INSTITUTIONAL AI

AI CONTROL. FOR FINANCIAL INSTITUTIONS.

WHITE PAPER

2026 EDITION

TOP BUSINESS NEEDS OF ASSET SERVICERS

IN 2026 — 2027

Strategic priorities, operational challenges, and the AI control imperative

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1. EXECUTIVE OVERVIEW

Asset servicers enter 2026 occupying a position of unprecedented strategic importance and unprecedented operational strain. The institutions that safeguard, administer, and report on the world's invested capital — global custodians, fund administrators, transfer agents, and integrated securities services providers — are no longer back-office utilities. They have become the operating layer on which the entire institutional investment ecosystem depends. And that layer is being rebuilt, in real time, on artificial intelligence. The defining question of 2026 — 2027 is not whether asset servicers will deploy AI across the function stack. They already are. It is whether they can demonstrate control over it.

The numbers frame the stakes. The global asset servicing market grew to approximately USD 1.53 trillion in revenue terms in 2026 and is projected to reach roughly USD 2.0 trillion by 2030, expanding at a compound annual rate above seven percent.[1] The five largest global custodians alone safeguard close to USD 200 trillion in assets, a figure rising by roughly ten percent annually.[2] State Street reported USD 54.5 trillion in assets under custody and/or administration as of 31 March 2026.[3] The private-markets surge — global private-asset fund values reached a record USD 14.9 trillion at the end of 2025 and are forecast to climb to USD 23.9 trillion by 2030 — is simultaneously the sector's largest growth opportunity and its hardest operational problem.[4]

This 2026 edition of Institutional AI's white paper series differs from a conventional industry survey in three respects. First, it is organized around the global accounting function stack — trade capture, cash and asset reconciliation, conversions and corporate actions, the security master, pricing and valuation, income and expense processing, NAV production, tax, compliance, and financial reporting — because that stack, not the org chart, is where AI is actually being deployed and where the control requirement actually bites. Second, it analyzes each function across product types — mutual funds and UCITS, ETFs, hedge funds and alternative investment structures, private equity and credit, retirement, and insurance general accounts — because the servicing model and the AI exposure differ materially by product. Third, it treats geography as a first-order variable: the United States is not the United Kingdom is not the European Union is not Asia-Pacific, and the divergence is widening, not narrowing.

Four forces define the horizon. First, the platform pivot: the largest providers are repositioning from custody utilities into integrated technology platforms — BNY, as described in its public company materials, characterizes itself as the “operating system” for institutional clients — and AI is, in our assessment, the engine

[1] ResearchAndMarkets, “Asset Servicing Market — Global Report 2026,” January 2026: market valued at USD 1.43T (2025) growing to USD 1.53T (2026) at 7.1% CAGR, reaching USD 2.03T by 2030 at 7.3% CAGR.

[2] Global Custody Pro, “The Complete 2026 Guide to AI in Global Custody,” January 2026. Aggregate figure for the five largest global custodians; growth rate as reported.

[3] State Street Corporation, Form 8-K, Q1 2026, U.S. Securities and Exchange Commission: USD 54.5 trillion AUC/A and USD 5.6 trillion AUM as of 31 March 2026.

[4] Ocorian Global Asset Monitor, reported by Asset Servicing Times, February 2026: global private-asset fund value USD 14.9T at end-2025 (+15.4% YoY), forecast USD 23.9T by 2030; private equity fund assets USD 10.6T.

of that transformation.[5] Second, what we term the AI deployment–control gap: production AI is, on the available evidence, moving rapidly into reconciliation, corporate actions, NAV oversight, and client reporting, while the institution-controlled evidence and control frameworks around those systems appear, in our assessment, to lag materially behind. Third, a tightening regulatory perimeter: DORA, the EU AI Act's high-risk provisions effective August 2026, T+1 settlement, and tokenization are, in our reading, converging into a single, compounding compliance load. Fourth, structural fee compression and consolidation.

The infrastructure is being built at speed. In our assessment, the control discipline is not yet keeping pace.

~USD 1.53T Global asset servicing market, 2026	**~USD 200T** AUC at the five largest custodians	**USD 14.9T** Global private-asset fund value, 2025
117 AI solutions in production at BNY (reported)	**Aug 2026** EU AI Act high-risk provisions effective	**~USD 2.0T** Projected market size by 2030

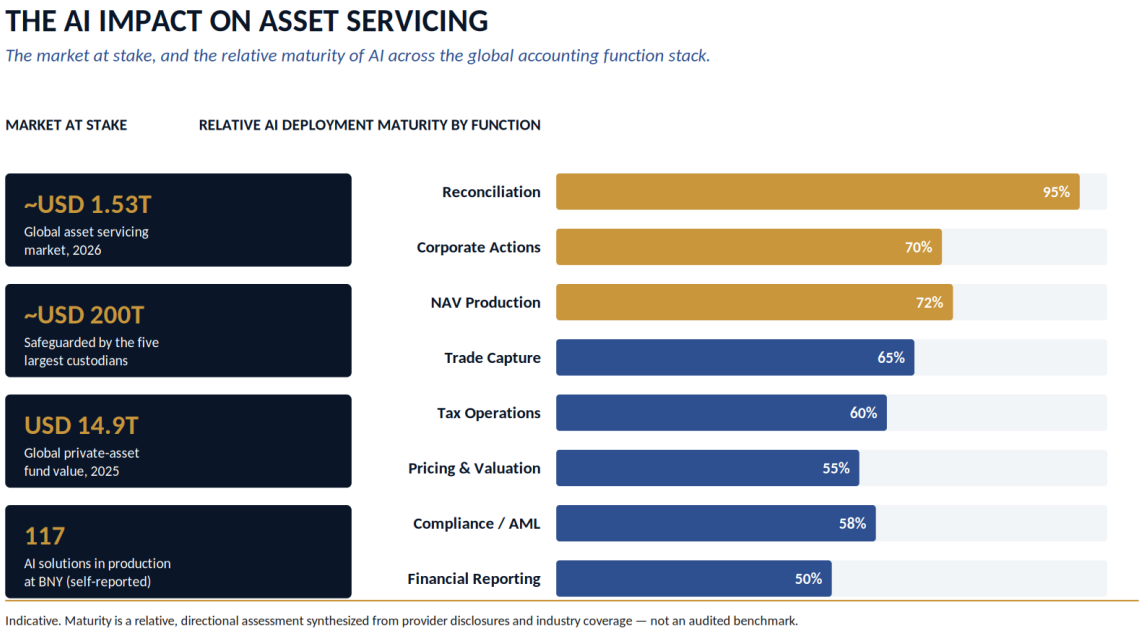

Figure 1. The market at stake and the relative maturity of AI deployment across the global accounting function stack. Maturity is indicative and directional, synthesized from provider disclosures and industry coverage.

[5] BNY, Annual Report 2025 and related investor disclosures, February 2026. The firm characterizes itself as the "operating system" for institutional clients across data, investment operations, custody, fund services, payments, liquidity, clearing, collateral, analytics, and reporting. As reported and summarized in industry coverage including Asset Servicing Times and Global Custody Pro, 2026.

The AI components in scope

This report is specifically about artificial intelligence in asset servicing — not automation in general. Five categories of AI component are now in production or advanced pilot across the function stack, and each carries a distinct control profile. Predictive and classification models drive exception identification in reconciliation and event classification in corporate actions. Natural-language extraction models convert unstructured documents — credit agreements, deal documents, corporate-action notices — into structured accounting data. Anomaly-detection models monitor pricing, NAV components, and reference data for drift and error. Generative models draft client reporting, investor communications, and regulatory narrative. And, increasingly, agentic systems — AI that does not merely suggest but autonomously identifies, classifies, routes, and in some cases resolves — are moving from pilot into production in reconciliation and middle-office workflows.

The agentic category is the inflection point. A model that classifies a reconciliation break is a decision-support tool; an agent that classifies the break, routes it, and resolves it is performing the function. Industry materials describe agentic reconciliation that "goes beyond copilots to automate break resolution," and agentic middle-office systems where "business-impacting actions" must be separated from non-impacting ones with controls matched to the impact of the action.[6] As AI moves from suggesting to acting, the institution's exposure moves from "did a human review the AI's recommendation" to "can the institution reconstruct, on a regulator's timeline, exactly what the AI did and on what basis." That shift is the subject of this report.

The impact is therefore not incremental efficiency layered onto an unchanged operating model. It is a structural change in where accounting and operational decisions are made, by what, and with what evidence — across every function in the stack, at different depths in different products, under different rules in different jurisdictions. Quantifying that impact, and the control gap it opens, is the purpose of the analysis that follows.

What you will find in this report

- A function-by-function analysis of the global accounting stack — trade capture through financial reporting — identifying where AI is most deeply embedded and where the institution-controlled evidence requirement is most acute.
- A product-type dimension analyzing how the servicing model and AI exposure differ across mutual funds and UCITS, ETFs, hedge funds and alternative structures, private equity and credit, retirement, and insurance general accounts.
- A geographic dimension contrasting the United States, the United Kingdom, the European Union, and Asia-Pacific across settlement cycle, regulatory regime, and product architecture.

