



Addressing top of mind issues for banking and capital markets



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Risk and regulatory



Update

The recent shifts in agency leadership and priorities are expected to impact the regulatory environment for financial institutions. Here's a breakdown of the key developments and their potential implications:

- New agency leadership is refining priorities, potentially altering the scope and focus of supervision activities.
- Regulatory priorities for the remainder of the year include reviewing existing rules, tailoring rulemaking, improving supervision focus on systemic risks, and incorporating digital assets in the banking system.
- There's a noticeable shift toward "self-regulation" and away from strict federal rules-based approaches, exemplified by the recent executive order on removing barriers to American Leadership in Artificial Intelligence (AI).
- Financial services will remain heavily regulated due to their critical role in the economy and financial markets.
- Risk and Compliance professionals are focusing on leveraging technology to transform compliance, managing regulatory complexity, and evolving risk assessment methodologies to address emerging risks.

The evolving regulatory landscape presents both challenges and opportunities. While the industry will continue to be heavily regulated, the shift toward more flexible approaches to innovation and regulation could lead to a more favorable environment for certain business activities. However, this may also result in increased complexity for global firms due to potential divergences between domestic and international regulatory requirements.

Opportunity

1

Monitor potential changes to existing regulations, including adjustments to capital and liquidity rules.

2

Prepare for a more flexible regulatory approach to innovations and potentially streamlined mergers and acquisitions (M&A) approvals.

3

Be aware of the potential for diminished engagement between U.S and international standards setters, leading to divergence between domestic and global regulatory requirements, posing operational challenges for larger, global firms.

Resources

- [Executive Order: "Debanking"/"Fair Banking"](#)
- [Executive Order: 401\(k\) Investor Access to Alternative Assets](#)
- [State Series: AI Legislation](#)
- [Regulatory Recap: July 2025](#)
- [CCO Insight: 2026 Compliance Planning](#)
- [Ten Key Regulatory Challenges: 2025 Mid-Year](#)
- [Special Alert: Digital Assets/Cryptocurrency Regulation](#)

Contact KPMG

Laura Byerly

US Regulatory Insights & Compliance Transformation
KPMG LLP

T: 202-533-4636

E: lbyerly@kpmg.com

Brian Hart

Principal, Financial Services Risk, Regulatory and Compliance Network Leader
KPMG LLP

T: 212-954-3093

E: bhart@kpmg.com



Update

The credit market is facing challenges from rising delinquencies in commercial and consumer lending. Lenders must navigate these trends to mitigate risks and capitalize on opportunities.

Key points and updates from Q3:

- Consumer loan delinquencies are rising, with credit card spend outpaced by debit card spend as consumers become more prudent.
- The end of the federal student loan payment moratorium may strain borrowers and pressure asset quality metrics.
- Commercial real estate (CRE) loan delinquencies remain high, with a looming "maturity wall" as loans mature at low rates.
- High debt levels and interest rates remain headwinds to the CRE market, although some relief may result from anticipated reductions in interest rates.
- Some debt investors are concerned about potential loosening of credit standards, highlighted by some recent high-profile defaults.

The credit market is complex, with rising delinquencies and changing consumer behaviors. Institutions with robust risk management and data-driven strategies will be better positioned to navigate these challenges.

Opportunity

1

CRE: Proactively identify and address risk through enhanced portfolio reviews and stress testing. Ensure loan modifications are grounded in sound credit risk management and reinforce appraisal scrutiny.

2

Private credit: Monitor the competitive landscape as private credit providers continue to benefit from substantial fundraising and compete vigorously for assets.

3

Consumer credit: Enhance data analytics, recalibrate risk models, and improve underwriting standards to identify changes in consumer financial behaviors and health. Strengthen monitoring and early warning systems to address delinquencies and charge-offs, considering the impact of the current economic uncertainty on repayment abilities.

