Ahead of the regs: How asset managers are turning compliance into competitive advantage

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Announcer

Hello, and welcome to "Global AM Perspectives", a new KPMG podcast series for asset managers, fund managers and investors around the world. Through discussions with leaders from KPMG and major market players, this series will include short episodes that look at some of the most pressing issues, emerging trends and market opportunities within the asset management, real estate and private equity industries.

In this episode we discuss how asset managers are turning compliance into competitive advantage. As regulators and tax authorities become more active and far-reaching, many Asset Managers are asking how they can move from ambition to action on their regulatory strategy.

We are delighted to be joined by Deirdre Fortune, Global Head of Asset Management Tax, KPMG International and Partner KPMG in the US, and Bill Coen, Senior Advisor — Global Financial Services for KPMG International to discuss some further findings and steps asset managers can take to succeed.

With that Dierdre and Bill on behalf of our listeners I would like to welcome you to the podcast.

Deirdre if I can come to you first what are some key trends you are seeing as asset managers are faced with changing regulations?

Deirdre Fortune

So the trends that we're seeing in the Asset Management, especially around the tax and regulatory environment, is very much focused on the increased complexity. And when I mention that, it's complexity not only at the country specific level, but then the global overlay as well if we think about Pillar Two, we think about ESG reporting, global minimum tax, how all of those are being implemented at each country level.

So that complexity really drives the uncertainty that we're seeing. And then the pace of how much the changes are occurring, that is really challenging for asset managers in gaining an understanding of what needs to be done. All of this regulation is not clear on what needs to be reported, what data that needs to be gathered. So it's really those two, the increased complexity and the pace of change.

The third thing I'll mention too on the trend is the investment in technology or the investment in how to really harness the data from all over the globe to meet the requirements that these regulations are requesting or what will be requested in the future. Trying to be able to pull that information together from a regulatory standpoint, the trends pillar, that's what we're looking at here.

Announcer

Excellent. And Deirdre, how can this translate into shareholders value?

Deirdre Fortune

From a shareholder perspective, it's a positive thing. As a shareholder, they are looking at investing their money. They want to be able to be comfortable and confident in what they're investing in. And I think with the changes that are occurring in the market, specially around crypto and generative AI, all those kind of things that are new. It's really are they comfortable that nothing will be done to their money once they invest in it?

The regulation is trying to catch up with the market, but it's also trying to build confidence for shareholders investing in these types of products or in these types of assets. I think from a value perspective, that transparency is important for the shareholders and giving them the confidence.

It's important for the managers to understand what's going to be required for them because they want to be able to go out to the market and be able to be definitive in what they need to comply with and be able to report to the shareholders. So, from their standpoint, they are clear in what value they're bringing to the shareholders.

Announcer

Great thanks. Deirdre and Bill, coming to you, what are some reasons as to why asset managers would hesitate to use regulation as a competitive advantage? And what would be some of the risks that would cause the hesitation?

William Coen

Well, let me say, I certainly agree with the premise that compliance can indeed be a competitive advantage. But at the same time, I recognize that there are costs associated with the strategy and as Deidre said, the quantity, the complexity, the speed with which new regulations are being introduced can present tremendous challenges individually as a firm, but also collectively as an industry.

Just look at the jurisdictional differences in regulations and the sheer number of regulators. In the US alone, we've got the S.E.C., CFTC, the Consumer Financial Protection Bureau, the CFBP. Not to mention state level laws and requirements. What if you're a firm doing business globally or just on a limited cross-border basis? There's a dizzying array of rules, laws, regulations, directives, with which firms must comply, and those rules are issued by the European Union, the US, UK, Switzerland, China.

And, you know, the list goes on. Now, as a former regulator, I could say the standardization of rules would be ideal. But regulatory fragmentation is a reality. Every country has its own regulatory procedures, rules of law enforcement, powers and methods, etc. Complying with written rules is one thing, but what about rules that are not yet in place?

But you know they're coming. Right. In today's environment, business opportunities are constantly emerging and morphing as a result of regulations. And as a result, regulations are always a step behind. And I can point to things like digital finance and crypto, ESG, especially climate, tax policy. All of these things continue to evolve and the associated rules and regulations will as well.

As I mentioned, my background is as a former regulator in the head of a standard setting body, the Basel Committee on Banking Supervision. I was responsible for that work. And I know first hand about the pressures faced by the standard setting bodies and the regulators to get things done as quickly as possible and climate is the ideal example.

This is the topic that's at the top of the agenda for regulators. But the real pressure faced by firms, asset managers, banks, insurance companies alike is really coming from shareholders, counterparties, even employees. Regulators ideally based rules and regulations on data. This approach doesn't work because we don't really have good data, and so as a result, firms can take either a passive reactive approach and see what comes down the regulatory road, or alternatively, they can take a more proactive approach and try to get, ahead of this regulatory curve.

Announcer

And Bill, are there any strategic approaches asset management firms can consider?