[6] Indus Valley Partners and Osfin.ai, 2025–2026: agentic AI in reconciliation "goes beyond copilots to automate break resolution." StackAI, March 2026: agentic middle-office systems must separate non-impacting from business-impacting actions, with controls matched to the impact of the action and permission-aware retrieval, observability, and drift monitoring.

- A category-by-category analysis across custodians, fund administrators, transfer agents, and integrated securities services providers, each with strategic priorities, operational challenges, and AI control imperatives.
- Same-page sourcing for every named assertion, a full source register, and a comprehensive disclaimer designed for unrestricted publication.

2. METHODOLOGY AND SCOPE

How This Report Is Constructed and How to Read It

This white paper is a synthesis, not a primary research study. It draws on publicly available corporate disclosures (including SEC filings and annual reports), regulatory texts and supervisory publications, market-research reports, professional-services analyses, and specialist industry coverage, each attributed in same-page footnotes and consolidated in the source register. The analytical framing, sequencing, characterization, and synthesis are original to Institutional AI; third-party data points are paraphrased and attributed rather than reproduced.

Three analytical axes

The report is constructed around three intersecting axes, applied consistently throughout. The first axis is the function: asset servicing is decomposed into the global accounting stack — trade capture; cash, asset and position reconciliation; conversions and corporate actions; the security master; pricing and valuation; income and expense processing; NAV production; tax; compliance and AML/KYC; and financial reporting. The second axis is the product type: within each function, exposure is traversed across mutual funds and UCITS, ETFs, hedge funds and alternative investment structures, private equity and private credit, retirement and defined-contribution, and insurance general accounts. The third axis is geography: the United States, the United Kingdom, the European Union, and Asia-Pacific, flagged inline where the divergence changes the operating model and consolidated in a dedicated section.

The control lens

Every function, product, and jurisdiction is assessed through a single lens: AI control. For the purposes of this paper, Institutional AI uses the term “AI control” as an analytical and operational framework, not as a defined legal or regulatory standard, and nothing in this document should be read as stating what any law, regulation, or supervisor requires. Within that framework, “control” denotes an institution's demonstrable, evidenced, reconstructable command over an AI system and its outputs — the practical ability to show, on a regulator's or auditor's timeline, what an AI system did, on what basis, on whose infrastructure, and with what human oversight. This is deliberately distinguished from “governance,” the policy-level activity (committees, charters, principles) often used as a synonym in third-party commentary: in our framing, governance describes intent while control evidences command. The report's central thesis — an analytical view, not a regulatory assertion — is that asset servicing is, in our assessment, crossing the threshold at which governance remains necessary but is no longer sufficient on its own, and that AI control is emerging as the binding operational constraint, function by function, product by product, jurisdiction by jurisdiction.

On self-reported figures

A significant share of the AI-performance figures available in this domain are disclosed by the institutions or vendors that produced the systems in question. This report cites such figures where they are the best available indication of direction and magnitude, but flags them consistently as self-reported and indicative rather than

independently verified. The recurrence of unverified self-reported performance claims is itself treated as a finding: in a domain where the operators of AI systems are also the primary source of evidence about those systems, independent, institution-controlled evidence is not a refinement of good practice — it is the substance of control.

Scope boundaries

The report covers asset servicing — the safekeeping, administration, and reporting layer — and does not extend to asset management investment processes, distribution, or front-office alpha generation except where they directly intersect a servicing function. It emphasizes North America and Europe, with Asia-Pacific treated at the level of structural divergence rather than market-by-market detail. It is current as of May 2026; regulatory dates and market figures reflect the most recent publicly available data identified as of that date and are subject to subsequent revision by the originating source.

3. THE MACRO BACKDROP

Four Forces Defining 2026 — 2027

Four structural forces cut across every type of asset servicer covered in this report. They define the strategic context, the operational pressures, and the control vocabulary of 2026.

Figure 2. The four structural forces shaping the asset servicing industry, 2026 — 2027.

1. The Platform Pivot

The most consequential structural shift in asset servicing is the repositioning of the largest providers from custody utilities into integrated technology platforms. BNY's 2025 annual report describes the firm explicitly as the "operating system" for institutional clients seeking end-to-end solutions across data, investment operations, custody, fund services, payments, liquidity, clearing, collateral, analytics, and reporting.[7] State Street has built its strategy around the State Street Alpha front-to-back platform, integrating Charles River Development's front- and middle-office technology with its back-office servicing.[8] JPMorgan Securities Services settles roughly USD 1 trillion of securities daily across more than 100 markets and was named Best Data Analytics Provider in the 2025 Waters Rankings.[9]

[7] BNY, Annual Report 2025; as reported and summarized in Asset Servicing Times and Global Custody Pro, 2026.

[8] State Street Corporation, Form 10-Q, Q1 2026, SEC: CRD front- and middle-office technology together with State Street's back- and middle-office services "form the foundation of State Street Alpha."

[9] J.P. Morgan Securities Services public business materials, 2025–2026: market leader settling ~USD 1 trillion of securities daily in 100+ markets; Best Data Analytics Provider, 2025 Waters Rankings.

For asset servicers, the competitive battleground has moved from custody price to platform capability, and AI is the engine of that transformation. The providers that win mandates in 2026 — 2027 will be those that can credibly demonstrate not only scale and resilience but intelligent, data-rich, automated service delivery — and, increasingly, that they can prove command over the AI delivering it.

2. The AI Deployment-Control Gap

Production AI is moving rapidly into the operational core of asset servicing. Public materials indicate BNY has more than one hundred AI solutions in production and operates a framework treating AI agents as "digital employees"; State Street has operationalized an Alpha AI Data Quality capability for exception processing; and Northern Trust has reported reducing certain custody tax operations from eight hours to thirty minutes.[10] Industry coverage indicates reconciliation is the function where AI has reached the most operational maturity, with corporate actions, NAV oversight, and client reporting following.

In our view, the gap between the speed of AI deployment and the maturity of institution-controlled AI evidence is among the defining operational risks for asset servicers in 2026 — 2027. The performance figures disclosed by providers are largely self-reported and should be treated as indicative rather than independently verified — which is itself the point. When institutions safeguarding close to USD 200 trillion in client assets deploy autonomous and semi-autonomous systems into reconciliation, entitlement calculation, and regulatory reporting, the absence of independent, institution-controlled audit evidence and control frameworks is, in our assessment, not merely a technology gap but a source of fiduciary and operational exposure that compounds with every additional production deployment. As noted in the methodology, throughout this report "control" is used as an analytical framework — the institution's demonstrable, evidenced command over its AI — distinct from, and in our view more demanding than, the policy-level activity often labelled "governance" in third-party commentary.

3. The Tightening Regulatory Perimeter

Asset servicers face a regulatory load that is both intensifying and converging. The EU Digital Operational Resilience Act (DORA) became fully applicable on 17 January 2025 and moved decisively into active enforcement during 2026; the European Supervisory Authorities designated their first cohort of Critical ICT Third-Party Providers — including the major hyperscalers — in November 2025, and supervisors shifted from reviewing paperwork to demanding real-time evidence of resilience and defensible data lineage.[11] The EU AI Act's high-risk provisions take effect on 2 August 2026, imposing data-governance, automatic-logging, and

[10] Global Custody Pro, "The Complete 2026 Guide to AI in Global Custody," January 2026: BNY "117 AI solutions in production" and "digital employee" framework; State Street "Alpha AI Data Quality" (AADQ); Northern Trust custody tax operations reduced from eight hours to thirty minutes. All figures self-reported by the relevant institutions and presented as indicative.

[11] Nemko Digital and SentinelOne analyses of DORA, 2026: DORA (Regulation (EU) 2022/2554) fully applicable 17 January 2025; first cohort of 19 Critical ICT Third-Party Providers designated by the ESAs in November 2025, including major hyperscalers; supervisors moved from documentation review to real-time evidence in 2026; penalties up to EUR 5–10 million or 5–10% of annual turnover.

transparency obligations on in-scope AI systems.[12] T+1 settlement has compressed operational tolerances across North American markets, with the United Kingdom legislating for mandatory T+1 from 11 October 2027 and the EU transitioning in parallel. Tokenization is advancing from pilot to production, with DTC's SEC-authorized tokenization service expected to begin rolling out in the second half of 2026.[13]

Critically, these regimes intersect rather than stand alone. Article 9(10) of the EU AI Act explicitly permits integration of AI risk management into DORA ICT risk-management procedures — which, in our assessment, creates an opportunity for institutions that approach control strategically and a fragmentation trap for those that do not. The common thread across these developments, in our reading, is that institutions should in practice anticipate growing supervisory emphasis on demonstrable, evidenced command over the technology environment, including the AI within it. This is our interpretation of the direction of travel, not a statement of any specific regulatory requirement; the precise obligations under each regime are set out in the relevant texts and should be assessed with qualified counsel.

4. Fee Compression and Consolidation

The structural economics of asset servicing continue to tighten. Industry analysis consistently identifies fee compression as the defining financial constraint on custodians: as institutional asset owners consolidate providers and increasingly adopt single-custodian master structures, they gain leverage to negotiate lower unit fees even as asset volumes grow.[14] State Street's reported servicing-fee trajectory through 2026 illustrates the pattern — revenue growth driven substantially by market levels and new business rather than pricing power.[15]

The result is a structural squeeze: heavy, non-discretionary investment in resilience, AI, and regulatory compliance, funded from compressing unit margins, in a consolidating market where scale increasingly determines viability. AI is widely positioned as the resolution to this squeeze — the lever that converts cost into capability. Whether it does so depends entirely on whether it is deployed under control or merely deployed.

