, but they've become less so during the prolonged period of zero interest rates. So, their profile is like the average European investor, except in Denmark, Netherlands and Sweden, whose households are holding less than 20% of their financial wealth in deposits.

The Spanish CIS sector has the highest retail involvement in Europe (62% vs. the European average of 25%, according to the European Central Bank). This is a strength, as recent proposals suggest channeling retail savings into financial markets. Spanish asset managers understand retail clients' needs and can manage their wealth through CIS.

However, regulation should be adapted to facilitate the development of institutional funds, which in countries like Germany and the UK account for more than 70% of the sector.

***PM:* Investment and pension fund assets make up a small percentage of Spain's GDP compared to neighboring countries, indicating growth potential. What needs to be done to make this growth materialize?**

AMA: Without investment there is no growth, and without savings there is no investment, so countries encourage savings to enable this virtuous circle. In the case of Spain, the fiscal environment for savers is positive, but it needs to be further stimulated—especially to give a decisive boost to pension funds.

Pension funds still have a long way to go. They represent 9% of the country's GDP compared to the 40% of the Organisation for Economic Co-operation and Development (OECD) countries. The OECD recently provided a roadmap to be completed in the coming months, addressing population longevity and reducing the pressure on future public finances. Additionally, our association published a document with fifteen measures to boost pensions funds.

***PM:* Regulation is key in our sector, with recent debate on the Retail Investment Strategy. Limits on incentives may change, and new requirements such as "value for money" are expected. What will be the real impact of this regulation?**

AMA: The European Commission's Retail Investment Strategy (RIS) proposal has yet to meet the objectives of increasing citizens' participation in the financial markets, as the European Parliament and Council have stated.

The recent change in two of the three European co-legislators should lead to thorough review of the Commission's proposal, and significant changes in the final text. The text should aim for clarity, simplicity, and include fiscal and financial incentives—provided by national governments, not Brussels.

We don't have an issue with the supply of financial products, but rather with the low demand from European citizens. This is partly due to uninspiring fiscal and financial incentives for long-term savings.

Seventy per cent of US households invest in financial markets, compared to only half of European households. RIS explains this gap by pointing to more expensive products and biased advisors in Europe, but the main reason is different. In the US, basic social services like pensions and health are managed by the private sector and invested in the markets. In contrast, many European countries use taxes for these services, which are managed by governments and not invested in financial markets.

***PM:* What key area should regulators focus on to boost the collective investment industry at both local and European level? What is your view on the Draghi Report proposal for a unified European market supervisor?**

AMA: National regulators are responsible for improving savings taxation and promoting financial education, which are crucial for development. While a general European policy is important, it should include periodic analysis and recommendations for national governments.

Reports from Dragi, Letta, Noyer, and ESMA all stress the need to improve retail investors' access to financial markets, with recommendations like auto-enrollment, pension tracking systems, and pension dashboards.

For European supervisors, unification makes sense in some areas—clearing houses or post-trade markets—while convergence is better in others due to varying financial markets developments and financial education levels across countries.

***PM:* Europe's significant investment needs require the right investment vehicles, with the collective investment industry playing a key role. What should the next steps be, and what is necessary for ELTIFs to succeed in Europe and Spain?**

AMA: The asset management industry has been innovative for decades, and legislation should support this innovation rather than restrict it.

Unfortunately, some European initiatives like the European long-term investment funds (ELTIFs) and the pan-European personal pension product (PEPP) needed amendments or urgent reviews within five years. ELTIFs have the potential for growth by channeling retail and institutional investments to support the transition to a

more sustainable and digital European production model, and their tax treatment should be neutral.

***PM:* As an expert in pensions and pension funds, do you think a European passport for pension funds will become a reality soon? What impact do you believe it would have on the industry?**

AMA: Pension funds are more than simple financial tools; they are part of two (of the three) pillars of each country's pension system: occupational pensions funds and individual pension funds.

Different countries have prioritized some pillars more than others at different rates, making it hard to create a single European model (like Institutions for Occupational Retirement Provision (IORPs), IORP II, or PEPP frameworks).

It's time to be practical. The European Commission should emphasize in its annual reviews that EU countries need to address the future unsustainability of public accounts. This way, they can gradually make the appropriate adjustments over reasonable transition periods.

***PM:* A recent trend is the growing presence of private markets (illiquid or semi-liquid products) in investors' portfolios. These strategies are becoming more accessible, reaching beyond institutional clients to retail investors. How do you evaluate this trend, especially in terms of distribution to retail clients?**

AMA: Restricted liquidity products, essential for the development of European

projects, should be promoted to all types of investors, both institutional and retail. These products can offer higher returns than traditional assets.

For retail investors, clear pre-investment information and transparency are essential to ensure proper distribution.

As long as they provide transparent information and follow diversification criteria and standards that match investors' risk profiles and time horizons, supervisory practices should ensure that criteria do not hinder the distribution of these products.

***PM:* When comparing US and European markets, there are important differences in the size of management companies and vehicles, as well as market fragmentation. How do you think this situation will evolve in the future?**

AMA: Europe faces a major challenge in a geopolitical environment as the US and China become increasingly dominant. Europe needs to make significant changes to maintain its current influence.

Fortunately, recent reports and the new European Commission's strategic priorities recognize this and emphasize the urgent need to make very important structural changes, particularly in energy, financial and industrial autonomy, telecommunications and technology sectors.

TO THE POINT

- The Spanish asset management industry is thriving with over four years of positive growth, currently reaching €715 billion in collective investment schemes (CIS). This growth is expected to continue.
- International fund managers' market share in Spain has grown significantly from 12% in 2008 to 42% in 2024.
- Pension funds in Spain account for 9% of GDP, whereas the average of OECD countries of 40%, indicating a significant gap. The main issue is the low demand for financial products from European citizens, not the supply. The European Commission should highlight the need to address the future unsustainability of public finances in its annual reviews of each EU country.

Terrorism financing risks in the purification process of sharia-compliant funds

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1. Europe's Epicentre for sharia-compliant investing

The Luxemburg vibrant financial landscape is of astounding innovation, as the first European hub for environmental, Micro Finance Investment Vehicles and ethical investing. The country notably holds also another primate, as it hosts approximate 36 sharia-compliant investment funds (hereinafter "sharia funds"), mainly in form of sub-funds of open-ended investment companies with variable capital, qualifying as UCITS[1]. According to the brochure on Islamic Finance published by Luxembourg for Finance in July 2022, Luxemburg is the fifth largest domicile for shariah funds and the first taking into consideration only non-Islamic countries. It is widely known that the rationale is the political stability of Luxembourg and its unique cross-border distribution scale through the advantage of having UCITS that benefit from a European passport.

A sharia fund adheres to the principles of the Islamic law with the purpose to follow a social and ethical purpose (e.g., the prohibition of *riba, being the interest on loans*). These type of funds are set up under the Law of 17 December 2010 relating to the undertakings for collective investments or the Law of 13 February 2007 concerning specialized investment funds. There is no legal framework in force specifically applicable to sharia funds. Only the tax authorities had issued a circular in 2010 about the treatment of certain Islamic financial instruments such as murabaha, sukuk and ijara.

To summarize, Luxembourg finds itself in an optimal spot to market this type of investment funds, which is an important trait as Islamic Finance represented (worldwide) a market of around USD 3.37 trillion out of which USD 178 billion relates to Islamic funds. For the year 2025 an increase of Islamic finance to USD 4.94 trillion is anticipated.[2]

Probably due to the growth of this sector and Luxembourg's position on the market, as well as the specifics surrounding sharia funds – as further elaborated below – these type of funds have been object of a thematic inspection by the CSSF in 2023. The results and insight have been published this year, in general anti-money laundering and counter terrorism financing (AML/CTF) controls for Luxembourgish sharia funds have shown "adequate and of good standard, despite some shortcomings"[3] observed in key areas such as:

- name screening against targeted financial sanction and politically exposed persons lists, and
- failure on receiving and reviewing of the AML/CFT due diligence performed by third parties on different stakeholders including charities for purification (please note that the purification method will be further elaborated below).

Although the topic of Islamic finance is extensive, this article solely concentrates on those particular aspects surrounding sharia funds, which are potentially exposed to terrorism financing (TF) risks. This exposure to TF risk has also been highlighted by the CSSF in the context of the above-mentioned thematic inspection, requiring Sharia funds and Investment Fund Managers (IFMs) to exercise extra attention when using non-profit organizations (NPOs) for purification purposes.

