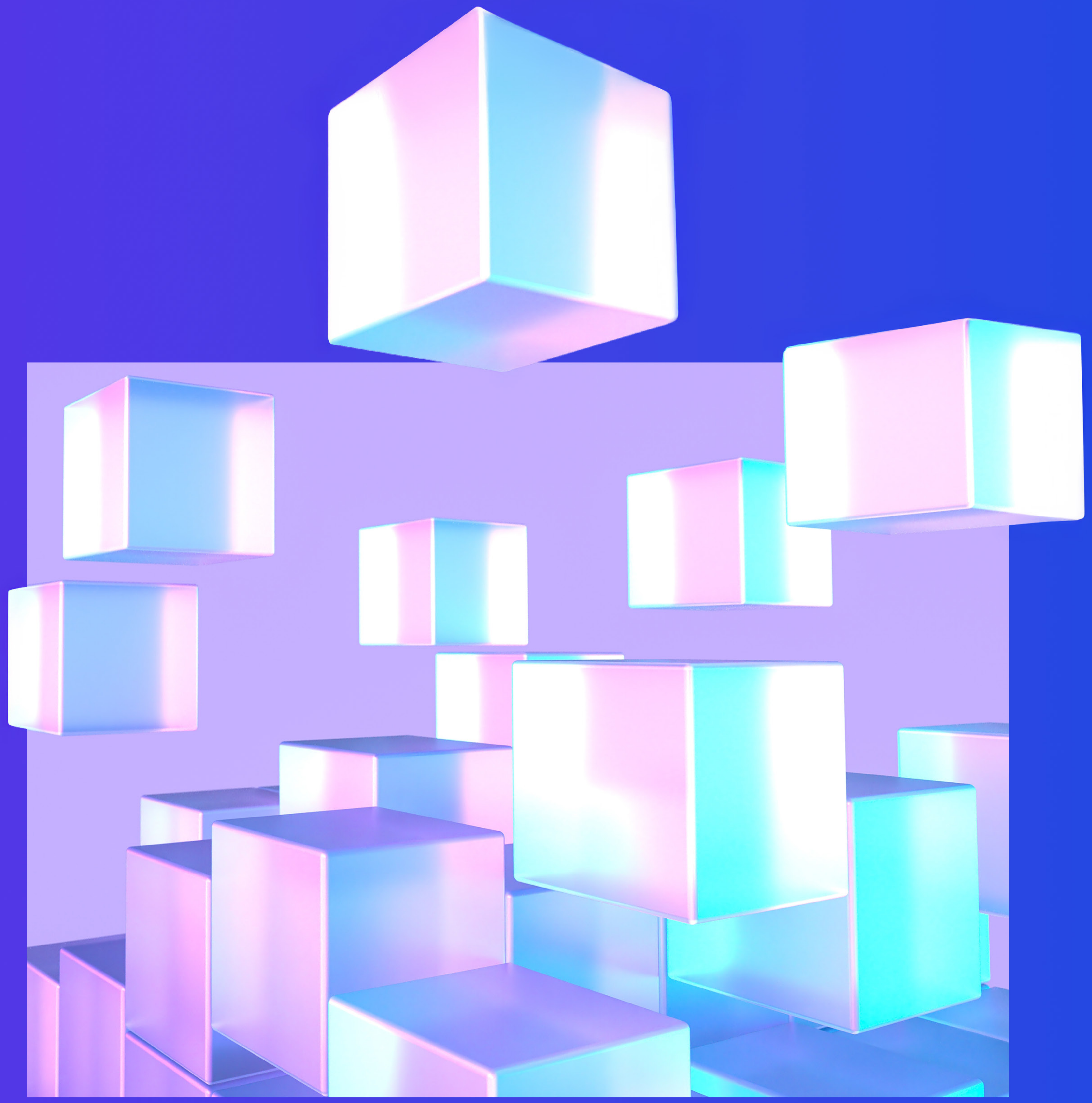
KPMG ABBL

Depositary banking and custodian services survey 2024



Foreword

“In 2024, the second edition of the ABBL Depositary and Custodian Banking Cluster (DBCL) — KPMG study highlighted a period of dynamic transformation for our industries, driven by regulatory evolution, technological advancements, and shifting market demands. The complexity of the sector was further amplified by the need to adapt to new regulations such as the EU Sustainable Finance Disclosure Regulation (SFDR) and the Alternative Investment Fund Managers Directive (AIFMD), which impose stringent requirements and expand oversight responsibilities.

Looking ahead, we painted a positive outlook for our industries. Following the success of UCITS, we anticipated a second wave of growth propelled by the transformative potential of AIFMD, particularly its European passport provision for non-UCITS funds.

Were we correct in our predictions? The figures suggest we were. While UCITS funds continue to dominate the market, with their assets steadily growing, alternative funds — for which banks act as depositaries — are rapidly gaining traction.

This encouraging development, however, brings its own set of challenges. Unlike the largely streamlined and automated processing of UCITS funds, alternative funds require more customized handling. To sustain this momentum, we must strike a delicate balance between advancing digitalization and enhancing value-added services. Achieving this, among various other efforts, involves investing in continuous employee training and attracting both young talent and experienced professionals to Luxembourg. The employment figures already reflect this trend: Luxembourg-based teams are increasingly composed of experts, while support services are provided by entities abroad. Remarkably, for every job created in Luxembourg, one is generated in a different EU country.

To address these challenges, we will pursue our advocacy and promotion work to enhance Luxembourg’s attractiveness and continue our ongoing dialogue with the CSSF to align prudential supervision with market realities.