[12] Regulation (EU) 2024/1689 (EU AI Act); IOMETE and K&L Gates analyses, 2026: high-risk provisions effective 2 August 2026; Articles 10 (data governance), 12 (automatic logging), 13 (transparency/explainability). Article 9(10) permits integration of AI risk management into DORA ICT risk-management procedures.

[13] DTCC, "DTCC Authorized to Offer New Tokenization Service," December 2025: DTC SEC No-Action Letter; rollout anticipated H2 2026. UK T+1 mandatory from 11 October 2027 per Travers Smith / Akin regulatory roadmaps, 2026.

[14] ResearchAndMarkets, "Custody Service Market Report 2026": intensifying fee compression reduces operating margins even as asset volumes grow; consolidation increases asset-owner negotiating leverage; custodians must sustain heavy capital expenditure on technological resilience.

[15] State Street Corporation, Form 8-K earnings releases, Q4 2025 and Q1 2026, SEC: servicing-fee growth driven primarily by market levels and new-business installation rather than unit pricing.

4. THE GLOBAL ACCOUNTING FUNCTION STACK

Function by Function, Across Every Product Type

Asset servicing is most precisely understood not as a set of products but as a stack of accounting and operational functions performed on behalf of investment vehicles. AI is being deployed function by function, not as a single system; the servicing model and AI exposure differ materially by product within each function; and the operating model diverges by jurisdiction. This section is the analytical spine of the report: each function is examined in turn, traversed across product types, with geographic divergence flagged inline where it changes the operating model. The AI control requirement is assessed at each layer.

Figure 3. The global accounting function stack. AI control is the cross-cutting requirement that spans every layer and every product type.

A note on terminology used throughout this section. As set out in the methodology, Institutional AI uses “AI control” as an analytical and operational framework rather than a defined legal or regulatory standard. Within that framework, “control” denotes the institution's demonstrable, evidenced, reconstructable command over an AI system and its outputs — distinct from, and in our view more demanding than, the policy-level activity often labelled “governance” in third-party commentary. In our framing, an AI-assisted output that cannot be reconstructed and defended on a regulator's or auditor's timeline is not, in a practical operational sense, controlled — however well-documented the surrounding policy.

4.1 Trade Capture and Trade Lifecycle Entry

Trade capture is the entry point of the accounting record and the first function where AI mediation introduces control exposure. AI-assisted capture normalizes trade data arriving in heterogeneous formats from order-management and execution-management systems, prime brokers, custodians, and counterparties, and increasingly enriches, validates, and pre-books that data before it reaches the accounting ledger. The control question is not whether AI accelerates capture — it does — but whether the institution can reconstruct, after the fact and to a regulator's satisfaction, exactly what an AI system did to a trade record, on whose infrastructure, and on what basis.

By product type

Hedge funds and alternative structures. Capture is exception-driven: the work is not “book trades” but “book trades correctly despite the many things that can go wrong” — across derivatives, structured products, multi-prime arrangements, and information-barriered pods. Pre-trade checks (restricted lists, issuer limits, concentration thresholds, locate requirements, trade windows), allocation and booking support, and break-resolution triage are precisely where agentic AI is being deployed first, because volume is high and the cost of error is real.[16] The decisive control principle in these deployments is permissioning: an agent must retrieve only what is entitled and must never blur boundaries between strategies — a control requirement, not a governance aspiration.

Mutual funds and UCITS. Capture is higher-volume but more standardized; AI exposure concentrates in feed normalization and automated validation against the security master. The control weight derives from the downstream consequence: a capture error in a daily-dealing UCITS propagates into a published, transactable NAV the same day.

ETFs. Creation and redemption activity, basket management, and authorized-participant flows add capture complexity; AI is applied to basket reconciliation and primary-market validation. Private equity and credit. Capture is lower-frequency but structurally complex — capital calls, distributions, drawdowns, payment-in-kind, and bespoke instruments — and AI is applied to document extraction from unstructured deal and credit-agreement data, where the reconstruction requirement is especially acute because the source is judgemental text, not a feed.

[16] StackAI, “Agentic AI in Multi-Strategy Hedge Fund Operations,” March 2026: middle-office automation in hedge funds is exception-driven; agentic use cases include pre-trade checks, allocation/booking support, break resolution, and corporate-actions triage; controls must “match the impact of the action being taken,” separating non-impacting from business-impacting actions, with permission-aware retrieval, observability, drift monitoring, and least-privilege access.

GEOGRAPHIC DIVERGENCE — TRADE CAPTURE

US: T+1 settled since 2024. Capture-to-affirmation tolerances are already compressed; an AI capture error has hours, not a day, to surface before settlement.

UK: T+1 mandatory from 11 October 2027; the compression is scheduled, not yet in force, but operating-model preparation is a 2026–2027 priority.

EU: T+1 transition underway in parallel; capture standardization across multiple market infrastructures adds normalization burden the AI layer must absorb.

APAC: Divergent settlement cycles and market-infrastructure timelines (e.g. ASX CHESS replacement targeted 2029) mean no single capture tolerance applies region-wide.

AI control imperative — trade capture. Every AI enrichment, validation, or pre-booking action on a trade record must be logged immutably in institution-controlled systems, with the entitlement context of any agent that touched it, and reconstructable on a regulator's timeline. Under DORA, the incident-classification clock starts when the financial entity becomes aware of an incident; if capture AI runs on managed infrastructure, awareness is gated by the vendor's notification, which can compress the institution's own reporting window.[17]

[17] IOMETE, "DORA and EU AI Act compliance: data infrastructure checklist," March 2026: under DORA Article 17 incident classification starts when the entity becomes aware; on vendor-managed infrastructure awareness is gated by vendor notification, compressing the reporting timeline; self-operated infrastructure keeps detection and classification timing within the institution's control.

4.2 Cash, Asset and Position Reconciliation

Reconciliation — cash, asset, and position — is the function where AI has reached the greatest operational maturity in asset servicing, and therefore where the control gap is most material. Vendor and provider materials describe AI-driven multi-prime, multi-custodian reconciliation reducing T+1 breaks by up to ninety percent and NAV errors by up to ninety-five percent, and positioning reconciliation as transforming from a cost centre into a strategic function with up to fifty percent cost reduction.[18] Agentic reconciliation — systems that autonomously identify, classify, and route exceptions rather than merely matching — is moving from pilot into production.

By product type

Hedge funds and alternative structures. Multi-prime, multi-custodian reconciliation run daily — often intraday — against active trading. Shadow accounting (independent parallel books, frequently a second administrator) is standard practice precisely because the manager cannot delegate fiduciary responsibility for accuracy, and AI-driven shadow reconciliation is now a defined product category.[19] Control exposure is the highest of any product: the function is both AI-mediated and the institution's primary independent check, so the integrity of the AI itself becomes the integrity of the control.

Mutual funds and UCITS. Daily reconciliation against custodian and transfer-agent records under strict NAV-publication deadlines; AI exposure is elevated and the control weight derives from the regulatory consequence of a misstated published NAV. ETFs. Add primary-market (creation/redemption) reconciliation and basket-versus-holdings checks. Private equity and credit. Lower-frequency but judgement-heavy: cash reconciliation against capital calls and distributions, position reconciliation against bespoke instruments and SPVs; AI applied to statement and bank-feed extraction. Retirement / DC. Participant-level and plan-level reconciliation at very high volume, with an investor-data-sensitivity overlay. Insurance general accounts. Reconciliation integrated with asset-liability and regulatory-capital views.

GEOGRAPHIC DIVERGENCE — RECONCILIATION

US: T+1 settled: breaks must be caught within hours and increasingly several times a day, not overnight — the strongest current driver of agentic reconciliation adoption.

UK: T+1 from 11 October 2027 will impose the same intraday-break discipline; firms running EU and UK books must operate two tolerances simultaneously through the transition.

EU: Parallel T+1 transition plus AIFMD II's broadened delegation regime (now explicitly encompassing fund administration) raises the oversight bar on outsourced reconciliation.

APAC: Mixed settlement cycles mean reconciliation tolerances differ by market within a single regional book — a control-configuration problem, not just an operational one.

[18] FundStudio product materials, November 2025: automated multi-prime reconciliation "cuts T+1 breaks by up to 90% and slashes NAV errors by 95%." Indus Valley Partners, 2025–2026: reconciliation transforming from cost centre to strategic function with up to 50% cost reduction; agentic AI "goes beyond copilots to automate break resolution." All figures vendor-reported and presented as indicative, not independently verified.

[19] Carta, O-CFO, Gresham, AIMA and The Hedge Fund Journal, 2022–2026: hedge funds require daily (often intraday) NAV reconciliation due to active trading; shadow accounting maintained in parallel to the administrator as an accounting control framework; SEC and AIFMD require third-party independent valuation; shadow NAV may be insourced, run by a second administrator, or outsourced.

AI control imperative — reconciliation. When an autonomous agent classifies and routes an exception, the institution carries the operational liability for that decision, but in most current deployments the action record lives in a vendor's infrastructure under that vendor's retention policy and export format. The requirement is institution-controlled, immutable action logs for every agent decision — match, no-match, classification, routing, and resolution — reconstructable on demand and resilient to provider concentration. Where reconciliation is also the institution's independent shadow check, the AI's own evidence trail is the control and must be held outside the vendor that produces it.