2. Governance arrangements and the purification of investment income

A distinguishing element of sharia funds compared to non-sharia compliant investment funds is the additional attention to reputational risks, through regular monitoring of the fund's portfolio. This control as a result could require the necessity to sell even profitable instruments in order to rectify non-sharia compliant positions, in the event of sharia non-compliant assets materializing. Of course, reputational risk, like its counterparts (e.g., credit, market, liquidity), is also consistently evaluated for non-sharia compliant funds. However, funds that necessitate adherence to Sharia bring an intensified focus to this reputation dimension. Ultimately, investors in these funds have a vested interest in ensuring compliance with Sharia principles.

The significance to comply with Sharia principles and hence mitigate reputational risks introduces also an unique element in terms of the governance of a sharia-compliant investment fund. The appointment of Sharia Boards constitutes one of the key differences compared to other type of investment funds. Depending on its function, this board may possess the

1. "List of UCI and SIF having a sharia-Compliant policy", CSSF, 27 January 2025
2. pg. 1 "Innovation in Islamic Finance", March 2023, Islamic Development Bank
3. CSSF Annual Report 2023

What is purification?

Purification is the deduction of a portion of income generated by an investment which is related to non-permissible activities. Subsequently, any purified income is given away to charities. In short the gains to be purified are:
- *those deriving from non-permissible activities and,*
- *those deriving from the divesting of assets that become non-permissible.*

In the first scenario a sharia fund could hold shares in a company whose income is linked to the selling of alcohol or performance of lending activities, however, usually it is not allowed to invest in shares of companies whose income exceeds 5% of non-permissible activities. Any income deriving from the non-permissible activities of a company would need to be purified.

In the second scenario, the Sharia Board would initiate the selling of an entire position due to the sharia fund surpassing (for a certain time period) the 5% threshold, or the prescribed 33% indebtment ratio. For instance, a tech company might opt to invest in the retail banking sector, which could result in a scenario where the majority of profits are derived from interest-related activities (riba), which is not compliant with Islamic law.

The process of purification of this type of gains translates into the donation to charitable causes. The amount is based on specific calculation methods, defined by the Sharia Board, following common international best practices (e.g. Accounting and Auditing Organization for Islamic Financial Institutions or AAOIFI).

authority to make impactful decisions or may exclusively provide advisory support. Often the competences and functions of Sharia Boards are described in the investment fund prospectus. The Sharia Board is usually entrusted to monitor and approve investment guidelines, issue annual reports and to assess compliance of investment products and transactions. From an AML/CTF perspective, it is pertinent to point out the competency of the Sharia Board to advice on the methodology of purification of non-permissible income (e.g. interest gain) or the review of the investment funds purification activities.

3. The purification of investment income and potential terrorism financing risks

Depending on the preference of the sharia fund, either the investors themselves or the IFM can have the responsibility to carry out the purification process and hence, the selection of the NPO. In the first mentioned scenario, the investment fund would provide the percentage of earnings to be purified to the investor. Either way, the charitable distribution might pose an inherent risk of TF which would need to be addressed and prevented accordingly, as further elaborated below.

3.1. NPOs exposure to terrorism financing risks

Already in 2014, the relevance to protect NPOs against TF risk have been highlighted by the Financial Action Task Force (FATF)[4]. Moreover, in November 2023, the FATF also issued their best practices to support countries and professionals in their efforts to protect NPOs from TF abuse[5].

In their publication, the FATF has emphasized the importance of NPOs and state that they play an important role by providing support to economies, communities or individuals in need. In fact, this may also lead to the prevention of radicalization which otherwise could lead to terrorism. At the other hand, the FATF has recognized that NPOs are frequently abused for the funding of terrorist groups or extremist in different ways (non-exhaustive):
- The public trust which NPOs enjoy could be exploited by terrorist groups as donators would contribute considerable amount of funds without further considerations. Furthermore, potential exploitation is not limited to donated funds. Human resources, for example, may also be at risk, as they could be utilized for purposes of radicalization and recruitment for terrorist organizations.
- Due to the global nature of some NPOs, including in areas or close to areas which are exposed to terrorist activities, transactions might appear in line with the activity of an NPO, while funds might be misused for financing non-legitimate purpose. NPOs could be abused as legitimate front for a terrorist group or the management could be infiltrated by terrorists, which in turn would be able to make fundraising and -distribution decisions.

As a result, it is pertinent to understand the characteristics and activities of an NPO. The FATF urges to conduct a TF risk assessment and to apply risk-based due diligence measures on charitable organizations. Thus, prior to any donation of purified gains, the NPO receiving the donation has to be examined in regard to their ML/TF risk profile and mitigation measures should be enforced.

Furthermore, in regard to Luxembourg, the recent mutual evaluation report of the FATF[6], published in September 2023 subsequent to their on-site inspection, pointed out that Luxembourg must strengthen the understanding of TF across public and private sector stakeholders. Despite Luxembourg's capacity to identify non-governmental organizations potentially exposed to a higher risk of TF

4. FATF – Risk of terrorist abuse in non-profit organisations, June 2014
5. FATF – Combating the terrorist financing abuse of non-profit organisations, 16 November 2023
6. FATF – Mutual Evaluation Report on Luxembourg's measures to combat money laundering and terrorist financing, 27 September 2023

abuse, it was emphasized that the sector's understanding of TF is still low.

It is by now commonly known that NPOs are increasingly targeted by terrorist organizations to raise funds, either through effective fraud schemes or in some occurrence through indirect exploitation. As a result this might cause professionals to refrain from business relationships or transactions when NPO are involved. However, the so-called de-risking of an entire group of actors undermines the effectiveness of NPOs which are crucial in certain areas of the world. Indeed, it is common that charities operate in high risk areas and undoubtedly in geographic closeness to terrorism treats or in the proximity of areas of conflict the TF risk is stronger. Nevertheless, this does not imply that de-risking should be the immediate course of action. Instead, considerable thought should be given to enhancing the risk assessment and due diligence procedures.

3.2. Prevention of terrorism financing risks when dealing with NPOs

Related to the above mentioned outcome of the FATF on-site inspection, the CSSF has issued Circular 23/842, complementing CSSF Circular 21/782 relating to the implementation of the revised EBA guidelines on customer due diligence and material risk factors. The complementing Circulars focal point was to indicate relevant ML/TF risk factors for NPOs for the professionals ML/TF risk assessment.

From a broad prospective the **risk assessment methodology** has to include an evaluation of TF risks relevant to NPOs, which would be targeted in framework of the purification process. Both, CSSF Circular 23/842 and the best practices issued by the FATF (as referred to above), provides the professional with sound guidance on typical ML/TF risk factors related to NPOs. These usually focus around the following and should be reflected in the respective procedures of the sharia fund on the selection of NPOs (non-exhaustive):

- type of activity, funding methods and category of beneficiaries,
- governance and legal structure,
- exertion of controls in place,
- size of the organization and location of the activities,
- reputation and adverse media findings

With respect to the geographic ML/TF risk, it should be highlighted that even if located in a low risk jurisdiction, NPOs likely have operations in countries with a high risk of TF. Consequently, the country risk of the NPO should encompass the country of their activity as well.

The questions stated within CSSF Circular 23/842, relating to each of the above criteria listed, should be considered when modifying or enhancing the existing risk assessment methodology, or alternative, to draft a dedicated risk assessment methodology for NPOs. The latter is particularly sensible if you are a professional frequently working with NPOs. In the context of sharia funds, this might often be the case.

The CSSF Circular 23/842 does not describe due diligence measures which are specifically limited to NPOs, however, IFM should take **risk-based due diligence** measures, focusing on the pillars of the Law of the 12th November 2004 on the fight of ML and TF, as amended. Those bear a beneficial aspect for the due diligence process towards NPOs.

In their risk assessment and application of due diligence measures, professionals should keep in mind that the aim is not to burden NPOs but to establish a comfort level with the relationship, ensuring trust, safety, and adherence to legal and sharia standards.

