



Ten key regulatory challenges of 2021:

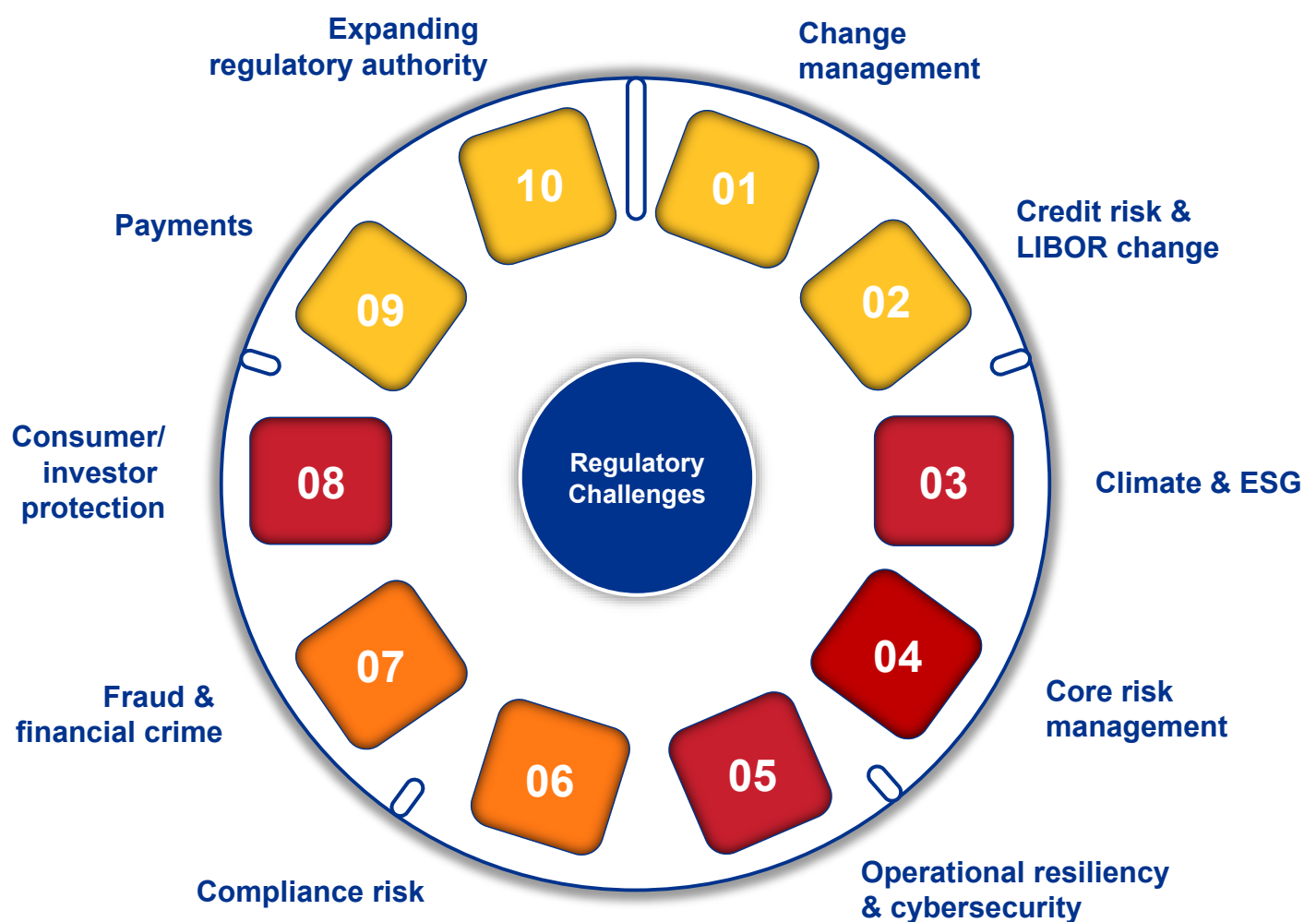
Mid-year outlook

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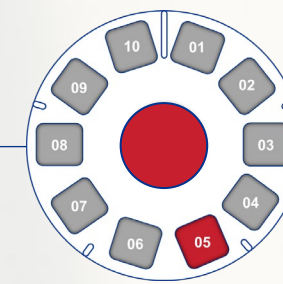
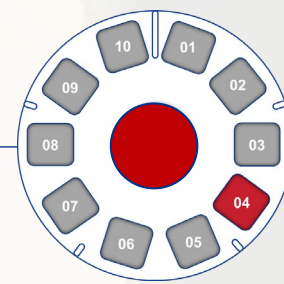
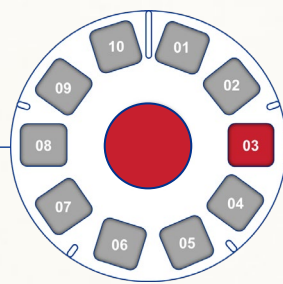
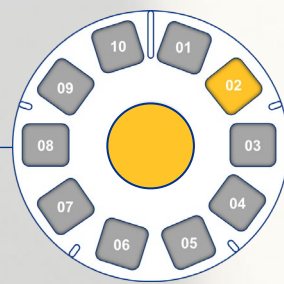
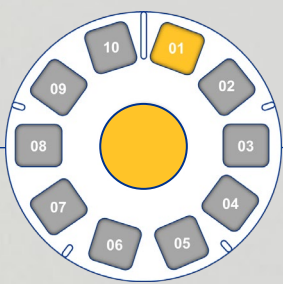