4.3 Conversions and Corporate Actions

Corporate actions is one of the highest-risk functions in asset servicing and a primary target for AI: event detection and classification across dozens of languages and formats, entitlement calculation across complex securities, deadline monitoring, and election management. The surge in transaction volumes has amplified demand for AI here, but corporate-action errors have direct financial consequences for clients and create liability that flows back to the servicer.[20]

By product type

Custodied long-only portfolios (mutual funds, ETFs, insurance, retirement). The custody agreement itself distinguishes corporate actions "not requiring discretionary decisions" — which AI can process at scale — from elective events requiring client instruction, where the servicer notifies and the client elects.[21] The control boundary is contractual and bright: AI may process the mandatory leg autonomously but the elective leg requires evidenced client instruction, and the servicer must be able to prove which path each event took.

Hedge funds and alternative structures. Corporate-actions triage — identifying impacted positions, summarizing required actions, creating work queues — is an early agentic use case; the control requirement is that the agent's impact assessment be reconstructable and that business-impacting actions be separated from non-impacting ones with controls matching the action's impact. Private equity and credit. "Conversions" here means structural events — restructurings, payment-in-kind toggles, instrument conversions in credit — processed from judgemental documentation rather than standardized feeds; AI extraction carries elevated reconstruction burden.

GEOGRAPHIC DIVERGENCE — CORPORATE ACTIONS

US: DTC-centric processing; DTC's SEC-authorized tokenization service (rollout expected H2 2026) will introduce a parallel on-chain corporate-actions path requiring its own control evidence.

UK: Post-Brexit market-infrastructure divergence means UK event processing increasingly follows a distinct calendar and rule-set from the EU.

EU: Multi-CSD environment multiplies format and language variation — precisely the heterogeneity AI is deployed to absorb, and precisely where misclassification risk concentrates.

APAC: Highly fragmented market conventions; a single regional book spans many event-processing regimes, making uniform AI configuration a control risk.

AI control imperative — corporate actions. Event detection, classification, and entitlement calculation must be explainable and auditable to the same standard as manual processing, with the mandatory/elective boundary enforced technically and every elective path tied to evidenced client instruction. Given the direct financial

[20] TCS BaNCS, "Leveraging AI in Asset Servicing Operations," October 2025: AI has "ushered in a transformative shift in the outlook for corporate actions operations" amid surging transaction volumes and heightened operational risk; AI suggestions must be surfaced alongside business exceptions within the core application.

[21] Representative custody agreements filed with the U.S. Securities and Exchange Commission (e.g. BNY custody agreements within registered-fund filings, 2026): the custodian carries out non-discretionary corporate actions and exchanges, notifies clients of elective events, and facilitates proxy access, with discretionary elections exercised by the customer or its designee, not the custodian.

consequence of error, the control requirement extends to drift monitoring on the classification model itself, in institution-controlled systems.

4.4 Security Master and Reference Data

The security master database (SMDB) is the reference-data spine on which every downstream function depends. AI is being applied to security-master construction, golden-record formation, cross-vendor reconciliation of identifiers, and reference-data anomaly detection. The function is rarely client-visible, which is precisely why its control exposure is underestimated: an error or unmonitored model drift in the security master propagates simultaneously into pricing, corporate actions, income, tax, and NAV.

By product type, the security-master burden scales with instrument complexity rather than transaction volume. For mutual funds and ETFs holding liquid listed securities, AI-assisted golden-record formation is comparatively tractable. For hedge funds and credit funds holding derivatives, structured products, bank debt, and private instruments, the security master is heterogeneous, partially manual, and judgemental — and the AI applied to normalize it carries a correspondingly higher reconstruction requirement. For private equity, the "security" is often a bespoke position whose reference data is constructed from deal documents, making provenance the central control concern.

AI control imperative — security master. The requirement is institution-owned data lineage — produced on demand, not resident only inside a vendor platform's logs — because a single propagating reference-data error is, by construction, a multi-function failure. Drift monitoring on golden-record formation is a control requirement, not an optimization.

4.5 Pricing and Valuation

Pricing and valuation is the function where AI exposure and product-type divergence intersect most sharply. For liquid public securities, AI-assisted pricing validation against multiple independent feeds is comparatively tractable and the control requirement is bounded. For instruments with little or no public price discovery — structured products, derivatives, private equity stakes, private credit — AI is increasingly used to support valuation judgement, and the control requirement becomes acute.

By product type

Hedge funds. Pricing consistency across the fund's own books, prime brokers, and the administrator is a recognized failure point, because many alternative instruments have little or no public price discovery; independent shadow pricing exists specifically to catch this. AI that assists valuation here sits inside the institution's primary control, so its own auditability is the control's integrity.[22] Private equity and private credit. NAV depends on significant judgement and complex portfolio-valuation methodology rather than market prices; AI-supported valuation must be reconstructable — inputs, comparables, assumptions, overrides —

[22] Gresham, "4 Reasons why Hedge Funds should shadow their Fund Administrator," 2025: ensuring pricing consistency across the fund's books, prime brokers, and administrators is frequently overlooked; many alternatives (structured products, derivatives, private stakes) have little or no public price discovery; the fund remains accountable for accuracy even where the administrator prices.

because the defensibility of a private-asset valuation is a matter of judgement that must survive audit and LP scrutiny years later.[23]

Mutual funds and UCITS. Daily pricing against multiple feeds with fair-value processes for stale or illiquid holdings; AI exposure is elevated and the control weight derives from the published, transactable NAV. ETFs. Add intraday indicative pricing and basket valuation. Insurance general accounts. Valuation integrated with regulatory-capital and asset-liability frameworks (IFRS 17, risk-based capital), where a valuation input feeds a capital number, raising the reconstruction stakes.

GEOGRAPHIC DIVERGENCE — PRICING & VALUATION

US: '40 Act fair-value obligations sit with the fund board; AI-assisted fair-value support must produce board- and SEC-defensible evidence.

UK: FCA bespoke regime post-Brexit; valuation expectations increasingly diverge from EU technical standards.

EU: AIFMD II and UCITS liquidity-management-tool requirements (transposition 16 April 2026) tie valuation to liquidity-tool calibration, widening the evidence surface.

APAC: Divergent valuation conventions and disclosure regimes by market; no single defensibility standard applies regionally.

AI control imperative — pricing and valuation. A valuation that cannot be reconstructed — with its model inputs, comparables, assumptions, and overrides — is a valuation that cannot be defended to an auditor, an LP, or a regulator. Where AI supports judgemental valuation, the control requirement is reconstructable evidence held by the institution, with model-drift monitoring, independent of the vendor producing the price.

[23] Carta, "Shadow Accounting in PE/VC," March 2026: private assets lack a public market price; calculating NAV involves significant judgement and complex valuation methodologies; shadow accounting adds a layer of rigour that must be defensible to LPs and auditors.

4.6 Income Processing and Expense Processing

Income processing (dividends, coupons, interest accruals, paydowns) and expense processing (management- and performance-fee accruals, expense caps, fund-level costs) are accrual-sensitive functions where AI accelerates throughput but where an undetected model error misstates NAV before any external party sees it. These functions are less visible than NAV or corporate actions and correspondingly under-controlled relative to their consequence.

By product type: mutual funds and UCITS carry high-volume dividend and coupon accrual under daily-NAV deadlines; hedge funds add performance-fee and equalization accruals computed at share-class and sometimes investor level, where AI-assisted allocation must be reconstructable per investor; private equity and credit carry management-fee, carried-interest waterfall, and payment-in-kind accruals driven by judgemental terms; insurance general accounts integrate income with on-balance-sheet tax and capital. Performance-fee and waterfall computation is the highest-control sub-function because the output is an economic entitlement, not merely an accounting figure.

AI control imperative — income and expense. AI accrual and allocation outputs must be explainable and auditable to the same standard as manual computation, in institution-controlled systems, with particular rigour on performance-fee and waterfall logic where the AI output determines who is owed what.

4.7 NAV Production and Oversight

NAV production is the function where the entire stack converges and where the asset servicer's core promise is delivered. AI can accelerate NAV cycles by automating data aggregation and validation across positions, cash, and multiple pricing feeds, with administrators reviewing exceptions before release; surveyed administrators and vendors report material NAV-cycle compression and error reduction, and a shift from a lagged accounting-book-of-record model toward a more dynamic investment-book-of-record approach.[24]

By product type

Hedge funds. Daily NAV with shadow validation; the manager cannot delegate responsibility for NAV accuracy even where the administrator calculates it, which is why independent, institution-controlled NAV oversight is non-negotiable and an AI-assisted NAV without reconstructable evidence is a liability rather than an efficiency.[25] Mutual funds and UCITS. Daily published, transactable NAV under strict deadlines; a NAV error is a regulatory and investor-compensation event, not an internal one. Private equity and credit. Periodic (typically quarterly) NAV dominated by valuation judgement and capital-event accuracy. ETFs. Daily NAV plus primary-market interaction. Retirement / DC. Unitized participant-level NAV at very high volume.

