



KPMG CASS SMF Forum 2025

07 February 2025

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#KPMG2025

**Which of your New Year's
resolutions have you kept?**

Agenda

01

Introduction

02

Market Updates

03

Regulatory Horizon

04

Audit observations

05

**Focus on technology
and risks and
controls**

06

Trusted AI





01

Introduction

Speakers



Hanish Arora

Head of Client Assets
Consulting
Risk and Regulatory Advisory

E: hanish.arora@kpmg.co.uk

M: +44 (0)7768 307737



Kate Dawson

Director
Regulatory Insight Centre

E: kate.dawson@kpmg.co.uk

M: +44 (0)7469 441312



David Roberts

Director
CASS SME Audit Partner

E: david.roberts@kpmg.co.uk

M: +44 (0)774 8637 818



Aditya Patel

Director
Head of CASS Technology

E: aditya.patel@kpmg.co.uk

M: +44 (0)7468 768850



Sreenidhi Radhakrishnan

Senior Manager
ERS Technology Risk FS

E: sree.radhakrishnan@kpmg.co.uk

M: +44 (0)7920 415325



02

Market updates

Market environment



Macroeconomic landscape

- Global tensions
- Impact of new US president



Focusing on the UK

- Government priorities
- UK economic forecasts



FS environment

- AI
- Innovation

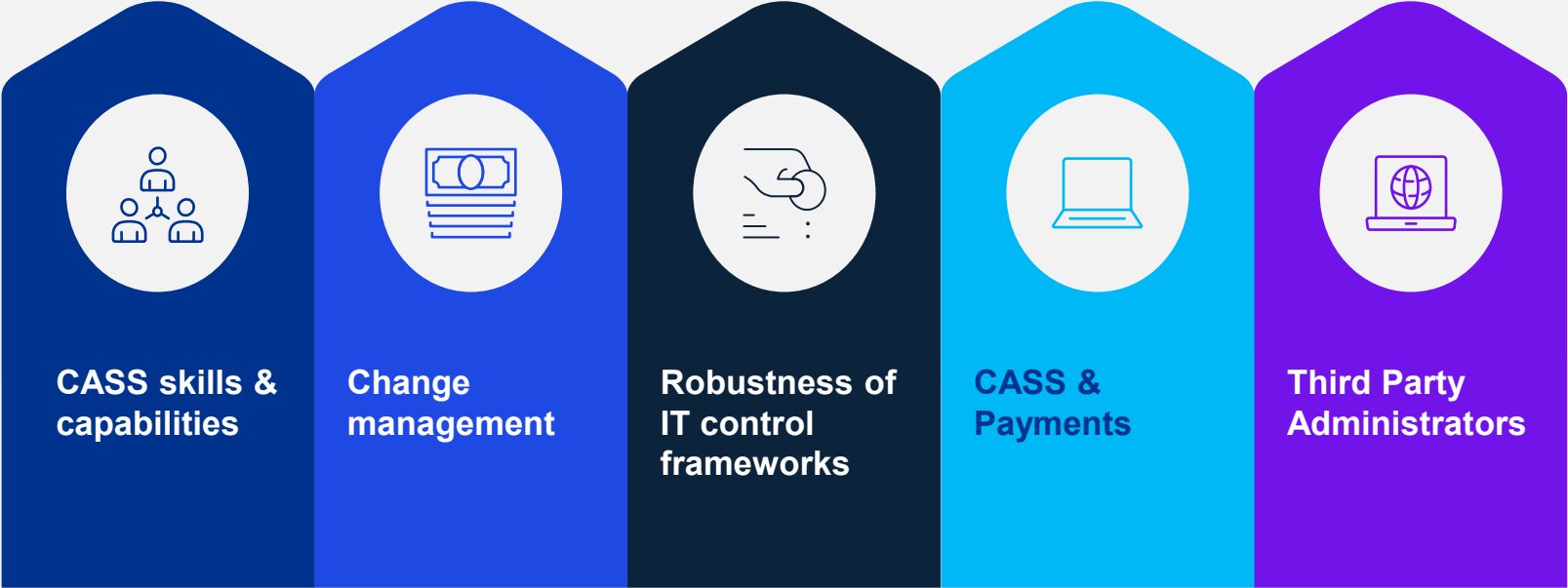


Regulatory Landscape

- Operational resilience
- Recent FCA portfolio letters
- FCA crypto roadmap



CASS hot topics: FCA focus areas





03

Regulatory Horizon

Mansion House and beyond – November 2024



“The UK has been regulating for risk, but not regulating for growth. So while maintaining important consumer protections, upholding international standards of regulation and protecting the vital stability of our financial services system, now is also the moment to rebalance our approach and take forward the next stage of reforms needed to drive growth, competitiveness and investment.”

14 November - Rachel Reeves’ first Mansion House speech as Chancellor of the Exchequer (Regulatory Insight Centre summary [here](#)):

- Seeking to balance regulators’ existing remits with the goal of driving growth in financial services and, in turn, the real economy
