



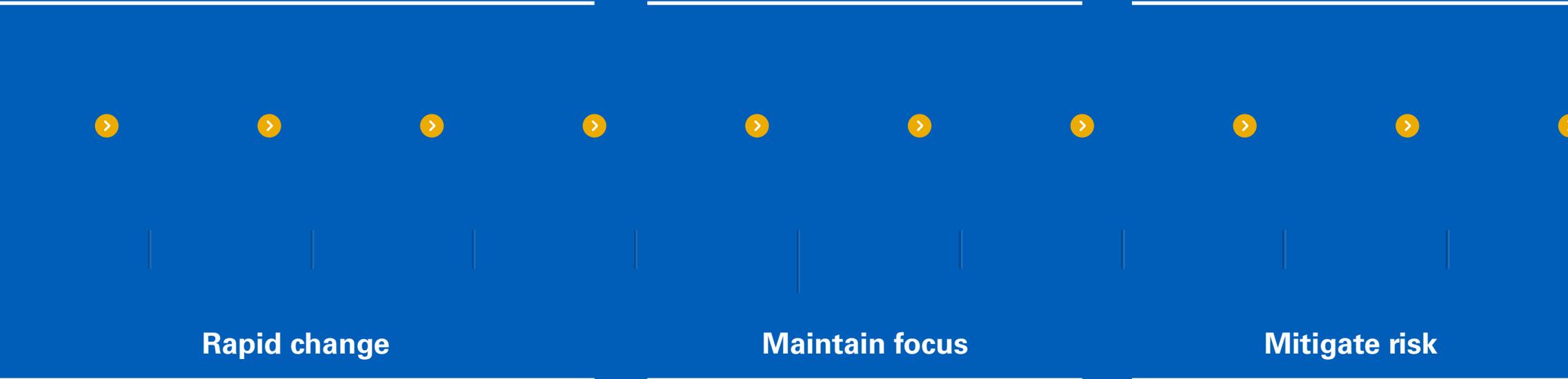
Ten Key Regulatory Challenges of 2022

Preventing the domino effect

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Contents



Introduction

On behalf of KPMG Regulatory Insights, I am delighted to issue our Ten Key Regulatory Challenges for 2022. We anticipate that regulatory “perimeters” will continue to expand and expectations (without the need for new regulations, per se) will increase rapidly. All financial services companies should expect high levels of supervision and enforcement activity across each of these “Key Ten” challenge areas:

Rapid Change

- Fairness & Inclusion
- Climate & Sustainability
- Crypto & Digital Assets
- Platforms & Conduct

Maintain Focus

- Cyber & Data
- Fraud & Financial Crimes
- Valuation Vulnerabilities

Mitigate Risk

- Third Party & Cloud
- Tech & Resiliency
- Risk “Complacency”

We encourage you to reach out to us to learn more about the issues and actions highlighted in the following pages or to discuss your firm’s unique challenges.

