



KPMG — Evolving Asset Management Regulation 2023

March 2024

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 the latest edition of KPMG’s annual “Evolving Asset Management Regulation” report, titled “Managing Divergence”, which explores the regulatory developments impacting asset managers all around the world.

We are delighted to be joined by Andrew Weir — KPMG’s Global Head of Asset Management, Chrystelle Veeckmans — KPMG’s EMA Head of Asset Management, and David Collington — Asset Management lead in KPMG’s Regulatory Insight Centre.

They are here to discuss the key findings of the report and to explain how KPMG can help with some of the challenges raised.

With that, Andrew, Chrystelle, and David on behalf of our listeners I would like to welcome you to the podcast.

Andrew if I can come to you first — can you walk us through the headlines from this year’s report?

Andrew

We really are delighted that we have published the 13th edition of this flagship report. As Global Chair it really does give me great pleasure to pull together the collective knowledge and expertise of our specialists in KPMG around the world. We’ve involved partners and teams from over 30 jurisdictions and it also draws on a very important tool we have, which is the KPMG Regulatory Horizon tool.

The report provides a broad ranging overview of regulators priorities and the key developments impacting all types of asset managers. I think it’s best to say there are two significant points to note in this year’s report. Firstly, the significant volume of new regulatory requirements that are impacting our clients. And secondly, and most importantly, the way in which these new rules and guidance are differing across jurisdictions.

The developments identified really illustrate that although regulators have relatively consistent priorities and we’ve

raised this in previous reports, such as focusing on sustainable finance or investor protection, they are tackling them with quite different approaches when it comes to the detail. This is resulting in different outcomes for both firms and investors and this in turn poses real practical challenges.

To give an example in the context of ESG, the differing rules mean that a single product or strategy is unlikely to comply with the various requirements across different regions and jurisdictions, potentially reducing the scalability and efficacy of asset managers business models. So given a truly international and cross-border nature these days of the asset management industry, it’s clear that effective management of what we’re calling regulatory divergence is only going to become more important over time.

Announcer

Thanks Andrew, that’s interesting. Crystelle, could you tell us about some of the key regulatory themes that have been identified in the report?

Chrystelle Veeckmans

Yes, sustainable finance is probably the area where there is regulatory divergence across the world. There are numerous and substantial changes to existing requirements. For example, preventing greenwashing is a common priority among policymakers, but they are seeking to address this concern in diverse ways. More broadly, firms are making efforts to take account of sustainability risks to their business, including investment processes and administration policies.

Initiatives relating to enhanced reporting aim to capture more firms and products in the capital market ecosystem, and to significantly increase the flow of information from companies to stakeholders, including asset managers. Second, technological innovation. This continues to be a key focus for regulators, which are balancing facilitations of developments with the need for proper risk mitigations, artificial intelligence and the use of distributed ledger technology.

Are key areas of regulatory attention and firms need to consider both the potential benefits and the risk of new technologies. As we see asset management companies are increasingly using the power of Gen AI, big data analytics, cloud and blockchain to optimize and scale operations and improve client satisfaction.

Announcer

Excellent. Thanks Chrystelle. And David, how about the most important themes from your perspective?

David

So in addition to those important topics that Chrystelle is just covered, from my perspective, that's really two additional themes that come through really clearly in this year's reports. The first from my side is really around investor protection. And of course, that's already a cornerstone of asset management regulation. But in this year's report, we found that regulators have really raised their expectations once again.

In practice that's being done via new regulations and policy. There's also plenty of supervisory activity against the existing rules that are in place. So regulators are looking to introduce entirely new conduct frameworks. Costs and charges are under significant scrutiny as well. But there's also efforts to bring disclosure and distribution requirements into line with those technological developments that Chrystelle mentioned. In parallel, it's worth mentioning that education is also becoming increasingly important.

So in that space, regulators are aiming to increase investors financial literacy and aiming to protect them from potential scams. So overall, that's plenty going on in that space. An additional theme I think is worth mentioning is really around the regulators efforts, analyze and tackle potential systemic risks in the asset management sector. This theme remains really important, and that's basically because of the vital role that asset managers are playing, both in the financial system but also in funding the real economy.

As a consequence, regulators are looking to refine liquidity management arrangements and open ended funds. Money market fund reforms are now more advanced. But that pace of change is slowing as regulators are moving into the stock taking phase. And then more widely, some attention has been paid to exchange traded funds. A recent area of focus in Europe has been LDI strategies and asset valuation also features on regulatory agendas.

And as a quick postscript, this year's reports, we think it's fair to say that private assets are coming into have a greater focus. IOSCO has recently completed a thematic review where it sets out potential concerns regarding valuation practices and also conflicts of interest. So I think asset managers can expect to see more regulatory activity in

that space. And then lastly, and more broadly, across this year's wider reports, it's worth mentioning the continued importance of some of the more well-established regulatory themes.

Those include a focus on asset managers, governance and resilience, and also evolving requirements when it comes to market access arrangements. So we already encourage you to check out the detail on those in the reports.

Announcer

Thanks David, So Andrew, to wrap up — how can KPMG support its clients with tackling these themes and also making the most of new opportunities?

Andrew

This report should provide the asset managers with a very useful starting point on key areas of regulatory pressure that they can focus on. It's a basis of a quality strategic discussion. KPMG's Global Asset Management Practice offers various services that can assist a wide range of asset managers across asset classes at local, national and global levels.

Wider KPMG tools are also available. For example, KPMG's regulatory horizon tool that is powered by technology. And KPMG specializes in real time helping to inform asset managers regulatory change management processes. So I really hope this podcast encourages you to download and read the report. I think the report really is best in class and I hope you find it valuable and insightful and looking forward to speaking with you again shortly.

Thank you very much.

Announcer

That's great to hear. Thank you, Andrew, Chrystelle, and David for taking the time to join us on the podcast today. It has provided great insight and key take aways for our listeners.

To 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. Thanks for listening.

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Designed by Evalueserve.

Publication name: KPMG — Evolving Asset Management Regulation 2023

Publication number: 139172-G | Publication date: March 2024