- Emphasis on reducing regulatory burden and ‘co-design’ of policy - government working together with industry and across regulators

Spring 2025 - government to publish first ‘FS Growth and Competitiveness Strategy’:

1. Defining the objectives of the strategy:

UK as a location of choice for FS firms	A strong ecosystem for new and innovative FS	Sustainable growth across all regions	A highly skilled workforce	An increased share of global FS exports
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2. To be achieved by looking at key policy pillars:

Innovation & Technology	Regulatory Environment	Regional Growth	Skill & Access to Talent	International Partnerships & Trade
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3. And identifying the priority growth opportunities:

Fintech	Sustainable finance	Capital markets	Insurance & reinsurance markets	Asset management & wholesale services
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Regulating for growth - FCA



On 17 January 2025, the FCA replied to the government’s letter that had requested ideas and suggestions to grow the UK economy. The FCA noted that “growth will be a cornerstone” of its strategy up to 2030 and set out specific work already planned or in progress.



To achieve the deep reforms necessary, your [government] acceptance that we [FCA] will take greater risks and rigorously prioritise resources is crucial.



FCA Strategy 2025-2030



**FCA COO – Emily Shepperd
– set out the FCA’s future
strategy in a speech in
November 2024**



FCA Supervisory priorities

The FCA has recently published a number of supervisory strategy letters to firms within the wholesale markets



CASS focus in custody and fund services [supervision strategy](#)

FCA observations

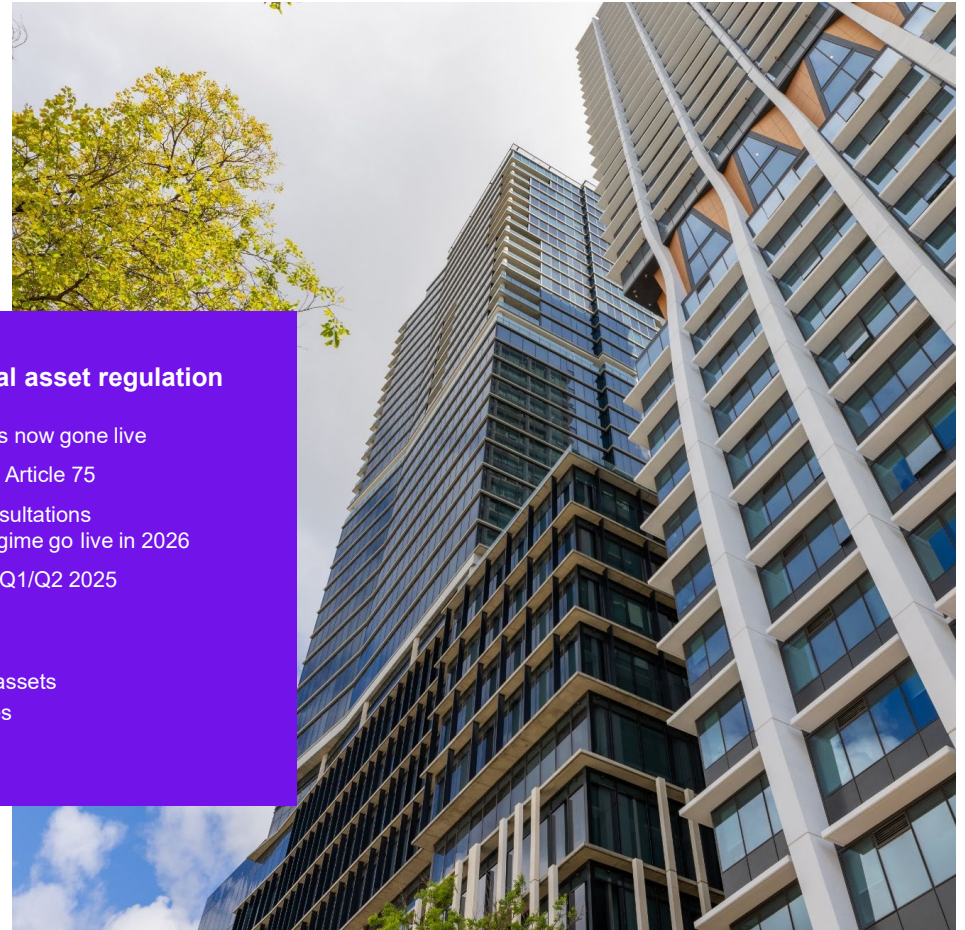
- Weaknesses in books and records, change management and dependency on legacy or end-of-life IT infrastructure and high levels of manual processing and controls
- Root causes in poor governance and oversight, under-investment in systems and failure to fully consider CASS impacts when managing change

