

# Podcast transcript

## Financial services in the post-pandemic world

Podcast with Joe Hargrove, Head of Global Financial Services Tax, KPMG International, and Tax Regional Managing Partner, Marketing Services, KPMG in the US, along with Jennifer Sonzilli, Principal, International Tax, KPMG in the US\*

*Musical intro*

**Announcer:**

Hello, and welcome to the KPMG podcast series for tax, legal and mobility leaders. We're focusing this podcast series on the ongoing global impacts of COVID-19 by looking at the tax, legal and mobility considerations, and top of mind business issues that have resulted from this global situation. In today's episode, I talk to Joe Hargrove, Head of Global Financial Services Tax, KPMG International, and Tax Regional Managing Partner, Marketing Services, KPMG in the US, along with Jennifer Sonzilli, Principal, International Tax, KPMG in the US.

Together with discuss some of the continued business and tax impacts of COVID-19, as we move from resilience and into the recovery phase. And more specifically, the challenges and opportunities emerging in the financial services space as leaders navigate the current environment and plan for what lies ahead. Jennifer and Joe, thanks for the taking the time to join me on the phone today.

**So Joe, I'd like to come to you first, if that's alright. From a global perspective, what are leaders doing to respond to the challenges of COVID-19, and how are they preparing for the new reality that lies ahead of them?**

**Joe:**

Ok. So, first and foremost, leaders are focused on their employees – how to keep them safe, keep them productive, and make sure that they're continuing to stay connected. They're focused on their customers, they're focused on liquidity. They're focused on their suppliers and their third-party dependencies, and they're focused on communication and transparency. And I think probably last and, and probably most important I think, leaders are focused on scenario-planning, right? We're in a very uncertain time right now. It's hard for people to predict. When am I going to get back to something that looks like normal? You know, normal operating conditions. And I think as time goes on, people

will start to see different things pop in terms of not being prepared, which may come from a lack of focus on communication or focus on longer term instead of immediate term needs. So I think those are all the things that leaders are thinking about.

And if I switch to the second part of your question, you know, which was more about what are they thinking about for the future, I think, you know, if we start with those scenarios, there's a lot of questions around how long does this last, how quickly will organizations and businesses reopen and how long will it take for economies to recover, right? And all the other considerations in terms of liquidity, customers, employees. So all of those things are, you know, top of mind for leaders as they think about their current operations and what's going to happen in the, you know, the next 3 to 6 months.

**Announcer:**

**And Joe, what does all this mean from a tax perspective?**

**Joe:**

You know, I think as companies realize what they're capable of during this period, you know, companies will start to think about, "what does my new normal look like? Will everybody return to the office? Or will people continue to work from remote locations? And what does that mean?" Right? And so for, for tax people, right, we think about things like "Have I created additional nexus, and additional filing responsibilities outside of my historical places of operation? So instead of filing, you know, one state return or one provincial return, do I now have to file three or four? And in addition to that, once, once I've figured out all of my filing responsibilities, how do I figure out where did I generate value? So where do I put revenue, where do I put expenses?" That will invariably be to a lot of transfer pricing and economic analysis, right? And, probably lastly, right, office space. Right? We, a lot of companies have big city locations. Are they going to need those locations? Do they need a smaller footprint? I mean, I think companies will stay in the cities they're in, but will it be a

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smaller footprint, and how will that impact their operations going forward and the ability to connect and build teams, amongst themselves and with their customers?

**Announcer:**

**Thanks, Joe. Jennifer, do you think that financial services are going to see permanent changes to the way they operate post COVID-19?**

**Jennifer:**

Sure. I don't know that financial services are very different from other companies that are now considering "work from anywhere" policies. But financial services has a bit more of a struggle with working from home than other industries because they are so heavily regulated and their rules around what brokers can and can't do and from where, that don't turn up in other industries.

I would also say that, you know, as the banks are, the banks especially, but also, you know, the wealth departments of banks, as they're going on their digital journey and they're trying offer more services to their clients on a digital platform, whether it's research or self-service, you start to think about the digital services taxes that are being discussed at the OECD, and whether or not the changes in business model to react to the changes in customer preference and comfort will be implicated there. I know that there are some carve-outs for financial services being contemplated for Pillar One and Pillar Two of the OECD's BEPS project, but none of that is yet settled, and so I think that will continue to be a concern for financial institutions.