Resources

- [CECL Pulse Check Q3 2025](#)
- [Credit Markets Update Q2 2025](#)

Contact KPMG

Adam Black

Commercial Lending & Credit Risk
KPMG LLP

T 267-256-2719

E adamblack@kpmg.com

Adam Levy

Risk Services
KPMG LLP

T 312-665-2928

E adamlevy@kpmg.com

Update

Digital assets have garnered significant attention within the banking industry given favorable regulatory developments that have taken place this year as well as the recent passage of stablecoin legislation via the GENIUS Act. Additionally, Bitcoin exchange-traded products (ETPs) first launched in January 2024, and since then, have accumulated approximately US \$144 billion in assets under management (AUM) in less than two years, highlighting significant consumer demand for digital assets. These tailwinds have led banks to reevaluate their digital asset strategy and assess what additional revenue streams, digital asset products, and services to offer; as well as to recognize parts of their business that are poised for disruption. Based on market dynamics, banks who choose to be a first-mover have an opportunity to capture market share given the limited digital asset options that are available to traditional banking customers. This includes, but is not limited to:

- Allowing customers to buy/sell digital assets (e.g., Bitcoin, Ethereum, stablecoins) within banking platforms, preventing deposit outflows and providing an additional revenue stream from custody and trading fees.
- Underwriting secured loans where digital assets serve as collateral.
- Allowing customers to make payments using stablecoins, including cross-border payments, which significantly expedite settlement times and reduce transaction fees.
- Offering digital assets as credit card rewards, which could help tap into new customer segments and provide additional optionality to traditional rewards.

Digital assets present a unique set of risks that banks are not accustomed to managing, including the interaction with public blockchains, management of private keys, and know your customer/anti-money laundering/know your transactions requirements that differ from fiat transactions. Banks will need to ensure that they perform a comprehensive risk assessment and update their risk taxonomies prior to incorporating digital assets into their existing business models.

Opportunity

1

Conduct a market analysis to determine which digital asset product/services to offer that align with existing business models and customer demand.

2

Perform a build-versus-buy assessment based on in-house capabilities and the company's risk appetite.

3

Build out a comprehensive governance model that helps identify risks and controls around digital assets and interacting with public blockchains.

Resources

- [Stablecoins: The Bridge Between Traditional Finance and Digital Assets](#)
- [Crypto and Digital Assets: Final GENIUS Act and Other Actions](#)

Contact KPMG

Brian Consolvo
Financial Services
KPMG LLP

T: 804-782-4215
E: bconsolvo@kpmg.com

Robert Sledge
Financial Services
KPMG LLP

T: 212-872-6481
E: rsledge@kpmg.com

Jason Bui
Accounting Advisory Services
KPMG LLP

T: 212-954-3110
E: jasonbui@kpmg.com

Mergers & acquisitions



Update

The current regulatory landscape is creating mixed signals for banking mergers and acquisitions (M&A), with scrutiny remaining high for large deals. Despite challenges, improved earnings and capitalization have renewed confidence among dealmakers. The banking sector continues to navigate a complex environment influenced by evolving regulatory requirements, and uncertainty about the magnitude and timing of anticipated interest rate reductions.

The regulatory environment is expected to significantly impact both pending transactions and new deals as the sector adapts. Key regulatory challenges include:

- Adjusting capital and liquidity requirements with careful attention to stress testing and reserve ratios
- Enhancing regulatory reviews, with agencies such as the Federal Deposit Insurance Corporation and Consumer Financial Protection Bureau exploring more efficient oversight practices tailored to institutional risk profiles
- Revisiting Community Reinvestment Act obligations, with potential reforms focused on transparency and efficiency, which may impact consolidation efforts, particularly among regional and mid-sized banks
- Evaluating market concentration thresholds cautiously, aiming to balance regional bank mergers with competition concerns

The banking M&A landscape is navigating a complex regulatory environment with mixed signals on deal activity. While challenges persist, renewed confidence among dealmakers and improved institutional fundamentals are creating opportunities. As the sector adapts to evolving regulatory considerations, institutions must remain agile and prepared for potential shifts in the M&A landscape. A balanced approach that addresses both regulatory requirements and business needs will be crucial for success.

Opportunity

1

Revisit M&A strategy with a focus on future opportunities, ensuring that deal structure is well-documented and ready for potential transactions that may arise.

2

Identify and establish relationships with key partners, including investment bankers, legal firms, and third-party vendors, to facilitate smoother deal execution.