FCA expectations

As technological change in this sector remains significant, the FCA continues to expect firms to have considered and be appropriately prepared for developments, including the increasing use of distributed ledger technology and the future financial services regime for cryptoassets as set out in discussion paper DP23/4

Other supervisory strategy letters to [Wholesale Brokers](#), [CFD providers](#), [DRSPs](#), [trading venues](#), [benchmark admins](#)

Regulatory developments likely to impact CASS



European move to T+1 Settlement

- US moved to T+1 settlement in May 2024
- EU, UK and Switzerland are now likely to move in October 2027
- Compresses the time for post trade activities
 - Firms will need to automate
 - Initially likely to be more settlement fails
- CASS teams need to be involved in change management projects
- More information [Accelerated Settlement UK](#)



Update on digital asset regulation

- EU regime MICA has now gone live
- Custody requirements Article 75
- UK FCA [roadmap](#) consultations throughout 2025 with regime go live in 2026
- Custody consultation in Q1/Q2 2025
 - Record keeping
 - Reconciliations
 - Segregation of assets
 - Use of 3rd parties

UK FS Regulators' AI strategies



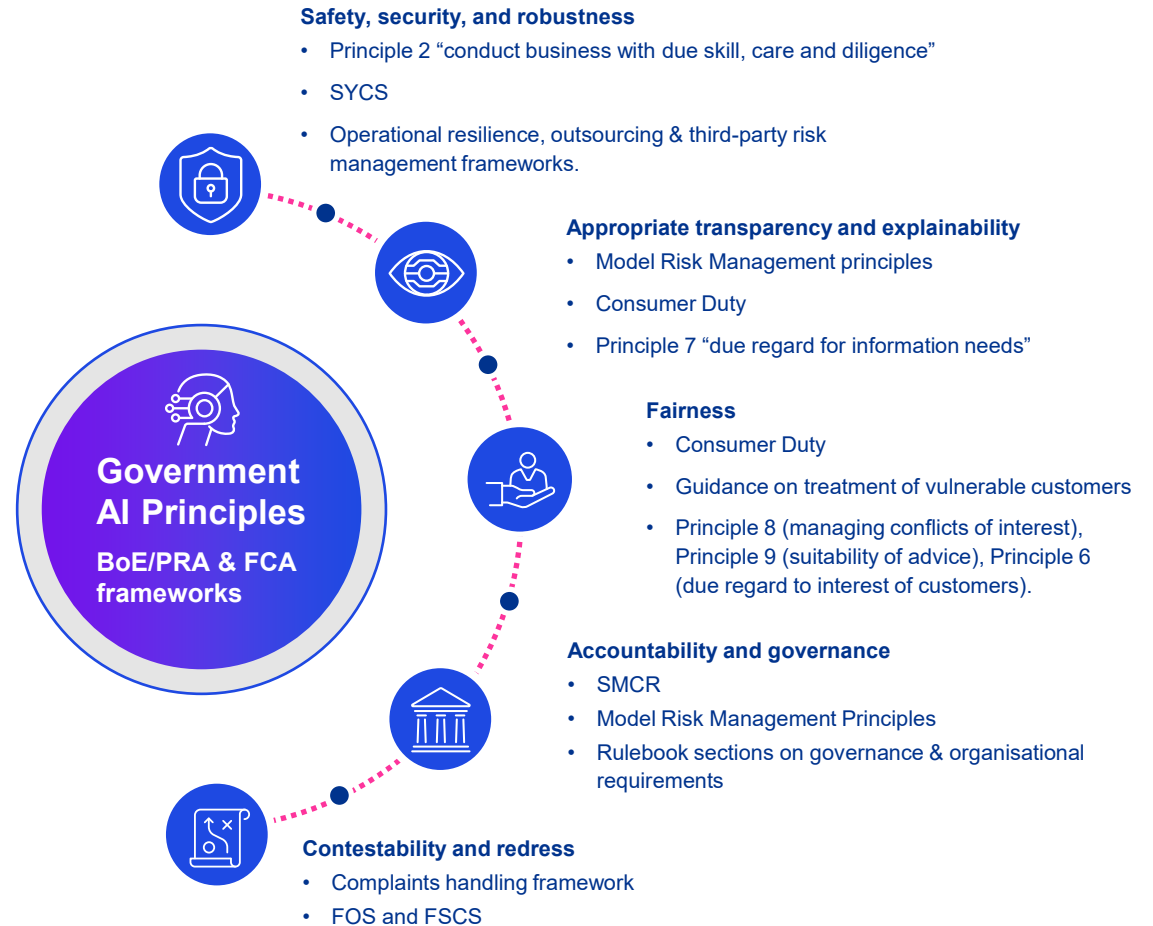
**Technology-agnostic approach
but not technology blind**

Future work

- Third instalment of the Machine Learning in UK FS survey
- Follow up industry consortium to the AIPPF
- AI sandbox
- Incorporate AI considerations into cyber & operational resilience stress tests
- Address the current fragmented regulatory landscape for data governance and management

<https://www.fca.org.uk/publications/corporate-documents/artificial-intelligence-ai-update-further-governments-response-ai-white-paper>

<https://www.bankofengland.co.uk/prudential-regulation/letter/2024/artificial-intelligence-and-machine-learning-letter>



Wealth and Asset Management