[24] Grant Thornton, "AI Plays for Smarter, Profitable Fund Administration," 2025: nearly three-quarters of asset-management respondents already use AI day-to-day; AI accelerates NAV cycles via automated aggregation and validation with exception review before release; shift from lagged ABOR toward dynamic IBOR. Decimal Point Analytics and Linnovate, 2026: reported NAV-cycle and error reductions; figures vendor/administrator-reported and indicative.

[25] Indus Valley Partners and Gresham, 2025–2026: "While a fund can delegate NAV calculation to administrators, it can't delegate responsibility for its accuracy, oversight, or continuity"; investor and regulatory expectations sustain independent NAV validation and shadow accounting.

GEOGRAPHIC DIVERGENCE — NAV PRODUCTION

US: '40 Act daily-NAV obligations and board responsibility for valuation; SEC examination focus on AI in valuation is sectoral and evidence-led.

UK: FCA Value-for-Money and consolidation expectations raise scrutiny on NAV-linked cost and quality; bespoke post-Brexit calibration.

EU: AIFMD II / UCITS liquidity-management-tool selection (16 April 2026) interacts with NAV and dealing; EU AI Act high-risk logging effective 2 August 2026.

APAC: Divergent NAV-publication conventions and reporting timelines by market.

AI control imperative — NAV. The decisive control point is that a fund may delegate NAV calculation but cannot delegate responsibility for its accuracy, oversight, or defensibility. The requirement is institution-controlled, reconstructable evidence for every AI-assisted NAV component — inputs, validations, exceptions, overrides, human review — producible on a regulator's timeline rather than a vendor's, and an independent oversight path that does not itself depend on the vendor whose NAV it checks.

4.8 Tax

Tax in asset servicing spans jurisdictional withholding, treaty reclaims, on-balance-sheet tax liabilities, capital-gains and distribution tax, and investor tax reporting. It is among the most jurisdictionally fragmented functions and an early, well-publicized AI-efficiency target — but the efficiency narrative obscures a sharp control requirement, because a tax determination is a representation to a tax authority.

By product type: mutual funds and UCITS carry high-volume withholding and reclaim processing and investor tax reporting; hedge funds add complex partnership and share-class tax allocation; private equity and credit carry investor-level tax reporting (e.g. K-1-type schedules) driven by judgemental allocations; insurance general accounts integrate tax with on-balance-sheet liabilities and capital. Provider materials cite custody tax operations as a flagship AI-efficiency case — reported reduction from eight hours to thirty minutes — which is precisely why the control requirement must be stated alongside it: the figure is self-reported and the underlying determinations remain representations the institution must be able to defend.[26]

AI control imperative — tax. AI-generated withholding, reclaim, and investor-tax outputs must be reconstructable and defensible to the relevant tax authority on its timeline, in institution-controlled systems, with jurisdictional logic and any model-driven determination fully auditable.

4.9 Compliance, Oversight and AML/KYC

Compliance and oversight spans investment-guideline and mandate monitoring, regulatory-limit checking, AML and KYC on the investor base (most acute in transfer agency), and the production of evidence for supervisory examination. AI now drives much of the screening, monitoring, and refresh activity, and the regulatory obligations around model explainability, decision audit trails, and adverse-action documentation apply to those systems with the same force as to the human compliance function they augment.

By product type, the AML/KYC weight concentrates in transfer agency and in fund structures with direct investor registers (mutual funds, hedge funds, private funds), while investment-guideline monitoring concentrates wherever a mandate or regulatory limit applies. Across all of them, an AI screening or monitoring system that cannot produce an explainable, auditable basis for an alert — or for the absence of one — is performing a regulated function without the documentary defensibility that function requires. Under DORA, the resilience and third-party-risk obligations attaching to these systems are explicit and enforced; the EU AI Act adds logging and transparency obligations for in-scope systems from 2 August 2026.[27]

AI control imperative — compliance. Every AI-mediated compliance decision — alert, no-alert, classification, escalation — must carry an explainable, institution-controlled, reconstructable basis, resilient to provider concentration and producible on a supervisor's timeline.

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[26] Global Custody Pro, "The Complete 2026 Guide to AI in Global Custody," January 2026: Northern Trust reported reducing certain custody tax operations from eight hours to thirty minutes. Self-reported; presented as indicative, not independently verified.

[27] Pinsent Masons and HewardMills, 2025–2026: where AI is used in fraud detection and screening the EU AI Act imposes AI-specific risk and transparency requirements while DORA governs ICT resilience and incident handling; Article 9(10) of the EU AI Act permits integrating AI risk management into DORA ICT risk-management procedures.

4.10 Financial Reporting and Investor Statements

Financial reporting closes the stack: investor statements and capital-account reporting, GAAP/IFRS financial statements, and regulatory filings (AIFMD Annex IV, Form PF, FATCA/CRS, and an expanding jurisdictional set). AI is applied to statement generation, narrative drafting, anomaly scanning across entities, and filing preparation, with audit-trail obligations identical to manual production.

By product type: mutual funds and UCITS carry high-volume periodic investor and regulatory reporting under prescriptive formats; hedge funds add investor-level and share-class statements with performance-fee detail; private equity and credit carry capital-account statements, LP reporting, and judgement-laden financial statements that auditors and LPs scrutinize for years; insurance general accounts integrate financial reporting with regulatory-capital and IFRS 17 disclosure. The control weight is highest where the report is both AI-generated and externally relied upon as a representation — regulatory filings and audited financial statements above all.

AI control imperative — financial reporting. Any AI-generated figure or narrative that enters an investor statement, financial statement, or regulatory filing must be traceable to its source and reconstructable, in institution-controlled systems, because the report is a representation the institution — not the vendor — must stand behind.

Across all ten functions the control requirement is constant in form and variable in intensity: institution-controlled, reconstructable evidence for every AI-mediated output; the mandatory/elective and education/advice-type boundaries enforced technically rather than by policy; model-drift monitoring where the AI output is a representation or an entitlement; and resilience to provider concentration so that the institution's regulatory clock is not gated by a vendor's notification. This is the precise content of “AI control” as distinct from “governance,” and it is assessed function by function, product by product, jurisdiction by jurisdiction — which is why it is hard, and why a single policy checkpoint cannot satisfy it.

5. THE PRODUCT-TYPE DIMENSION

The Same Function Is a Different Problem by Product — Consolidated View

The function-by-function analysis above traversed product types within each function. This section consolidates the product view: for each product type, where AI exposure and the control requirement concentrate across the stack. Figure 4 summarizes the intersection.

AI EXPOSURE BY PRODUCT TYPE × FUNCTION

Where AI mediation — and therefore the AI control requirement — is most acute

	Trade Capture	Recon (Cash/Asset)	Pricing / Valuation	Corp Actions	NAV Production	Tax	Financial Reporting
Mutual Funds / UCITS	Elevated	High	Elevated	High	High	Elevated	High
ETFs	High	High	Elevated	Elevated	High	Elevated	Elevated
Hedge Funds / AIS	High	High	High	Elevated	High	Elevated	Elevated
Private Equity & Credit	Moderate	Elevated	High	Moderate	High	High	High
Retirement / DC	Elevated	High	Elevated	Elevated	High	Elevated	High
Insurance / GA	Elevated	Elevated	High	Elevated	High	High	High

Indicative assessment. "High" = AI materially mediates the function and the control-evidence requirement is most acute.

Figure 4. Indicative AI exposure by product type and function. Where exposure is "High," the institution-controlled evidence requirement is most acute.

Mutual Funds and UCITS

Daily-dealing, daily-NAV vehicles with high transaction volumes and the strictest publication-timeliness expectations. AI exposure is elevated-to-high across reconciliation, pricing, corporate actions, and NAV; the control requirement is sharpened by the regulatory weight attaching to a published, transactable NAV — an error is a regulatory and investor-compensation event, not an internal one.

Hedge Funds and Alternative Investment Structures

Complex portfolios — derivatives, structured products, illiquid positions — with multiple share classes, performance-fee arrangements, and frequent high-volume transactions. AI exposure is high across capture, reconciliation, pricing, and NAV. The control requirement is the most acute of any product type because valuation judgement is pervasive, shadow validation is the primary independent check, and AI sits inside that check — so the AI's own auditability is the integrity of the control.

Private Equity and Private Credit

Periodic-valuation, capital-call-and-distribution vehicles where NAV depends on judgement and complex methodology rather than market prices. AI exposure concentrates in valuation support, income/waterfall, tax

(investor-level schedules), and financial reporting. The control requirement is reconstructable valuation and allocation evidence that must survive audit and LP scrutiny years after the fact.

ETFs, Retirement / DC, and Insurance General Accounts

ETFs add creation/redemption and basket processing to a daily-NAV model (high exposure in capture, reconciliation, NAV). Retirement / DC adds participant-level recordkeeping and unitization at very high volume with an elevated investor-data-sensitivity overlay (high exposure in reconciliation, NAV, financial reporting). Insurance general accounts integrate valuation, tax, and financial reporting with regulatory-capital and IFRS 17 frameworks, raising reconstruction stakes wherever a servicing output feeds a capital number.

6. THE GEOGRAPHIC DIMENSION

The US Is Not the UK Is Not the EU Is Not APAC

Geography is a first-order variable in asset servicing, and the divergence is widening. Settlement cycle, regulatory regime, fund architecture, and retirement structure all differ by jurisdiction, and each difference changes both the operating model and the AI control requirement.