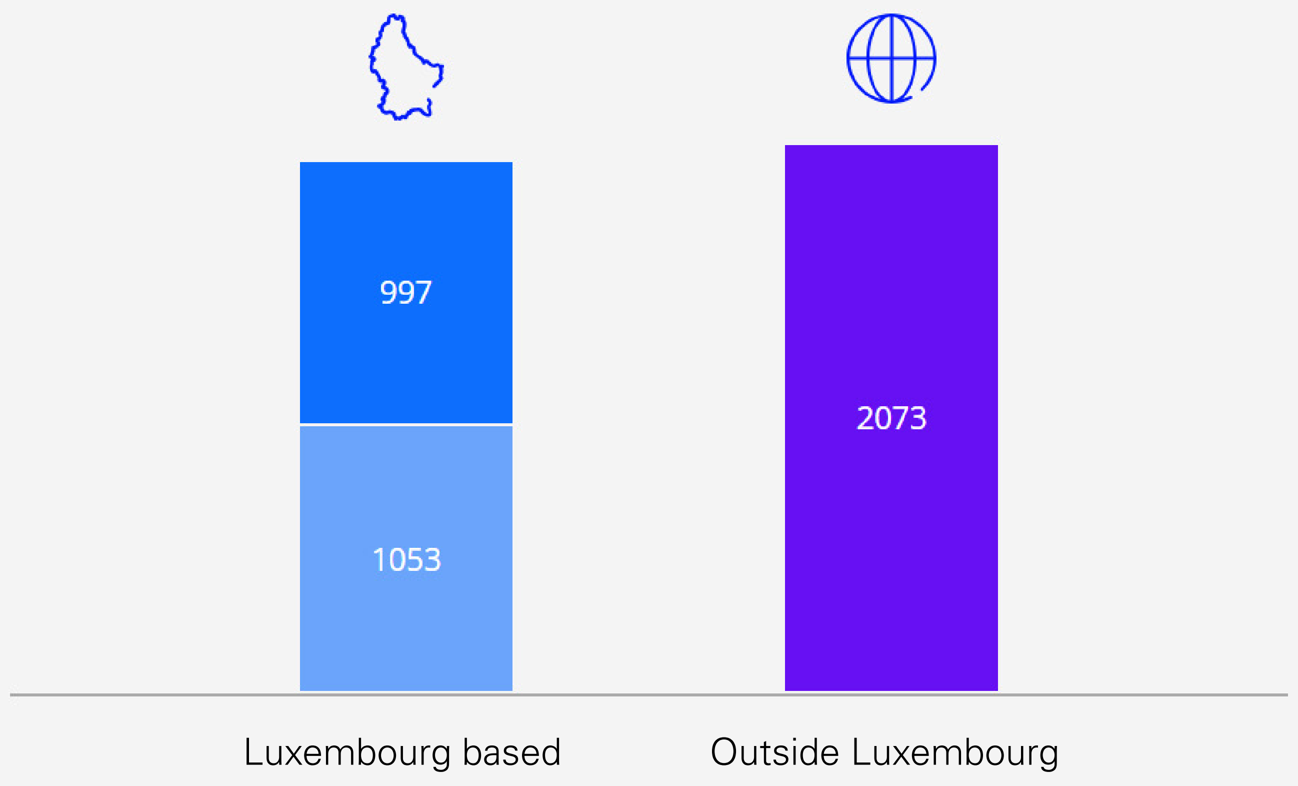
I trust that all DBCL members will find this report insightful and that it will also serve as a valuable resource for observers and non-experts alike, shedding light on this indispensable pillar of our financial center.

David Claus, Chair, ABBL Depositary Banking Cluster

Key takeaways

Delegation of support activities outside Luxembourg persists

As the financial landscape evolves, the depositary and custody sector continues to thrive, marked by a **steady increase in both assets under custody and assets under deposit.** This growth showcases the sector's remarkable ability to adapt to increasing complexity and expansion, while successfully **maintaining a balanced 1:1 ratio of local to international staff**:



FTE staff in custody operations / safekeeping functions

€6.44 tn +7%

Total assets under depositary in 2023

Source: CSSF/ABBL Survey 2024

€3.58 tn +5%

Total assets under custody in 2023

Source: CSSF/ABBL Survey 2024

This balance allows **local expertise** to tackle the intricacies of the alternative investment funds sector and other assets, while also utilizing personnel in operational centers outside Luxembourg to **support the global functions** of depositary banking and custodian services.

Alternative funds growth continues to rise, while UCITS remain in a leading position

During 2023, **alternative funds for which Luxembourg banks act as the depositary gained momentum rapidly** — especially RAIFs, where such assets rose by 43 percent compared to 2022. Similarly, depositary banks experienced an increase in private equity fund assets (up EUR108 billion compared to 2022).

The trend calls for a rapid increase in the optimization of operational workflows, and an **increase in resources and digitalization**, as alternative and non-standardized funds currently rely heavily on manual processes from the depositary banking perspective.

As alternative funds expand, **UCITS and traditional asset classes such as equity funds and bond funds remain key players in the market.** In fact, UCITS maintains its leading position, accounting for 66 percent of total assets under depositary in 2023, equivalent to EUR4 trillion.

01
About the survey

About the survey ...

We present the results of the Depositary Banking & Custodian Services Survey carried out in cooperation with the CSSF. The survey outlines key data in relation to depositary banking and custodian banking, including staffing for these functions.

Data for 2023, collected in September 2024

Anonymized questionnaires via the CSSF and ABBL

30 data points — comparable with previous financial years

Number of banks participating in the survey

42 banks

with reported balances were considered in the **depositary services** survey

43 banks

were considered in the **custody services** survey

... and further insights

In addition to the data from the Depositary Banking & Custodian Services Survey, we present here some insights on the depositary sector extracted from the descriptive part of the **"UCI Depositary" section of the Long Form Report (LFR) that banks** submit to the CSSF on an annual basis, based on year-end figures.

LFRs submitted for financial years 2022 and 2023

All quantitative and yes/no questions were considered

Anonymized results

Number of banks that shared these tables from their SAQ*

30

members of the **ABBL Depositary Cluster** that are obliged to complete the UCI Depositary section

* Self-assessment questionnaire (SAQ)