**Announcer:**

**Will we ever go back to normal, and if not, what will the new reality look like?**

**Jennifer:**

I think that depends. Honestly, it depends on where the financial institutions are located. Like, so some financial institutions that are located in certain states within the United States or certain countries may more quickly return to what is considered "normal". But I know that most of the large financial institutions are looking at, "because work from home has been so effective, do I need to bring everyone back to the office? And at what point will I have the ability to do so?"

Really it has to do with people's comfort in coming back to the office, as well as the financial services leaders of their companies deciding whether or not it makes sense to bring people back, and can they save money by having people come back to the office? And the critical thing there is, what is the tipping point? At what point do you become less effective by not having people in the office, and then how long can that go on for? Many of the financial institutions that I am working with are thinking offices won't open possibly even until 2021.

**Announcer:**

**And Joe, are you getting the same sense from the conversations you're having?**

**Joe:**

I don't think anybody is going to revert back to "normal," right? I think everybody has adapted, and they've started to change, and I think there's going to be a continuing concern around the safety of employees and customers, suppliers, vendors. So the real question for me is, "what's the new normal going to be?" You know, I would guess that it is going to be around the health and safety of employees and customers, and finding more efficient ways to do business, right? So I do think we'll see a lot of efficiency coming out of this crisis, and that's going to entail a lot of changes. Exactly what that's going to look like, I don't know.

**Announcer:**

**Jennifer, what role do you think technology will play in all of this?**

**Jennifer:**

So the more forward-thinking of the Chief Tax Officers that I work have a vision of having all the compliance being done by external providers and him having a sort of control center or dashboard where he can see the progress of everything. He can put some analytics on top of the data that's being collected in this central location, and understanding, a couple of things where he might or she might be audited by the various tax authorities around the world, who are themselves getting more sophisticated in technology and analytics. But also giving them the control that they need over tax, organization-wide, which is critical.

And I think that COVID has pushed that vision now more than ever. Not just for tax, but also for finance. And typically, with the finance function undergoing a transformation, it's much easier for the Head of Tax to be a part of that transformation, rather than trying to simply transform the tax department, which typically would not get the appropriate funding that they would need to realize that vision of "automate everything, give me a dashboard and let me focus on the tax issues that are relevant to the business, rather than the compliance that has to get done."

**Announcer:**

**Thanks, Jennifer. So with all this change and flux going on at the moment, do you foresee financial institutions conserving cash and liquidity? Joe, would you like to answer that?**

**Joe:**

You know, I think that cost savings and efficiencies are a key part of what financial services companies will look to do and will need to do to operate in the future. And a big part of that is just in a economic downturn, such as we just saw with COVID-19 in a low interest rate environment that we're experiencing, cost efficiencies play a critical role for financial services companies as a way it can continue and try and maintain the return on equity and the return on investments that they give to their stakeholders and their investors.

And then, you know, in terms of liquidity, you know, it's very important for financial services companies to make sure that they

are doing everything to keep their balance sheet strong, to keep their liquid capital position strong, so that they are able to continue to provide capital in the markets. And maintaining a strong liquidity position for financial services is important for people to be comfortable dealing with them as that financial intermediary.

**Announcer:**

**And Jennifer, do you foresee the liquidity challenge having a knock-on effect for a business's tax department?**

**Jennifer:**

I think the cost savings that financial institutions, and most other organizations are looking for, impacts the tax department. So, there are some discretionary projects perhaps are not getting completed, are being pushed out to next year, but I think that anything that needs to get done is getting done by the tax departments. And so that vision that I talked about in my previous answer about automating everything, will only come to fruition if finance or another part of the organization can support the tax department, transforming right along with them.