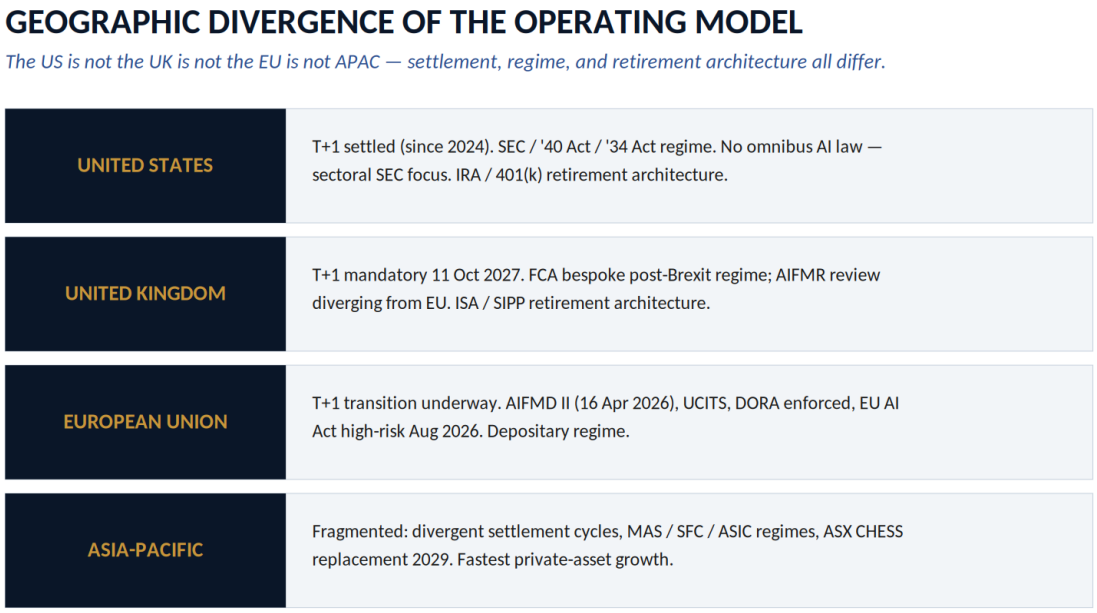

Figure 5. Geographic divergence of the asset servicing operating model and regulatory perimeter.

United States

T+1 settlement has been in force since 2024, compressing operational and reconciliation tolerances across the function stack. The regulatory architecture is the Investment Company Act of 1940, the Securities Exchange Act of 1934, and SEC oversight; there is no omnibus AI statute, and AI scrutiny is sectoral and examination-led rather than prescriptive. Retirement is built on the IRA / 401(k) architecture, placing a distinct participant-level recordkeeping and ERISA-sensitive data layer on US retirement servicing.

United Kingdom. The UK has legislated for mandatory T+1 settlement from 11 October 2027 and is pursuing a bespoke post-Brexit regime: a proposed three-tier AIFM framework calibrated by NAV, reform of client-categorisation and prudential rules, and a deliberate divergence from the onshored EU framework.[28]

[28] Sidley Austin, "2026 UK/EU Investment Management Regulatory Scanner," February 2026; Akin, "UK and EU Asset Management 2026 Regulatory Outlook," January 2026: UK T+1 mandatory from 11 October 2027; proposed three-tier UK AIFM regime (Large ≥ £5bn; Midsized £100m–£5bn; Small < £100m); widening UK–EU divergence.

Retirement is built on the ISA / SIPP architecture. The net effect for servicers is a regime that is diverging from the EU in both timing and substance, requiring separate operating and control treatment.

European Union. The EU is transitioning toward T+1 in parallel with, but not identically to, the UK. AIFMD II took effect with a 16 April 2026 transposition deadline, broadening the delegation regime to encompass fund administration explicitly, mandating liquidity-management-tool selection, and tightening substance requirements; the UCITS regime, DORA enforcement, and the EU AI Act high-risk provisions effective 2 August 2026 complete the perimeter.[29] The EU depositary regime adds an oversight layer with no direct US analogue. For servicers, the EU is the most prescriptive and most rapidly converging-yet-fragmenting of the major regions.

Asia-Pacific. APAC is the most fragmented region: settlement cycles, regulatory regimes (MAS, SFC, ASIC and others), and market-infrastructure timelines diverge widely, with the ASX CHESS replacement targeted for 2029. APAC is also the fastest-growing private-asset region. For global servicers, APAC cannot be treated as a single operating or control environment; it is a portfolio of materially different regimes.

[29]Skadden, "AIFMD II Roundup," April 2026; Regulation Tomorrow, April 2026: AIFMD II (Directive (EU) 2024/927) transposition deadline 16 April 2026; delegation regime broadened beyond portfolio/risk management to encompass fund administration, marketing, distribution and loan origination; at least two EU-resident full-time managers required; Level 2 measures deferred to after 1 October 2027.

7. CUSTODIANS AND GLOBAL CUSTODY BANKS

The Platform Pivot

Global custodians entered 2026 as the structural foundation of institutional finance and the most visible test case for AI at operational scale. The five largest global custodians safeguard close to USD 200 trillion in assets, growing roughly ten percent annually. State Street reported USD 54.5 trillion in assets under custody and/or administration as of 31 March 2026; Northern Trust reported USD 18.2 trillion as of 30 September 2025.[30] JPMorgan Securities Services settles roughly USD 1 trillion of securities daily across more than 100 markets. These are the infrastructure layer of the global investment system, not back-office utilities.

~USD 200T	~10%	USD 1T
AUC at the five largest custodians	Annual growth in custodied assets	Securities settled daily (JPMorgan SS)

Strategic Priorities

The defining priority is the platform pivot — the deliberate repositioning from custody provider to integrated technology platform. The competitive question has shifted from "who safeguards assets most cheaply" to "who delivers the most intelligent, integrated, data-rich operating environment" — and AI sits at the center of the answer.

A second priority is AI-led operational transformation across reconciliation, corporate actions, settlement support, and tax operations, where reported outcomes such as Northern Trust's disclosed reduction of certain custody tax operations from eight hours to thirty minutes illustrate the magnitude of the opportunity.[31]

A third priority is digital-asset and tokenization readiness, with DTC's SEC-authorized tokenization service expected to roll out in the second half of 2026 and tokenized Treasury and money-market instruments growing rapidly.

Operational Challenges

Custodians face an environment in which straight-through-processing rates are high but exception handling remains labour-intensive, settlement tolerances have compressed under T+1, and the AI deployed to address these pressures is itself becoming a control and resilience exposure that frequently runs on infrastructure and under vendor terms the custodian does not fully control or audit.

The DORA perimeter sharpens this: the designation of major hyperscalers as Critical ICT Third-Party Providers, the requirement to evidence concentration risk, and supervisors' shift to demanding real-time resilience evidence and defensible data lineage place direct obligations on custodians whose AI workloads depend on a

[30] State Street Form 8-K, Q1 2026; Northern Trust Corporation disclosure, 30 September 2025 (USD 18.2 trillion AUC/A, USD 1.8 trillion AUM).
[31] Global Custody Pro, January 2026; self-reported, presented as indicative.

small number of cloud and model providers. Shadow AI adopted outside formal procurement creates blind spots in the asset inventories and registers DORA requires.

Function and Product Exposure

Function exposure. Within the custody operation, AI exposure concentrates first in reconciliation (the most operationally mature AI function and the custodian's highest break-volume workload), then in corporate actions (highest financial-consequence-per-error), settlement support (most T+1-compressed), and tax operations (the flagship efficiency case, and a representation to a tax authority). Each carries the function-level control requirement established in Section 4: institution-controlled, reconstructable evidence, resilient to provider concentration.

Product exposure. A global custodian's book spans every product type simultaneously: custodied mutual funds and ETFs (high-volume, daily-NAV-sensitive corporate actions and reconciliation), insurance general accounts (valuation feeding regulatory capital), retirement assets (participant-data sensitivity), and increasingly alternative and private structures (judgemental valuation and bespoke instruments). The custodian therefore cannot adopt a single AI control posture; the requirement varies by product within the same operation, which is precisely why a one-checkpoint approach fails.

Concentration reality. Because custody AI workloads typically depend on a small number of cloud and model providers, the DORA designation of major hyperscalers as Critical ICT Third-Party Providers makes provider concentration an explicit, evidenced supervisory obligation rather than an internal risk-management preference.[32]

AI Control Imperatives

For custodians, the imperative is to convert AI deployment into AI command. The efficiency case is proven enough to be irreversible; the control case is now the binding constraint. The custodians that lead will be those that can demonstrate — to clients conducting AI due diligence, to DORA supervisors demanding evidence, and to their own boards — that every AI system in the custody operation is inventoried, controlled, auditable, and resilient to provider concentration. The custodian that can prove command over its AI will hold a structural advantage over the custodian that can only assert it.

[32] Nemko Digital and SentinelOne analyses of DORA, 2026: first cohort of Critical ICT Third-Party Providers designated by the ESAs in November 2025, including major hyperscalers; financial entities must assess and mitigate concentration risk arising from those dependencies.