Resources

- [2025 Banking Survey: Technology](#)
- [M&A trends in financial services: Q2 2025 M&A trends report – Consolidation accelerates amid clarity](#)

Contact KPMG

Henry Lacey

Financial Services Integration and Strategy
KPMG LLP

T: 212-997-0500

E: hlacey@kpmg.com

Mario Mastrantoni

Accounting Advisory Services
KPMG LLP

T: 704-370-4362

E: mmastrantoni@kpmg.com



Cost optimization



Update

The current economic environment demands that US banks prioritize strategic cost transformation to maintain growth and competitiveness. This involves moving beyond traditional cost-cutting measures to embrace sustainable continuous performance improvement, leveraging advanced technologies, and fostering a culture of innovation. To achieve this transformation, US banks should consider the following key strategies:

- Banks must adapt to new economic pressures, including fluctuating interest rates and potential regulatory changes requiring a nuanced approach to cost management.
- The focus should shift to "continuous performance improvement," emphasizing comprehensive metrics and transparent reporting systems to improve efficiency and align with stakeholder expectations.
- Embracing technologies such as AI and GenAI provides significant opportunities for cost optimization through predictive analytics, customer service, risk management, and operational efficiency.
- Fostering a culture of continuous improvement is crucial, encouraging innovation, flexibility, and adaptation within the organizational framework.
- By incorporating advanced technologies and nurturing a culture of continuous improvement, banks can navigate economic complexities and ensure long-term resilience and success.

To remain competitive, US banks must prioritize sustainable cost optimization strategies that combine technological innovation with a culture of continuous improvement. This approach will help them navigate future challenges, reduce costs, and create long-term value, ultimately ensuring their resilience in an uncertain economic environment.

Opportunity

1

Evaluate nearshoring and reshoring opportunities.

2

Implement advanced cost transformation programs.

3

Enhance risk assessment strategies.

4

Optimize delivery channels and partnerships.

5

Cultivate a culture of innovation and continuous improvement.

Resources

- [2025 Banking Survey: Technology](#)
- [How regional and community banks can thrive in a fast-changing market](#)
- [Banking transformation: The new agenda](#)

Contact KPMG

Henry Lacey

Financial Services Integration and Strategy
KPMG LLP

T: 212-997-0500

E: hlacey@kpmg.com

Lennart De Vries

Financial Services Strategy
KPMG LLP

T: 703-286-8000

E: lennartdevries@kpmg.com



Digital transformation



Update

The banking and capital markets sector continues to undergo significant digital transformation driven by emerging technologies, evolving customer demands, and strategic tech partnerships. This transformation focuses on achieving real-time data access, scalable workflows, and tangible efficiency gains through advanced tools and AI frameworks.

Key points and updates from Q3:

- Emerging technologies and tech partnerships are fueling digital transformation, with a focus on real-time data and scalable workflows.
- Agentic AI frameworks are automating routine activities and enhancing customer experiences through tasks such as customer service and marketing campaign optimization.
- Holistic digital transformation integrating front-, middle-, and back-office functions is crucial for long-term competitiveness.
- Ensuring data is centralized and in a workable format remains a significant challenge.
- Robust governance and ethical considerations are essential for the successful deployment of AI and digital solutions.

As the banking landscape continues to evolve, organizations that embrace comprehensive digital transformation are likely to gain a competitive edge. The integration of advanced technologies, coupled with a strategic approach to talent and partnerships, will be key to navigating this transformation successfully. In this rapidly changing environment, a proactive and holistic approach to digital transformation is not just a technological necessity but a strategic imperative for long-term success.

Opportunity

1

Redesign workforce strategy for digital transformation.

2

Expand partnerships that enable speedy adoption of innovative digital platforms.

3

Develop a culture of continuous learning about technology.

