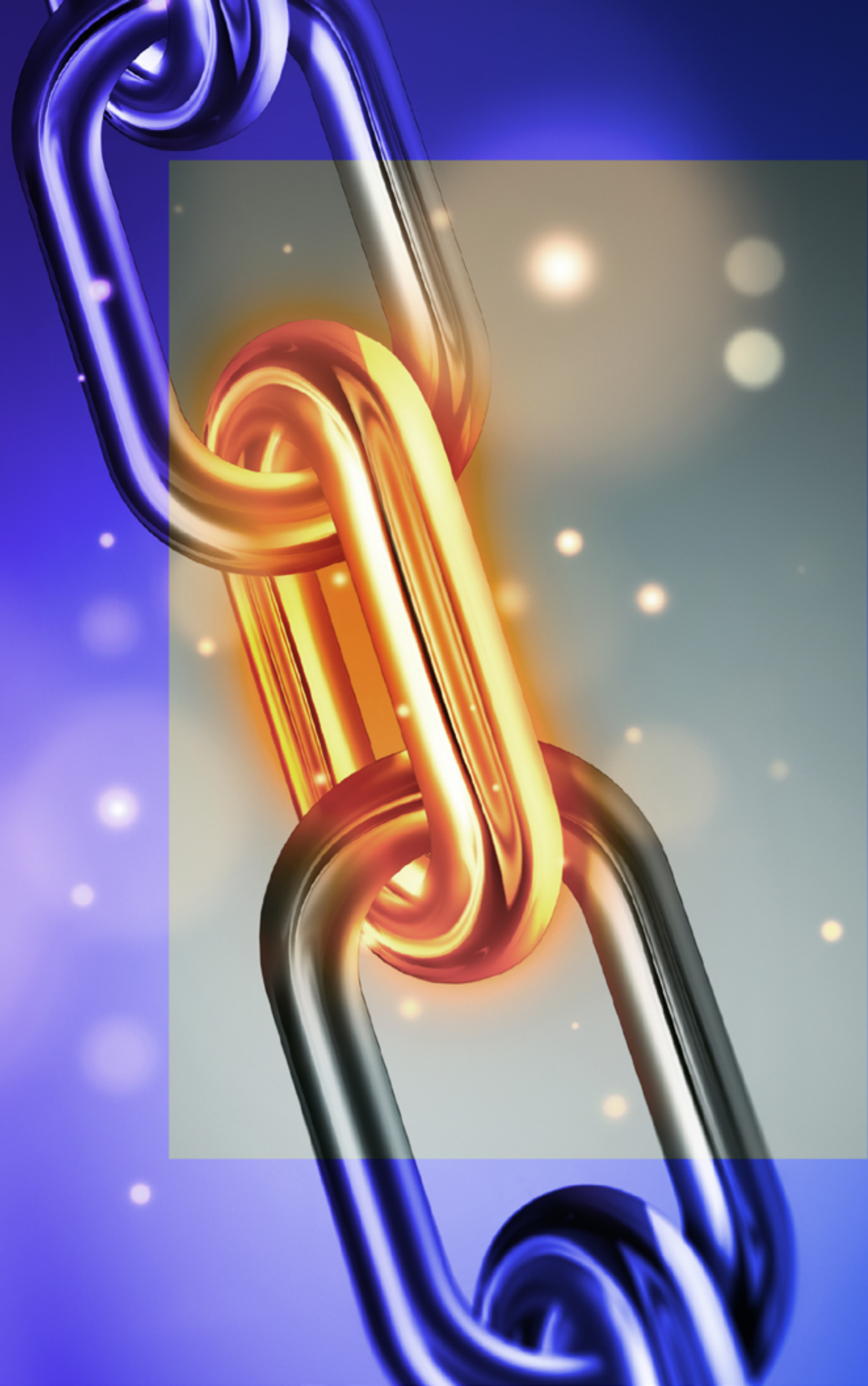




# Ten Key Regulatory Challenges of 2023

Strengthening “weak links”



# Ten Key Regulatory Challenges of 2023

Scrutiny & Divergence

Climate & Sustainability

Transparency & Reporting

Data & Cybersecurity

Tech & Resiliency

Capital & Credit Risk

Fairness & Inclusion

Fraud & Financial Crime

Payments & Crypto

Risk & Governance



Source: KPMG Regulatory Insights

# 1 Scrutiny & Divergence

Regulatory scrutiny and enforcement activities will increase. Examinations and investigations under existing regulations will increase in scope coverage as regulatory “perimeters” expand via established jurisdictional authorities. Divergences and debate on jurisdictional authorities will continue across federal, state, and global regulations and frameworks – exacerbated by social and political divides as well as a heightened value to “regulatory democratization.”