Supervisors are reconsidering the adequacy of the overall regulatory framework. While the FCA continues to consider targeted amendments to the UK rulebook, the EU has finalised the AIFMD II package. In March 2024, the FCA published revised supervisory priorities for asset managers – it continues to use the Consumer Duty to spearhead its supervisory activity.

Sustainable finance

New requirements focus on disclosures, product labels, and restrictions on fund names and marketing materials.



Systemic risk

The role of non banks in the financial system is under the spotlight. There is a particular focus on fund liquidity management, but regulators are turning to risks with private assets.



Investor protection

Whilst an inherent regulatory theme, regulators are now seeking to further raise expectations of firms.



Widening investor choice

Authorities continue to create new fund vehicles to offer more flexibility and bolster investment in private assets.



Governance

Regulators expect asset managers to be well governed and to have adequate “substance” in each legal entity.



Operational and financial resilience

Financial and operational resilience are supervisory priorities for the FCA.



Capital Markets



Capital market firms need to implement regulatory change alongside rolling out technology to support new business opportunities, improve risk management, increase efficiencies and reduce costs.

Support to capital markets

Initiatives in the UK and the EU to increase the size and strength of their capital markets.



Digitalisation /

Tokenisation

Using technology to bring efficiencies to the capital markets.



Data

Updates to regulation to manage cost of market data and encourage consolidated tape. Importance of ESG data & ratings will lead to regulation.



Transparency

MiFID II, EMIR and SFTR introduced wide complex obligations around non-financial regulatory reporting. EMIR Refit, MiFIR review and Wholesale Markets Review now amending and updating.



