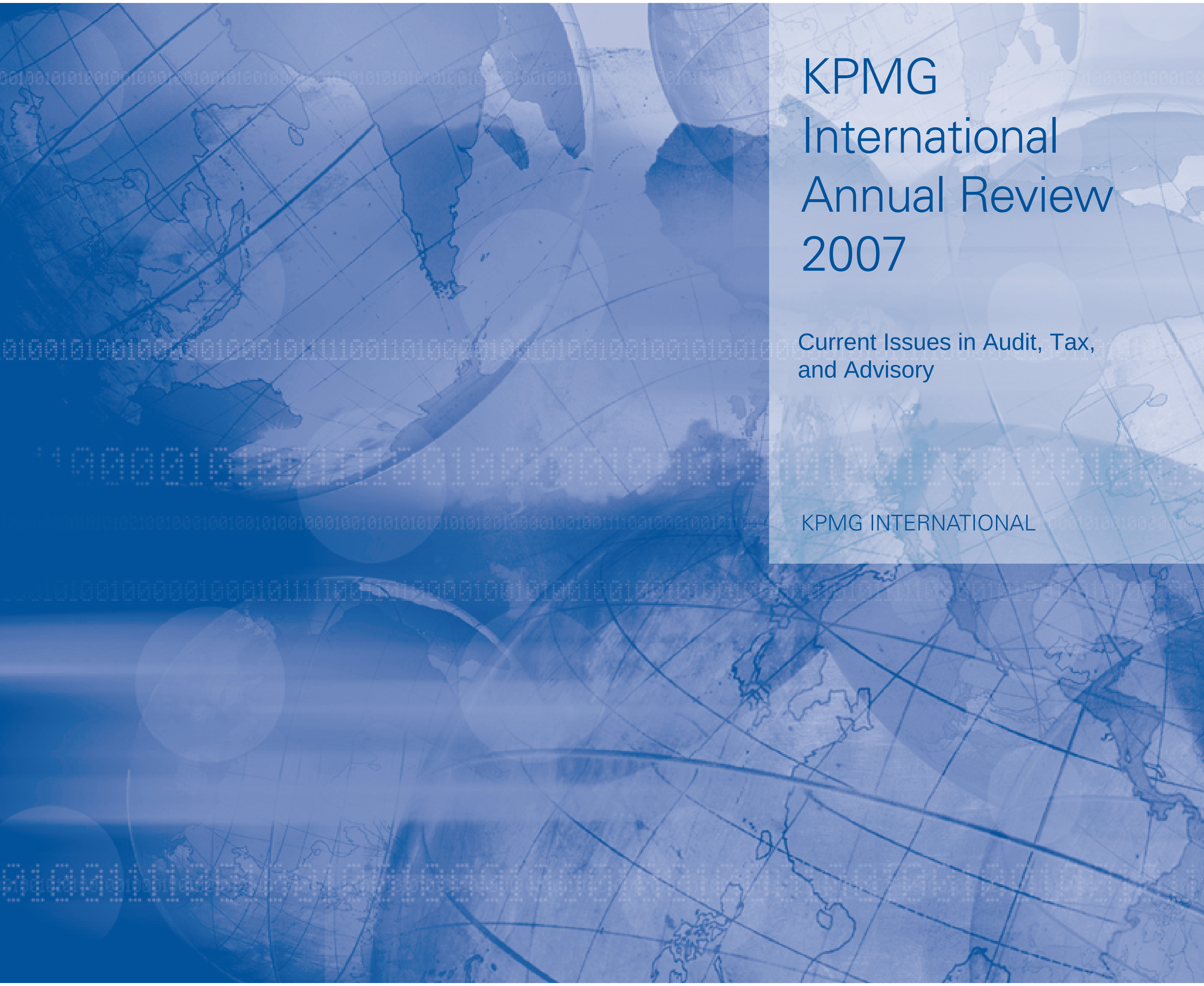

KPMG International Annual Review 2007

Current Issues in Audit, Tax, and Advisory

KPMG INTERNATIONAL

Borderless Markets Boundless Opportunities

AUDIT ▪ TAX ▪ ADVISORY

Henry Keizer
GLOBAL HEAD OF AUDIT

"We want clients to say that KPMG member firms deliver on time, on their commitments, and on something a little bit more than our competitors—an unmatched client experience."

A Quality Client Experience

When Henry Keizer, global head of Audit, talks about differentiating KPMG from its competition, he says it's all about "quality and the client experience." Keizer and his Audit team around the world are focused on that experience and their focus is paying dividends.