Source: **KPMG Regulatory Insights**



# 1 Scrutiny & Divergence

## Call to Action...

- Ensure effective current and emerging regulatory tracking and inventory
- Dynamic mapping of regulations and regulatory expectations to risk assessments and to risk controls
- Development and execution of “regulatory routines”, inclusive of process automation and data analysis for consistency and trends (including for regulatory requests and corporate responses)
- Demonstrable enhancements to ethics, compliance and culture/conduct incentives and deterrents

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## KPMG Thought Leadership:

Regulatory Insights, Regulatory Alerts:



- Regulation and supervision: Agencies preview forthcoming priorities
- Access to Reserve Bank accounts and payment services: FRB guidelines
- SEC Changes to Proxy Rules
- SEC near-term 2022 regulatory agenda
- Examination and Risk Monitoring: FINRA 2022 Report
- CFPB issues consumer protection orders to BigTech



## 2 Climate & Sustainability

Amid continued socio-political discordance, there is increasing need for climate and sustainability risk management, controls, and governance, inclusive of quantitative analysis.

Source: **KPMG Regulatory Insights**



# 2 Climate & Sustainability

## Call to Action...

- Ensure consistency across mandatory vs voluntary reporting and disclosures
- Integrate climate risks into governance and risk management frameworks
- Develop initial assumptions and models for climate risk scenario analysis
- Factor potentially disproportionate impacts into decision-making

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## KPMG Thought Leadership:

Regulatory Insights, Regulatory Alerts:



- Climate Risk: FRB pilot scenario analysis
- Update: Inflation Reduction Act
- Climate Risk: Insurance data collection; FSB progress reports
- Insurance Risks: Compliance with NY DFS climate guidance
- Climate Risk: SEC's Climate Disclosures Proposal
- OCC principles for large bank climate risk management

Regulatory Insights, POV



- Gearing up for evolving ESG regulations



- Operationalizing climate risks



# 3 Transparency & Reporting

Increase of stakeholder pressure for increasingly transparent and real-time processes, reporting/disclosures, and voice of the customer

Source: **KPMG Regulatory Insights**



# 3 Transparency & Reporting

## Call to Action...

- Prioritize and embed fairness across the full customer journey
- Execute centralized processes; streamline and simplify all customer-focused communications
- Assess requirements of potential reg changes against skill sets, data sets, and controls framework; evaluate gaps and develop a remediation plan
- Ensure data quality and integrity controls between digital platforms and surveillance architecture at critical data handoff points

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## KPMG Thought Leadership:

Regulatory Insights, Regulatory Alerts:



- Market structure: SEC remarks on potential updates
- Investor Protections: SEC proposed Names Rule and ESG Investment Practices Disclosure
- Cybersecurity: SEC Proposals for Public Company Reporting, Disclosures
- Short Sales: SEC proposed disclosures
- Private Funds: Proposals to enhance investor protections
- Form CRS disclosures: SEC staff statement





# 4 Data & Cybersecurity

Data and its security - how you get it, how you retain it, how you purge it, how you use it and how you protect it

Source: **KPMG Regulatory Insights**



# 4 Data & Cybersecurity

## Call to Action...

Drive improved integration of data management, cybersecurity, and privacy programs to:

- Build a practical and defensible framework for scoping these programs that considers regulatory obligations and the organization's business needs
- Share a common view of what data and information assets are critical to the organization
- Coordinate efforts on how best to manage associated risks
- Measure and report upon the effectiveness of these programs and residual risk exposure for the organization in a consistent and integrated way

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## KPMG Thought Leadership:

Regulatory Insights, Regulatory Alerts:



- CFPB Proposals for Section 1033, Personal Financial Data Rights
- Data Retention and Deletion: Increasing Regulatory Expectations
- Cybersecurity: SEC Proposal for Adviser/Fund Risk Management
- Cybersecurity: SEC Reg SCI Proposal, Future Considerations
- Cyber incident notifications
- FFIEC guidance on systems authentication and access

Regulatory Insights, POV



- Enhancing the cybersecurity risk framework



- Regulatory Scrutiny of Technology and Data



# 5 Technology & Resiliency

Use of technology suppliers, cloud environments, and remote work technologies, present risk management, resiliency and threat intelligence risks.