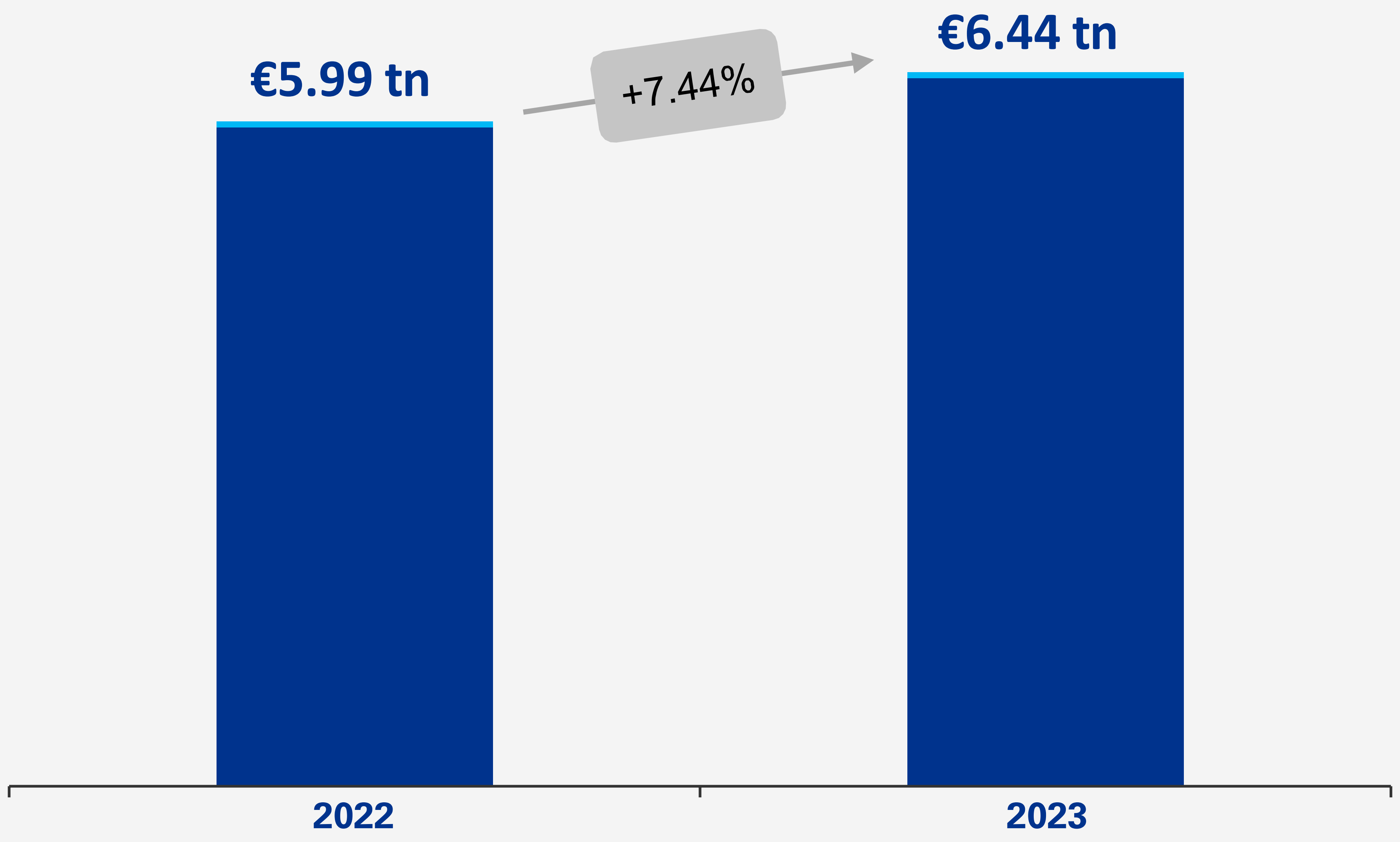
02

Depositary banking

Assets under deposit (AuD)

Overall 7.44% growth driven by key entities and market dynamics

The trend in AuD growth showed a general improvement compared to 2022 — driven by organic growth, acquisition of new clients and favorable market conditions. However, this growth was heavily concentrated, with 71 percent of it attributed to five entities.



Total assets under deposit – NAV (in EUR trillion)

Asset composition

The survey includes the following types of UCIs and investment vehicles with depositary requirements:

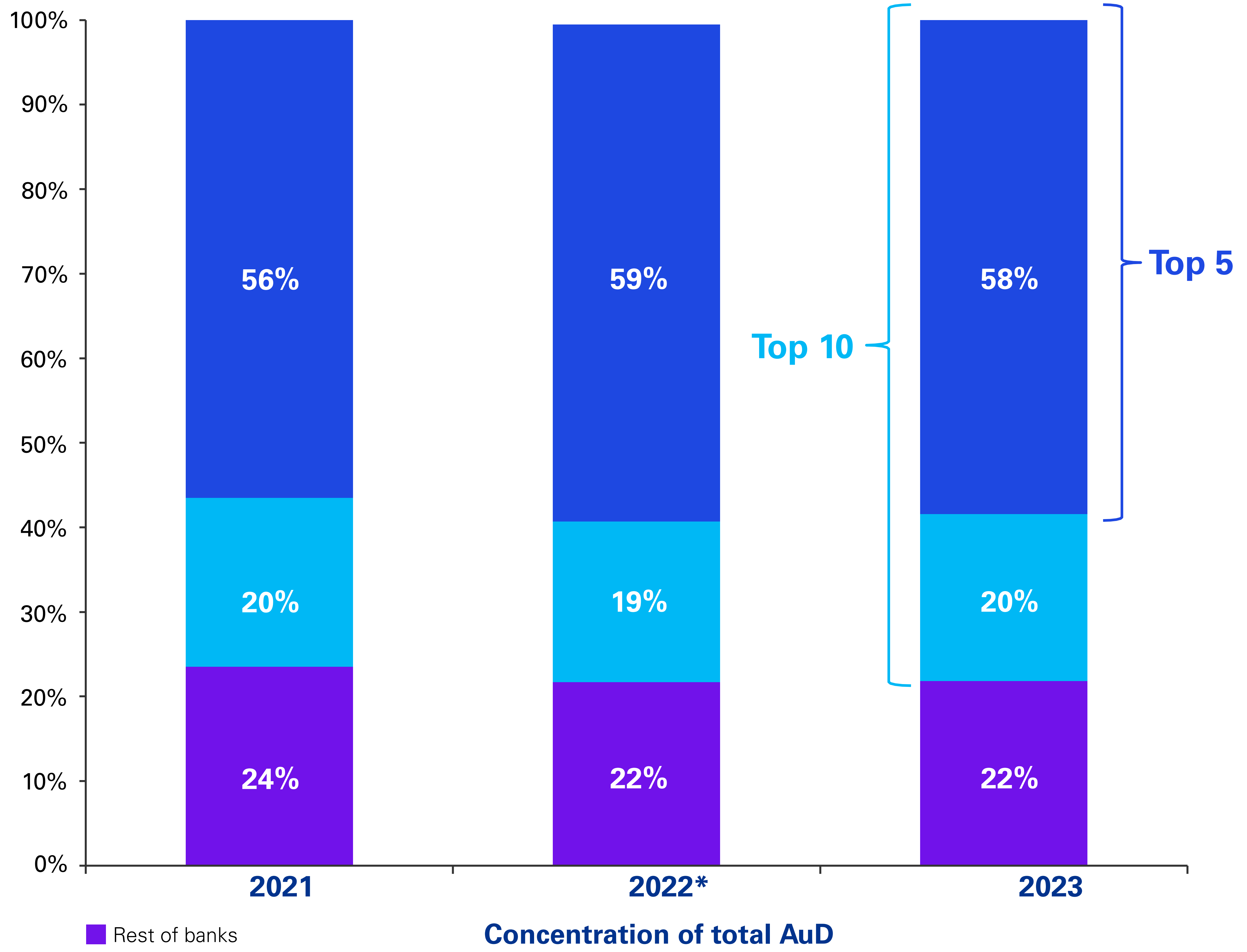
UCIs/Investments vehicle types

- UCITS
- Part II of the 2010 law
- SICAR
- SIF
- RAIF
- Unregulated company qualifying as AIF and having appointed a depositary
- ELTIFs
- Non-Luxembourg domiciled investment vehicles with depositary requirement as per article 36 of the AIFMD

Source: *CSSF/ABBL Depositary Banking & Custodian Services Survey 2024*

Market concentration for AuD

Stable market concentration: top 10 banks command over 78% share



Our market concentration analysis considers the reported balances of 42 banks for 2022 and 2023 and 44 banks for 2021.

In 2023, the top 10 banks held more than 78 percent of total AuD (at EUR5 trillion), showing that market concentration was stable compared to 2022 and 2021 (78 percent and 76 percent, respectively).

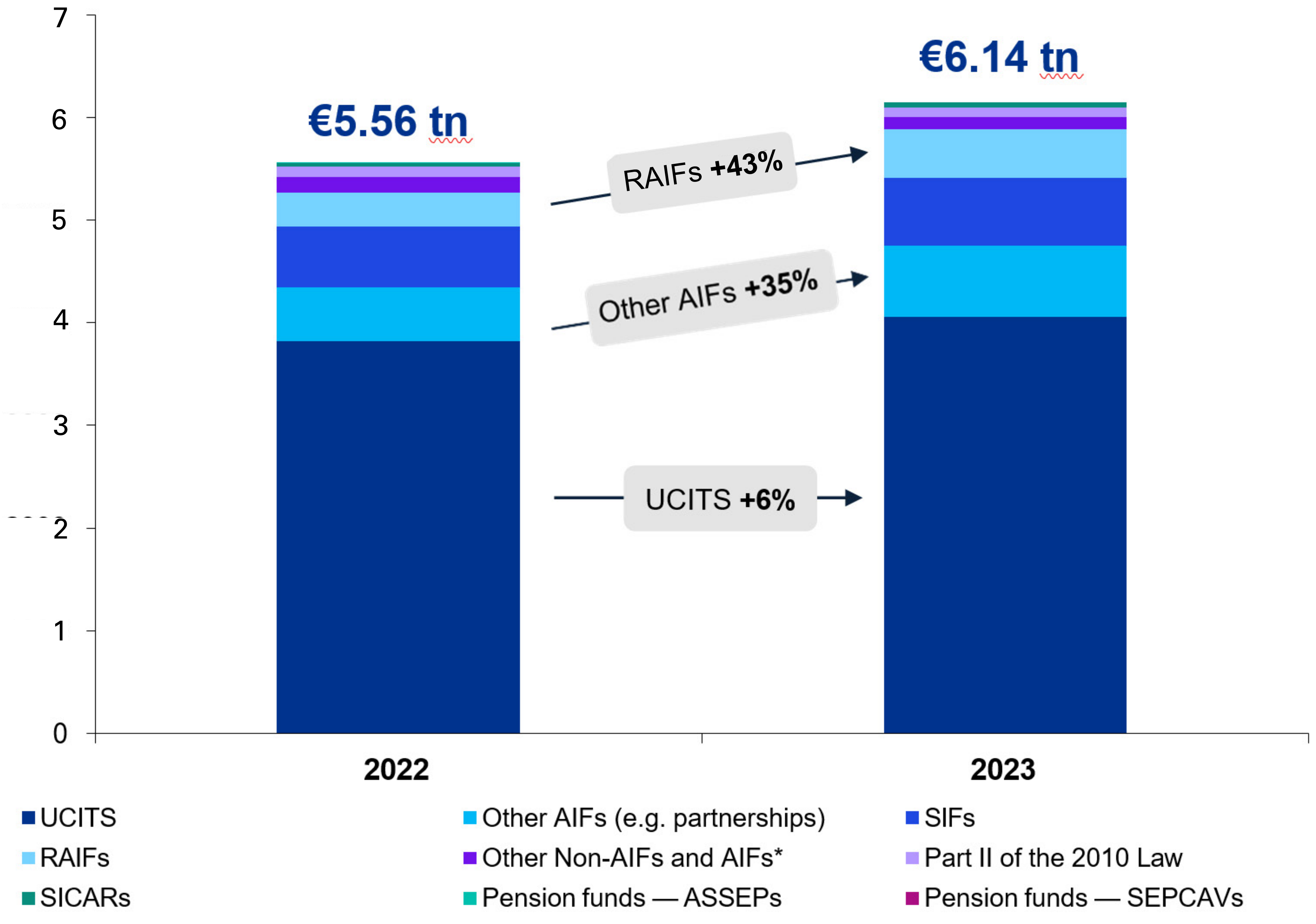
The market share of the top 5 banks is also almost the same across these years, indicating a strong and relatively stable dominance among the leading banks and suggesting that they continue to capture a large portion of the market.

*The 2021 and 2022 top 5 figures disclosed in our previous report included an error, now corrected, and variations in the top 5 and top 10 are reduced due to changes in entity status.

Source: *CSSF/ABBL Depositary Banking & Custodian Services Survey 2024*

SAQ | AuD breakdown by fund type

AuD up 10.5% driven by alternative funds growth



AuD by fund type (in EUR trillion), as described in the LFR

The data includes information reported by 30 banks that are members of the ABBL Depositary Cluster, in their LFRs sent to the CSSF for the 2023 financial year. This refers specifically to the "UCI Depositary — descriptive part".