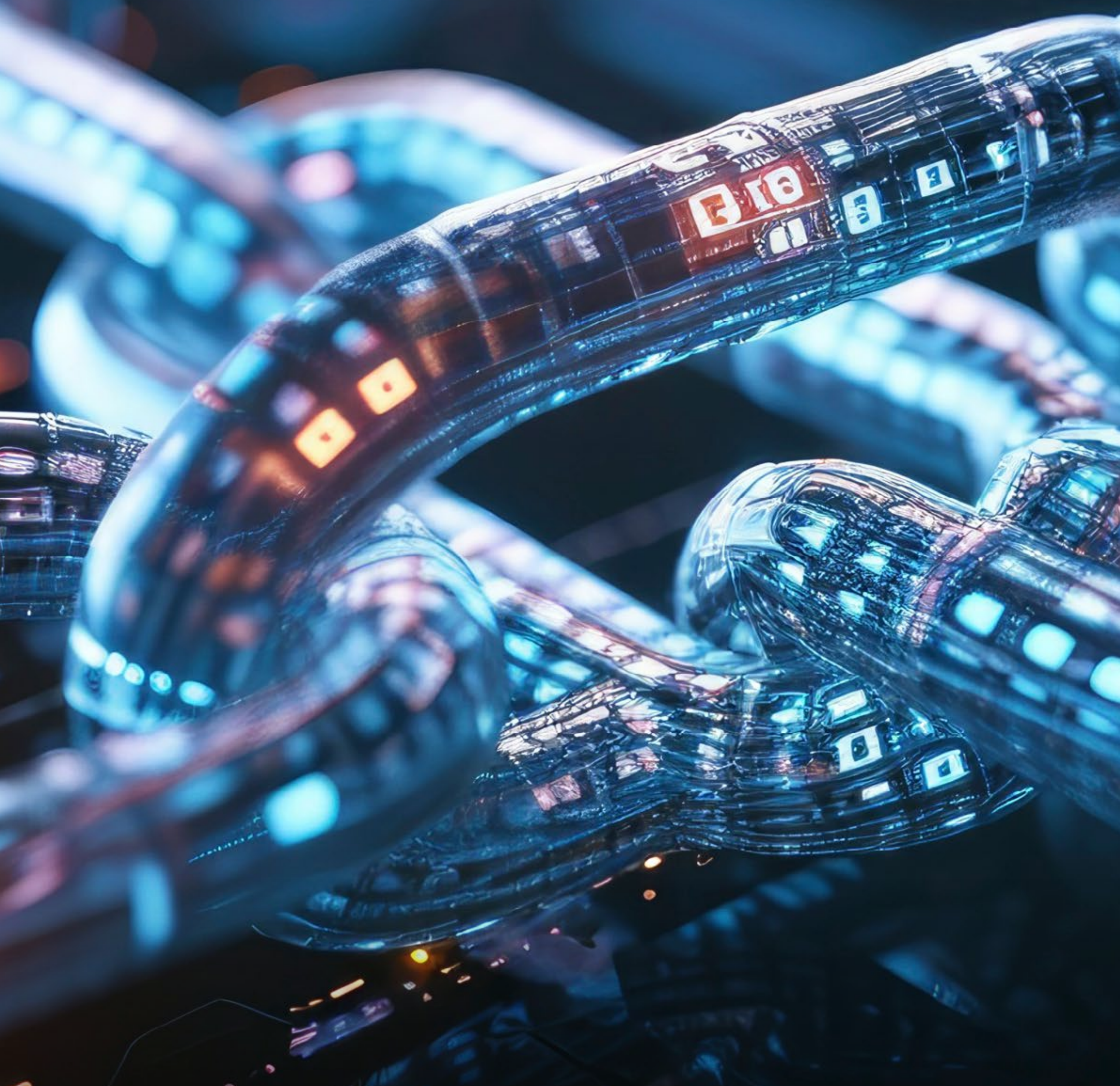
4. Conclusion

Sharia funds are encouraged, by their intrinsic nature, to engage in sustainable and ESG finance. Exercising AML/CTF controls in line with FATF's expectations and CSSF Circular 23/842 does not obstruct the development of this industry but rather constitutes an enhancement of the primary scope of Islamic finance; that is to say fostering a fair and ethical economic environment.

It is important to emphasize that de-risking of NPOs is not advocated. On the contrary, the aim is to promote risk-based assessments and precise risk mitigation. By taking into account the results of the thematic inspections on the sharia funds published by the CSSF in their annual report, the best practices published by FATF as well the ML/TF risk factors highlighted within CSSF Circular 23/842, professionals should be adequately prepared to identify and mitigate the TF risks existing in the process of purification of investment income handled by sharia funds.

TO THE POINT

- Due to Luxembourg's political stability and efficient cross-border distribution through UCITS, it is an ideal location for hosting Sharia-compliant investment funds, which are anticipated to grow in the future.
- Sharia-compliant investment funds adhere to Islamic principles, including the purification of non-permissible income, which involves channeling these funds to non-profit organizations.
- Implementing comprehensive risk assessments and due diligence measures is crucial to safeguard against terrorism financing risks that may arise from non-profit organizations. This mitigates risks and further enhances ethical investment practices, which are inherently followed due to the nature of Sharia-compliant funds.



Blockchain technology and the transformation of capital markets

HOW TOKENIZATION IS OPENING NEW OPPORTUNITIES IN FINANCIAL MARKETS

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INTRODUCTION

Distributed ledger technology (DLT) is not just reshaping isolated processes within the capital markets, it is revolutionizing the foundational structure of how financial systems operate. By transforming post-trade operations such as settlement, collateral management, and data reconciliation, DLT is bridging gaps that have long fragmented the financial ecosystem. This technology simplifies the complex structure of interactions between custodians, issuers, investors, and intermediaries by enabling real-time information exchange and reducing the reliance on manual processes.

One of DLT's most compelling contributions lies in its ability to unify financial records through a single shared ledger while also drastically reducing clearing and settlement costs. By eliminating redundancies, automating reconciliation processes, and minimizing operational risks, DLT addresses some of the most expensive and time-intensive challenges in financial markets. Notably, the integration of smart contracts and automated processes within clearing and settlement activities is projected to generate global infrastructure operational cost savings of approximately USD 15–20 billion annually[1] (including US, Europe and the main markets).

The vision for tokenized digital assets adds another layer of innovation. With features such as instant collateral mobility, continuous global access, and integration across asset classes, tokenization offers a blueprint for the financial services of tomorrow. Industry leaders like Larry Fink of BlackRock have emphasized this transition, predicting a future where all assets—stocks, bonds, and beyond—exist on a unified ledger[2]. The rapid scaling of tokenized products, from bonds and funds to private equity and even cash, underscores the importance of DLT in driving the next evolution of capital markets. As adoption grows, DLT is moving beyond experimentation and into practical implementation, setting a new standard for efficiency, accessibility, and innovation in global financial markets.

1. Global Financial Markets Association (GFMA). (2023, May 17). The impact of distributed ledger technology in global capital markets. GFMA. https://www.gfma.org/policies-resources/gfma-publishes-report-on-impact-of-dlt-in-global-capital-markets/
2. New York Times Events. (2024, January 24). BlackRock C.E.O. Larry Fink on ESG Investing [Video]. YouTube. https://www.youtube.com/watch?v=PSVpth7uqb4

Use cases: Blockchain in investment management

DLT is transforming the entire lifecycle of securities, from issuance to post-trading. In the primary market, it enables faster issuance through shared data accessibility and process automation. In secondary markets, it enhances liquidity through fractionalization, extends trading hours, and broadens access to select asset classes. Finally, in post-trading, it reduces risks, allows for instant settlement (T+0), and streamlines corporate actions using smart contracts. There are a variety of opportunities and related use cases in the capital markets:

Tokenization: A new era in funding and investing

The tokenization of assets goes beyond merely replicating traditional processes on blockchain to reduce costs; for example, it unlocks new opportunities by making historically illiquid and difficult-to-trade assets, such as real estate, more accessible and functional. In the case of real estate, tokenizing properties allows for fractional ownership, enabling participation by investors with smaller capital while increasing liquidity through seamless transactions on secondary markets. Tokenization's potential reaches far beyond the real estate sector, finding increasing application in investment vehicles such as money market and alternative investment funds. A notable example is UBS's introduction of its tokenized Money Market Investment Fund (uMINT), which underscores a significant movement towards embracing tokenization within asset management[3].

In investment funds, tokenization addresses inefficiencies in money market funds (MMFs) by enabling real-time liquidity through intraday repos. Traditional overnight repos, fixed at 24-hour terms, often misalign with actual liquidity needs, forcing borrowers to incur costs for unused time. DLT facilitates secure, immediate transactions, allowing settlements within minutes or hours as needed, thereby avoiding additional costs associated with liquidity and asset transfers. By reducing reliance on intermediaries and synchronizing cash flow with demand, tokenization transforms MMFs into more adaptable and cost-efficient capital management tools, enhancing trust and operational efficiency.

Finally, tokenization's adaptability enables its application across various asset classes, such as bonds, equities, ETFs, loans, ETNs, listed stocks, derivatives, and precious metals. Nevertheless, the existing regulatory frameworks and infrastructure within capital markets can obscure the benefits of tokenization, hindering the realization of its advantages like cost savings and operational improvements. Despite

3. UBS Asset Management. (2024, November 1). UBS Asset Management launches its first tokenized investment fund. UBS. Retrieved from: https://www.ubs.com/global/en/media/display-page-ndp/en-20241101-first-tokenized-investment-fund.html

these obstacles, tokenization continues to drive innovation in financial markets, promoting increased accessibility and novel approaches to asset management and exchange.