Ten key regulatory challenges of 2021: Mid-year outlook

As we project regulatory challenges for the remainder of 2021, it is clear that companies must take immediate business and risk-mitigation actions. Our mid-year outlook predicts increasing regulatory risk across a range of key areas:



Challenge Legend	
Relatively Steady	
Increasing	
High increases	



01 Change management

- Large scale technology change-related initiatives, such as focus on data management, digital assets, digital enablement, cloud migration, and core platform modernization, will require demonstrable and significant governance, controls, and stakeholder adoption
- Rulemaking agendas reflect “modernization” of existing rules and new rules aligned to the Administration’s priorities; watch for climate, diversity, cybersecurity disclosure; proxy voting; market structure (payment for order flow, best execution); gamification; CRA; consumer data access; small business data collection; credit reporting; AI/ML
- Increased scrutiny of M&A, partnerships and alliances expected to result from Executive Order on Competition, potentially inhibiting future activity (with the potential exception of smaller/mid-sized market transactions)
- Continued strain on monitoring and surveillance efforts

02 Credit risk & LIBOR change

- Expect ESG risks to be factored into credit analysis, including asset valuations, cost, access, and capital requirements
- Recognizing varying economic impacts to the ending markets, risks may increase as accommodations and government programs end
- Pressure in commercial real estate tied to evolving remote work and sector-specific slow-downs
- Additional pressures in leveraged lending market
- Regulators have made clear they will take supervisory action against entities that are unprepared for the LIBOR transition by year-end, pressuring certain existing credits, systems, and new product offerings; legislation may be forthcoming

03 Climate & ESG

- High velocity to increasing and evolving stakeholder expectations (investors, customers, regulators, policy makers) for ESG disclosure, commitment, and action; investors expect commitments to match practices
- Regulatory attention building with new initiatives at Treasury, FRB, SEC, CFTC and heightened focus on potential requirements around disclosures (select E, S, G factors), standards frameworks (including metrics), scenario/stress testing, and risk analysis
- Expectation that firms will have a program covering ESG even in the absence of specific regulatory obligations; reporting processes to be as robust as financial reporting standards
- The Administration has placed a “whole of government” priority on racial equity and climate risk; agencies to develop a regulatory strategy to manage climate-related financial risk
- Global pressure for standardization of metrics and disclosures; requirements adopted in multiple jurisdictions

04 Core risk management

- Expectation to quantify risks related to ESG factors and to integrate them into the risk management framework with a focus on data, strategy, behavioral change, partnerships, and regulatory expectations
- Need to scale risk management activities amidst business and market changes; regulators have increasing expectations on demonstrable ownership and accountability across all three lines of defense (business, risk, and internal audit)
- Increasing focus on board responsibility/accountability for safety and soundness and compliance highlighted by new FRB guidance and proposed interagency third-party guidance
- Attention to third-party risk management, with banking agencies coordinating interagency approach/guidance
- Concern over concentration in numbers of third-party service providers, especially cloud service providers and other technology firms
- Events (e.g., cyber) or thematic/systemic risk issues may be linked to ERM inadequacies

05 Operational resiliency & cybersecurity

- Explosive growth in cyber threats and ransomware incidents following rapid move to digitalization, remote work, and increasing use of third parties; focus on security measures, incident response, board reporting, communications
- Proliferation of new market entrants and third-party alliances/relationships to facilitate digital shift and emerging technologies requiring oversight to sustain consumer protection, data privacy, business continuity and cybersecurity
- Risk of market dislocation stemming from ESG impacts on third-party relationships, asset valuations (e.g., stranded assets), and consumer preferences; uneven economic recovery and pull-back of government emergency measures
- Firms must demonstrate business continuity planning that addresses cyber (and ransomware), physical, and natural disaster threats, including comprehensive framework for facilities, staffing, systems, and critical operations,

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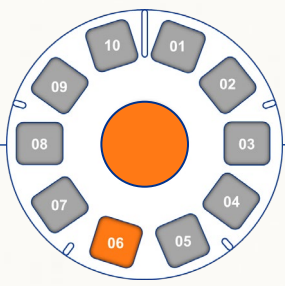
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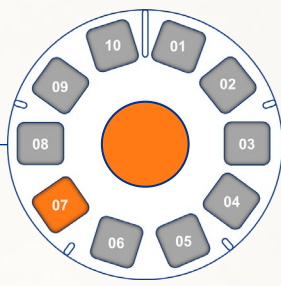