Strong growth in AuD for alternative funds

Alternative funds, such as RAIFs and Other AIFs (e.g. partnerships) are gaining momentum rapidly. Over 2023, the AuD of Luxembourg-domiciled UCIs for which the banks in scope act as the depositary have risen by:

- EUR 144 billion for RAIFs
- EUR 180 billion for other AIFs (e.g. partnerships)

The banks experienced stable growth for SICARs and SIFs, which increased their AuD by EUR57 billion and EUR6 billion, respectively.

Stable increase for traditional investment vehicles

UCITS continue to show steady growth, with a 6 percent increase compared to the 2022 financial year, amounting to an additional EUR235 billion.

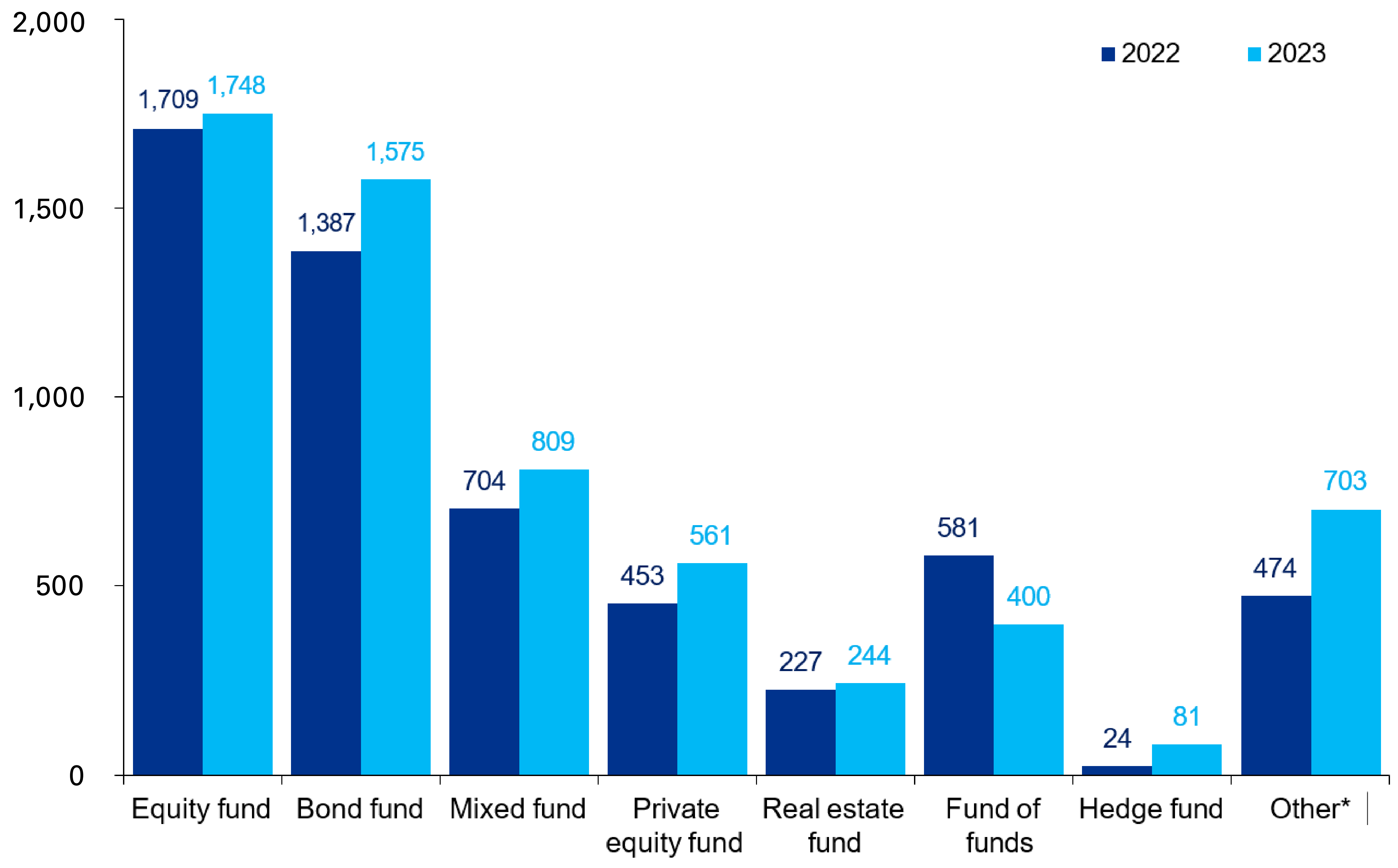
As a result, UCITS maintains their dominance, accounting for 66 percent of total AuD in 2023, equivalent to EUR 4 trillion.

N.B. Data extracted from LFRs is not comparable with that in the CSSF/ABBL survey, due to the different samples in scope.

Source: *Extract from the "UCI Depositary — descriptive part" of the LFR*

SAQ | AuD breakdown by asset class

Greater focus on more complex asset classes



Total AuD per asset class (in EUR billion), as described in LFR

*e.g. movable property, infrastructure, syndicated loans, timber, crypto assets, etc.

Non-standarized asset classes gain momentum

Compared to the past year, the AuD for equity funds and bond funds steadily increased, keeping the dominance across all asset classes, where:

+ €188 billion for bond funds
+ €105 billion for mixed funds

However, non-standardized funds, such as private equity funds, are on the rise:

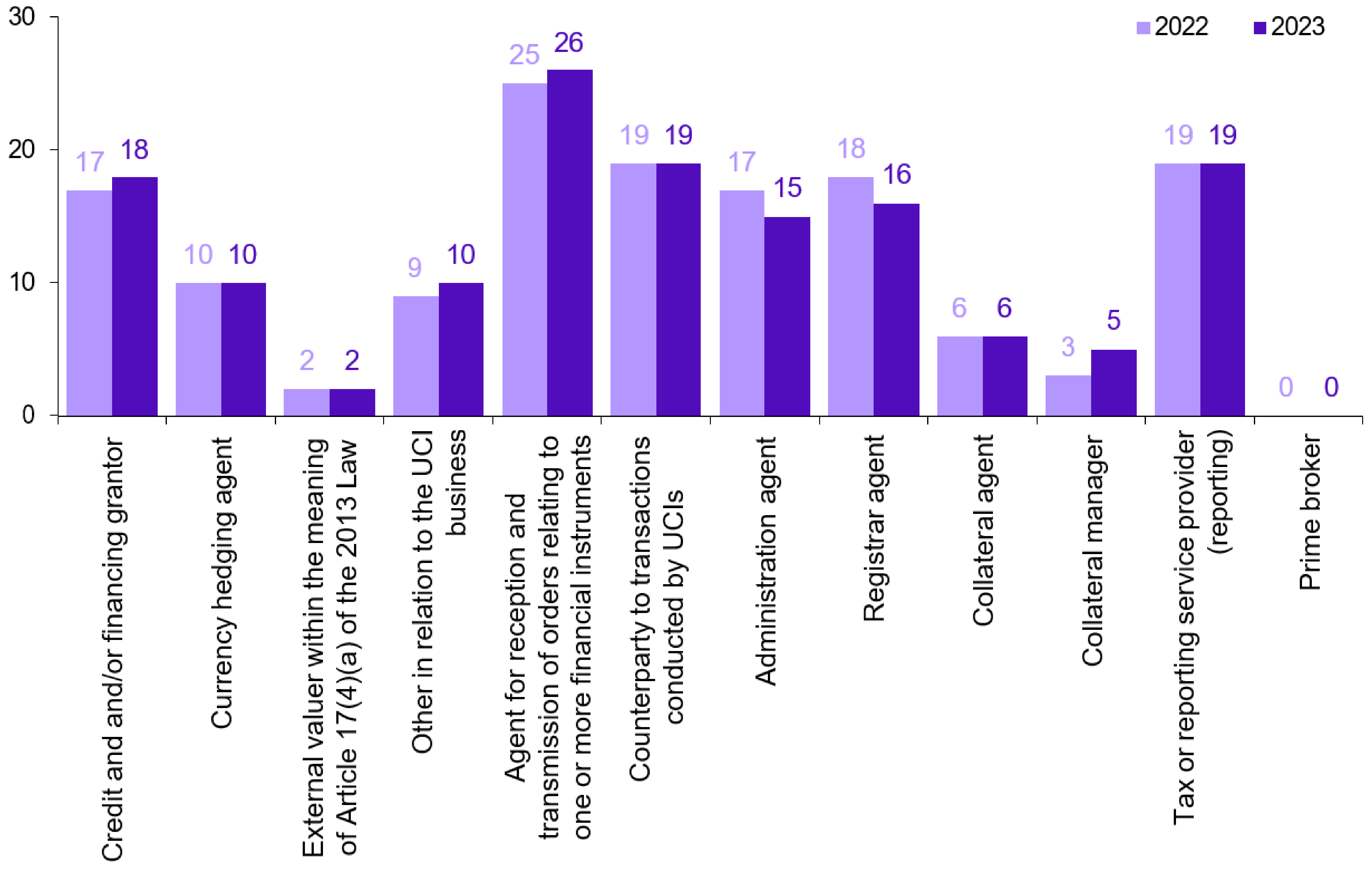
+ €108 billion for private equity funds
+ €229 billion for "other", which includes movable property, infrastructure, syndicated loans, timber and crypto assets.

N.B. Data extracted from LFRs is not comparable with that in the CSSF/ABBL survey, due to the different samples in scope.

Source: Extract from the *"UCI Depositary — descriptive part"* of the LFR

SAQ | Additional services provided

Beyond depositary: a complete toolbox to serve clients' needs



Other services offered by the depositary banks, as described in LFR

All participants have broadened their scope beyond depositary services, delivering a range of value-added solutions that enhance their clients' overall experience.

In 2023, 26 out of 30 banks offered services related to the reception/ transmission of orders related to other financial instruments (25 out of 30 in 2022).

None of the depositary banks in the study offer prime broker services.

N.B. Data extracted from LFRs is not comparable with that in the CSSF/ABBL survey, due to the different samples in scope.

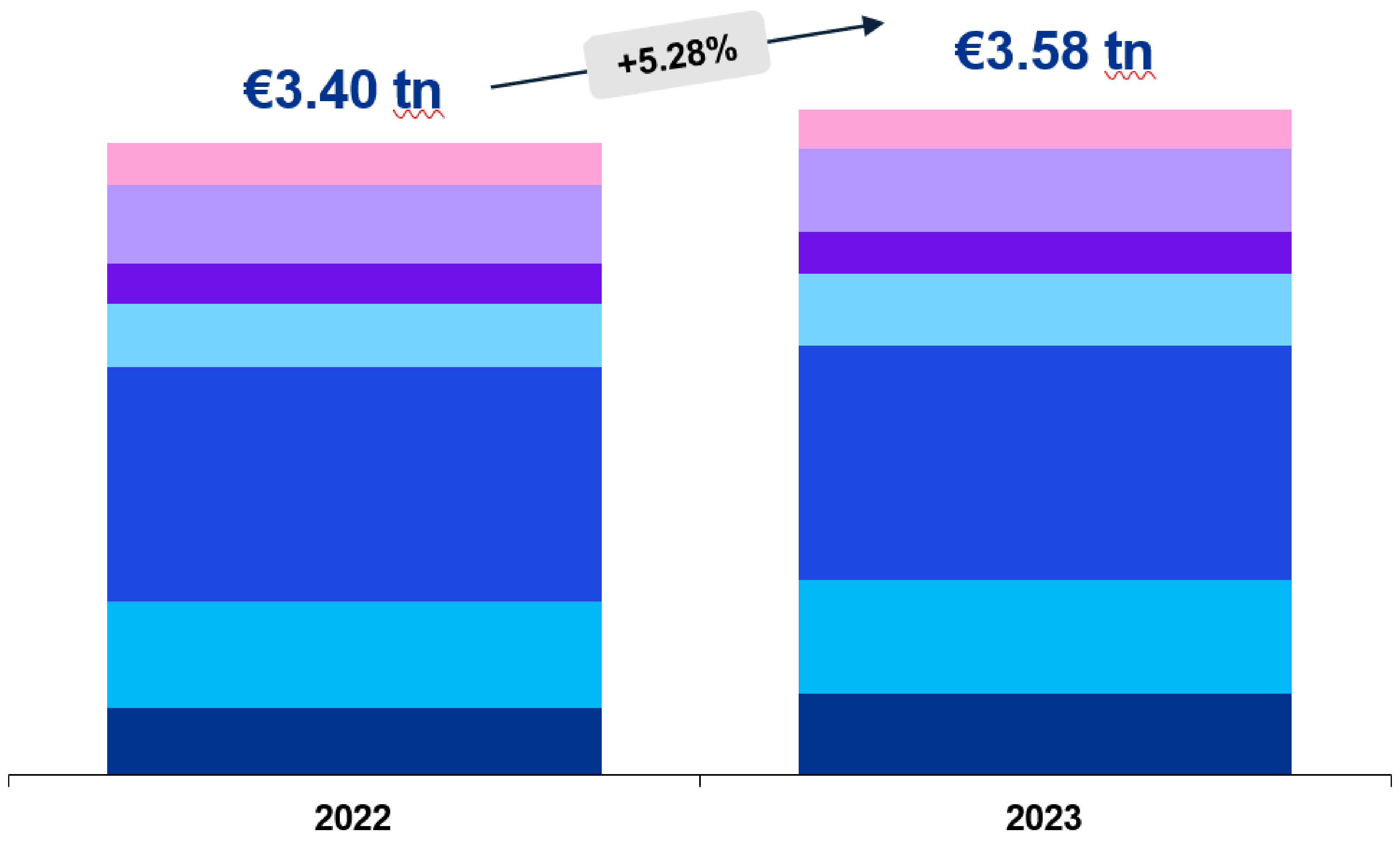
Source: Extract from the *"UCI Depositary — descriptive part"* of the LFR

