Addressing top of mind issues for banking and capital markets

January 2026

Contents

Mergers and acquisitions

Update

The banking and capital markets industry has experienced an increase in M&A activity, driven by recent regulatory shifts and changes in interest rates. Here's an overview of the key developments shaping the M&A landscape:

- **Regulatory environment, a shift toward flexibility:** US regulators have shifted their stance, rescinding restrictive 2024 merger review policies and reverting to pre-2024 frameworks, creating a more predictable approval process for bank mergers while maintaining scrutiny on market concentration.
- **Interest rate outlook, a catalyst for renewed activity:** Recent rate cuts are expected to continue lowering borrowing costs and improving deal economics, particularly favoring middle-market transactions.
- **Strategic outlook:**
  - *Deal volume recovery:* M&A momentum is building, especially among regional banks seeking scale and technology capabilities, with analysts expecting an uptick in transactions through 2026.
  - *Integration challenges:* Cultural alignment and technology compatibility remain critical success factors, with institutions placing greater emphasis on integration planning and risk management.
  - *Balanced approach*: Successful strategies will combine regulatory readiness, capital efficiency, and digital enablement, with banks that proactively engage with regulators, optimize capital structures, and leverage fintech partnerships best positioned to capture growth opportunities.

As the regulatory environment becomes more accommodating and economic conditions improve, the stage is set for a potential recovery in M&A deal volume over the next two years. Institutions that proactively address integration challenges and adopt a balanced strategic approach will be best positioned to capitalize on emerging opportunities. With the right alignment of valuation, financing flexibility, and strategic objectives, companies can navigate the complexities of M&A and drive growth through strategic consolidation.

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

- M&A Trends in Financial Services: Q3 2025 M&A Trends Report
- KPMG 2025 Mid-Year M&A Pulse
- 2025 Banking Survey: Technology

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Digital assets

Update

Digital assets have the potential to reshape the banking industry and financial systems, with organizations entering a new era that demands thoughtful execution amid favorable regulatory developments, including the recent passage of stablecoin legislation through the GENIUS Act. These favorable conditions have prompted banks to reassess their digital asset strategies, exploring new revenue streams, digital asset products, and services while identifying business areas poised for disruption. While digital assets hold long-term potential, many urgent opportunities and challenges will be based on integrating digital assets into existing systems, navigating evolving regulations, and ensuring financial and operational readiness. Whether it's implementing stablecoins and/or tokenized deposits for payments, establishing compliant digital custody models, or preparing for real-time settlement, banks are facing new design decisions that span finance, treasury, legal, and technology functions. These opportunities include, but are not limited to:

- Enabling 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.
- Facilitating payments using stablecoins and/or tokenized deposits, including cross-border transactions, which expedite settlement times and lower transaction fees.
- Offering digital assets as credit card rewards to attract 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

Reassess digital asset strategies, including identifying new opportunities regarding digital asset product offerings and services.

2

Understand legislation changes and evaluate impact on digital asset strategies.

3

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

Resources

- Banks & Savings Institutions: Issues & Trends
- KPMG 2025 Futures Report
- Stablecoins: The Bridge Between Traditional Finance and Digital Assets
- Crypto and Digital Assets: Final GENIUS Act and Other Actions

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GenAI

Update

AI is revolutionizing the banking and capital markets industry by accelerating digital transformation, enhancing efficiency, creating personalized customer experiences, and presenting new avenues for growth. In the most recent KPMG AI quarterly pulse survey, 49 percent of respondents acknowledged AI agent deployments across various functions. Although 2025 is not the year of the AI agent, it is probably the first year in a decade of AI agents, where enterprises will seek to build or buy technology that layers frontier large language models to drive analysis and actions across various business functions.

Financial institutions continue to explore AI applications across the entire value chain, from front-office investment processes to back-office operations, including:

- AI-assisted loan servicing and loan origination agents;
- AI-based alert management such as compliance monitoring and real-time fraud identification;
- AI-based portfolio management insights based on portfolio criteria.

As these applications are further explored, financial institutions are engaging with the question, “What does an ‘AI Native’ version of my business of function look like?,” which is a much more significant challenge than simply using GenAI to automate existing processes. As AI agents are more widely adopted, the challenge of managing AI agents at scale is becoming more real and financial institutions must evaluate how to develop enterprise software products that can assist in managing AI agents at scale.

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

Take advantage of the changing economics in the build versus buy decision on enterprise technology.

2

Envision an AI Native future state for a given function or business and work towards that goal.

3

Develop a plan for discovering, deploying, managing, and governing AI agents across your enterprise.

