Addressing top-of-mind fintech issues

Q2 2024

Content

Business/Strategy trends

As we progress through the latter part of 2024, the focus of financial technology (fintech) companies remains driving top-line revenue growth via revenue optimization, organic revenue growth, and strategic partnerships through acquisition. Corporate organization also remains top-of-mind as companies consider carve-outs of noncore businesses that potentially demonstrate better value as stand-alone companies, this also considers assessing growth with multiple scenarios of potential interest rate forecast movements.

Additionally, many fintechs are exploring the potential opportunities from global expansion into higher growth markets and moves into adjacent markets or complementary services that can be offered to the customer/merchant base.

To support these growth initiatives, fintechs are responding to investor scrutiny around scaling infrastructure for high-growth industries. This includes greater focus on investment in enterprise resource planning systems, customer relationship management systems and general corporate information technology infrastructure.

All of these investments help support a company's initial public offering (IPO) readiness journey. Even if an IPO is not currently expected, many fintechs are investing into their finance functions to provide the opportunity for an exit through IPO with the typical runway to have the finance functions prepared at around 18 to 24 months prior to a planned exit date.

Potential actions:

- Identify specific infrastructure investment priorities and allocate resources to manage projects.
- Consider the steps required for completing an IPO and begin considering the system, accounting, and legal implications

For more information around business and strategy trends, contact **Erich Braun**, National Fintech Audit Leader.

Mergers and acquisitions/ transactions

Chatter in the fintech deal market has increased in the first half of 2024, most notably with the announcement of large corporate mergers in the cards space, and increased discussions around take privates.

Lots of fintech businesses went public in 2020 during the special-purpose acquisition corporation boom, and fintech businesses that are challenged by scale and continued reporting requirements may benefit from continuing to build out their operations away from public markets scrutiny and the pressure of their share price.

That said, certain market challenges continue due to geopolitical and economic challenges as well as the upcoming election.

The key areas of interest in the market to private equity and strategic corporates are as follows:

- Specialized independent software vendors (ISVs) and embedded payments providers providing solutions to their customers/merchants, as they will continue to see growth and capture payment volumes from large incumbent players.
- B2B payments, as there is significant runway for growth there with the continued use of paper forms of payment.
- Cross-border payments businesses, as demand will continue to increase due to continuing globalization and migration of the workforce.
- Other services, including open banking, fraud prevention, identity, and threat intelligence products as increased adoption of electronic payments has led to an increased demand for these services.

For more information around M&A, contact **James Brannan**, Due Diligence Advisory Partner.

Auditing and accounting

For any fintechs acquiring a restricted security or another financial instrument such as a cryptocurrency token, entities are required to use judgment to determine whether, and in what amount, an adjustment is required to the price of a similar unrestricted security to reflect the restriction. To make such an assessment, entities should determine whether the restriction is asset-specific or entity-specific.

ASU 2022-03 clarifies that a contractual restriction on the sale of a security or a token is an entity-specific characteristic and is not considered in measuring the asset's fair value. Prior to ASU 2022-03, there was diversity in practice as to whether contractual sale restrictions were considered security-specific or entity-specific characteristics.

Elsewhere, the Security and Exchange Commission's (SEC) climate rule, finalized and later put on hold earlier this year, requires US public companies to disclose climate-related risks, their plans to address these risks, the financial implications of severe weather events, and their greenhouse gas emissions. The rule significantly expands the reporting and disclosure requirements for companies in scope of the rule. There are overlapping reporting and disclosure requirements between the SEC's climate rule and other standards and rules such as the International Sustainability Standards Board, European Sustainability Reporting Standards, and California law.

Fintech companies in scope of these other requirements, may delay the need for calculating the impact of certain climate-related events or conditions on the financial statements, but should continue making progress on the remaining provisions of the rule and carry out an interoperability analysis.

For more information around auditing and accounting, contact **Stephanie Petruzzi**, Accounting Advisory Services Partner, or **Sania Mushir**, Accounting Advisory Services Director.