8. FUND ADMINISTRATORS

NAV Integrity at Machine Speed

Fund administrators entered 2026 carrying the operational consequence of the private-markets boom. Global private-asset fund values reached a record USD 14.9 trillion at the end of 2025 — up 15.4 percent in a single year — and are forecast to climb to USD 23.9 trillion by 2030; private equity fund assets alone rose to roughly USD 10.6 trillion.[33] Every one of those dollars requires NAV calculation, investor allocation, capital-call and distribution processing, and regulatory reporting — across asset classes never designed for straight-through processing, at volumes that make manual control untenable.

USD 14.9T	+15.4%	USD 23.9T
Global private-asset fund value, 2025	One-year growth in private-asset funds	Forecast private-asset fund value, 2030

Strategic Priorities

The first priority is private-markets servicing capability — the sector's primary battleground for mandates and its primary source of operational risk, driving investment in data aggregation, valuation support, and AI-assisted processing.

A second priority is AI-enabled NAV and pricing oversight: AI is deployed to validate pricing, detect anomalies, and flag exceptions before release. The value is significant; so is the risk. An AI-driven pricing or NAV error that goes undetected because model drift was not monitored flows to the fund, its investors, and its directors, and back to the administrator as liability.

A third priority is regulatory-reporting automation across AIFMD, UCITS, Form PF, FATCA, and an expanding jurisdictional set — with audit-trail obligations identical to manual production.

Operational Challenges

The defining challenge is producing defensible NAVs at machine speed across asset classes of widely varying data quality: public-markets data is fast and structured; private-markets data is slow, manager-reported, and inconsistent — and AI asked to bridge that gap inherits the data-quality problem rather than solving it.[34]

Client data sovereignty compounds it: administrators aggregate investor KYC, subscription, and beneficial-ownership data across multiple structures and jurisdictions, and AI processing under standard vendor terms creates data-residency and logging obligations — sharpened by the EU AI Act's August 2026 requirements — that most administrator vendor agreements were not written to address.

[33] Ocorian Global Asset Monitor, reported by Asset Servicing Times, February 2026.

[34] Grant Thornton, 2025; Carta, March 2026.

Function and Product Exposure

Function exposure. The administrator's AI exposure is dominated by the NAV-production convergence point and everything feeding it: pricing and valuation (acute for private and illiquid assets), income and expense accrual (performance-fee and waterfall computation determine economic entitlements), and reconciliation (the independent check). Financial reporting and tax (investor-level schedules) carry the highest external-reliance weight because the output is a representation relied upon by investors, auditors, and authorities.

Product exposure. The administrator's risk is asymmetric across products. For hedge funds, daily NAV with shadow validation places AI inside the primary independent control. For private equity and credit, quarterly NAV dominated by valuation judgement means the reconstruction burden persists for years after each valuation. For mutual funds and UCITS, the published transactable NAV converts any AI error into a regulatory and investor-compensation event. The private-markets surge concentrates the fastest asset growth precisely in the products where valuation judgement — and therefore the reconstruction requirement — is heaviest.[35]

Data-sovereignty overlay. Administrators aggregate investor KYC, subscription, and beneficial-ownership data across structures and jurisdictions; AI processing of that data under standard vendor terms creates residency and logging obligations — sharpened by the EU AI Act's August 2026 requirements — that most administrator vendor agreements were not written to satisfy, making this a contract-level control gap, not only a technical one.

AI Control Imperatives

For fund administrators, the imperative is auditable NAV intelligence: a complete, institution-controlled evidence trail for every AI-assisted valuation and NAV component — model inputs, assumptions, drift monitoring, exception handling, human oversight. The administrator that can demonstrate it wins private-markets mandates from sophisticated allocators conducting AI due diligence; the administrator that automates without it accumulates undetectable liability precisely as its asset base grows fastest.

[35] Carta, "Shadow Accounting in PE/VC," March 2026; Ocorian Global Asset Monitor via Asset Servicing Times, February 2026: private-asset fund value the fastest-growing segment, and the segment most dependent on valuation judgement.

9. TRANSFER AGENTS

The Investor Data Frontier

Transfer agents entered 2026 holding some of the most sensitive personal and financial data in the global financial system — shareholder registers, subscription and redemption records, distribution administration, investor communications — while facing the operational pressure of compressed settlement cycles and rapidly advancing automation. As automation moves into these workflows under T+1 pressure, the transfer agent's core obligations — accuracy, investor-data protection, and AML/KYC integrity — are increasingly mediated by AI.

T+1	Aug 2026	KYC / AML
Compressed settlement driving automation	EU AI Act high-risk obligations effective	AI-mediated, audit-critical workflows

Strategic Priorities

The first priority is investor-servicing automation: compressed settlement and rising expectations push AI into subscription/redemption processing, onboarding, and servicing communications — with governance debt accruing when automation outpaces the control framework.

A second priority is AI-driven AML and KYC integrity: AI now drives much of the screening and refresh activity, and the regulatory obligations around model explainability, decision audit trails, and adverse-action documentation apply to those systems with the same force as to the human compliance function.

A third priority is data-protection leadership: as the EU AI Act's data-governance and logging obligations take effect in August 2026, the transfer agent that can demonstrate technical control over how investor data is processed by AI — not merely contractual assurance — converts a compliance obligation into a differentiator.

Operational Challenges

The defining challenge is reconciling automation speed with investor-data sensitivity: AI systems processing investor identity and ownership data under standard API terms are processing the most sensitive data in the servicing chain on infrastructure the transfer agent frequently does not control or audit, and the combination of T+1 urgency and control deferral produces a recognizable pattern of silently accumulating exposure.

AML/KYC AI is the sharpest exposure: a screening system that cannot produce an explainable, auditable basis for an alert — or its absence — is performing a regulated function without the documentary defensibility that function requires, and DORA makes the attaching resilience and third-party-risk obligations explicit and enforced.

Function and Product Exposure

Function exposure. The transfer agent's AI exposure concentrates in two functions from Section 4: compliance and AML/KYC (an AI alert or its absence is a regulated determination requiring an explainable, reconstructable basis) and financial reporting / investor statements (investor-level accuracy at high volume). Reconciliation of the register against fund and custodian records is the third, with an investor-data-sensitivity overlay that is unique to this archetype.

Product exposure. The investor-data burden is heaviest where the register is direct and granular: mutual funds with large retail shareholder bases, hedge funds and private funds with subscription/redemption and capital-account complexity, and retirement / DC with participant-level recordkeeping at extreme volume. Across all of them the data being processed — identity documents, tax-residency declarations, beneficial-ownership structures — is the most sensitive in the servicing chain, which is why the EU AI Act's data-governance and logging obligations from August 2026 bear most directly on this archetype.

Boundary control. As AI moves into investor servicing and screening, the transfer agent must enforce technically — not by policy alone — the boundary between automated processing and decisions requiring human judgement, and must hold the resulting evidence outside the vendor producing it; DORA's resilience and third-party-risk obligations on these systems are explicit and enforced.[36]

AI Control Imperatives

For transfer agents, the imperative is governed investor-data intelligence: institution-controlled audit evidence for every AI-mediated AML decision, every automated investor transaction, and every processing of sensitive investor data. The transfer agent that can demonstrate it retains mandates and passes the AI due-diligence reviews sophisticated fund clients increasingly require; the one that automates the investor-data frontier without it is exposed precisely where regulatory and reputational consequences are most severe.

[36] Pinsent Masons and HewardMills, 2025–2026: AI used in screening/fraud detection attracts EU AI Act risk and transparency requirements while DORA governs ICT resilience and incident handling; the boundary between automated and judgement-requiring decisions must be enforced and evidenced.

10. SECURITIES SERVICES PROVIDERS

Integrated Post-Trade at Scale

Integrated securities services providers entered 2026 as the most complex operating model in asset servicing and the most exposed to AI concentration risk — delivering custody, fund administration, collateral management, securities lending, and middle-office outsourcing across multi-asset, multi-jurisdiction relationships at a scale where a single operational or AI failure can propagate across service lines simultaneously. State Street's integrated Investment Services and Markets model, BNY's end-to-end platform, and JPMorgan's front-to-back Securities Services franchise exemplify the archetype.

Multi-asset	Concentration	Due diligence
Integrated post-trade across service lines	Shared AI / cloud dependency risk	Client AI control reviews rising

Strategic Priorities

The first priority is platform-integration depth: the thesis that clients want a single integrated operating environment rather than a panel of point providers, with AI as the connective intelligence that makes integration valuable.

A second priority is cross-service AI orchestration under control: the same data flows that make integration valuable create control complexity no single vendor agreement was designed to address, driving investment in control planes that enforce policy consistently across service lines.

A third priority is demonstrable AI control as a commercial differentiator: the first integrated provider to offer verifiable, matrix-level AI control across its full service stack as a standard feature converts a regulatory burden into a competitive moat.

Operational Challenges

The defining challenge is concentration risk across the AI stack: large firms typically rely on one or two cloud providers and a small number of model providers for AI workloads spanning multiple service lines, so a single provider disruption, price change, or contractual restriction creates simultaneous exposure across custody, fund administration, and reporting — which DORA makes an explicit, evidenced supervisory obligation following the November 2025 designation of major hyperscalers as Critical ICT Third-Party Providers.

Cross-service data control is the second challenge: AI traversing service-line boundaries multiplies the control surface — data residency, model lineage, audit evidence — so the provider that cannot evidence control at that level is exposed across every service simultaneously.