Resources

- KPMG AI Quarterly Pulse Survey
- How generative AI is transforming mergers and acquisitions tax
- Auditing artificial intelligence
- Reimagining the front office for a smarter, faster future

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Digital transformation and payments modernization

Update

The banking and capital markets sector continues to undergo significant digital transformation driven by emerging technologies, evolving customer demands, and strategic technology partnerships. This transformation has shifted to focus on practical implementation, prioritizing the integration of GenAI with existing systems and focusing on effective risk management while data quality and cybersecurity continue to remain the biggest hurdles to achieving digital transformation and GenAI goals. Some of the key developments in this transformation journey include:

- Fundamental shift in how organizations measure technology returns, including the recognition that GenAI operates differently from conventional investments.
- GenAI frameworks continue to automate routine activities and enhance customer experiences.
- Companies continue to hire critical skills such as adaptability, industry-specific knowledge, technical expertise, and analytical capabilities to succeed in their digital transformation initiatives.
- The greatest risks and barriers continue to be quality of organizational data, cybersecurity, data privacy concerns, a lack of risk management and governance processes, and regulatory uncertainty.
- Robust governance and ethical considerations are essential for the successful deployment of AI and digital solutions.

As the banking landscape continues to evolve, the key to empowering your workforce to embrace digital transformations lies in building an intentional, sustainable, and holistic strategy that blends both talent and technology. From assessing roles ripe for AI enablement to fostering a culture of continuous learning, organizations can leverage this transformative technology to drive excitement, innovation, and unprecedented growth.

Additionally, while the overall market for payments is expected to expand, banks' wallet share is growing at a far slower pace than that of newer rivals. To remain competitive in this environment, traditional banks are investing in the modernized payments technology, partnerships, and diversification necessary to position themselves for growth.

Opportunity

1

Reevaluate ways to measure technology returns.

2

Expand technology partnerships that enable efficient adoption of innovative digital platforms and manage risks.

3

Provide targeted upskilling and **involve employees in planning and integrating** digital transformation initiatives.

Resources

- KPMG AI Quarterly Pulse Survey
- Ways to Empower Your Workforce with AI Strategies
- Accelerating Payments Modernization: Strategies for Banks to Stay Ahead

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Risk and regulatory

Update

The changes within the regulatory agencies' leadership and priorities continue to impact the regulatory and operational environment for financial institutions. Key developments, potential implications, challenges, and opportunities include the following:

- Agency leadership is refining priorities with a focus on material financial risks, potentially altering the scope and frequency of supervisory activities.
- Regulatory priorities include reviewing existing rules, tailoring rulemaking, prioritizing material financial risks, with greater reliance on the work of primary state and federal supervisors.
- Regulators will apply revised Matters Requiring Attention (MRA) and Matters Requiring Immediate Attention (MRIA) practices and expectations for issuing and communicating MRAs/MRIAs will focus on material deficiencies, specific and clear communication, and streamlined remediation validation.
- Receptivity to insured institutions' application of new technologies is also apparent, exemplified by the executive order on removing barriers to American leadership in artificial intelligence (AI).
- Risk and compliance professionals within these institutions are leveraging technology to transform compliance, manage regulatory complexity, and evolve risk assessment methodologies to address emerging risks.

Even with an evolution in regulatory priorities, financial services firms will remain heavily regulated due to their critical role in the economy and global financial markets. 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 (both federal and state) and international regulatory requirements.

Opportunity

1

Monitor potential changes to (and lessening of) existing regulations and regulatory practices, including the recent adjustments and requests for comment on stress testing requirements; recission of recovery planning guidelines; prohibition on use of "reputation risk" by regulators; and recission of principles for climate-related financial risk management.

2

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

3

Be aware of the potential for diminished engagement and resulting divergence between US and international standards setters, posing operational challenges for larger, more complex and global firms.

Resources

- Ten Key Regulatory Challenges of 2026
- SEC 2026 Priorities: Examinations and Perspectives
- Federal Reserve: Supervisory Operating Principles
- Regulatory Recap: October 2025
- Regulatory Recap: Q3 2025
- Executive Order: "Debanking"/"Fair Banking"
- State Series: AI Legislation
- CCO Insight: 2026 Compliance Planning

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Credit

Update

The credit market is facing significant challenges due to rising delinquencies in both commercial and consumer lending, as well as growing market complexities. These challenges are driven by factors such as elevated tariffs, fragile supply chains, and signs of cooling in the labor market. Some of the key developments in this landscape include:

- Private credit continues to be an attractive alternative to traditional bank lending and financial institutions should evaluate opportunities and remain competitive in the marketplace whilst managing risks associated with looming "maturity walls", higher loan concentrations within specific portfolios/funds, and outsized growth factors which have led to additional regulatory scrutiny.
- Consumer balance sheets have largely stabilized, with contained delinquencies across mortgages, credit cards, and auto loans.
- The end of the federal student loan payment moratorium has increased strain on borrowers, leading to the highest-ever transition rate into serious delinquency for student loans.
- Commercial real estate loan delinquencies remain high, with a looming "maturity wall" as loans mature at low rates and face high debt levels and interest rates.
- Continued economic uncertainty, tariffs, immigration policy, and weak job growth are headwinds that lenders must navigate to mitigate risks and capitalize on opportunities.

The credit market's current challenges underscore the need for lenders to be vigilant and proactive. As debt investors express concerns about potential loosening of credit standards, lenders should consider balancing risk management with opportunity capture.

Opportunity

1

Identify and evaluate economic uncertainty associated with tariffs, immigration policy changes, and weak job growth.

2

Mitigate risks by enhancing data analytics, recalibrating risk models, and improving underwriting standards.

3

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 Q4 2025
- Banks & Savings Institutions: Issues & Trends

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Cost optimization

Update

US banks are under increasing pressure to rethink their approach to cost management and operational efficiency in today's complex economic environment. The traditional cost-cutting measures are no longer sufficient; instead, banks should consider adopting a holistic strategy focused on strategic cost transformation. This involves combining sustainable cost optimization with continuous performance improvement and innovation to ensure growth and competitiveness.

To achieve this transformation, several key considerations come into play. These include factors that banks should consider acknowledging and address to remain competitive. Some of the critical elements are:

- Banks should consider acknowledging the impact of fluctuating interest rates, tightening margins, and potential regulatory changes, requiring a nuanced and proactive approach to cost management.
- Implementing comprehensive performance metrics, and transparent reporting systems, is crucial for real-time insights into operational efficiency and financial health.
- Advanced technologies like AI and GenAI offer transformative opportunities across banking operations, including predictive analytics, AI-driven automation, and enhanced customer engagement through personalized interactions.
- A cultural shift toward continuous improvement and innovation is essential, involving employee empowerment and cross-functional collaboration and rewarding initiatives that deliver measurable improvements.
- Integrating technology with a culture of ongoing improvement can build resilience against economic uncertainty and position banks for sustainable success.

By embracing strategic cost transformation, US banks can not only reduce costs but also enhance their agility and responsiveness to emerging challenges and opportunities. This continuous journey requires a combination of innovation, transparency, and operational excellence to create long-term value for stakeholders and secure a competitive edge. Ultimately, banks that successfully integrate advanced technologies with a culture of continuous improvement will be better positioned to navigate the unpredictable financial landscape and achieve sustainable success.

Opportunity

1

Evaluate the impact of fluctuating interest rates and regulatory changes on cost management strategies.

2

Implement comprehensive performance metrics and transparent reporting system to identify cost efficiencies.

3

Enhance risk assessment strategies.

4

Identify technology opportunities, including AI and GenAI, to optimize costs.

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

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Cyber

Update

Financial institutions face a uniquely challenging and evolving cybersecurity landscape, driven by rapid technological advancements and heightened regulatory expectations. Key considerations revolve around balancing technological innovation with robust risk management, navigating complex regulations, and building enterprise-wide resilience where the focus is on building a proactive and resilient security posture that embeds trust at every level. This strategic shift is characterized by several key trends:

- Foundational security models are being implemented, such as Zero Trust Architecture and secure-by-design principles throughout the secure development lifecycle (SDLC), to create a strong defensive baseline.
- AI is being integrated into security operations centers to automate routine tasks like threat detection, vulnerability management, and incident response, allowing cybersecurity teams to focus on more complex threats and enhance overall efficiency.
- Advanced threat mitigation is critical, with a focus on defending against sophisticated AI-driven attacks like deepfakes and preparing for future cryptographic challenges posed by quantum computing.
- Governance and accountability are being elevated, with increased responsibility placed on chief information security officers (CISOs) and boards to oversee cyber risk. This extends to managing the complexities of outsourcing and ensuring rigorous security across the entire supply chain and digital ecosystem.
- AI security and data protection are paramount as firms leverage AI. This requires robust governance to secure AI models, ensure data privacy, and protect expanding data assets from leakage and misappropriation.

Through these strategic adjustments, firms are working to build a resilient foundation that not only defends against current and future threats but also enables secure innovation and stakeholder trust.