Resources

- [Scale your customer engagement with AI-driven solutions](#)
- [Ways to Empower Your Workforce with AI Strategies | KPMG](#)

Contact KPMG

Celeste Diana
Financial Services Strategy
KPMG LLP

T: 516-456-1863
E: cdiana@kpmg.com

Anand Shah
US Banking Solutions Leader
KPMG LLP

T: 404-222-7386
E: ananddshah@kpmg.com



Update

The rapid adoption of generative AI (GenAI) technology is transforming banking operations, from back-office processes to front-office interactions. As organizations automate labor-intensive tasks, they create capacity for higher-value advisory services. However, this shift also introduces new challenges related to regulatory compliance, risk management, and stakeholder trust. The integration of GenAI in banking operations presents both opportunities and challenges across several key areas:

- GenAI is being applied across various banking functions, including tax compliance and customer service, to enhance operational efficiency.
- The technology is reshaping operating models, but its outputs must be validated by professional judgment to ensure accuracy and safeguard institutional reputation.
- Frameworks for ethical GenAI use, data privacy, model transparency, and regulatory compliance are essential.
- Internal audit plays a critical role in ensuring AI systems are effective, secure, and compliant.

As GenAI continues to evolve, a balanced approach that combines technological innovation with rigorous oversight is crucial. By aligning GenAI initiatives with business strategy and maintaining a focus on continuous learning, organizations can harness the full potential of this technology.

Opportunity

1

Map out areas for GenAI-driven automation.

2

Implement “human-in-the-loop” checks to maintain data integrity and regulatory compliance.

3

Invest in audit and risk capabilities that oversee GenAI initiatives.

4

Merge GenAI efforts with strategic priorities for meaningful enterprise transformation.

Resources

- [How generative AI is transforming mergers and acquisitions tax](#)
- [Auditing artificial intelligence](#)
- [Reimagining the front office for a smarter, faster future](#)

Contact KPMG

Binoy Palakkal

Principal
KPMG LLP

T: 212-954-2239

E: bpalakkal@kpmg.com

Update

Financial institutions are adopting innovative approaches to address the evolving cybersecurity landscape and regulatory requirements. The focus is on harmonizing cybersecurity programs and leveraging advanced technologies to enhance risk management and protect against emerging threats. This shift is driven by several key developments, notably:

- Financial services organizations are increasingly adopting the Cyber Risk Institute (CRI) profile to streamline compliance across multiple regulatory bodies, simplifying alignment with various standards and enhancing risk management.
- Automation is transforming vulnerability management and incident response by minimizing manual alert triage and vulnerability remediation, enabling faster and more efficient threat mitigation.
- Automated systems are being used to conduct continuous vulnerability scanning, prioritize risks based on potential impact, and orchestrate incident response processes, improving accuracy and response times.

Through these innovative approaches, Chief Information Security Officers ensure their institutions remain resilient and adaptive in the face of cybersecurity challenges, providing a robust foundation for securing their digital future.

Opportunity

1

Utilizing the Cyber Risk Institute

Profile: Adopt the CRI profile to unify cybersecurity frameworks with regulatory compliance needs.

2

Leveraging Automation in Security

Operations: Integrate automation into Security Operations Centers to automate routine security tasks.

3

Enhancing Vulnerability and Incident

Response Automation: Prioritize automation in vulnerability detection and response actions to ensure continuous monitoring and swift remediation.

Resources

- [Cybersecurity Considerations 2025: Financial services](#)
- [US Insights: Pulse of Fintech H2 2024](#)
- [The Leadership Guide to Securing AI](#)

Contact KPMG

Matt Miller

Cyber Security Services
KPMG LLP

T: 571-225-7842

E: matthewpmiller@kpmg.com

CIO's agenda



Update

The CIO's agenda is focused on driving digital transformation through strategic initiatives that enhance operational efficiency, customer experience, and revenue growth.

- AI value realization: Deploy generative and agentic AI for operational efficiency and revenue growth.
- Enterprise reinvention: Build a cloud-powered digital core for innovation and scalability.
- Modern IT operating models: Transition to product-centric delivery for agility and collaboration.
- Cybersecurity & quantum preparedness: Strengthen Zero-Trust architectures and prepare for quantum risks.
- Tech-driven change leadership: Lead organizational change for improved adoption and ROI.

A strategic focus on these areas can drive growth, improve customer experiences, and maintain a competitive edge. Successful transformation not only requires technological advancements, but also a cultural shift towards agility and customer-centricity.

Opportunity

1

Define and track AI ROI metrics aligned with business KPIs, such as cost savings, revenue growth, or customer satisfaction improvements.

2

Modernize core infrastructure through cloud migration, platform engineering, and strategic legacy system decommissioning or integration.