Collateral Management

Financial institutions struggle with in collateral management because of disconnected custody networks and siloed operations. Collateral is often managed separately based asset types (e.g., equities, fixed income, derivatives) and transaction types (e.g., ECMS, CCP, OTC), resulting in operational inefficiencies and redundant processes.

These silos, coupled with reliance on market closing times and non-simultaneous settlement systems, increase complexity, limit flexibility, and elevate counterparty risk. Additionally, reconciliation and monitoring across multiple CCPs globally require redundant databases and applications, further driving up costs. These inefficiencies are estimated to cost a global market participant €50–100 million annually[4].

Tokenization addresses inefficiencies in collateral management by enabling instantaneous transfers via a centralized DLT network, which streamlines reconciliation and dispute management processes. With features like delivery versus delivery (DvD) settlement, DLT ensures simultaneous and secure transactions, reducing counterparty risk. Additionally, smart contracts automate critical processes such as margin calls and provide real-time monitoring, guaranteeing adequate collateral coverage throughout the lifecycle of a transaction.

An example of this is HQLAx, a platform that leverages digital collateral records (DCRs) to simplify collateral management. By enabling ownership transfers without the physical movement of securities, HQLAx reduces operational friction, lowers settlement costs, and improves control over collateral exchanges. This approach shows how blockchain-driven solutions can effectively address long-standing inefficiencies in collateral management.

Tokenization in payment versus payment transactions

Tokenization is also revolutionizing payment versus payment (PvP) transactions by solving key inefficiencies in traditional systems. PvP models, particularly in cross-border financial activities, rely on international agreements and intermediaries like continuous linked settlement (CLS), a global payment system designed to reduce settlement risk in foreign exchange (FX) transactions, and ICSDs for cross-border securities. These systems are limited in scope, covering only certain currencies, assets, and participants, making processes

4. HQLAx. (2024). HQLAx New brochure for website Dec 2024 – Redefining Collateral Mobility. [PDF]. Retrieved from: https://cdn.prod.website-files.com/647085cadeace073b850ba3c/6752c5245abd90149a74af43_HQLA%E1%B5%A1%20New%20brochure%20for%20website%20Dec%202024%20-%20final%20%20-%20%20Read-Only.pdf

slow, unclear, expensive, and risk exposure.

Cross-border transaction values are expected to climb to $250 trillion by 2027, up from $150 trillion in 2017[5], underscoring the clear necessity for modernization. Tokenized assets offer transformative solutions by enabling real-time, synchronized settlements that eliminate reliance on intermediaries.

For instance, in FX, tokenization ensures the simultaneous exchange of currencies, eliminating counterparty risk and enhancing settlement speed. Furthermore, the adoption of central bank digital currencies (CBDCs), deposit tokens, and stablecoins can significantly improve cross-border transactions by enabling near-instant settlement, offering greater transparency through end-to-end visibility, and reducing transaction costs, including intermediary fees. These advancements address key pain points for financial institutions and corporate clients, streamlining cross-border payments and boosting overall efficiency.

The importance of the cash leg in digital finance

Integrating a reliable cash-on-ledger framework is essential for unlocking the potential of tokenized assets. This framework enables the secure, real-time settlement of transactions by facilitating the exchange of digital assets with currencies such as CBDCs, stablecoins, and deposit tokens. It reduces counterparty risks, strengthens trust in financial systems, and bridges gaps between legacy and blockchain infrastructures. Analysts forecast up to $5 trillion in tokenized digital securities by 2030[6], highlighting the critical role of cash legs in achieving efficiency, transparency, and scalability in financial ecosystems. Moreover, 94% of central banks are actively exploring CBDCs, according to the Bank for International Settlements, with a focus on interoperability and programmability for wholesale applications[7]. These developments underscore the growing importance of cash-on-ledger frameworks in a rapidly maturing digital economy.

The challenge of interoperability

Interoperability is a significant challenge in blockchain technology, particularly when individual entities develop isolated DLTs without standardized protocols. This fragmentation hinders integration with traditional financial systems, leading to inefficiencies and operational complexities. To address these issues, collaborative efforts through consortia and technological solutions are essential. Consortium blockchains enable multiple organizations to collaborate on shared platforms, improving data sharing and transaction efficiency, while cross-chain communication protocols enhance interoperability between different blockchain networks.

Initiatives such as Project Agora and the regulated settlement network (RSN) exemplify progress in bridging these gaps. Project Agora, led by the Bank for International Settlements (BIS) and seven central banks, aims to integrate tokenized central bank and commercial bank money through a unified ledger, fostering scalability and interoperability. With over 40 private-sector participants, it focuses on modernizing cross-border payments and reducing operational friction[8]. Similarly, the RSN has demonstrated how real-time, multi-asset settlement can be achieved through delivery versus payment (DvP) mechanisms, ensuring compliance and efficiency in the settlement of tokenized assets such as U.S. treasuries and bonds[9]. These efforts mark significant strides in addressing interoperability, laying the groundwork for more connected and efficient financial systems.

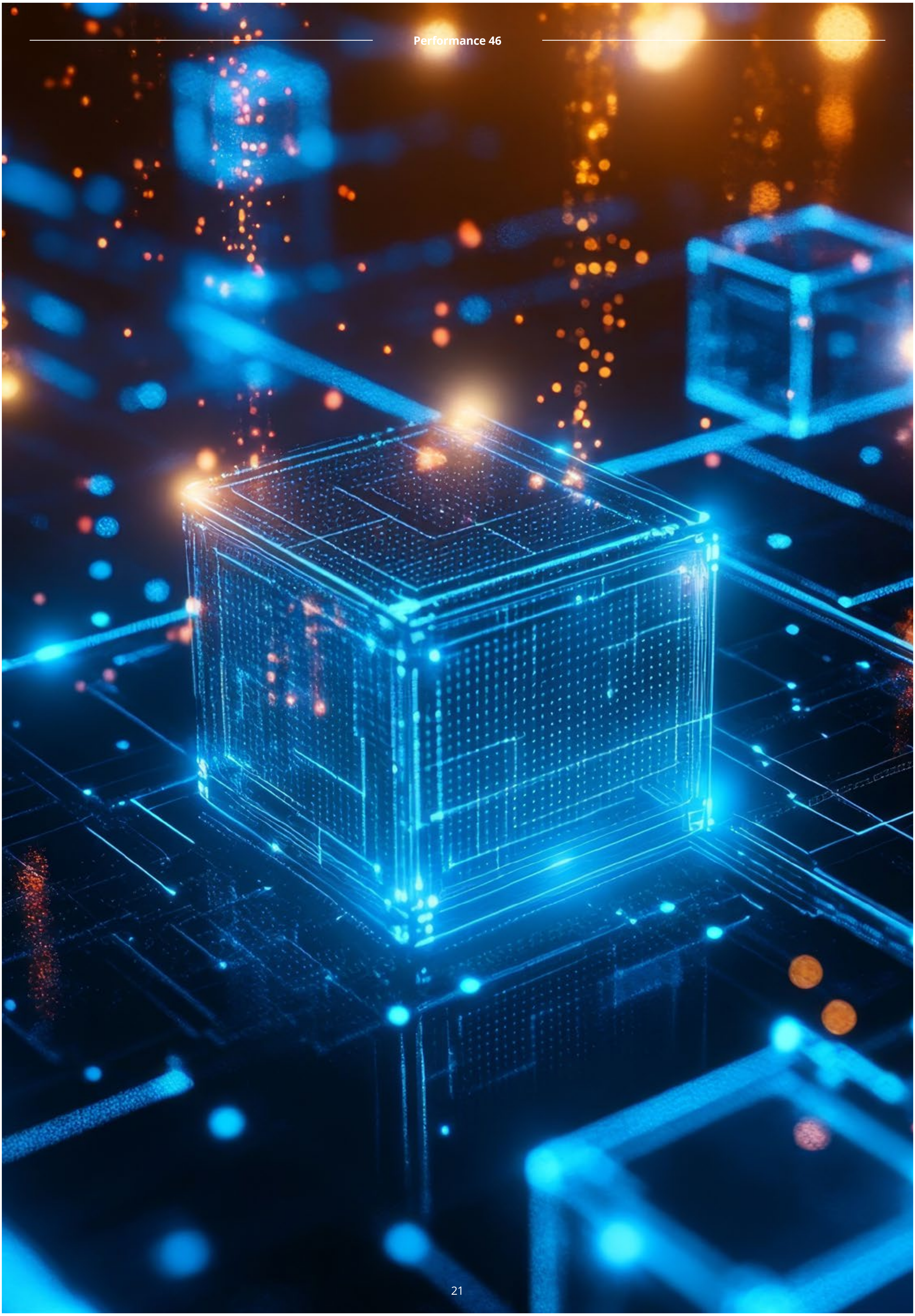
CONCLUSION

- Cash-on-ledger frameworks are critical for bridging tokenized assets and traditional systems, ensuring secure and instant settlement. Their role in DvP highlights their importance in strengthening trust and reliability across markets
- Interoperability remains a fundamental challenge, requiring standardized protocols and collaborative frameworks to address fragmentation in DLT networks. Initiatives like consortium blockchains and interoperable settlement systems are instrumental in overcoming these barriers.
- Collaboration between public and private entities is essential to establish common standards, ensure compliance, and streamline processes, fostering widespread adoption of tokenized systems.
- Tokenization's full potential lies beyond cost reduction and pilot programs. By investing in the transformation of real-world processes, such as using tokenized money market funds for collateral management in derivatives markets like intraday repos and perpetual swaps, organizations can unlock new efficiencies and opportunities, showcasing the broader impact of this technology.

