



Tackling regulatory changes?

Thinking and acting strategically is the key



April 2023

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Steps to elevate your organization while complying with regulations

The regulatory landscape has become increasingly more challenging in recent years just as companies' business models have themselves become more complex. Companies are accountable domestically and globally on a whole score of new topics, from environmental, social and governance (ESG) rules and regulations to financial and accounting rules and regulations, including revenue recognition,² lease accounting,³ and accounting for credit losses.⁴

There's no sugar coating the fact that complying with the requirements of new regulations may not always be easy, and the initial impact of these required changes can be tough. But companies that act fast and address new regulations in a strategic way will rise above their competitors. This paper is designed to help organizations look at regulations through a new lens and see them as an opportunity to transform ... driving strategic changes to processes, systems and data while achieving compliance.

¹ The Financial Accounting Standards Board

² ASC606

³ ASC842

⁴ ASU 2016-13

Compliance mandates offer opportunities

It is natural to think about risk and compliance as a burden that takes precious company resources away from critical functions and strategic innovations. What many companies fail to realize is that these compliance mandates can be an excellent opportunity to elevate their organization when approached the right way ... strategically.

The idea of complying with new regulations can sometimes be daunting. Interpreting new rules can be tough and some could significantly impact your processes, systems, and people. Adoption could stretch an already overworked team, and in the current climate, there are always new regulations in the works.

Different industries, different impacts

As with any new regulation, compliance will be easy for some companies and much more difficult for others. The changes due to revenue recognition impacted different industries in a variety of ways. For example, from an accounting perspective, it was easier to implement a solution to achieve compliance for many manufacturing and retail companies than it was for technology and telecommunication companies due to the impacts on process, data, and systems. On the other hand, Sarbanes-Oxley (SOX) established sweeping regulatory changes across all public companies, thus requiring a significant effort by every company to develop a solution to comply.

Regardless of industry impact and the scope of the regulatory change, one key to successfully address regulatory changes is to think strategically. Many companies have used regulatory compliance as an opportunity to transform their operations while also streamlining and improving the performance of the overall systems and processes that support their business.

Compliance 'solutions' may need to evolve

As every impacted company has had to become compliant to meet regulation adoption deadlines, some may not have been able to implement the ideal solution for their organization. Some had no choice but to resort to manual solutions to meet the deadline as they ran out of time or had limited funding. We continue to see a focus on adjusting (and replacing) solutions implemented to meet past regulations to:

- Address more complex business models as companies have grown
- Replace manual solutions with a more effective and efficient process
- Introduce efficiencies in upstream and downstream processes
- Manage data to support more demanding reporting requirements

Getting started

For those looking to tackle a new regulation and for those looking to enhance a previously implemented solution, some things to think about include:

When adopting a new regulation:

- What is the scope of the regulatory change within the context of my organization?
- What are the “gaps” between today’s operations and the new regulations?
- What is the level of expected impact, in terms of both complexity and effort to implement necessary changes; and what is the significance of these changes to internal and external reporting?
- What are the corresponding data and process considerations?
- What are the functional, technical, and transition requirements with respect to the regulatory change?
- How do we communicate those impacts to internal and external stakeholders?
- Do we need to consider any upcoming events (e.g., M&A, IPO/SPAC)?
- Is there enough approved budget?
- Do we need help—do we have enough resources?
- What are my immediate next steps and timeline to successfully comply with the regulatory change?

When optimizing your solution for an existing regulation (in addition to the above):

- Has our business model evolved since we adopted?
- Are there opportunities for improvement to address the manual processes we implemented and gain efficiencies?
- Which parts of the organization should be included in the redesign of the solution?
- Are there opportunities to enhance interactions with our internal and external stakeholders?
- Are there solutions that exist that could help us do this better? Has the market changed since we adopted? Are there new options?

Once these questions are answered, there are six critical success factors we have seen that companies may want to consider when implementing a solution to achieve compliance.



6 critical success factors to deliver a strategic regulatory-led transformation

Vision



Define your goal - What are you trying to accomplish?