How would you describe the global Audit marketplace?

We're seeing the power of the KPMG brand in an era of unprecedented marketplace demand for audit services. Several factors are driving this demand.

Countries around the world are undergoing economic transformation in a very compressed timeframe, and a growing number of companies that operate globally require a global audit firm.

The private equity phenomenon has increased demand. As companies acquire other companies, carve out elements of other companies, or divest themselves of business units, they require services. Then the new entities that emerge from these activities become new clients. A good example is DaimlerChrysler, where you had one entity requiring audit services; now you have two. Sarbanes-Oxley also increased the need for audit services mainly in the United States.

And while the convergence of U.S. accounting standards with International Financial Reporting Standards is well along, it's not clear when the current complexities of multiple standards will give way to the simplicity of a consistent standard.

Do you see demand continuing at the current pace?

Yes I do. You might have expected Sarbanes-Oxley-driven demand would spike in the first year, then dip. But we've seen steady growth in demand continue. We also see demand for services to meet regulatory transparency requirements.

While we will see a slight slowdown in the capital markets as a result of the credit crunch, I expect that a high volume of private equity transactions will continue. Those companies are reporting record earnings, making acquisitions, and creating a high volume of deal flow.

The growth that is occurring in China and East Asia looks likely to continue, despite U.S. subprime woes and energy costs. And when you look at Russia and its natural resources—with crude oil at almost U.S. $100 a barrel, they're pumping out five or six hundred million dollars a day. They will have a lot of capital to deploy in-country and outbound.

How will KPMG's Audit practice compete to capture this growth?

We believe that marketplace differentiation will center on the quality of the client experience.

All the Big Four public accounting organizations have great clients, great people, great methodology, and great technology. Where we can distinguish ourselves is in the clients' view of their independent auditor. Is their auditor someone who is not only technically proficient but also a person who proactively communicates? Who brings issues forward with transparency? Who listens and gathers the facts holistically? Who brings the right resources to bear at the right moment? Who encourages clients to participate in discussions with technical specialists?

Consider your dealings with the professionals in your life. How do you feel when a doctor barely looks at you because he or she is searching for your name on a chart? Compare that to the doctor who remembers your name, your children's names, and the details of your last conversation.

This is the kind of person you come to trust. You may not always like what your doctor—or independent auditor—has to tell you, but the way they tell you, the way they listen, and the way they care, makes the difference. I believe that to the extent we offer that difference in the marketplace, we will become the best of the Big Four.

How is KPMG achieving this differentiation?

We are a global network that shares the same audit methods and manual, technology, and training. Every KPMG person knows the same quality audit is delivered under the KPMG brand around the world. The global consistency of KPMG's audit practice enables us to mobilize resources and support clients wherever they do business.

We want to identify new ways we can be more effective, more efficient, and continue to enhance the client experience.

An analogy I like to use is that we're providing first-class jet travel now; we want to add the enhancements that will produce a luxury, private-jet experience.

How will you continue to enhance the client experience?

Let's talk about the lead team in an audit engagement. We're analyzing processes, deploying technology, leveraging knowledge we acquire through experience, and identifying tasks that might be standardized.

We're really looking for the efficiencies that create more time for our people to devote to what really matters: the interaction with the client. We want them to be fresh and focused on gathering information, listening to the client, and applying their judgment and experience.

The quality of the team's judgment and experience also will be enhanced. They will be able to execute the steps of the audit process with greater precision and provide a higher level of data analysis.

We've also focused on our project management capabilities. A quality audit of a global organization is a complex undertaking. The Audit team is interacting with many of the client's subsidiaries or locations, and calling into play KPMG firms' specialists. At the end of the day, it all has to come together, on time, in order to issue an opinion on the financial statements of this global company.

That's when we want clients to say that KPMG member firms deliver on time, on their commitments, and on something a little bit more than our competitors—an unmatched client experience.

Is this client focus paying off?

Definitely. It was a phenomenal year for the KPMG Audit practice—by several measures. Our revenue growth was in excess of 13 percent in 2007. We witnessed very strong growth in Asia-Pacific at 19.2 percent, taking into account the foreign exchange effects. Our growth in China, Japan, Korea, and Singapore has been incredibly strong. We have witnessed very positive growth in Europe, in particular the Commonwealth of Independent States. Our focus paid off in our Americas' practice, where we saw strong growth in Latin America. As a result of this phenomenal growth, our market share keeps rising and we intend to keep this momentum.