TO THE POINT

- Tokenization through distributed ledger technology (DLT) improves liquidity and broadens access to various asset classes, such as real estate and investment funds.
- DLT is transforming financial markets by simplifying post-trade operations and enabling real-time data exchange among custodians, investors, and intermediaries.
- Cash-on-ledger frameworks ensure real-time, secure settlements, bridging blockchain and traditional systems.
- Collaboration and interoperability are critical to fully unlocking the potential of tokenized financial systems.

5. Bank of England. (n.d.). Cross-border payments. Bank of England. Retrieved Feb 2025, from https://www.bankofengland.co.uk/payment-and-settlement/cross-border-payments
6. Citigroup. (n.d.). Money, tokens, and games. Citigroup. Retrieved Feb 2025, from https://www.citigroup.com/global/insights/money-tokens-and-games
7. Di Iorio, A., Kosse, A., & Mattei, I. (2024). Embracing diversity, advancing together: Results of the 2023 BIS survey on central bank digital currencies and crypto (BIS Papers No. 147). Bank for International Settlements. https://www.bis.org/publ/bppdf/bispap147.pdf



Transition planning in investment management

MEASURES AND OPPORTUNITIES FOR INVESTMENT MANAGERS TO MOVE FROM COMMITMENTS TO ACTION

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INTRODUCTION

Over the past 15 years, sustainable investing space has evolved from mainly focusing on marketing and communication to incorporating sustainability in strategy development and setting goals, with many investment managers aiming for targets such as Net Zero[1].

The focus is now shifting to regulation, implementation, and impact measurement[2]. However, in a changing political environment, investment managers struggle to integrate environmental and climate risks into their businesses amidst legal fluctuations and reputational concerns. As climate change and related economic impacts become more evident, investment managers must move from planning to action by embedding sustainability in investment strategies, and complying with complex regulations.

Organizations will need to implement robust, comprehensive, and practical transition plans to remain competitive and adapt to these sustainability challenges. The investment community values these plans for their holistic approach, aligning ambition, risk management, capital allocation, and long-term strategy. Key opportunities include creating frameworks that integrate financial and ESG metrics, promoting sustainable finance, and enhancing global competitiveness.

The European Commission (EC) has adopted proposals to align the EU's climate, energy, transportation, and taxation policies to reduce net greenhouse gas emissions by at least 55% by 2030, compared to 1990 levels[3]. Key objectives include:

- Becoming the first climate neutral continent: no net emissions of greenhouse gases by 2050;
- Maintaining and strengthening innovation and competitiveness of EU industry;
- Decoupling economic growth from resource use, and
- Ensuring a just and socially fair transition.

As part of the European Green Deal, the EC has pledged to mobilize at least €1 trillion in sustainable investments over the next decade. EU green bonds and increased public and private investment[4] will provide further support. The share of funds handled by the financial services industry that is contributing or linked to climate-related goals is expected has risen significantly over the past years and expected to increase further.

While the EU aims to guide the climate transition of the financial sector and the broader economy, many firms have yet aligned with these ambitions.

1. https://zerotracker.net/analysis/new-analysis-half-of-worlds-largest-companies-are-committed-to-net-zero
2. https://www.deloitte.com/lu/en/Industries/investment-management/blogs/impact-measurement-a-five-step-guide-for-investment-managers.html
3. https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal_en
4. https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/finance-and-green-deal_en

Regulatory perspective: Shift from disclosures and transparency to a requirement to take action

European financial institutions, especially banks, are facing increasing regulatory and supervisory pressure to align with the EU's desired climate pathway. According to the European Central Bank, "failing to plan is planning to fail" and "the misalignment with the EU climate transition pathway can lead to material financial, legal and reputational risks for banks."[5] But what are the risks and current and future requirements for Investment Management companies?

A single, comprehensive framework for transition planning for European financial institutions does not exist yet. Most existing legislation focuses on disclosures and transparency. The Sustainable Finance Disclosure Regulation (SFDR), the Corporate Sustainability Reporting Directive (CSRD) and the EU Taxonomy are all legislations aimed at increasing transparency in sustainability matters. Both SFDR and CSRD impose mandatory disclosure requirements –SFDR for financial market participants and financial advisers, CSRD for large corporations, including financial institutions.

The EU taxonomy provides transparency and directs investments in sustainable finance by classifying activities that contribute to the EU's environmental objectives, such as climate change mitigation and adaptation, sustainable resource use, or transition to a more circular economy.

The first EU regulation requiring companies to act on transition planning is the Corporate Sustainability Due Diligence Directive (CSDDD)[6]. The main objective is to ensure companies perform due diligence to prevent adverse environmental and human rights impact across a company's chain of activities. It also **requires in-scope companies to adopt a transition plan** aligned with the Paris Agreement's goal of achieving climate neutrality by 2050 (max 1.5C global warming by 2050).

While the EU Omnibus will simplify these requirements, the initial proposals still require companies to **adopt a climate transition plan including implementing actions**. This includes alignment of their business model and strategy with the transition to a sustainable economy and limit of global warming to 1.5C, in line with the Paris Agreement.

Before CSDDD, companies voluntarily created transition plans. However, with the phased implementation of CSDDD, this will become mandatory. Some leading companies have already begun taking initial steps in to comply.

However, creating transition plans is complex and multidimensional. Companies with existing transition plans see them as initial drafts that will improve as regulatory expectations and supervisory requirements become clearer and data quality improves with required disclosures.

For financial sector, transition planning is challenging due to a lack of high-quality data availability and unclear EU sustainability regulations. It is not always clear what should be included in a company's transition plan or which activities are considered sustainable.

What makes a transition plan?

- *Clear **time-bound** climate change targets for 2030 and every five years up to 2050, based on scientific evidence, with **absolute emission reduction targets** for scope 1, scope 2 and scope 3 greenhouse gas emissions for each significant category.*
  - *For financial institutions, the most notable category of GHG emissions is usually Scope 3, category 15, as defined by the GHG Protocol, covering direct and managed investments, and client services.*
- *A clear description of decarbonisation levers and key actions planned to reach the targets, including actions related to product and service offerings.*
- *A quantification of the investments and funding supporting the implementation of the transition plan for climate change mitigation.*
- *A description of the internal governance relating to the transition plan, including roles of management and supervisory bodies.*

5. https://www.deloitte.com/nl/en/issues/climate/how-mature-is-your-organization-in-sustainable-investing.html
6. https://www.bankingsupervision.europa.eu/press/blog/2024/html/ssm.blog240123~5471c5f63e.en.html
7. https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202401760

However, investment managers have a lot to gain. With evolving market expectations and regulations, there's a growing demand for solid transition plans. Investment managers need to incorporate climate-related financial risks and opportunities in their portfolio as strategies, measure their direct climate impact and ensure regulatory compliance. Successfully navigating this complex landscape, transition plans can:

01. Reduce the overall risk of your portfolio by including environmental financial risks.
02. Help investment managers meet stakeholder expectations, as new regulations increase demands from various stakeholders, including asset owners.
03. Quantify the financial impact of environmental factors and support data-driven decisions using new data from investee companies.
04. Develop new products and strategies focusing on decarbonization, leveraging industries' transition plans, offering new technologies, or shifting geographic focus.
05. Provide investors insight into with an investment manager's sustainability perspective, priorities, and strategy.
06. Highlight a firms' positive impact and contributions to society.

