Addressing top-of-mind fintech issues

Q4 2023

Content

Business/Strategy trends

Amid rising interest rates and dwindling funding sources, fintech companies are prioritizing net income over revenue growth. In response, fintech is focusing on optimizing cost and product offerings while regulatory scrutiny increases.

Business-to-business (B2B) growth opportunities are expanding as firms strive to reduce internal costs and improve efficiency in areas such as accounts receivable/ accounts payable (AR/AP) processes and improve inventory management.

Additionally, regulatory changes, such as ISO 20022 and rapid digitalization, are revolutionizing business payments, fostering innovative financial solutions, and providing fintechs with increased opportunities to compete with traditional institutions.

There is increased scrutiny from the Consumer Financial Protection Bureau (CFPB) on both nonbank lenders and payment companies. New rules, such as the Personal Financial Data Rights rule, come in the wake of a surge in enforcement actions and penalties against nonbank participants for violating customer data protection and lending practices.

Potential actions:

- Review costs and assess revenue-producing programs and consider unit metrics, both historical and future run rate.
- Adjust resource allocation to strategic priorities that align with the changing economic climate, optimizing growth potential and ensuring adaptability.

Thought leadership:

- Fintechs seek net income and setup for future growth
- Payments modernization – KPMG Global

M&A/Transactions

Fintech funding dipped in the latter half of 2023, but later-stage start-ups saw an increase in finance and deals, signaling potential stability and a rise in future transactions. Staying abreast of transaction trends is vital to driving strategic transformation and maintaining an edge.

There are emerging signs of market stabilization, along with an expected uptick in deal activity, creating a conducive environment for public-to-private transactions.

As private equity and other private investor funds reenter the market, take-private activity could emerge as a significant driver for consolidation in 2024.

Potential actions:

- Focus on divesting noncore units, prioritize performance enhancement over rapid expansion for successful exits.
- Conduct in-depth evaluations of potential transactions to minimize risks and improve outcomes.

Thought leadership:

- Pulse of Fintech

Auditing and accounting

Fintech innovations and heightened regulatory scrutiny are changing how businesses operate. Audit and accounting are no exception. On December 15, 2023, the Financial Accounting Standards Board (FASB) finalized an accounting standards update (ASU) on cryptoasset, companies must adapt to changes in practices and disclosure requirements.

The ASU mandates fair value accounting for cryptoassets, such as Bitcoin and Ether, and enforces new disclosure rules for significant crypto holdings. The shift could lead to increased P&L volatility, as companies transition from the asset impairment test approach.

The mandatory adoption of these changes is expected for fiscal years commencing after December 15, 2024, with a cumulative-effect adjustment to opening retained earnings required for that year.

Potential actions:

- Proactively review the proposed ASU and assess its potential impact on your organization's financial reporting.

Thought leadership:

- Crypto ASU – *Defining Issues*

Regulatory and compliance

As the fintech industry expands, regulators are stepping up their game to ensure consumer and investor protection and strong data governance. Recent regulatory moves are reshaping the sector, and it's vital to stay informed and adapt accordingly.

One of the notable developments involve the Consumer Financial Protection Bureau's (CFPB) newly proposed federal oversight of larger nonbank companies that offer services such as digital wallets and payment apps. This aims to establish the agency's authority in the digital consumer payment applications market.

Additionally, in October 2023, the CFPB published a notice of proposed rulemaking to implement personal financial data rights intending to promote "open banking" and improve data protection for customers sharing financial information.

As digitization transforms every facet of modern life, governments worldwide are exploring the potential of central bank digital currencies (CBDCs). The US government is closely monitoring China's recent tests with the currency, examining its effects on monetary policy, financial inclusion, transaction and payment processing, and national security.

Potential actions:

- Anticipate increased scrutiny from regulators considering recent market trends, especially in areas such as transaction fees and data protection.
- Consider the potential impact of CBDCs on current business processes and its financial implications.

Thought leadership:

- CFPB – Regulatory Insights
- KPMG Insights – Digital Money is Moving Fast

Taxation

The Internal Revenue Service (IRS) is ramping up its efforts to regulate digital asset taxation, aimed at enhancing tax compliance for crypto transactions. With a rapidly changing global tax landscape, fintech companies need to enhance the synergy between technology and tax to drive strategic innovation.

In August 2023, the IRS proposed regulations for tax information reporting on digital assets, introducing an expansive framework to address cryptoasset dispositions. The rules target "brokers" including custodial brokers, decentralized exchanges, marketplaces, and digital payment processors, requiring them to report any information on sales and exchanges of digital assets to the IRS and customers.

With this rule, the US Treasury aims to enhance tax compliance by enabling the IRS to confirm a taxpayer's digital asset income and provide them with tax-filing information. The IRS and Treasury have received an overwhelming number of comments (over 13,000) on the proposed rule. The agency is also preparing for over 8 billion crypto information returns upon implementation.

Potential actions:

- Evaluate the potential impact of the new proposed regulations and identify process changes required for compliance.
- Establish centralized coordination to drive information gathering efforts and stay informed on the evolving regulatory environment in digital asset taxation.

Thought leadership:

- KPMG Tax Webcast – Digital Asset Transactions

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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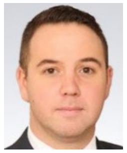

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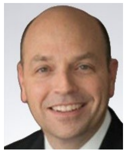

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