03
Custodian services

Assets under custody (AuD)

Organic growth of 5% in AuC

The positive trend AuC growth in 2023 was primarily driven by five entities, and was fueled by organic growth, the onboarding of new clients and favorable market conditions. The overall growth was primarily associated with an increase in AuC attributed to managed accounts, influenced by the onboarding of clients from two entities.



Total assets under custody (in EUR trillon)

Asset composition

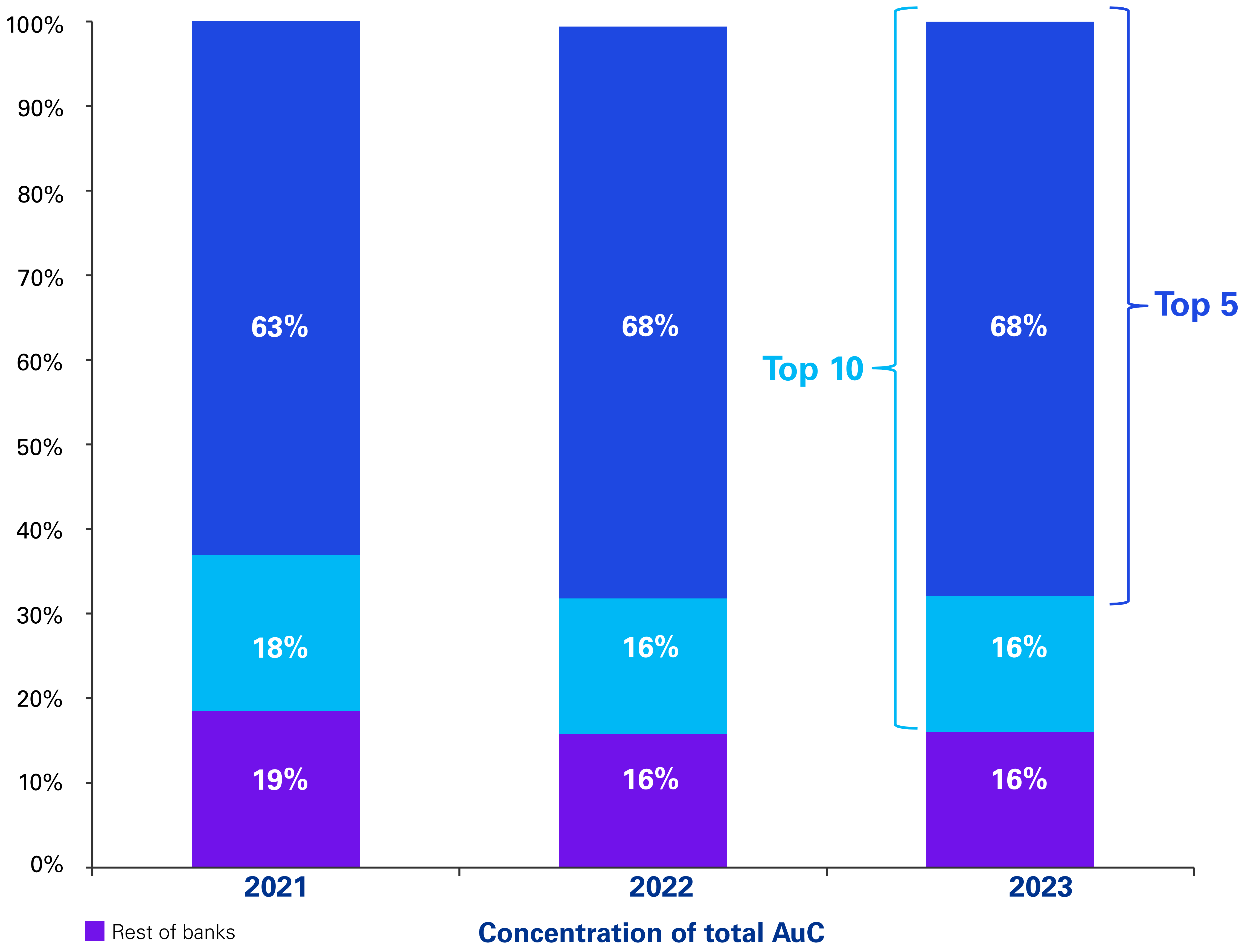
The survey includes cash and assets held in custody from the following client types:

Client type	Variation from 2022
Managed accounts (including investment firms business)	22% ▲
Clearing or settlement institutions	7% ▲
Credit institutions	0% ▬
Pension funds	12% ▲
Other investment vehicles with no depositary requirement	5% ▲
Insurance companies	4% ▲
Commercial or industrial companies benefiting from professional access to the financial market or international public bodies operating in the financial sector	-4% ▼

Source: *CSSF/ABBL Depositary Banking & Custodian Services Survey 2024*

Market concentration for AuC

Highly concentrated: top 5 custodian banks hold 68% of AuC



Market concentration considers the reported balances of 43 banks in 2023 and 44 banks in 2022 and 2021.