Taking action: How to develop and implement a transition plan

In line with Deloitte's Sustainable Investor Framework, we've outlined steps for investment managers to develop and implement transition plans:

- **Strategize:** Define the scope of your transition plan for your portfolio and operations, set your ambition level, and consider relevant regulatory requirements.
- **Plan:** Assess your status quo, identify decarbonization strategies per asset class, and review your internal setup, ensuring data availability, reporting tools. and dashboards.
- **Act:** Implement and execute your decarbonization levers across your portfolio, adjust investment processes, engage with portfolio companies, and integrate your transition plan into governance and future planning.
- **Report:** Track your progress and impact per asset class and decarbonization levers, set clear KPIs, and include the transition plan progress reporting in your established reporting process.
- **Evaluate and iterate:** Compare outcomes with initial targets, identify effective decarbonization strategies, enhance your action plan and internal processes, and restart the cycle.

CONCLUSION

Developing robust transition plans may seem like another ESG challenge for investment managers, but it offers ample opportunities for firms that see it as an enhancement of their action plan. Laggards may face consequences for non-compliance, and increased market demand for sustainability. To learn more about developing transition plans and receive insight from practical examples, please get in touch with the authors.

TO THE POINT

The sustainable investing space is shifting from ambition setting to the development and implementation of actionable transition plans, with new EU regulations providing an outline of the expected components of a climate transition plan, such as specific and timebound targets, a clear governance and integration in financial planning.

Developing and implementing transition plans is complex, but also provides opportunities to investment managers by integrating environmental risks, meeting stakeholder expectations, generating data-driven insights based on new disclosures and setting decarbonisation strategies.

Based on Deloitte's Sustainable Investor Framework[7], we have defined an approach for Investment managers to develop and implement transition plans.

Fundraising in Asia: breaking misconception and strategies for success

HOW TO STREAMLINE FOREIGN FUND DISTRIBUTION AND OVERCOME REGULATORY CHALLENGES IN ASIA

INTRODUCTION

Foreign funds are shaping the Asian investment landscape, often surpassing domestic products in several markets. Asia has surged to become the third largest region by assets under management (AUM) in the world, and second in cross-border assets, right behind Europe. This underscores the region's attractiveness for foreign funds.

Despite this allure, the investment management industry perceives cross-border distribution in Asia as costly and complex, acting as a roadblock. But is this perception grounded in reality, or is it a misconception? While Asia's regulatory frameworks differ from European's harmonized model, the similarities are noteworthy. Furthermore, recent initiatives have streamlined regulatory processes, boosting the distribution of foreign funds in Asia.

This article shares valuable insights to clarify and navigate Asia's regulatory complexities, unlocking opportunities across key Asian jurisdictions.

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The Singapore market is booming

Singaporean investors have a strong interest in foreign investment funds. In 2024, the Monetary Authority of Singapore (MAS) authorized 70 foreign funds for retail investors, showing a growth of over 5%, which highlights the demand from local investors' for non-domestic products.

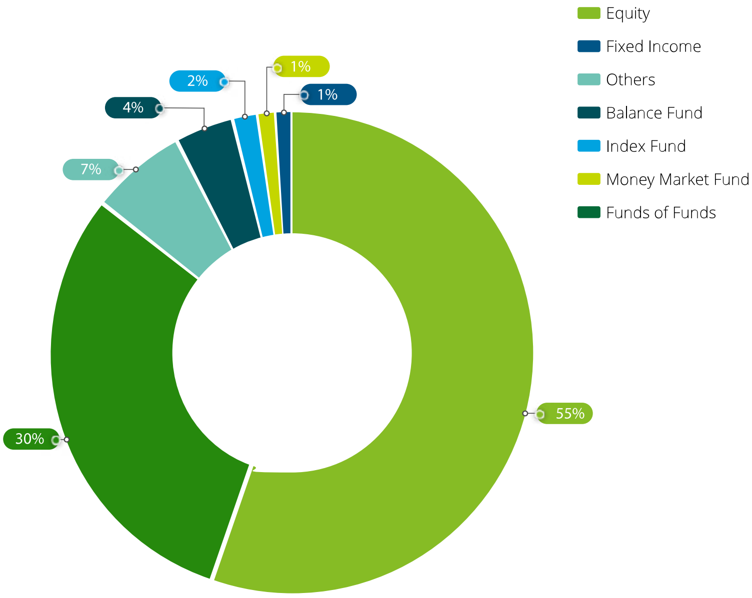
About 80% of retail funds marketed in Singapore are domiciled in a foreign jurisdiction, and three quarters of these are Luxembourg UCITS due to their superior investor protection, transparency, liquidity, and diversification benefits.

MAS' uses the dedicated digital OPERA[1] platform to review and approval foreign funds for retail investors within just 21 days. For accredited investors, the approval process on the CISNet portal[2] takes only two days. This efficiency highlights Singapore's commitment to maintain its competitive edge.

Singapore's approval process and stable economy have made it a preferred destination for IFMs seeking to expand their presence in Asia.

Foreign funds predominantly features familiar asset classes like equity and fixed income products.

Number of authorised foreign funds per asset class (public distribution)



Source: Deloitte analysis of MAS register

1. Offers and Prospectuses Electronic Repository and Access (OPERA) is an electronic system for submitting applications and receiving updates about information of local and foreign funds marketed to retail investors.
2. Online platform for funds marketed to accredited investors and investors other than retail.

Shifting dynamics in Hong Kong

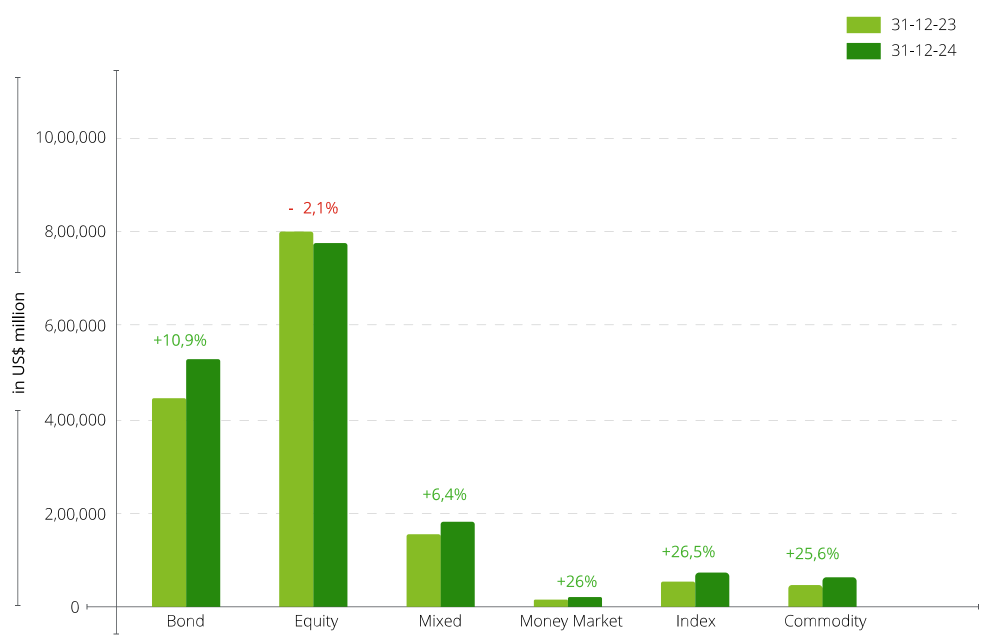
Known as the gateway to mainland China, Hong Kong is a major hub in Asia, with over 50 foreign IFMs present in the city. Its steady growth is reflected in foreign fund AUM rising by 4.6% in the first half of 2024, with over 60% of retail funds domiciled in a foreign jurisdiction. Like Singapore, Luxembourg funds are leading the scoreboard.

While foreign funds are also dominating the market (66% vs. 34%), we note the complementary nature of local and foreign from their asset classes. Local retail funds are mainly money market and index funds, while foreign retail funds are mainly equities and bonds.

However, some IFMs are reluctant to enter the retail market due to concerns about the lengthy and complex authorization process. For example, the Securities and Futures Commission's (SFC) requirement to approve significant changes to legal documents before validation in the home country is widely considered burdensome.