Sincerely,



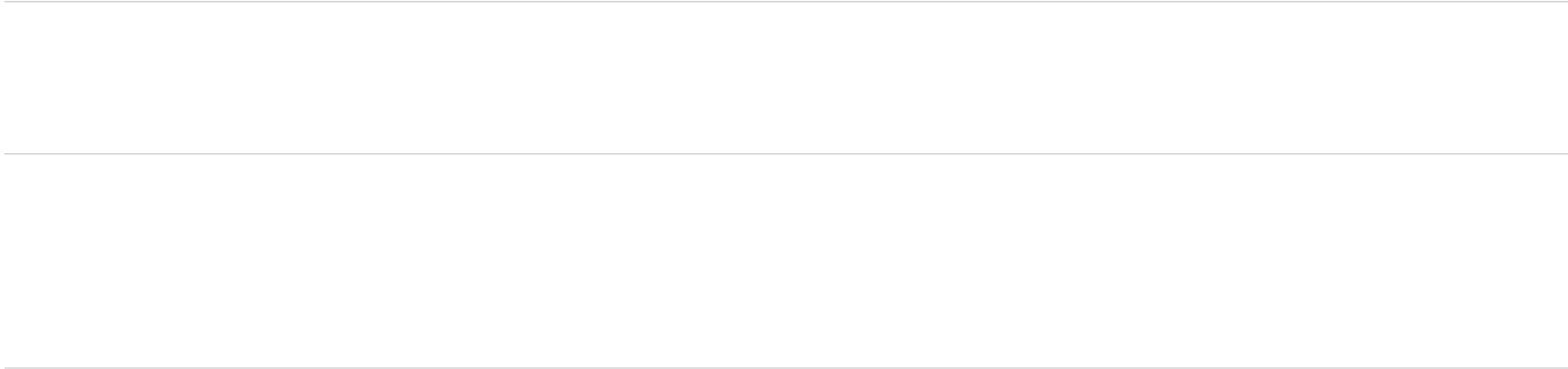
Amy Matsuo
Principal and Leader,
ESG and Regulatory Insights





Fairness & Inclusion

Investor demand, public awareness, social unrest, and the priorities and directives of the Administration have focused regulatory attention on supervision and enforcement of consumer and investor protection on a broad scale and expanded the parameters of “fairness” to include all consumer touchpoints.



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Climate & Sustainability

Pushed largely by significant and widespread investor demand and facilitated by myriad voluntary disclosure frameworks, financial services companies are working toward measuring, monitoring, and mitigating their climate-related financial risk. Regulatory expectations in this area have experienced sweeping changes that will continue, with rigor, into 2022 under existing and expanded jurisdictional authority. Federal financial agencies must develop, and execute on, a strategy to quantify, disclose, and mitigate the financial risk of climate change on both public and private assets. Public policy seeks to advance “consistent, clear, intelligible, comparable, and accurate disclosure of climate-related financial risk,” and “to mitigate that risk and its drivers, while accounting for addressing disparate impacts on disadvantaged communities and communities of color.”

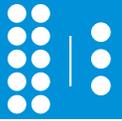




Climate & Sustainability



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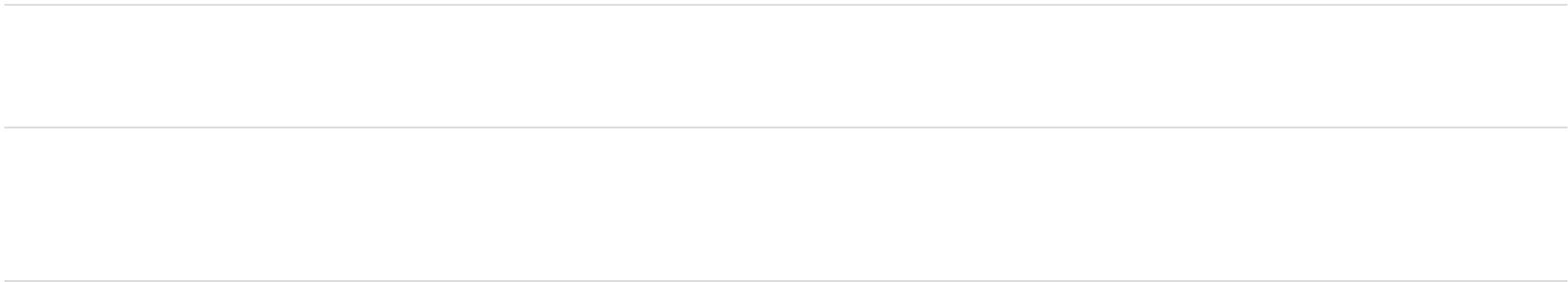
Crypto & Digital Assets

Regulatory activity around crypto and digital assets is intensifying as usage by investors, companies, and even some central banks, shows widespread interest and adoption at retail and institutional levels. The regulatory landscape in the U.S. is evolving alongside the market expansion with state and federal regulators and legislators all considering approaches to add clarity. Key issues include a focus on chartering, licensing, fraud and financial crimes risks, and consumer and investor protections.