Function and Product Exposure

Function exposure. The integrated provider runs the entire Section 4 function stack at once and across multiple service lines, so its exposure is not the sum of individual functions but their interaction: a security-master error propagates across custody, fund administration, and collateral simultaneously; a reconciliation agent's classification feeds NAV, which feeds client and regulatory reporting. The control surface is the cross-function data flow, not any single function in isolation.

Product exposure. Integrated mandates typically span every product type for a single client relationship — custody of listed assets, administration of alternative structures, transfer agency for the investor register, collateral and securities lending across the book. The provider therefore carries every product-specific control requirement from Section 4 concurrently within one operating model, which is why “unified” is the operative word: fragmented per-service control is, by construction, insufficient for an integrated mandate.

Concentration as systemic exposure. Because integrated providers run multi-service AI workloads on a small number of cloud and model providers, a single provider disruption is simultaneous exposure across custody, administration, and reporting — and DORA's Critical ICT Third-Party Provider regime makes evidencing and mitigating that concentration an explicit supervisory obligation, not a discretionary risk choice.[37]

AI Control Imperatives

For integrated providers, the imperative is unified AI command across the stack: a single, coherent control framework covering every AI system across every service line, resilient to provider concentration, and auditable end-to-end. That is the precise point at which the platform pivot either compounds advantage or compounds exposure.

[37] SentinelOne and Pinsent Masons analyses of DORA, 2026: Articles 28–44 establish oversight of Critical ICT Third-Party Providers; financial entities must evidence and mitigate concentration risk; Article 9(10) of the EU AI Act permits integrating AI risk management into DORA ICT risk-management procedures — an opportunity for integrated providers that approach control as a single framework.

11. THE 2026 — 2027 TRAJECTORY

Five Developments That Will Decide the Control Question

The structural forces and function-level dynamics analyzed above resolve into five concrete developments over the 2026 — 2027 horizon. Each is a point at which the gap between AI deployment and AI control either narrows or widens.

1. The EU AI Act high-risk perimeter takes effect (2 August 2026)

In-scope high-risk AI systems become subject to data-governance, automatic-logging, and transparency obligations. For asset servicers, the operational question is not whether their AI is "high-risk" in the abstract but whether they can produce the logging and lineage evidence the regime presumes — evidence that, on managed infrastructure, frequently sits in a vendor's environment under a vendor's retention policy.[38]

2. DORA enforcement matures from documentation to evidence

Through 2026, supervisors have moved from reviewing policies to demanding real-time resilience evidence and defensible data lineage, with the Critical ICT Third-Party Provider regime making provider concentration an explicit obligation. The trajectory is toward examination practice that treats unevidenced AI dependence as a finding, not a gap to be remediated later.

3. T+1 widens from the US to the UK and EU

US T+1 is in force; the UK has legislated for mandatory T+1 from 11 October 2027 and the EU is transitioning in parallel. Through the transition, global servicers must operate divergent settlement tolerances simultaneously — a control-configuration problem that compounds the reconciliation and capture pressures analyzed in Section 4.[39]

4. Tokenization moves from pilot to production rails

DTC's SEC-authorized tokenization service is expected to begin rolling out in the second half of 2026, introducing a parallel on-chain path for custody and corporate actions that will require its own control evidence rather than inheriting the legacy stack's.[40]

5. Client AI due diligence becomes standard procurement

Sophisticated institutional clients are beginning to include AI control in annual service-provider due diligence. The trajectory is toward a market in which the ability to evidence control — not merely assert governance — becomes a precondition for winning and retaining mandates. The first providers to offer verifiable, matrix-level

[38] IOMETE and K&L Gates analyses, 2026: EU AI Act high-risk provisions effective 2 August 2026; Articles 10, 12, 13 impose data-governance, automatic-logging, and transparency obligations; the Digital Omnibus proposal (November 2025) may adjust effective dates pending standards availability.

[39] Travers Smith and Akin regulatory roadmaps, 2026: UK T+1 mandatory from 11 October 2027; EU transitioning in parallel; divergent cycles persist through the transition window.

[40] DTCC, "DTCC Authorized to Offer New Tokenization Service," December 2025: DTC No-Action Letter; rollout anticipated H2 2026 on pre-approved blockchains, with tokenized assets carrying the same entitlements and protections as the underlying.

control across the function stack as a standard feature convert a regulatory burden into a commercial moat; the laggards discover that the control gap has become a revenue gap.

12. CONCLUSION

The Operating System Needs an Operating Discipline

Across all four categories of asset servicer — custodians, fund administrators, transfer agents, and integrated securities services providers — the period spanning 2026 and 2027 will be defined less by any single market event than by the cumulative pressure of four structural forces: the platform pivot, the AI deployment-control gap, the tightening and converging regulatory perimeter, and fee compression and consolidation.

The function-by-function analysis makes the central finding concrete. AI is not arriving in asset servicing as a single system to be governed once. It is arriving function by function — into trade capture, into reconciliation, into pricing and the security master, into corporate actions and income and expense, into NAV production, tax, compliance, and financial reporting — and it is arriving at different depths in different products and different jurisdictions. There is no single control checkpoint. The control requirement is distributed across the entire stack, varies by product type, and varies by geography. That is precisely why it is hard, and precisely why the institutions that treat it as a one-time policy exercise will fail the test that clients, supervisors, and boards are beginning to set.

Several themes recur across the analysis. Operational excellence — particularly institution-controlled evidence over AI in the accounting stack — appears, in our view, to be moving from competitive advantage toward baseline expectation. Self-reported AI performance gains are real but unverified, which is itself, in our reading, a control signal. Industry disclosures and regulatory developments suggest that supervisory emphasis is shifting, in practice, from policy documentation toward demonstrable, evidenced command over the technology environment, including the AI within it; this is our assessment of the trajectory rather than a statement of any regulator's formal position. And the providers describing themselves, in their own public materials, as the institutional “operating system” have, in our view, taken on an implicit obligation: an operating system for the world's capital, in our framing, requires an operating discipline to match.

Across every category, function, product, and geography in this report, our analysis suggests that AI control — not AI adoption — is emerging as the binding operational constraint on asset servicers' ability to convert the opportunity in front of them into durable advantage. The infrastructure is being built at remarkable speed. In our view, the providers most likely to lead through 2026 and 2027 are those that recognize that deploying AI and commanding it are different disciplines — and that, for an industry entrusted with safeguarding the world's invested capital, the second discipline is the one that ultimately matters. The opportunity is real. So, in our assessment, is the control gap.

SOURCES AND REFERENCES

This white paper synthesizes findings from the most recent industry studies, corporate disclosures, regulatory publications, and outlook reports across the global asset servicing landscape. The same-page footnotes throughout this document provide specific attribution for each named assertion; the consolidated register below lists the principal sources drawn upon.

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All data points cited in this report are drawn from the publicly available editions of the above sources. Where percentages or dollar figures are stated, they reflect the most recent period for which data have been published as of May 2026. Provider- and vendor-disclosed AI performance and deployment figures are self-reported by the relevant parties and are presented as indicative rather than independently verified.

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Not Another Vendor.

Institutional AI is the AI control firm for financial institutions — a category we created because consulting, software, and systems integration do not address what institutions actually need: a control architecture they own permanently and can prove command over.

We work with asset servicers — the infrastructure layer of institutional finance — to design that architecture. Our work begins with the AI Control Assessment, a proprietary diagnostic built on the 5×5 Control Matrix that scores an institution's control posture across five AI ecosystems and five pillars of control. From assessment, we move to architecture: the Institutional AI Stack™ defines what to build; OLTAIX™ is the control plane that enforces it. Our methodology integrates scenario planning developed at Oxford's Saïd Business School with two decades of institutional operating experience.

The closest analogy in financial services is a rating agency combined with an architect — proprietary methodology paired with infrastructure the institution owns. Institutional AI does both, for AI control.

Our Mission

To put every financial institution in command of its AI — not dependent on it.

The institutions that control their AI with the same precision, purpose, and accountability with which they control capital, custody, and trust will lead. The ones that do not will operate at the permission of those who do.

"We built this company because the institutions that shape society deserve to control the AI that shapes their decisions."

— Rad H. Pasovschi, CEO, Institutional AI

AI is a given. Control is not. We exist to change that.

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References to provider-disclosed or vendor-disclosed artificial-intelligence deployments, performance figures, or operational outcomes reflect statements made publicly by the relevant parties or reported by third-party industry sources. Such figures are self-reported and have not been independently verified by Institutional AI; they are presented as indicative rather than as established fact, and no conclusion about any institution's actual operational performance, control posture, or compliance status should be drawn from their inclusion.

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Discussion of regulatory frameworks — including DORA, the EU Artificial Intelligence Act, AIFMD and AIFMD II, the UCITS Directive, the Investment Company Act of 1940, T+1 settlement requirements, and other regimes — is provided for context only, reflects Institutional AI's general understanding as of May 2026, and does not constitute legal or regulatory advice or a complete or definitive statement of any legal obligation. Any characterization of supervisory expectations or the "direction of travel" of regulation represents Institutional AI's analytical opinion and not the stated position of any regulator. Regulatory requirements evolve and their application depends on specific facts and jurisdictions; institutions should consult qualified counsel and compliance specialists regarding their own obligations.

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