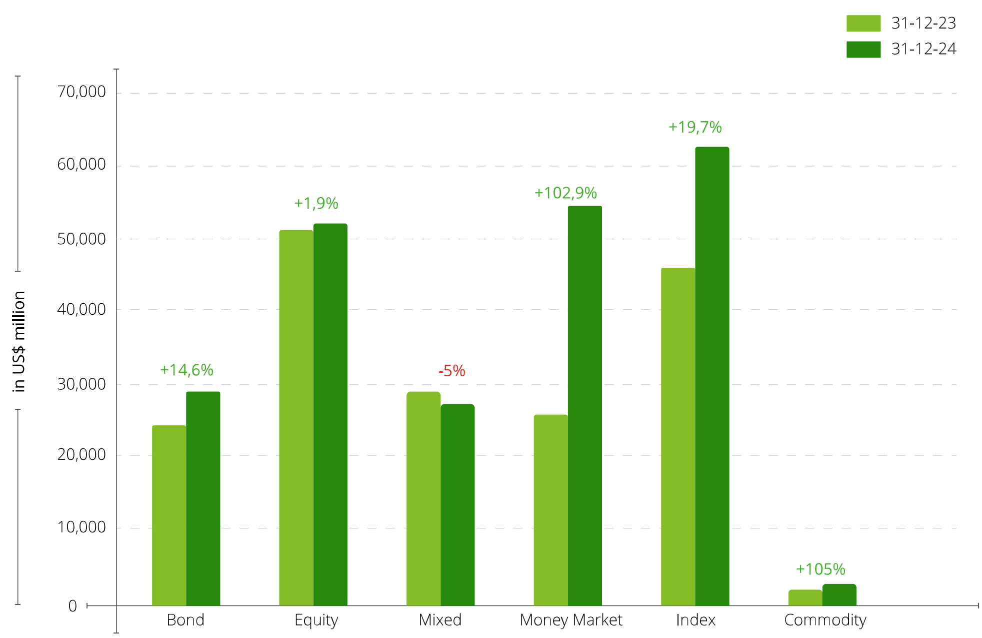
Acknowledging these challenges, the SFC has introduced FASTrack, a streamlined fund authorization process. FASTrack speeds up the review and approval of foreign funds to just 15 business days, compared to the previous average of three months. This initiative aims to minimize compliance costs associated with lengthy approval processes, especially in the fund's home state.

AUM split by asset classes of classes of **foreign** funds



Source: Source: SFC Quarterly Report

AUM split by asset classes of **domestic** funds



Source: Source: SFC Quarterly Report

The SFC also launched its e-IP platform in November 2024 to digitalize application submissions and ensure compliance with local requirements when marketing funds. This system promises to reduce processing times, improve communication with the SFC and better tracking application status.

For Luxembourg UCITS, the SFC has removed the requirement for Commission de Surveillance du Secteur Financier (CSSF) confirmation additional audit review procedures not reviewed annually by external auditors, simplifying the city's marketing requirements. Deloitte saw an immediate response in the market, with increased interest from IFMs following the SFC's efforts to speed up market access.

Macau as a second distribution market

Other jurisdictions in Asia are also pivotal to IFMs. Given the close regulatory alignment and use of similar fund documents, most foreign funds distributed in Hong Kong are also distributed in Macau. Among the more than 1.000 funds marketed to retail investors in Macau, just one is locally managed, highlighting the city's reliance on foreign IFMs.

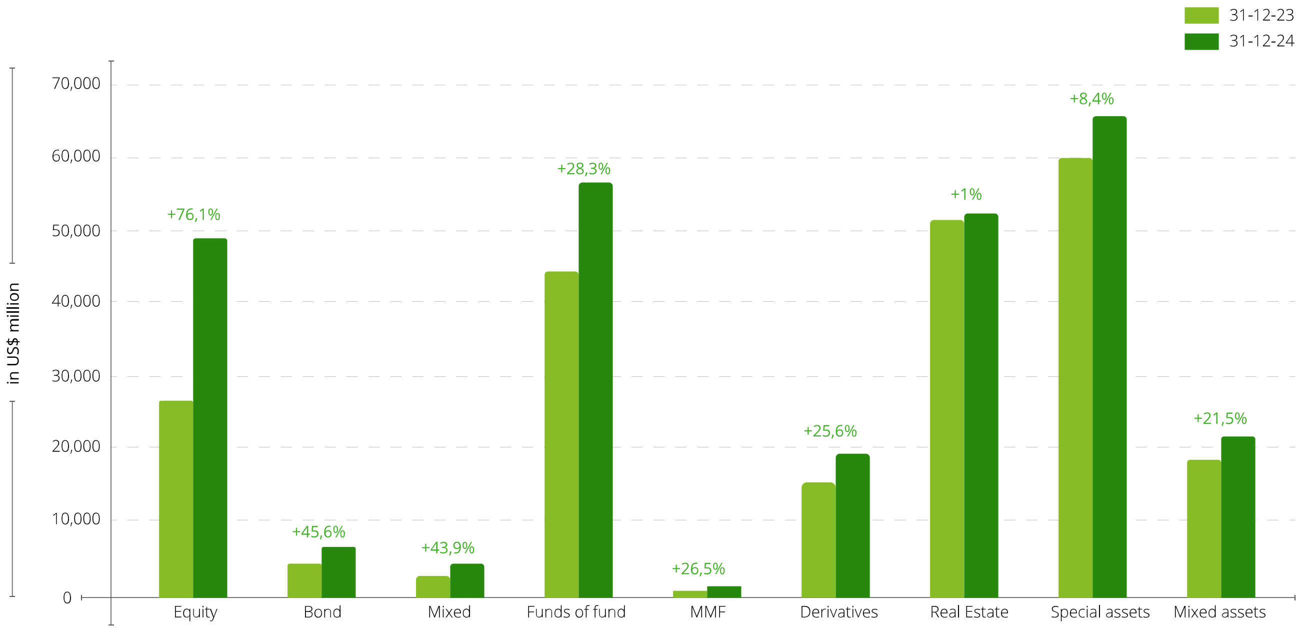
South Korea's market on the rise

Despite South Korea's lengthy and very costly marketing approval process, Korea's fund market grew steadily in 2024 (+22,8%[3] AuM for foreign funds marketed under private placement and public distribution), driven by strong inflows into equity, bonds and mixed (meaning less than 60% in equity or/and bonds) asset classes.

There has been a significant increase in private foreign funds targeting professional investors. Local and foreign funds are complementary, with local funds invested in safe assets like money market securities, foreign funds invested in riskier alternative securities like special assets (i.e.: commodities, infrastructure and other non-traditional). Deloitte has observed a rising demand from IFMs to market their foreign funds in South Korea, due to local investors' increasing appetite for diversification.

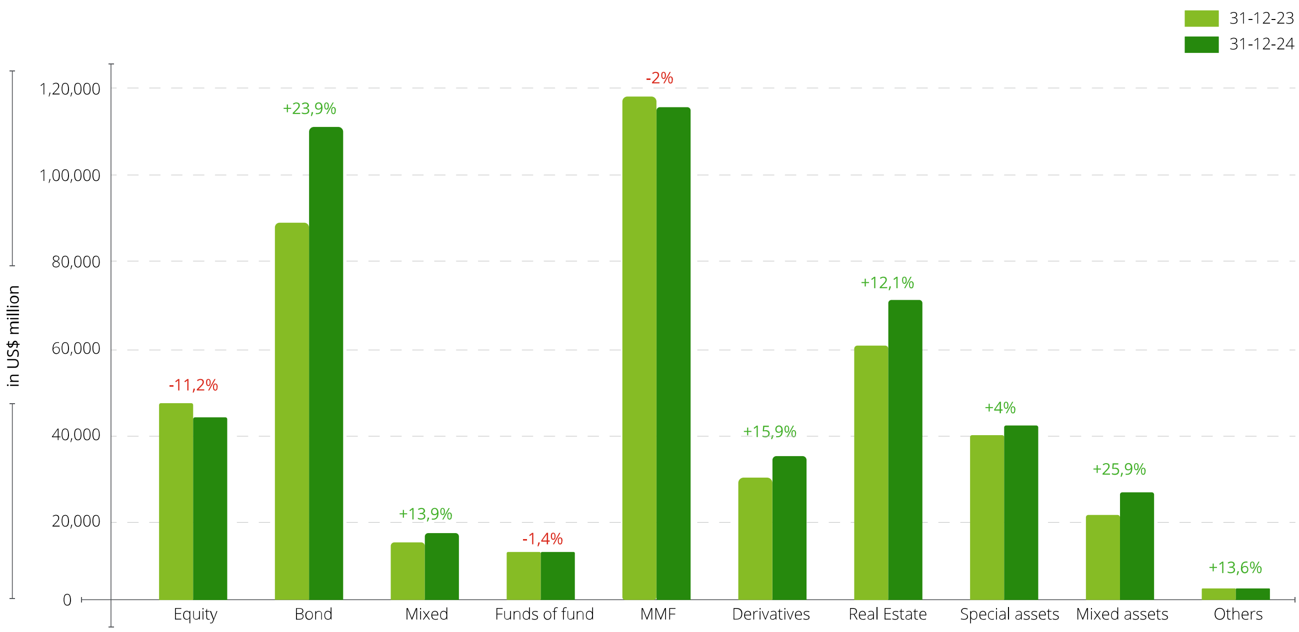
3. Source: KOFIA

AUM split by asset classes of **foreign** product - (public & private)



Source: KOFIA

AUM split by asset classes of **domestic** products - (public & private)



Source: KOFIA

Taiwan is lifting barriers to remain competitive

To market foreign funds to retail investors in Taiwan, a local representative, known as a master agent, must be appointed. This agent usually oversees the marketing authorization process, assuming the IFMs' responsibilities. Despite this, Deloitte observed a stagnation in the number of registered foreign funds in 2024.