Source: **KPMG Regulatory Insights**



# 5 Technology & Resiliency

## Call to Action...

- Set criticality standards and methodology
- Measure asset risk exposure
- Provide transparency to board/management
- Automate security incident escalation and response; build feedback loops
- Clearly delineate responsibilities

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## KPMG Thought Leadership:

Regulatory Insights, Regulatory Alerts:



- Third party risk management: SEC Investment Adviser Proposal
- Examination and Risk Monitoring: FINRA 2022 Report
- Regulatory focus on cloud computing
- Third-party risk management

Regulatory Insights, POV



- Regulatory Scrutiny of Technology and Data



# 6 Credit & Capital

Safety and soundness will continue to be paramount assessment, particularly amid changing economic environment – expect capital changes, a focus on credit risk and the need to demonstrate compliance with key effective dates.

Source: **KPMG Regulatory Insights**



# 6 Credit & Capital

## Call to Action...

- Conduct analytics to assess exposure to rate index tied loans
- Assess or reassess the validity of credit rating models and demonstrate/document adherence to risk rating policies
- Assess CRE office exposure to increasing vacancies and likely declining collateral values based on rising cap rates.
- Prepare and quantify new capital requirement impacts
- Improve operational efficiencies (speed/cost) for stress test runs
- Softly land into the next EPS requirements

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## KPMG Thought Leadership:

Regulatory Insights, Regulatory Alerts:



- Large Bank Resolution: FRB, FDIC Joint ANPR
- Transition away from LIBOR
- LIBOR Transition: Anticipate supervisory findings and actions



# 7 Fairness & Inclusion

Acting in concert with the Administration's strategies and directives to promote equity, fairness, and inclusion, federal financial service regulators and state attorneys general have expanded their bank and nonbank supervisory lens on principles of fairness and customer/investor protections to encompass the "whole of the consumer," focusing on impacts, outcomes, and DEI concerns at all touchpoints.

Source: [KPMG Regulatory Insights](#)



# 7 Fairness & Inclusion

## Call to Action...

- Embed fairness controls across all consumer/retail products and services
- Prioritize and embed fairness across the full customer journey
- Execute centralized processes; streamline and simplify all customer- focused communications
- Enhance complaint, claims and dispute management processes, technology, and data analytics
- Set clear, measurable DEI goals, develop metrics and monitoring program, and factor into management accountability
- Evolve the CMS (across lines) using a DEI lens, including revisiting the inputs/ weightings into risk assessments and new product and service reviews/ approvals—all to consider inclusion, access, tangible benefit, and consistent/ equitable outcomes

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## KPMG Thought Leadership:

Regulatory Insights, Regulatory Alerts:



- Consumer and Investor Fees: SEC, CFPB, and FTC Focus
- Focus on small business is getting “big”
- Supervisory focus on overdraft practices
- Diversity, Equity, and Inclusion: SEC’s Diversity Assessment Report
- Inclusion: Community Reinvestment Act Proposal
- CFPB expands anti-discrimination focus
- Complaints management & FCRA compliance: CFPB report & bulletin





# 8 Fraud & Financial Crime

Increasing regulations, supervision & enforcement as regulators look to ensure both national security and consumer protections

Source: **KPMG Regulatory Insights**



# 8 Fraud & Financial Crime

## Call to Action...

- Add analytics and automation to client onboarding
- Eliminate antiquated technology
- Establish a mature conduct risk program
- Strengthen controls in regulatory focal areas (FinCEN priorities)

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## KPMG Thought Leadership:

Regulatory Insights, Regulatory Alerts:



- Financial Crime: FinCEN final rule on beneficial ownership
- U.S Actions to Russia-Ukraine War: OFAC Guidance on Russian Oil Price Cap
- 2022 National Strategy for Combating Terrorist and Other Illicit Financing
- Special Alert | AML/CFT priorities



# 9 Payments & Crypto

Expanded use of digital payments and digital assets increase the need for defined regulatory authority around key risk areas—all companies in digital must ensure effective controls to mitigate these risks

Source: **KPMG Regulatory Insights**



# 9 Payments & Crypto

## Call to Action...

- Develop capability assessments for digital asset product offerings and operations, as well as for risk and compliance frameworks adequate for the proper licensing, registration, issuance, and/or use of digital assets
- Establish and enhance internal risk policies, procedures, and controls for digital assets and payments, including analyzing risk profiles, customer due diligence (KYC) operations, BSA audit programs, and AML/CFT programs
- Produce actionable and relevant digital asset information for board and senior management reporting
- Understand how data is being used and monetized and whether any behavioral targeting may be inconsistent with customer expectations
- Evaluate existing regulatory change management framework and ensure integration of appropriate risk partners in strategy discussions, development, and regulatory approvals, as needed