Collaboration



Foster collaboration across impacted groups to enable a cross functional streamlined solution that supports all aspects of the business.

Benefits



Define and measure the benefits to be realized (in addition to compliance) with the solution.

Rigor



Develop a robust process to monitor regulatory changes and a cadence to regularly assess impacts to your operating model to foster an environment of continuous improvement across the business.

Adoption



Obtain buy in across the organization to help drive changes that may be needed to achieve the benefits the solution can support.

Governance



Define a governance structure and processes to drive decisions to manage transformations and address new or upcoming regulations holistically.

Most often Finance is directly impacted by regulations and becomes the default owner of the solution to achieve compliance. However, compliance requires a cross-functional dependent solution involving many areas of the organization - upstream and downstream from Finance.

For example, with the Revenue Recognition regulation, it is critical to collaborate with Sales across the entire Lead to Cash process; and with the Leasing regulation, collaborating with Procurement, Real Estate, Legal, International Operations, and the Lease Administration functions is key.

For organizations that follow multiple accounting standards (i.e., US GAAP⁵ and IFRS⁶), it is important to understand that there may be differences between the accounting treatments for the same topic and those differences may impact how you adopt.

⁵ Generally Accepted Accounting Principles

⁶ International Financial Reporting Standards

Where companies have run into adoption roadblocks

While companies typically make a good faith effort to comply with a new regulation, the process isn't always a smooth one. In many cases, it's because they underestimate the time, resources and overall effort needed to dot all the "i's" and cross all the "t's" for a successful adoption and implementation.

Here are some examples of why companies have fallen short in their efforts to comply with the requirements of new regulations:

- **Lack of upfront planning:** Some public companies technically adopted a regulation on a timely basis but ended up with a less-than-ideal implementation solution. Often it was because there was not enough diligence up-front in scoping the effort, assessing the impact of the change, and/or defining the requirements for the solution.

For example, companies may have incorporated a new regulatory requirement into their policies and procedures by the effective date. But they didn't have the time or resources to execute a full upgrade or overhaul of their IT and/or operational systems needed to incorporate all of the functionality required for compliance. So now they have to scramble to catch up.



- **Failure to automate manual procedures:** Other public companies adopted on time but chose to use an out-of-the-box compliance solution that was inadequate to meet their needs. Unfortunately for them, they underestimated the incremental burden of complying with robust requirements.

By opting not to automate the process, time consuming and less efficient manual processes were needed to supplement the implementation, particularly when they had to scale it up.

- **Delays in adoption:** Some private companies were slow to address a new regulation and delayed adoption efforts, even after receiving multiple extensions on the effective date. They often ended up cutting corners and racing to the finish line using a combination of manual workarounds, untested systems, and undocumented accounting policies and procedures.

In many cases, this meant going back and starting nearly from scratch in terms of both drafting the right policy language and putting the proper IT and other systems in place.

Final thoughts: Think strategically to embrace transformation

As regulatory changes are introduced, actively address the change, not as a 'just get it done' fix, but as a potential strategic advantage.

The pipeline for regulation changes will continue, with some already on the horizon and future regulations yet unknown. Some may impact specific industries or result in more widespread changes across multiple sectors. Approaching regulatory changes with an eye toward transformation can reap greater benefits to the overall organization than just adopting the change. Leading organizations understand that taking a strategic approach is key to delivering a solution that positions the entire organization for success.



How KPMG can help you



We deliver results that matter

KPMG can help assess your business transactions, processes, systems, and data to help you drive transformation in your organization and achieve regulatory compliance. We can also help you manage the potential impacts on your teams.



We understand how your business works

We have deep experience helping companies design and implement cross-functional solutions across industries and business functions from Sales and Supply Chain through Accounting and Finance.



We get how to get things done

We have skilled Program and Project Management professionals who can help deliver the timely completion of initiatives for adopting regulatory requirements.



We get the best out of technology

KPMG can help you select, design, build, test, and convert the data to deploy numerous software solutions to support your business and regulatory compliance needs.



