Addressing top-of-mind fintech issues

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Content

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Business/Strategy trends

Open Banking has become well established in European and Australian markets, encouraging operational efficiency, innovation, and improved customer experiences. However, it has yet to reach its full potential in the US, partly due to the lack of regulatory rules governing data sharing between financial institutions.

The Consumer Financial Protection Bureau's (CFPB) proposed new rule, Section 1033 of the Consumer Financial Protection Act (2010)—commonly known as "Open Banking"—could mark a turning point for the US market. This rule will require financial institutions to share customer data with customers and authorized third-party institutions while also establishing data protection standards for third parties.

Fintech companies offering streamlined, customized personal finance solutions will be better positioned to capitalize on these CFPB developments.

Potential actions:

- Evaluate current operating model and go to market strategy to take advantage of the new rule and drive growth.
- Consider the implications of the CFPB's proposed rules on current Application Programming Interfaces with existing depository and nondepository counterparts
- Review and update, if necessary, controls and policies that govern the handling of customer data
- Review contracts with third-party institutions about data protection standards and protocols

Thought leadership:

- CFPB Proposal

M&A/Transactions

Early in 2024 we have seen significant deal activity, chatter, and public discussion relating to prominent businesses in the payments space. Given the abundance of available investment capital, the diminishing valuation gap between buyers and sellers, and with the ongoing demand for financial technology to drive efficiencies throughout the financial sector we expect interest in the space to continue.

In many ways, 2024 will depend on the outcomes of various geopolitical and economic challenges. A rate drop or drops this year accompanied by a cessation of hostilities in the Middle East could be enough to encourage an uptick in mergers and acquisition (M&A) activity in the second half of the year—although elections in the US and abroad may temper that. Even so, there are many potential risks on the horizon that could send markets in the other direction.

Potential actions:

- Weigh options for carveout and divestiture of non-core assets
- Consider potential for take private, particularly for the most recently publicly-listed Fintechs who have faced challenging markets
- Turn attention torward enhancing the value of the business, showcasing earnings potential for M&A deals
- Pay attention to the rise in vertically integrated payment solutions featuring intelligent technologies to address business and merchant challenges
- Focus on B2B payments in the Accounts Payable/Receivable space as organic revenue growth will outpace C2B growth
- Consider appetite for ancillary products related to the payments and e-commerce ecosystems such as fraud protection, cybersecurity, and threat intelligence solutions

Thought leadership:

- Pulse of Fintech

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Auditing and accounting

While embedded finance presents compelling possibilities for businesses to reach customers in new ways, the accounting considerations related to its arrangements continue to be top-of-mind for fintech organizations.

For instance, platform companies using embedded finance frequently modify fees and commissions (e.g., payment processing fees, loan origination fees) under ASC 606 Revenue from Contracts with Customers. However, complexities arise when determining gross versus net recognition for fees earned by other transaction parties involved in the transaction and the appropriate timing of recognition.

Additional considerations include the treatment of funds in transit under specific embedded finance arrangements. Fintech companies should consistently assess when they have the right to recognize funds and whether these should be classified as cash, restricted cash, or accounts receivable.

Potential actions:

- Proactively evaluate embedded finance arrangements to identify each party's contractual rights, roles, performance obligations, and the completion timing of performance obligations
- Consider disclosure of key information around embedded finance arrangements, including product terms and conditions, key performance metrics, and the disclosure of credit/market risk resulting from arrangements.

Regulatory and compliance

Recent regulatory shifts are transforming the Fintech sector, making it crucial to stay updated and adapt accordingly.

The CFPB issued a policy statement detailing its approach to analyzing elements of abusiveness through relevant examples, with the goal of providing an analytical framework to fellow government enforcers and the market for how to identify violative acts or practice.

The policy statement is particularly pertinent to larger participants of financial product or service markets, as they will likely be affected by the pending rule proposed for supervising larger nonbank companies offering services like digital wallets and payment apps.

Fintech companies that enable the purchase, sale, storage, or delivery of consumer products within the United States will now have to also comply with the INFORM Consumers act. This act mandates gathering, verifying, and disclosing specific seller information akin to "know your customer" standards or face penalties of up to $50,120 per violation. The INFORM Consumers Act seeks to enhance transparency and prevent the sale of counterfeit or unsafe products online.

Similarly, the CFPB also finalized the final rule regarding late fees under Regulation Z, setting new safe harbor thresholds for card issuers, with $8 as the limit for larger card issuers and the current $32 and $43 thresholds remaining in place for smaller card issuers.

Potential actions:

- Pay close attention to the regulatory scrutiny of partner banks and other financial institutions to assess potential implications and necessary adjustments
- Alert compliance about the INFORM Consumers Act and the severe penalties for noncompliance

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Taxation

On February 15, 2024 the U.S. Treasury Department announced that in light of the revised timeline for adoption and signature of the Pillar One multilateral convention, Austria, France, Italy, Spain and the United Kingdom have decided to extend until June 30, 2024, they will withdraw all unilateral measures concerning the imposition of digital services taxes once Pillar One takes effect. KPMG notes that the extension of this rule does not cover similar agreements with India or Turkey, both announced in November 2021.

Additionally, The U.S. House of Representatives on January 31, 2024, passed H.R. 7024 [PDF 236 KB], the "Tax Relief for American Families and Workers Act of 2024," bipartisan legislation that would address scheduled changes in business taxation under the "Tax Cuts and Jobs Act," among other provisions. In particular, the bill includes proposed changes to section 174, section 280C, and proposed temporary section 174A.

Thought leadership:

- Bipartisan tax legislation

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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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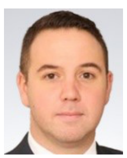

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