Platforms & Conduct

Rapid developments in technology, increases in digital banking activity, growing sophistication of data collection, and the increasing influence of social media is reshaping the financial services landscape in ways never before seen or anticipated. These unprecedented times, underscored by ongoing social and economic changes associated with COVID-19, have fostered and accelerated unique advancements in the consumer experience—and given rise to new risks related to data security, fraud, and conflicts of interest.



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Cyber & Data

The financial services regulators have called cyber risk the foremost risk to financial stability—and the Administration has called it a persistent and increasingly sophisticated threat that weighs heavily on governments and financial services companies alike. Given the highly interconnected nature of the financial services sector and its dependencies on critical third-party service providers, all participants in the financial system must implement risk mitigation and resilience initiatives relative to both frequency and impact of cyber threats. Current or emerging threats include malware (e.g., ransomware), supply chain risk, and sophisticated DDOS.





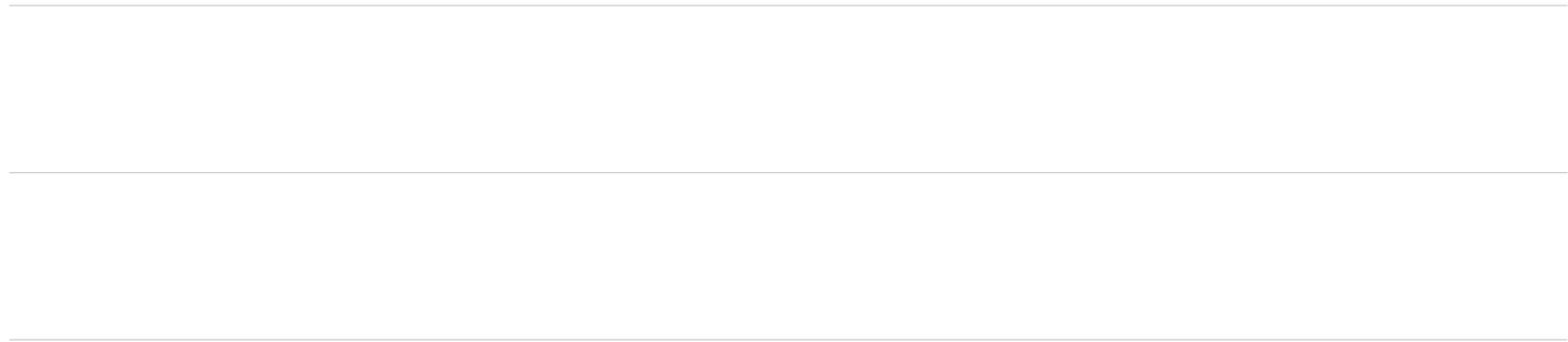
Fraud & Financial Crimes

The adoption of innovative technologies to improve the effectiveness of fraud and financial crimes risks management is becoming an imperative as regulators emphasize innovative approaches (e.g., machine learning, enhanced data analytics) and the preponderance of threat risks, from cybersecurity to ransomware to cryptocurrency to identity theft, are technology-driven. The Administration has prioritized many of these concerns as issues of national security, embarking on a “whole-of-government” approach; new and emerging areas of focus are tied to transparency and ESG.



Valuation Vulnerabilities

There is a large amount of debt and leverage in some sectors of the financial system, coupled with historically elevated valuations for almost all asset classes (from corporate equities to real estate to cryptocurrencies). These areas may be susceptible to correction if rising inflation sends interest rates sharply higher; even relatively small pullbacks could have outsized impacts on asset values in market segments with concentrated or leveraged exposure. Regulatory focus on principles of fairness and competition could separately impose impacts on valuations.