We're on your side, all the way

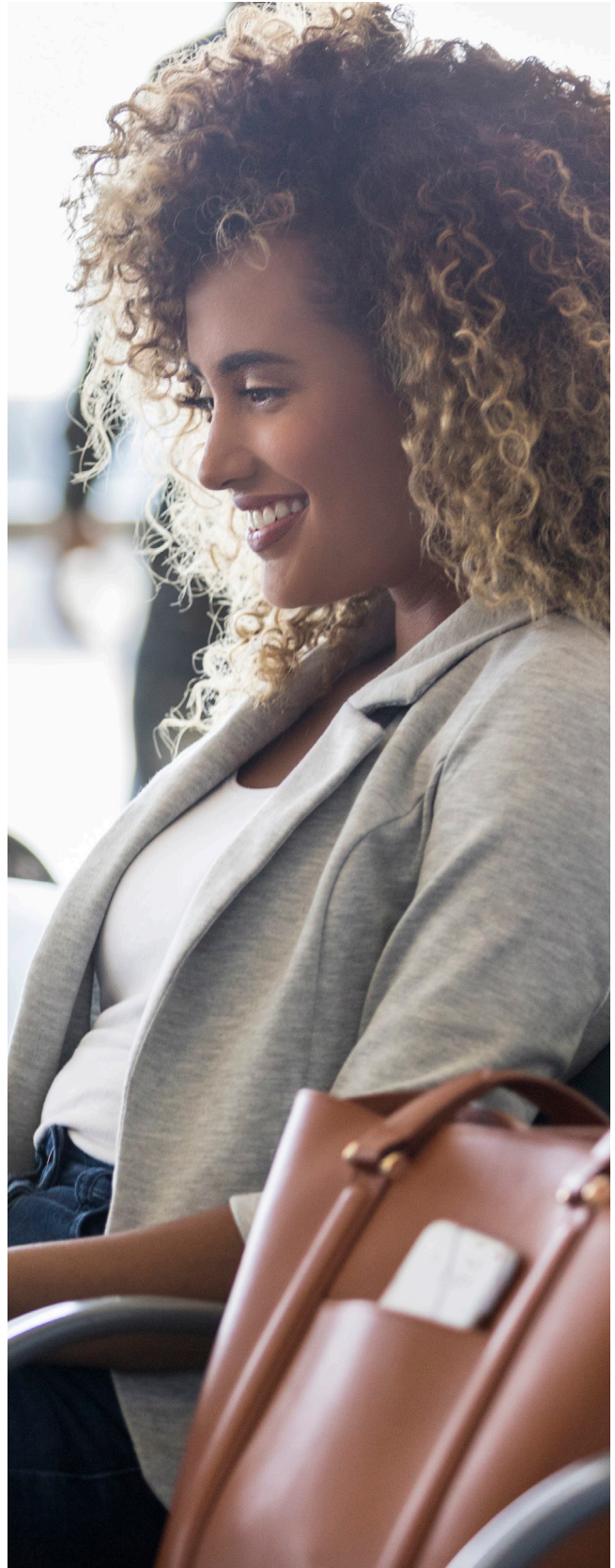
KPMG is committed to working with you to achieve your desired outcomes to meet new regulatory requirements.

Specifically, KPMG can help you address common regulatory challenges, such as:

- Aligning your regulatory change management approach with your goals, business, and risks.
- Identifying and engaging stakeholders early in the strategic decision-making process.
- Fleshing out dependencies and constraints on the changes needed.
- Evaluating vendor implementors, technology enablement, and automation process options.
- Developing a customized, realistic, and achievable regulatory implementation roadmap.

You can benefit from:

- Greater alignment to your business strategy and goals.
- Enhanced decision-making from the engagement that includes insights of all key stakeholders early in the process.
- An understanding of the latest automation/technology capabilities available that fit your needs.
- A more refined roadmap that will generate greater collaboration and shared best practices, but also call out potential pitfalls.

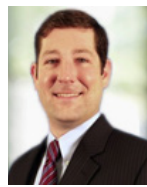


Connect with us

For more information on how KPMG can help you in your efforts to comply with new regulations—from adoption to implementation and beyond—please go to kpmg.com or contact one of the following:



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