Post-trade

Ongoing focus on improving the efficiency of post trade processes including movement to T+1. EU still concerned with volume of EU clearing that takes place in UK.



Operational resilience

Continuing focus on the operational resilience of all participants in Capital Markets.



Risk management

Volatile markets and incidents such as Archegos mean supervisors will continue to focus on firms' conduct and financial risk management.



Banking



Market events have reinforced the need for financial and operational resilience and robust depositor protection mechanisms. Regulators continue to focus on customer outcomes, sustainability issues, novel risks associated with digital innovation and the growing impact of NBFIs on the banking landscape.

Financial resilience

Increased supervisory scrutiny of capital and liquidity metrics, credit/ counterparty exposures (especially to vulnerable sectors and NBFIs) and exit planning.

Governance & risk management

Poor quality reporting and market incidents result in continuing focus on banks' risk management and governance.

Operational resilience

Focus on end to end resilience, ICT risks and critical third parties.

Digital finance

Accelerated adoption of digital innovation within financial services introduces novel risks.

ESG & sustainable finance

Focus on climate-related financial risk expands to nature. Greenwashing concerns and net zero targets drive additional disclosures.

Better customer outcomes

Focus on vulnerable customers, access to cash, cost of living pressures, saving rate pass through, and improving deposit guarantee mechanisms.



04

Audit Observations

2024 audit cycle observations





05

**Focus on technology
risk and controls**

CASS Technology Assurance focus areas



Firms are increasingly relying on technology to support compliance with CASS requirements and to introduce efficiencies.

KPMG understands both the benefits and the risks associated with technology and are therefore focusing on how firms are leveraging technology to support key CASS processes whilst managing the associated technology risks.



CASS Technology Governance

CASS awareness within technology support and development divisions.
CASS considerations and oversight in system changes and development considered.



CASS Systems and flows

Defined technology framework and systems supporting CASS operations.
Clarity on technology dependent CASS risk points and data flows.



CASS IT risks and controls

Identifying and designing adequate automated controls.
Periodic review of CASS risks and associated automated controls.
Regular evaluation TPA and/or Off shoring data handover points and controls.



Key CASS focus areas

Reconciliation

Evaluating and monitoring upstream and downstream data feeds to reconciliation.

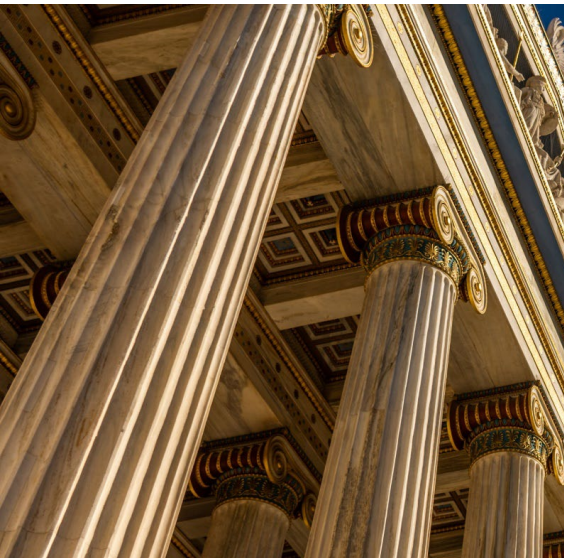
Key automated CASS reports

Clarity on completeness and accuracy of supporting reports and automated calculation outcomes.

TPA Oversight

Defined data hand over points between TPA and firm.
Clarity on data ownership of data processed by TPA.

Governance of CASS technology controls



01

Audit response

Expect IT audit specialists involved in planning and execution.

02

Key Individuals

Identify key Technology individuals and ensure senior management oversight is being exercised.

03

Risk Mitigation

Opportunity to review your Technology controls and how they intersect with CASS Compliance Risk.

04

Total capture

Of Technology systems and flows, considering processes and controls which are relevant for CASS.

05

Escalation and Actions

Monitoring of risk, performance and events.

06

Operational Resilience

Steps taken to prevent disruption occurring in the first place including detailed scenario testing.