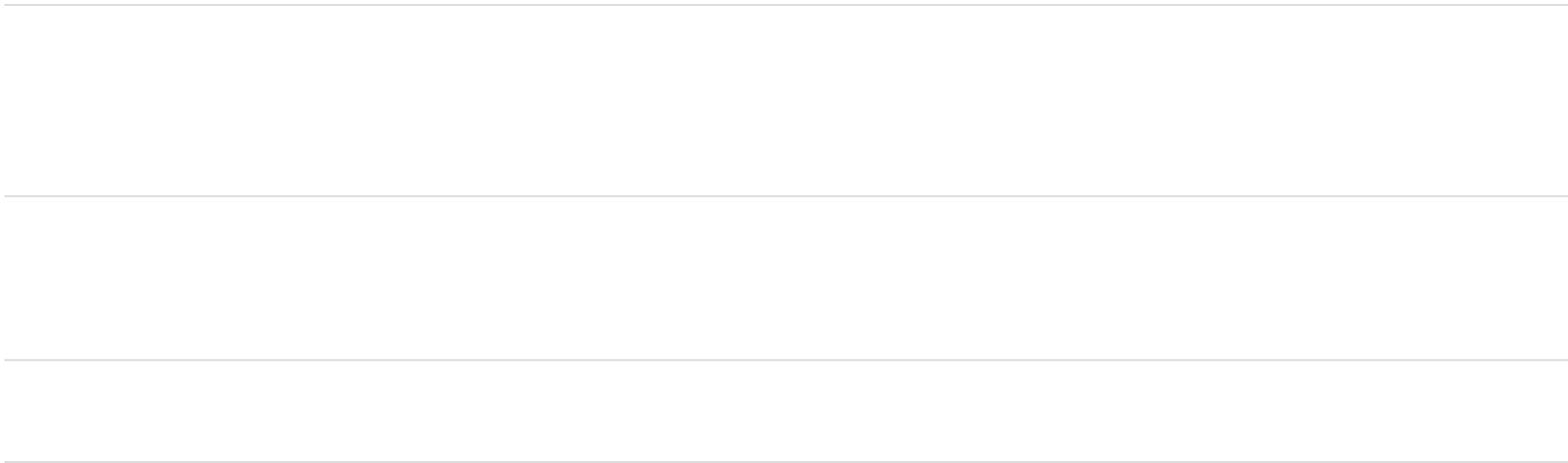
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Third Party & Cloud

Driven to enhance competitiveness, expand operations, and accommodate customer needs, financial services companies are forming more numerous and complex relationships with third-party companies at significant speed and scale, including financial technology-focused entities such as cloud service providers. These relationships offer advantages but can also reduce management's direct control of activities, which may introduce new risks or elevate existing risks for companies and their customers.



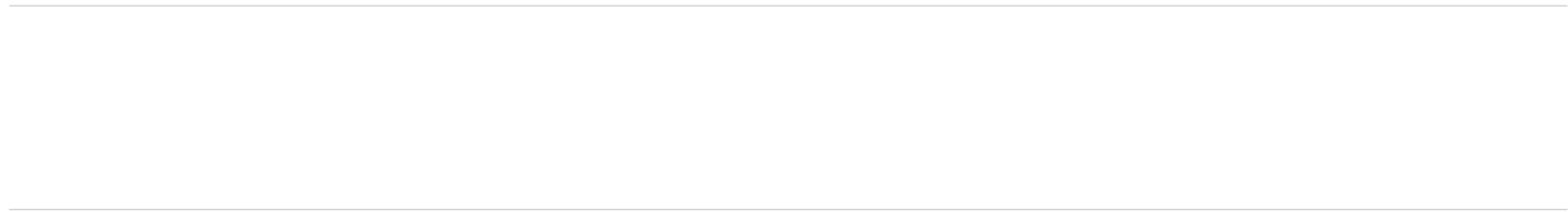
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Tech & Resiliency

Recent events, including technology-based failures, cyber incidents, pandemic outbreaks, and natural disasters, have made clear that significant disruptions are increasingly likely and can be interconnected (consider how a health crisis sparked a mobility crisis that spawned a financial crisis). Although advances in technology have improved firms' ability to identify and recover from such disruptions, the frequency of events and potential for interconnectedness and/or interdependencies to amplify risks nonetheless underscore the need for operational resilience and are prompting leading companies to adopt a more holistic, multi-function approach.