Over these three years, market concentration was stable, with the top 5 custodian banks holding 68 percent of market share (EUR2.4 trillion in 2023).

The market is considered highly concentrated, with the top 10 banks collectively holding 84 percent of market share in 2023, equivalent to EUR3 trillion.

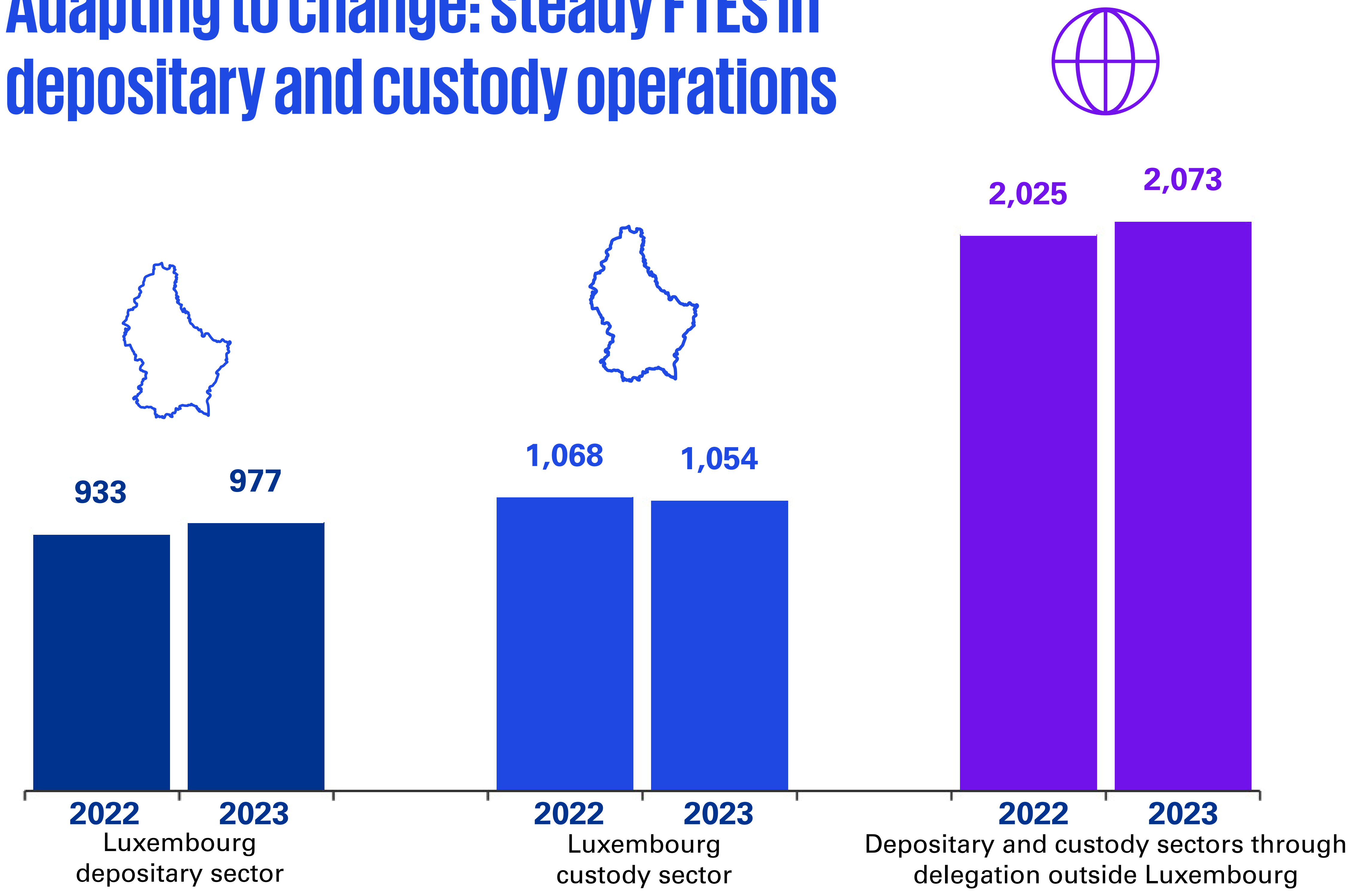
The data indicates a trend toward a concentrated custody banking market, where the market share held by the top 5 remains strong.

Source: *CSSF/ABBL Depositary Banking & Custodian Services Survey 2024*

04
Staff in the depositary banking and custody sectors

Staff in the depositary banking and custody sectors

Adapting to change: steady FTEs in depositary and custody operations



Staff numbers (in FTEs) in Luxembourg and abroad

Staff composition

The survey covers staff involved in depositary supervision and custody safekeeping functions (excluding corporate and support functions (IT, HR, legal…), internal control functions and client service/client relationship management).

The overall growth in business led to a small but steady organic increase in overall staffing, measured in full-time equivalent (FTE) staff numbers, maintaining an almost 1:1 ratio between total Luxembourg local staff and international staff.

Several factors may be contributing to this stabilization of the trend, including:

- **Flexible operating models:** Banks are adapting their operating models by retaining local expertise to address the complexities of traditional and alternative investment funds. At the same time, they are leveraging operational centers to enhance efficiency for certain tasks.

- **Enhancement of efficiency and digitalization:** Efforts are being made to improve efficiency and digitalization to effectively manage the growing complexity of the industry.

N.B. Values for 2022 adjusted to reflect restatements and closed entities

Source: *CSSF/ABBL Depositary Banking & Custodian Services Survey 2024*

05
Glossary

AuC	Assets under custody
AuD	Assets under depositary
LFR	Long Form Report
UCITS	Undertakings for Collective Investment in Transferable Securities
SIF	Specialized Investment Fund
SICAR	Société d’Investissement à Capital Variable
RAIF	Reserved Alternative Investment Fund
AIF	Alternative Investment Fund
ELTIF	European Long-Term Investment Fund
AIFMD	Alternative Investment Fund Managers Directive

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