William Coen

There are several. And I would start with staying current on the latest industry trends and developments, as well as regulatory trends and developments. Sounds pretty basic, right? It's not easy. It's time consuming and it is imperative that a firm has a good grasp of its business environment and the regulatory landscape. And given the scope and the breadth of new rules, this can be time consuming and costly.

I think the second point would be have a plan. I'm fond of the quote, "hope is not a plan or hope is not a strategy". And for those business lines are opportunities that I mentioned earlier, Crypto, climate tax. We've got to figure out what's the ambition as dictated by the board, by executive management for these new or evolving businesses?

Are there specific goals, targets and milestones? And third, I would say remaining current with full knowledge of your competitive landscape. I'm on a few different boards for firms, different financial sectors. And this is the one question I always ask management, what is our competition doing? How do we compare? How do we stack up?

And how do we remain competitive? Or how do we catch up? Are we likely to face competition from other sources? For firms in asset management, what are the bankers doing about insurance firms? So this whole idea of benchmarking, for example, is a really valuable exercise, but knowing what the state of play is can be difficult and really time consuming.

And I would also say as a fourth point, try to get ahead of the yet to be written regulations. When I was the regulator, some of the really good practices I've seen and also today not just my regulatory background but a lot of the things in which I'm involved with today. Some of the really good practices involve firms setting a high level of ambition.

It's based on a deep familiarity with regulatory trends. They're getting involved in business lines and opportunities, not by throwing caution to the wind, but having a reasonable expectation about the direction of travel with respect to regulation. On the other hand, I've seen examples of firms getting a very late start and then having to scramble to put compliance programs in place or to even get involved in a certain business line or take advantage of a particular business opportunity.

I think the worst thing, though, is not taking advantage of opportunities. So the business cost that they're foregoing because they didn't have a good sense of this regulatory direction or of travel. I would also say again, from a regulator's perspective, try to engage with regulators when and if possible.

Depending on the relationship, it's not always possible. But I remember when I was on the regulatory side, one of my roles was to try to demystify a lot of what we were doing in developing these rules for, banks on a global basis. I would speak with firms all the time, banks, asset managers, even insurance firms and those that I listened to could speak about a standard that we were developing or business practice based on their relevant experience.

This separated the lobbyists from those that are really providing legitimate input and feedback. So I always found regulatory engagement if possible, was a really good idea.

Let me say this. The bottom line is understanding the business environment by staying current on latest trends and developments. Have a plan.

Define your ambitions, and objectives, but be specific. Know your competition. Try to get ahead of the regulatory curve and try to see the writing on the regulatory wall. And I'll leave it at that.

Announcer

Excellent. Thanks, Bill. So, Deirdre, how can KPMG support clients with this?

Deirdre Fortune

So there's a number of ways that KPMG can help and the support as Bill mentioned, I think we could start off with the education, keeping up with what is occurring both in the tax and regulatory field, explain to clients what we're seeing, what we anticipate, what the future developments are going to be.

They take that into their own organization and understand how it applies to their organization. A lot of the asset managers from both the tax and regulatory are very lean. So it's understanding what should be kept at the core within the organization and what should be looked upon outside providers to help with.

I think that's where you want to go within the organization. Most asset managers know the products that they want to go, the areas they want to invest in in the future. But looking at that and then developing a plan around that as to how much you're going to own internally and how much you're going to rely on outside to be able to supplement you in that plan.

As Bill said, we're going to have a plan of where we're going, but that plan has to be a little agile. I mean, things constantly change in the environment of new products, asset classes, how the regulatory regulators are going to deal with that. So you need to be flexible in that plan. But from a KPMG perspective, we can certainly help you in either developing that strategy and plan and then also helping you from an outside perspective of, okay, from let's say for Pillar Two, we're going to pull the data, work with your administrators around the world to be able to pull the data and have the data provided to the regulators.

So different aspects of that. And as then you go through understanding what's happening in your industry, in the actual environment. So what your competitors are doing, what others in the in the industry, what approaches they're taking. So being able to share that what we're seeing KPMG do, what we're seeing others do. But then also we do a forum where we bring a CTOs together to be able to share their experiences both from a global level and then we have one also in the US.

Well, at that global perspective, it's good for having your peers share what they're doing, what modeling that they've done, what operating model they may have, but just sharing what experiences that they have. KPMG facilitates that as well with an outside party. And I think the final thing is, as you start to execute that plan, being able to be agile and change if need be depending on the circumstances.

So it's as I said initially, it is so complex and fast paced that it's impossible, I would say as an individual within an organization and the tax team that you have within an asset manager to really be able to cope with that. leaning on someone like KPMG to be able to help is important and whatever aspect of that we are here to help.

Announcer

Deirdre that's great thank you. Thank you and Bill for taking the time to join us on the podcast today. It has provided great insight and key take aways for our listeners.

Please let us know what you think about this episode, or if you have any ideas for future episodes, please email us at assetmanagement@kpmg.com. And remember, you can find our latest publications, articles and other material on kpmg.com/assetmanagement.

Join us again next time as we'll continue to explore other top of mind issues within the asset management, real estate and private equity industries so stay tuned and thanks for listening.

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