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Risk 'Complacency'

Regulators view “risk complacency” by financial service companies as a potential threat to both stakeholder trust and safety and soundness. Companies must deliberately ensure that they are guarding against overconfidence—particularly during times of business, M&A, and innovative growth—by raising risk and compliance investment and voice.

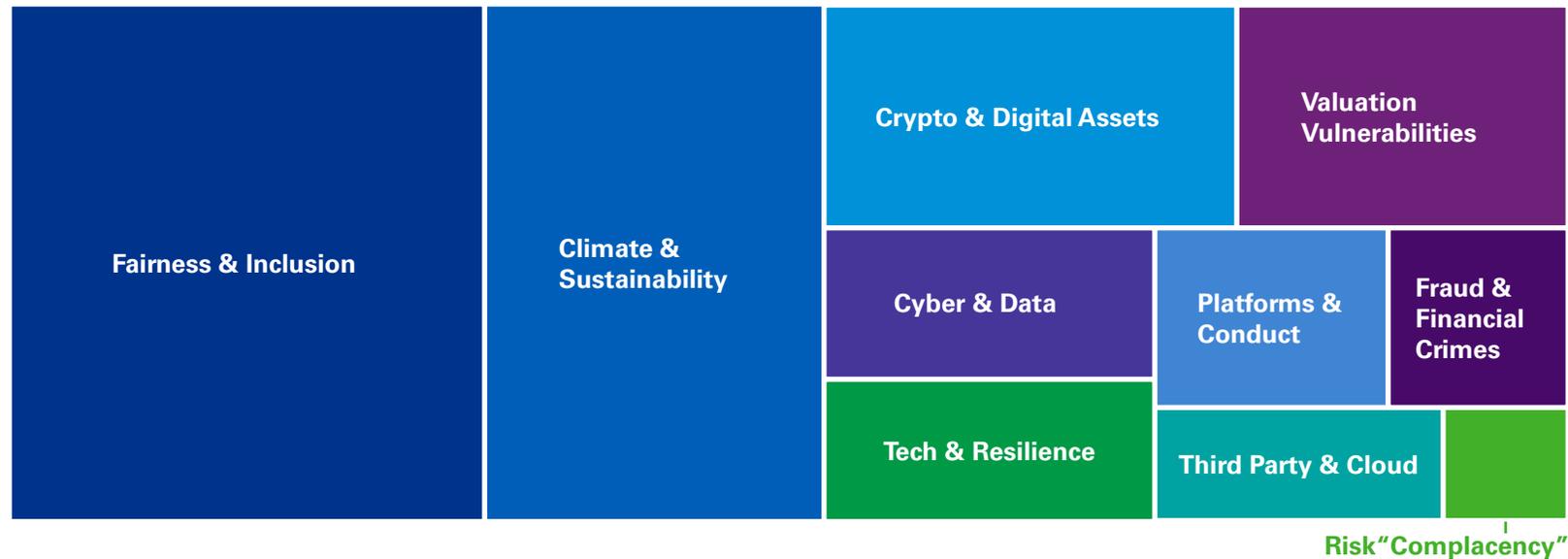
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Methodology

Historically, KPMG Regulatory Insights has prioritized the Ten Key Regulatory Challenges based on our assessment of policy announcements, regulatory activity, and client discussions. Last year, we added a new dimension. KPMG Lighthouse Data and Analytics Center of Excellence utilized our 2019 and 2020 Washington Report 360 (WR360) newsletters (a curated weekly compilation of public policy, regulatory, and news articles impacting the financial services industry) to conduct Natural Language Processing and text analytics to classify and thematically group the newsletter items, or records. The analysis included a technique called Guided Latent Dirichlet Allocation, which allows users to “seed” the algorithm with a series of words to guide their classification into predetermined topics—in this case the areas of regulatory challenge.

