



# SYSTEMIC REGULATORY ARBITRAGE

A case study of KPMG  
Dr. Atul K. Shah,  
Suffolk Business School  
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# OVERVIEW

- The business of regulatory arbitrage
- Skills and competencies
- Role of Big 4
- Management of compliance
- Systemic regulatory arbitrage
- KPMG evidence from executive interview and public documents
- KPMG systems, ethics and culture undermine state control

# CREATIVE COMPLIANCE

- Using the rules to escape regulation
- Well-known in tax avoidance
- Also applied to accounting and other methods of state regulation of corporations
- Defining Regulatory Arbitrage
- Skills required for successful arbitrage
- Commercial incentives for arbitrage services

# REGULATORY DIALECTIC

- Experience of regulatory institutions and methods – a strategic business asset
- Pro-active regulatory influence
- Playing on institutional weaknesses and gaps
- Secrecy and complexity
- Negotiation skills
- Networks and revolving doors
- Form over substance
- Legal and regulatory risk strategies

# RESEARCH METHOD

- Systemic arbitrage should be publicly visible
- Many public sources of evidence like annual reports, code of conduct, transparency and public interest reports,
- KPMG website and blogs, professional reports and bulletins
- Regulatory investigations of KPMG audits and practices
- Interview of Senior Executive Partner and Head of Risk, Quality and Ethics

# KEY THEMES

- Structural Arbitrage
- Networks for Successful Arbitrage
- Complexity and Secrecy as Information Arbitrage
- Culture and Ethics

# FINDINGS

- Interview of David Matthews, KPMG

Rhetorical answers

Tax avoidance was not illegal until recently

Public interest is maintained through reputation risk

Regulatory risk management

Reporting to investors not management

Response arbitrage

Public affairs work not denied

# KPMG STRUCTURE AND SYSTEMS

- LLP structure – Weak Governance
- Intermediate holding companies
- Tax arbitrage – no UK corporation tax
- Commercial and client focus – their needs are paramount
- A-Z of services and skills
- Centres of knowledge and excellence
- 70% of profits come from audit, tax and risk consulting
- Tax and Pensions cluster – Legal Services
- Global brand and network
- Closeness to finance industry





# NETWORKS

- Active presence on ICAEW and FRC committees
- 'Independent' Chair of Public Interest Committee is ex-HMRC and ex-FRC
- Secondments to clients and regulators
- Banking clients, contacts and influence
- Revolving Doors re HBOS
- City of London geography



# INFORMATION ARBITRAGE

- Veil of secrecy
- Client confidentiality
- Piecemeal information
- Offshore subsidiaries
- Regulatory loss provisions undisclosed
- Grant Thornton approves non-disclosure

# CULTURE OF ARBITRAGE

- Weak audit quality framework
- AIU investigations reveal consistent breaches
- Loan loss provisions unchallenged
- Independence breaches and fines
- Code of Conduct has no rules or sanctions
- Contradictions galore

# CONCLUSION

- There is systemic arbitrage
- Banking industry is strategically very important
- Culture encourages arbitrage
- Pro-active regulatory risk management
- Governance is very weak
- Undermine public interest
- Practice their client values – greed and exploitation