3

Redesign IT governance with agile, product-based structures that integrate platform teams with business units for better alignment.

4

Establish a Change Enablement Office to manage training, adoption, and feedback loops for digital transformation efforts, ensuring sustained organizational change.

Resources

- [Voice of the CIO \(June\)](#)
- [AI Security: Empowering Leaders with a Robust AI Framework | KPMG](#)
- [The future of IT](#)

Contact KPMG

Sahil Parmar

Managing Director, Strategy
KPMG LLP

T: 310-947-1139

E: sahilparmar@kpmg.com

Binoy Palakkal

Principal, Advisory
KPMG LLP

T: 212-954-2239

E: bpalakkal@kpmg.com



Update

Recent legislative changes and accounting updates are poised to impact banks and their customers significantly. The One Big Beautiful Bill (HR1) and California SB 132 introduce various provisions affecting taxable income, reporting requirements, and tax disclosures.

- **One Big Beautiful Bill** (HR1)¹, signed into law on July 4, 2025, includes several provisions impacting banks:
 - Exclusion of 25 percent of interest from certain agricultural real property loans from taxable income
 - **Reporting requirements** for interest expense on certain car loans
 - Exemption from individual income tax on certain overtime pay starting in 2025, with potential additional payroll reporting requirements
 - Introduction of **Trump Accounts**, new tax-advantaged savings accounts, in 2026
- **California SB 132**,² requires financial institutions to use a single sales factor for apportioning business income for California franchise/income tax, effective retroactively to January 1, 2025.
- **Accounting Standards Update (ASU) 2023-09**³ enhances income tax disclosures for calendar year-end public entities in 2025, and may **implementation challenges for financial institutions**, particularly institutions with significant foreign source income:
 - Presentation in Rate Reconciliation of Income tax credits and other income tax benefits accounted for using the proportional amortization method
 - Aggregation of certain nontaxable or nondeductible items of income “by nature”
 - Determination of the state jurisdictions making up the “majority” of domestic state income taxes, as well as more granular disclosure of taxes in foreign jurisdictions.
 - Presentation of changes in unrecognized tax benefits for the current annual reporting period

Opportunity

1

Prepare for required tax disclosures under ASU 2023-09, including any required accounting policy elections.

2

Assess the impact of the One Big Beautiful Bill, in particular focusing on the potential for increased reporting requirements.

Resources

- [KPMG reports: Tax subtitle for "One Big Beautiful Bill Act"](#)
- [TWIST-Q \(This week in State Tax- Q\) - Second Quarter 2025](#)
- [Catching Up on Capitol Hill \(podcast\)](#)
- [In the Vault with KPMG: A Banking industry podcast series](#)

Contact KPMG

Liz L’Hommedieu

*Banking & Capital Markets, National Tax Industry
Deputy Leader
KPMG LLP*

T: 614-249-1849

E: elhommedieu@kpmg.com

¹Congress.gov, “H.R.1 — 119th Congress (2025-2026)”, (July 4, 2025)

²National Law Review “California Adopts Single Sales Factor Apportionment for Banks and Financial Institutions: Key Changes Under SB 132” (July 14, 2025)

³FASB, “Accounting Standards Update 2023-09 Income Taxes (Topic 740) Improvements to Income Tax Disclosures” (December 2023)

Contacts

Peter Torrente
US Sector Leader & Audit
Leader, Banking & Capital
Markets

ptorrente@kpmg.com

Stephen Kennedy
Industry Insights Leader,
Banking & Capital Markets

stephenkennedy@kpmg.com

Andrew Ellis
Banking Consulting Leader

alellis@kpmg.com

Agnel Kagoo
Capital Markets Consulting
Leader

akagoo@kpmg.com

Mark Price
Tax Industry Leader, Banking
& Capital Markets

mhprice@kpmg.com

Liz L'Hommedieu
National Tax Industry Deputy
Leader, Banking & Capital
Markets

elhommedieu@kpmg.com

Nadia Orawski
Financial Services Strategy
Leader, Banking and Capital
Markets

norawski@kpmg.com

Karen Silverman
Financial Services Partner
KPMG LLP

ksilverman@kpmg.com



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