07

3rd Party Oversight

Suppliers may be linked by technology so firms need to map technology reliance and understand processes and controls at 3rd parties.

Key CASS IT Business understanding considerations



Technology risks are applicable across the firm, including CASS compliance.

CASS IT governance is an integrated effort between CASS oversight office and technology to identify and manage CASS data flows and systems and the associated compliance risks and controls to support compliance and drive efficiencies.

01

What is our CASS IT footprint

- Are we aware of our CASS IT landscape?
- Are key CASS processes automated?
- Is CASS Oversight office linked with Technology?
- Have we identified key automated controls in its CASS control matrix?
- Does legacy systems pose data validation and CASS compliance gaps?

02

Changes to CASS relevant systems or reporting tools

- Has there been any changes to CASS relevant systems or reporting tools?
- Do we retain relevant documentation to gain comfort over continued CASS compliance during system changes?
- Is CASS impact considered in technology change?

03

Third party administrators and Outsourcing/Offshoring

- Are there any key systems of Third Party Administrators (TPA's) involved in supporting our CASS compliance?
- How are the data handover points managed and governed?
- Have we considered CASS technology operational resilience gaps- data lineage and transfer break down scenarios



06

Trusted AI



2024 CEO Outlook

Top CEOs see through global turbulence by betting big on AI

Now in its 10th year globally, KPMG's [global CEO Outlook](#) highlights the increasing transformation across industries and sectors, with a growing focus on driving the adoption of AI. It also underscores the intense competition for talent and the urgent need for action to address sustainability and environmental challenges.

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Economic Outlook

72% of CEOs are confident in the economy's growth over the next three years – similar to last year



Supply chain

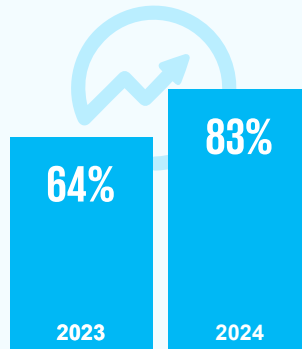
now considered the **top threat to growth** followed by operational issues and cyber security

Top growth strategies

- 1 Digitization & connectivity across the business
- 2 Employee value proposition
- 3 Artificial intelligence



Talent



Expectations of **returning to office** have increased

87%

are likely to **reward employees** who come to the office

Almost 1/3

of CEOs are concerned about the number of **employees retiring**



Technology

Almost 2/3

would **invest in AI** regardless of economic conditions

Over the next three years

76%
believe **AI won't reduce jobs** in their organization

Implementing AI

Top 3 obstacles include:

- > Ethical challenges
- > Lack of regulation
- > Technical capability & skills

92%
expect **headcount to grow** with upskilling and redeployment



ESG



69%

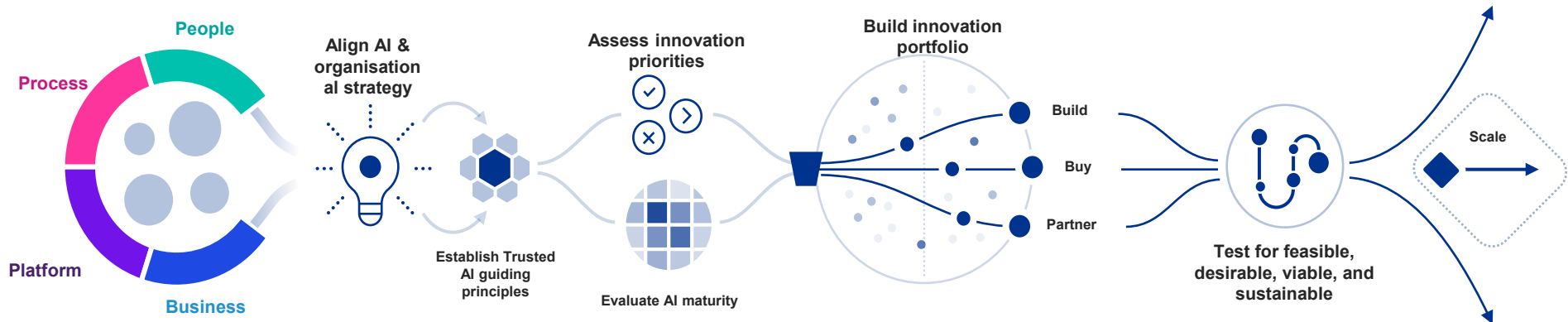
Adapted ESG language to meet stakeholder needs