Opportunity

1

Enhancing foundational security and resilience: Adopt Zero Trust, integrate security into the SDLC and build operational resilience to withstand and recover from cyber events.

2

Governing advanced technologies: Establish robust security and governance for AI systems and prepare for the cryptographic threats of quantum computing.

3

Expanding risk and ecosystem oversight: Strengthen CISO and board accountability and manage risks associated with outsourcing, supply chains, and the broader digital ecosystem.

Resources

- Cybersecurity Considerations 2025: Financial services

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CIO's agenda

Update

Banks are currently focused on balancing innovation with risk management and cost efficiency, driving chief information officers (CIOs) to prioritize key areas that support their strategic objectives. The main challenge lies in modernizing legacy systems while enhancing customer experience and maintaining robust cybersecurity measures. Key focus areas for banks should include:

- Digital transformation and core modernization: Modernizing legacy systems and migrating to cloud platforms to enable scalable and agile digital operations.
- Data modernization and AI/analytics: Leveraging data and AI to drive personalization, smarter decision-making, and operational efficiency.
- Cybersecurity and operational resilience: Strengthening cyber defenses and ensuring systems can withstand disruptions while meeting regulatory expectations.
- Customer experience and digital innovation: Enhancing digital channels and personalizing customer interactions to drive loyalty and growth.
- Operational efficiencies and cost optimization: Driving cost transformation through automation, cloud adoption, and streamlined processes.

As banks continue to navigate the complexities of digital transformation, a key consideration is that successful implementation will require a balanced approach that addresses both innovation and risk management. By prioritizing these focus areas, banks can position themselves for long-term success in a rapidly evolving landscape.

Opportunity

1

Prioritize cloud migration and core system upgrades aligned to business goals and **adopt** modular, application programming interface-driven architectures to enable faster product innovation.

2

Build a unified cloud-based data platform and **launch** targeted AI use cases.

3

Implement Zero Trust architecture and AI-enhanced threat detection, including **conducting** resilience drills and **updating** third-party risk protocols.

4

Upgrade mobile/web platforms for seamless, omnichannel experiences.

5

Automate high-volume manual processes using robotic process automation and intelligent tools.

Resources

- Voice of CIO
- AI Security: Empowering Leaders with a Robust AI Framework
- The future of IT
- 2025 Banking Survey: Technology

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Tax

Update

Recent legislative changes and accounting updates are poised to impact banks and their customers significantly. Key matters to consider include:

- **M&A:** The recent surge in M&A activity in the banking sector requires tax departments to be prepared and agile to assess and respond to tax implications, ensuring smooth integration and minimizing risk through proactive readiness.
- **Auto loan interest:**
  - OB3[1] provides that individual taxpayers have the ability to deduct up to US $10,000 in interest expense on certain car loans, for which banks have reporting requirements to customers for 2025.
  - On October 17, 2025, the Internal Revenue Service (IRS) released a draft version of new Form 1098-VLI, *Vehicle Loan Interest Statement*, dated December 2026, which is expected to be used for reporting specified passenger vehicle loan interest.
  - On October 21, 2025, IRS issued Notice 2025-57, providing transitional relief and guidance for the 2025 calendar year to those subject to these new reporting requirements. Notice 2025-57 provides guidance on reporting obligations for qualifying loans for 2025, as well as penalty relief for interest recipients for failure to file specified returns and statements.
- **Alternative minimum tax:** On September 30, 2025, the IRS released Notice 2025-46 and Notice 2025-49, providing additional interim guidance regarding the corporate alternative minimum tax (CAMT). Both notices provide significant optionality and opportunities for taxpayers—applicable corporations should carefully study the guidance and determine whether any of the provisions should be relied on for 2025 CAMT positions.

Ultimately, a proactive and informed approach to these tax considerations is essential for banking executives to ensure robust compliance, optimize financial outcomes, and strategically navigate the evolving regulatory landscape.

Opportunity

1

Assess the impact of the OB3 and recent IRS notices, in particular focusing on the potential for increased reporting requirements.

2

Understand M&A strategy, including identifying early potential tax implications.

Resources

- Navigating the New 1 Percent Floor on Corporate Charitable Deductions
- OB3 insights: Navigating charitable contribution changes in banking (podcast)
- Transitional Guidance Regarding Returns Relating to Certain Interest on Specified Passenger Vehicle Loans Received in a Trade or Business
- OB3 Banking Insights: Information Reporting Changes for Financial Institutions (podcast)
- New Notices Make CAMT Regime More Favorable But More Complex

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[1] Congress.gov, "H.R.1 — 119th Congress (2025-2026)", (July 4, 2025)

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