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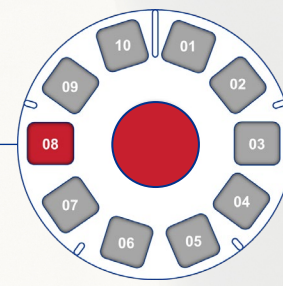
06 Compliance risk

- Reinvigorated focus on compliance with consumer/investor protection laws and regulations with increase in supervisory investigations and anticipated increase in enforcement
- Regulatory reviews of compliance coverage to areas in response to economic factors (e.g., forbearance, loss mitigation, servicing, fee waivers) with focus on adequacy of quality assurance and compliance controls
- Heightened regulatory scrutiny and reputation risk associated with consumer protections in marketing, decisioning, pricing, servicing, and accommodations across banking, wealth management, broker/dealer and insurance businesses
- Supporting documentation for government programs re: eligibility, prioritization, disparate treatment
- Need for enhanced complaints management and data analytics given intense regulatory importance
- Anticipated and evolving expectations/requirements for ESG-related regulatory disclosures are forthcoming even as voluntary disclosures are subject to targeted review



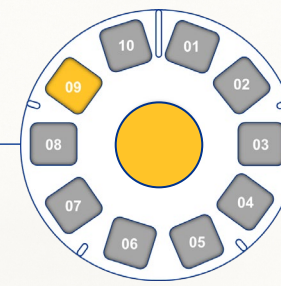
07 Fraud & financial crime

- New requirements and rule proposals expected based on enactment of the NDAA, including reporting and information sharing, streamlined SAR and CTR processes, technology enhancements (e.g., AI, digital identity) and beneficial ownership reporting
- Identification of AML/CFT priority areas, including cybercrime and digital assets will focus regulatory attention
- Increasing incidence and scale of ransomware attacks raise risk of identity theft and account takeover as well as regulatory attention on BSA compliance and suspicious activity reporting
- Continued risks of fraud and cybercrimes tied to remote access and variety of available digital channels, which poses challenges to KYC and CDD requirements, and potential risk of misuse of digital platforms and virtual assets for payments and accounts activity



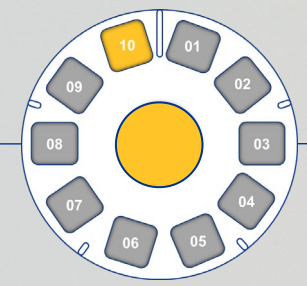
08 Consumer protection

- Heightened attention on consumer/investor protections across banking and capital markets including expanded view of fair treatment/fair access, fair marketing/UDAAP, and best interest and sales suitability (including insurance) plus data privacy, consumer financial data portability, racial bias, and equity (toward customers and across peer institutions)
- Growing focus on “data ethics” and the use of algorithms to target advertising/solicitation in the context of data security and privacy protections
- SEC focus on investor protections in recent guidance/rulemakings: disclosures match processes; “fair and balanced” marketing; attention on “names rule” and ESG-related terms; climate, diversity, human capital, cyber risk disclosures
- CFPB focus on “vulnerable” consumers and communities suffering economic hardship, including appraisals, insurance premiums, credit reporting, English language proficiency, and overdrafts



09 Payments

- Evolving regulatory environment heightens risks to payments industry participants, especially recent nonbank entrants
- Expanding adoption and acceptance of crypto and digital assets for payments transactions across firms and agencies; potential for new regulatory framework
- FRB is evaluating potential impact of a central bank digital currency on the payments system, financial inclusion, data privacy, and information security
- FRB is considering guidelines to permit companies with fintech and other narrow purpose charters seeking access to the Fed’s payment system; concerns include consistent, transparent, inclusive review and consumer protections
- Direct link to rules governing consumer protection and fraud and financial crimes, including credit reporting, data privacy, BSA/AML



10 Expanding regulatory authority

- Regulatory focus on modernizing longstanding rules (e.g., SEC Marketing Rule, CRA), increasing reach to new products, providers, and delivery channels
- Treasury, FRB, SEC, CFTC calling for supervision and regulation of stablecoins indicating current rules are insufficient to address the increase in digital assets
- Heightened attention by DOJ, FTC, and banking regulators to anti-trust and anti-competitive behavior, including acquisitions of nascent companies
- Continued regulatory focus related to the application of new technologies (e.g., AI)
- Ongoing attention to fintech charters, including the role of state authority, federal authority, and access to the Federal Reserve payments system
- Movement to reconcile divergent regulations to more global coordination/standards while maintaining jurisdictional and sector specificity



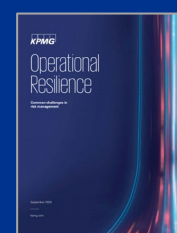
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