ESG **Sustainability**

Over **3/4 CEOs** would **divest a profitable part** of the business that damages reputation

AI Implementation roadmap - CASS

AI presents organisations with unprecedented opportunities as well as new risks to consider. The critical success factor will be the establishment of Trusted AI guiding principles to provide safeguards in the development, deployment and adoption of AI use cases.



Near term priorities:
build AI capabilities, safeguards and agile delivery mode, develop PoCs for prioritised use cases

Mid to long term priorities:
Expand AI solutions to higher risk use cases and scale in production safely and responsibly

STRATEGY, GOVERNANCE, INNOVATION & VALUE REALISATION

Strategic Alignment

- Align AI strategy with the organisation's broader strategic goals and objectives.
- Establish clear and measurable success criteria for AI initiatives.

Effective Governance

- Implement robust governance frameworks to manage data, compliance, and ethical considerations.
- Define roles and responsibilities for decision-making and oversight.

Innovation Prioritisation

- Develop a systematic process for identifying and prioritising innovative AI projects.
- Evaluate potential innovations based on strategic alignment, feasibility, and potential impact.

Risk Management

- Identify, assess, and mitigate potential risks associated with AI projects using Trusted Risk & Control Framework
- Establish clear risk management protocols and contingency plans.

Global Collaboration & Scaling

- Foster collaboration with international partners and your regional teams to maximise the talent pool.
- Plan for the scalability of AI solutions on a global level.

Value Realisation

- Develop key performance indicators (KPIs) and metrics to track the value delivered by AI initiatives across all value streams.
- Regularly measure, report, and adjust on the realised value, ensuring that it aligns with objectives across different streams.

Exploring AI-driven efficiency for CASS compliance

Financial services organisations are leveraging AI use cases to streamline CASS processes, achieving enhanced accuracy, faster reporting, and operational efficiency, as demonstrated by real-world use cases below.



1. Operational Efficiency

1.1 Automated reconciliation:

Use AI to automate and enhance the accuracy of daily reconciliations of client money and assets, reducing manual errors.

1.2 Document categorisation:

Automate extraction and categorisation of data from financial documents, contracts, and statements to support audits and reconciliations.



2. Fraud Detection and Risk Management

2.1 Anomaly Monitoring:

Real time monitoring of financial transactions to detect anomalies that may indicate CASS breaches.

2.2 Risk Management:

Use AI to assess risks related to counterparty defaults, misappropriation of funds, or operational lapses.



3. Regulatory Compliance and Reporting

3.1 CASS reporting:

Generate detailed and compliant reports, like those required under the FCA's CASS (Client Asset Sourcebook) rules.

3.2 Real time compliance monitoring: Implement AI powered systems to monitor compliance in real time, flagging potential breaches before they occur.



4. Client Money Segregation

4.1 Automated account segregation:

Use AI to optimise processes around segregating client money to ensure compliance while minimising over segregation.

4.2 Targeted account monitoring: AI can monitor account balances and trigger segregation actions when thresholds are breached.



5. Client Reporting and Communication

5.1 Automated Reporting: Automatic generation of reports for internal stakeholders and regulators.

5.2 AI Chatbot Assistant: Deploy AI driven chatbots to provide instant answers to client queries about their money and assets.

Key takeaways

01

Start with the why: Understand the specific challenges AI can address in CASS processes.

02

Data is key: Reliable, clean data is the foundation for successful AI implementation.

03

Define objectives, align with values, and start small: Set clear goals, ensure alignment with organisational principles, and begin with a pilot use case.

04

Collaboration matters: Engage cross-functional teams to align technology with compliance and operations.

05

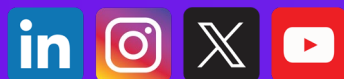
Do you have the skills: Assess if your organisation has the right skills and capabilities to adopt, manage, and sustain AI solutions.



Q&A



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