In response, Taiwan's Financial Supervisory Commission (FSC) updated its Incentive Policy for Offshore Fund Development. In practice, qualifying funds can use the new 45-day fast-track registration for offering as a perk. Before the introduction of this new policy, the turnaround time for approval could last up to 6 months (it still applies for non-qualifying funds). The streamlined should help IFMs to align product launched with market conditions and investor demand.

Japan's tax hurdle

To boost economic growth and individual wealth, the Japanese government is launching a project to encourage investors to put their savings into financial products instead of traditional savings accounts. However, this reform does not really benefit foreign funds.

In fact, distributing certain foreign fund types in Japan can be disadvantageous for investors from a tax perspective, leading to Japanese investors' preference for local funds. For example, corporate-type funds (e.g., SICAV funds) commonly distributed cross-border face a Controlled Foreign Company (CFC) tax, which may trigger a double taxation for investors.

What are the best practices?

Over the past years, Deloitte as met several stakeholders in the region (i.e.: international IFMs locally established, local asset managers, fund associations and National Competent Authorities). The objective is to develop a local network to better understand the specificities and challenges in each jurisdiction.

Deloitte has observed foreign IFMs transitioning from a decentralized model with multiple stakeholders (i.e., local law firms and subsidiaries) toward a more streamlined management model. The trend is the appointment of one global provider that covers multiple jurisdictions to reduce the complexity and cost of coordinating tasks across different time zones.

At the same time, IFMs are adapting their operating models to use existing processes more efficiently when it comes to data gathering and input, drafting documents, translation management.

To provide a response in favour of clients' needs, Deloitte has developed a new platform offering a single point of contact, greater operational efficiencies, stronger regulatory expertise, more reliability on data management and significant fee reductions for each of the jurisdictions cover in this article.

CONCLUSION

While Asia offers clear opportunities for IFMs, the diverse regulatory landscapes bring operational, legal and fee constraints that can discourage IFMs from marketing their EU funds in the region. We believe the distribution of foreign funds in Asia can be streamlined through a strategic approach involving a thorough understanding of local regulations, a structured methodology, clear processes, and the right partners.

This will reduce the risk of unexpected events and improve efficiencies, making the authorization and reporting process less daunting and more manageable. With the right partner, IFMs can largely benefit from economies of scale and market and regulatory intelligence in Asia at a low cost.

TO THE POINT

- Asia's market growth: Asia is emerging as second region worldwide for European investment funds to raise money, which makes it a key market for cross-border distribution.
- Singapore and Hong Kong are the leading jurisdictions: Singapore offers a streamline approach and a fast approval process. Hong Kong is launching new initiatives to reduce its regulatory complexity.
- Challenges in other key jurisdictions: Macau's reliance on foreign Investment Fund Managers (IFMs) contrasts with South Korea's complexity, Taiwan's interest stagnation and Japan's tax barriers.
- Best practices: IFMs are adopting outsourced streamlined models and strategic methods to navigate Asia's complex regulations and operation constrains more efficiently and cost-effective.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The great asset management process transformation

FOUR CHANGE LEVERS DRIVING THE INDUSTRY'S EVOLUTION

INTRODUCTION

The Spanish asset management industry continues to show robust growth year on year since the pandemic. Amid 2024's falling interest rates, savings capture soared both in the number of investors (with a 2.7% increase) and the total volume captured (with net subscriptions exceeding 26,487 million). As a result, assets under management (AuMs) in Spain grew by 14.7% in 2024, and the outlook for 2025 remains promising.

However, the pace of the industry's ever-evolving landscape is set to escalate in the coming years. To ensure this growth continues, asset management companies are assessing whether their organization's processes are:

- Scalable;
- Modular in response to market needs;
- Efficient regarding capacity, both in people and technology; and
- Can adapt with agility to regulatory changes.

Four main levers are driving this process transformation, which are either already underway or on the horizon for 2025.

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The first lever is the asset management industry's clear commitment to **operational efficiency and automizing front-to-back processes**, with robust and modular market management tools depending on each company's product portfolio. Automating low-value-added processes allows managers to dedicate more time to portfolio analysis and decision-making.

Tasks that are ripe for this lever include:

- Automating manual activities needed to carry out pre-trade controls;
- Developing complex models in spreadsheets, which the incorporation of artificial intelligence (AI) can significantly improve; and
- The "tedious" search of figures to select investment alternatives in various information sources.

Asset management companies are substantially investing in this area and strengthening their operating models to support growth over the next few years.

The second lever is improving **control, client reporting and compliance processes.** Regulators' are increasing the regulatory pressure in the "control and supervision framework", and the fund houses required a higher degree of sophistication to evolve the systems/platforms of these processes

The improvements high on the agenda of firms' operational and control teams include:

- Automatic control verification;
- Data cleansing processes;
- Control activity consistency; and
- Regulatory and client reporting agility.

The third lever is agility in the face of **regulatory changes**, so that asset managers can quickly adapt to a specific regulation. As the regulatory landscape continues to evolve, asset managers need a future-proof model that allows for **nimble changes**. Measures that significantly facilitate regulatory transformation include:

- Possessing a technological architecture based on application programming interfaces (APIs);
- Being as independent as possible in decision-making regarding parent groups; and
- Mapping out impacted processes.

Alongside the Digital Operational Resilience Act (DORA) and the Sustainable Finance Disclosure Regulation (SFDR), several regulations are set to shake up the industry in the next few years.

In addition in 2025, if finally will be going forward, we have the in the regulatory pipeline the Retail Investment Strategy (RIS) Directive's, which **value for money** requirements will significantly impact firms' critical processes. Asset management companies will be challenged on several fronts, from pricing, methodology and calculation engines to transmitting files to distributors and regulators, including national competent authorities and the European Securities and Markets Authority (ESMA).

Last but definitely not least, **the final lever** is creating a **prioritization path** for the operating model's initiatives. A common process taxonomy and a concrete initiatives map will help transformation teams get to work and avoid analysis paralysis.

This process map must be end-to-end, place the investors and customers at the center, and include tools allowing the real-time evaluation of the market and competitors.

CONCLUSION

While the industry is currently in a sweet spot, with high growth expectations, the pace of its changing ecosystem has significantly accelerated. As a result, **processes and operations must be scalable, efficient and agile, and operative models are due for a rethink.** The scalability of asset management firms' processes will enable **sustained, predictable and reliable** industry growth.

TO THE POINT

The Spanish asset management industry's robust growth is expected to continue in the coming years.

However, the market's rapid pace of change is forcing managers to examine whether their processes are scalable, modular, efficient in dedication capacity, and adaptable to regulatory changes.

Four process change levers will drive the industry in the coming years:
- Attaining operational efficiency and automatization;
- Strengthening control, client reporting and compliance processes;
- Being agile in the face of regulatory changes; and
- Obtaining a prioritization path for the operating model's initiatives.

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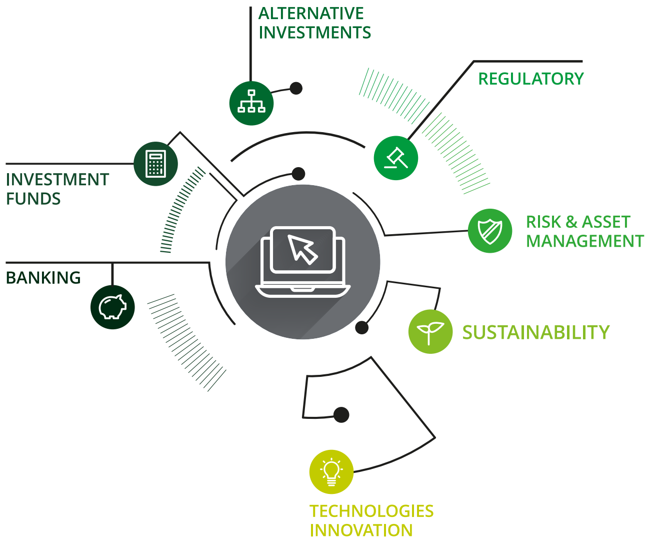

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