This year, with the impacts of COVID-19 and the change in Administrations and related regulatory priorities, we have limited our analysis to WR360 newsletters released in 2021. This graph visually represents the number of records in each of the ten key challenge areas.



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KPMG Regulatory Insights

We hope that you have enjoyed our insights in this publication and invite you to explore these and other timely regulatory topics as captured in our published thought leadership.

KPMG [Regulatory Insights](#) is the thought leader hub for timely insight on risk and regulatory developments. Our perspectives enable our clients to help anticipate and manage regulatory change across the U.S. regulatory landscape. In collaboration with professionals across the firm's global regulatory practices, we provide perspectives on evolving supervisory, regulatory, and enforcement trends as they occur.

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Insights and analyses of emerging regulatory issues impacting financial services firms.



Regulatory Alerts

Quick hitting summaries of specific regulatory developments and their impact on financial services firms.



Washington Report 360

A weekly newsletter covering legislative and regulatory developments affecting financial services firms—in 360 words or less.



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Defined Terms & Abbreviations

ADA	American with Disabilities Act	ERM	Enterprise Risk Management	NCUA	National Credit Union Administration
AML	Anti-Money Laundering	ESG	Environmental, Social, and Governance	NYDFS	New York Department of Financial Services
AMLA	Anti-Money Laundering Act of 2020	EU	European Union	OCC	Office of the Comptroller of the Currency
ANPR	Advance Notice of Proposed Rulemaking	FCPA	Foreign Corrupt Practices Act	OFAC	Office of Foreign Assets Control
BAU	Business as Usual	FDIC	Federal Deposit Insurance Corporation	PFOF	Payment for Order Flow
BCBS	Basel Committee on Banking Supervision	FinCEN	Financial Crimes Enforcement Network	PII	Personal Identity Information
CARES Act	Coronavirus Aid, Relief, and Economic Security Act of 2020	FINRA	Financial Industry Regulatory Authority	PPP	Paycheck Protection Program
CCAR	Comprehensive Capital Analysis and Review	FRB	Federal Reserve Board	Reg BI	Regulation Best Interest
CCPA	California Consumer Privacy Act	FSB	Financial Stability Board	SAR	Suspicious Activity Report
CECL	Current Expected Credit Losses	FTC	Federal Trade Commission	SASB	Sustainability Accounting Standards Board
CFPB	Consumer Financial Protection Bureau	GDPR	EU General Data Protection Regulation	SEC	Securities Exchange Commission
CFTC	Commodity Futures Trading Commission	GRI	Global Reporting Initiative	SOFR	Secured Overnight Financing Rate
CPRA	California Privacy Rights Act	HR	Human Resources	TCFD	Task Force on Climate-related Financial Disclosure (FSB)
CRA	Community Reinvestment Act	LMI	Low- and Moderate-Income	TFCR	Task Force on Climate-related Financial Risks (BCBS)
CSR/IR	Corporate Social Responsibility/Integrated Reporting	LOB	Line of Business	UDAAP	Unfair, Deceptive, or Abusive Acts or Practices
DDOS	Distributed Denial of Service	KYC	Know-Your-Customer	TDR	Total Debt Restructuring
DEP	Digital Engagement Practices	LIBOR	London Inter-bank Offered Rate	TFCR	Task Force on Climate-related Financial Risks (BCBS)
DOJ	U.S. Department of Justice	M&A	Mergers & Acquisitions	UDAAP	Unfair, Deceptive, or Abusive Acts or Practices
EOCA	Equal Credit Opportunity Act	ML	Machine Learning		
ERISA	Employee Retirement Income Security Act	MSB/MTL	Money Services Business/Money Transmitter Licensee		

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