Regulatory and compliance

In response to rapid growth and current activity in the Buy Now, Pay Later (BNPL) industry, the Consumer Financial Protection Bureau (CFPB) issued an interpretive rule affirming that BNPL lenders are subject to some of the same regulations as credit card lenders. Specifically, the rule concludes that BNPL products are subject to the requirements of Regulation Z, which implements the Truth-In-Lending Act.

The CFPB will be accepting comments by August 1, 2024.

As a result, BNPL lenders will now be required to comply with Regulation Z requirements, including but not limited to:

- Investigation of disputes
- Providing refunds for voided services and returned products
- Increasing transparency around any applicable fees and pricing structures.

The announcement comes in the wake of the Supreme Court's ruling that the CFPBs funding model does not violate the US constitution.

Thought leadership:

- KPMG CFPB BNPL
- Ten Key Regulatory Challenges of 2024: Mid-year Look Forward

For more information around regulatory and compliance, contact **Chad Polen**, Financial Services Risk, Regulatory, and Compliance.

Taxation

The Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2023-09, Improvements to Income Tax Disclosures, to enhance the transparency and decision usefulness of income tax disclosures.

The ASU expands annual income tax disclosures to address investor requests for more information about how the tax risks, tax planning, and operational opportunities in an entity's worldwide operations affect the effective tax rate and future cash flows.

The U.S. Treasury Department and IRS on April 9, 2024, released two sets of proposed regulations (REG-115710-22 and REG-118499-23) addressing the non-deductible 1% excise tax on repurchases of corporate stock under section 4501.

The proposed regulations largely follow the approach of Notice 2023-2, which provided initial guidance regarding the application of the stock repurchase excise tax (read TaxNewsFlash), but the proposed regulations provide rules for the application of the excise tax to US subsidiaries of publicly traded foreign corporate parents that differ from those contemplated by Notice 2023-2.

Thought leadership:

- KPMG ASU 2023-09 Hot Topic
- Tax News Flash

For more information around taxation, contact **Scott Harper**, Business Tax Services.

Fintech – A leader in your industry

Leading Fintech firms rely on KPMG to help them improve business performance, turn risk and compliance into opportunities, develop strategies, and enhance value. The KPMG Fintech team sees today's environment of converging challenges as a catalyst for improvement by taking advantage of the opportunities that surround us.

Our mission is to help our clients grow, engage with customers, manage costs, and comply with regulations by leveraging the power of data and digitization.

By integrating our capabilities across audit, tax, and advisory, KPMG Fintech professionals bring insight to help our clients build competitive advantage and align strategies during this period of substantive change and enormous opportunity.

At KPMG we help our clients succeed with strategic approach to their FinTech challenges across the following FinTech categories:

Digital assets

Entities whose core business is predicated on distributed ledger (blockchain) technology with the financial services industry AND/OR are involved in providing services or developing technology related to the exchange of cryptocurrency, the storage of cryptocurrency, the facilitation of payments using cryptocurrency and securing cryptocurrency ledgers via mining activities.

Digital wealth

These companies or platforms whose primary business involves the offering of wealth management services using technology to increase efficiency, lower fees or provide differentiated offerings compared to the traditional business model.

Payments

Entities whose business model revolves around using technology to provide the transfer of value as a service including both B2B and B2C.

Digital lending

- **Platform companies**: Any non-bank who uses a technology platform to facilitate movement of funds often implementing alternative data and analytics OR any entity whose primary business involves providing data and analytics to online lenders or investors in online loans.
- **Neobanks:** Type of direct bank or a digital banking platform that operates exclusively online without traditional physical branch networks.
- **Challenger banks:** Small, recently created retail banks with a banking license that compete directly with the longer-established banks

PropTech, RegTech, and InsurTech

- **PropTech:** Entities that are developing and leveraging technology intended to help facilitate the purchase, management, maintenance and investment into both residential and commercial real estate.
- **RegTech**: Entities that provide a technology-driven service to facilitate and streamline compliance with regulations and reporting as well as protect from employee and customer fraud.
- **Insurtech:** Entities utilizing technology to increase the speed, efficiency, accuracy and convenience of processes across the insurance value chain.

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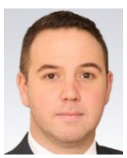

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