**Announcer:**

**Joe, I guess it's not just businesses that have a need for liquidity. I'm sure governments globally will be seeking to generate revenue?**

**Joe:**

I think certainly on the tax side, we're going to see governments, you know, looking for ways to generate revenue. It's been a costly exercise for national governments to support their economies and to support their taxpayers through the crisis. And so that inevitably is going to mean they're doing deficit funding, and the only way to support that deficit funding is to eventually find a source of revenue to help cover some of that. And so that's going to come from a variety of mechanisms. It's going to come through potentially more rigid enforcement of existing tax laws, so more audits, more tax controversies. It may mean increases in tax rates, whether long term or short term. It may mean, you know, new sources of tax. And the OECD is looking at minimum taxes on a global basis, so governments, you know, and politicians and public are looking for all different ways to generate tax revenue. And so that's something I think that financial services companies and other industries will have to be attuned to and looking at that.

**Announcer:**

**So what might we expect those new sources of tax to be? Jennifer?**

**Jennifer:**

I think the things to watch out for are financial transaction taxes, so that's going to impact of course the banks, the broker dealers, but also asset management. There have been some experiments in some countries with that, and the EU would like to take up a financial transaction tax. There were proposed financial

transaction taxes in the U.S. as part of one of the democratic contender's platforms, and so you might see something like that, which would definitely very much impact the financial services companies. But also I think to the extent not carved out in particular jurisdictions. Digital services taxes may apply to financial services on a country-by-country basis. Perhaps not as part of BEPS, or perhaps it would be more limited as part of BEPS 2.0, but each country right now, or many countries, are passing a digital services tax. And the basis upon which that tax is levied is different in the different jurisdictions. And so financial institutions need to go jurisdiction by jurisdiction where they operate to determine whether or not they are subject to these digital services tax. And that's a worry for financial institutions, rather than having one set of rules with specific carve-outs that they can administer more easily coming from the OECD.

**Announcer:**

**Thanks, Jennifer. Joe, how do you think all of this will impact a business's legal function?**

**Joe:**

As it relates to the legal function, there's going to be a push for more transparency, more accountability and just looking at how companies are operating. So more of a focus on the regulatory side of things and making sure that companies are doing all the things that they're supposed to do. And where they haven't, there will be a trend to try and make sure that companies understand that there is that need, and that usually comes in the form of significant fines and penalties for failure to follow regulations or do the right thing. So governments will be heading down that road, you know, after we've gotten through the immediacy of the crisis.

**Announcer:**

**So looking ahead, Jennifer, do you think there are reasons for financial services leaders to be hopeful as we move into the new reality?**

**Jennifer:**

I think so. I think all is not lost. I think our current situation gives financial services leaders more, more time, perhaps, to think holistically about the kind of change they'd like to create in their departments, in line with how the business is changing. For example, there's a new U.S. brokerage, Exchange Memex, being created by a number of financial institutions to try to reduce the costs of brokerage instead of using the New York Stock Exchange or some other stock exchanges. It's a bit like DCCC and their forming a club where the club can use this exchange to do their brokerage, just as an example. And that's going to drive down transaction costs so that they can allocate more of their funds to longer term transformation.

**Announcer:**

**Thanks, Jennifer. And Joe, can you see any bright spots ahead?**

**Joe:**

Well, I think in terms of bright spots, I think financial services companies have seen that they are incredibly resilient. I think they have adapted very well to the current crisis environment and they've seen that they're capable of doing more in the way of remote working, staying connected and finding time to do more things, right? So one of the things that I've found in this crisis is that our clients are more available for conversations and they're looking for more information. And I think a big part of that is, folks have saved a lot of time from not commuting to their jobs two or three days a week. Not getting on planes, flying cross country or around the world. So there's a lot of good news that it is possible to do your job effectively and find ways to do it more efficiently.

And I think the other bright spot that I would look at is, as the crisis ends and people think through what they experienced, I think they will come out stronger. And they will have new ways to do business, and I think they will adapt to that and thrive on that and hopefully continue to build on it as they think about lessons learned and what they ought to be thinking about to prepare for the next unexpected event, whatever it might be.

**Announcer:**

Jennifer and Joe, on behalf of our listeners, thank you for your time and for providing your insights on how business leaders continue to navigate in the current environment, the variances throughout the financial services segments, and the lessons we can all learn as we adapt and prepare for the future.

For more information and resources on COVID-19, visit  
[home.kpmg/covid19taxandlegal](http://home.kpmg/covid19taxandlegal)

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