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## KPMG Thought Leadership:

Regulatory Insights, Regulatory Alerts:



- Crypto and Digital Assets: FSOC, NY Fed Reports on Financial Stability Implications
- Real-Time Payments: FedNow Service to launch mid-2023
- Crypto and Digital Assets: Increasing regulatory momentum
- Cryptocurrency activities
- Virtual assets and related providers | Updated FATF guidance

Regulatory Insights, POV

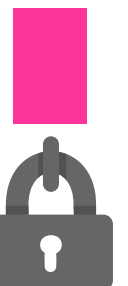


- Assessing crypto and digital asset risks

# 10 Risk & Governance

Across all regulatory challenge areas, the importance of risk management and avoidance of “risk complacency” is vital to remaining in compliance with evolving regulatory landscapes and ensuring resiliency.

Source: **KPMG Regulatory Insights**



# 10 Risk & Governance

## Call to Action...

- Assess board and executive governance structure, skills and composition
- Develop and formalize board composition /education program to address critical and emerging risks
- Ensure demonstrable board and executive management critical challenge
- Actively surveil and mitigate conflicts of interest and conduct risks, particularly in areas of “new” (digital adoption, models/AI/ML, etc.)
- Evaluate existing supervision and control testing coverage; explore methods to increase coverage (automation, methodology, etc)
- Invest in automation, analytics, and process efficiencies
- Appropriately position, scale, and reward risk management

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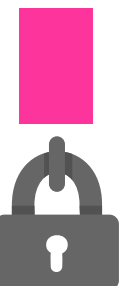
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## KPMG Thought Leadership:

Regulatory Insights, Regulatory Alerts:



- SEC Examinations Risk Alert: Investment Adviser MNPI and Code of Ethics Compliance
- FTC approves resolutions to expedite conduct investigations
- Chief Compliance Officer liability framework: Proposal for financial services
- Guidance for boards



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# Defined terms and abbreviations

Acronym	Definition
AG	Attorney general
AI	Artificial intelligence
AML	Anti-money laundering
ANPR	Advance Notice of Proposed Rulemaking
AVM	Automated valuation methodologies
BCBS	Basel Committee on Banking Supervision
BNPL	Buy Now, Pay Later
BSA	Bank Secrecy Act
CBDC	Central bank digital currency
CCAR	Comprehensive Capital Analysis and Review
CCPA	California Consumer Privacy Act
CDD	Customer due diligence
CDE	Critical OTC derivatives data elements
CECL	Current Expected Credit Losses (methodology)
CFPB	Consumer Financial Protection Bureau
CFT	Countering the financing of terrorism
CFTC	Commodities Futures Trading Commission
CISA	Cybersecurity and Infrastructure Security Agency
CMS	Compliance management system
CPRA	California Privacy Rights Act
CRA	Community Reinvestment Act
CRE	Commercial real estate
DeFi	Decentralized finance
DEI	Diversity, Equity, and Inclusion
DEP	Digital engagement platforms
DOJ	Department of Justice
EFRAG	European Financial Reporting Advisory Group
EFTA	Electronic Fund Transfer Act
ESG	Environmental, Social, and Governance

Acronym	Definition
FATF	Financial Action Task Force
FCRA	Fair Credit Reporting Act
FDIC	Federal Deposit Insurance Corporation
FinCEN	Financial Crimes Enforcement Network
FINRA	Financial Industry Regulatory Authority
FRB	Federal Reserve Board
FTC	Federal Trade Commission
GHG	Greenhouse gas
ISSB	International Sustainability Standards Board
IT	Information technology
KYC	Know your customer
LIBOR	London Inter-bank Offered Rate
LMI	Low- and middle-income
M&A	Mergers and acquisitions
ML	Machine learning
NCUA	National Credit Union Administration
NFT	Non-fungible token
NY DFS	New York Department of Financial Services
NYC	New York City
OCC	Office of the Comptroller of the Currency
OFAC	Office of Foreign Assets Control
P2P	Peer-to-peer
SAR	Suspicious activity report
SEC	Securities & Exchange Commission
TCFD	Task Force on Climate-related Financial Disclosure
UDAAP	Unfair, Deceptive, or Abusive Acts or Practices
UPI	Unique product identifier
UTI	Unique transaction identifier



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