What would you tell a candidate considering KPMG as an employer?

I would tell them that KPMG is a great place to work and build a career. We offer great benefits, fantastic career prospects, international opportunities, the chance to work with some of the world's most innovative and successful companies, and ongoing investment in employees' learning and development.

When I reflect on my experience at KPMG, I note that KPMG provided me with the skill set to analyze and understand accounting technical matters as well as client processes. I learned to communicate effectively with clients, experience the dynamics of global business, build relationships, and grow tremendously on a professional level. I tell people that I love being an auditor because I'm surrounded by great people and I work with some of the greatest companies around the world.

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Carlson Tong
JOINT CHAIRMAN OF
HONG KONG / CHINA

"I believe that, thanks to our people, we are seen as a quality firm of integrity, worthy of trust, and with a strong commitment to China."

Building on a Strong Base in China

The first KPMG office in China opened its doors in 1985. Now, more than 20 years later, KPMG has experienced tremendous growth, continues to increase its market share, and is a major player in the Chinese market. Carlson Tong, joint chairman of Hong Kong / China, thinks KPMG is building on a "strong base" and will continue to deliver high-quality audit services to clients in this exciting market.

What is KPMG's Audit position in China?

In 2007, the Chinese member firm increased an already strong market share, adding clients and serving as reporting accountants for 28 new exchange listings, including 15 listings on the Hong Kong Exchange, six on U.S. exchanges, four on China's Shanghai Stock Exchange, and one each on the Singapore, London AIM, and Japan exchanges. One Hong Kong listing, China Citic Bank's, raised U.S. $5 billion and was that exchange's largest listing. The two on the China exchanges were each, at the time of offering, world record-holders for the year: China Construction Bank's September IPO raised U.S. $7.7 billion; China's largest coal producer, Shenhua Energy, listed its IPO in October to raise U.S. $9 billion.

Of the top 100 companies listed in Hong Kong at the end of October 2007, 26 are member firm Audit clients, and KPMG's share based on market capitalization was 40 percent, the largest Big Four share. Look at the top 100 on China's two stock exchanges. As of the end of October, we are the leaders, based on market cap, with 36 percent share.

What will be KPMG in China's strategic focus?

Again, we're building on a strong base. KPMG opened the first office in Beijing in 1985. We were the first of the Big Four firms to obtain a joint venture license to practice in China in 1992. Our Hong Kong Special Administrative Region (SAR) operations date back more than 60 years.

For some time we ran our operations from the capital, followed by offices in Shanghai, Shenzhen, and Guangzhou. Then, perhaps two years ago, we saw that the work of building a market economy in China would soon move to its next phase. With most of the large state-owned enterprises (SOEs) privatized, we thought the focus would shift to the provinces, the remaining SOEs, and private enterprises. So we changed our strategy to target mid-cap companies—smaller enterprises in

China's other cities and provinces. We also expanded our footprint. We now have offices in 11 cities and are planning a 12th.

China's economic development is expanding beyond its border.

China's official policy is to have its companies "Go Global." That means investing overseas and listing issues on stock exchanges to raise capital. KPMG can help clients with both.

When the object is overseas investment, we can make the introductions to our counterparts in the market or industry of interest, identify targets—essentially provide a one-stop shop of global services. When a company wants to list outside China, we can provide the Audit and Advisory services and work cooperatively with our international colleagues to help ensure the listing meets exchange requirements.

What about the regulatory changes in China?

KPMG is gearing up for a number of changes. The Chinese Government announced its national accounting standards will converge with International Financial Reporting Standards and introduced a new enterprise income tax law unifying the tax regime for domestic and foreign-invested enterprises. We also are building our transfer pricing and customs duty teams.

KPMG's global clients also have an interest in investing in China.

Yes. We have a balanced portfolio of overseas and Chinese clients. All of our global clients have significant investments here—and there are new opportunities for Chinese and non-Chinese companies alike. Consider that the Beijing Olympics is expected to draw five million visitors and boost gross domestic product up to 4 percent—on top of the current 11 percent per annum.

We want to be recognized as China's local accounting firm with an international franchise. I believe that, thanks to our people, we are seen as a quality firm of integrity, worthy of trust, and with a strong commitment to China.

Alessandro Peirano

PARTNER, AUDIT, KPMG IN SPAIN / BARCELONA

A perfect option for someone starting his "real-world" work

In 1988, after finishing my university education, I wanted to join a big audit firm—one of the Big Eight at the time. KPMG in Spain offered a comfortable work environment, with a team of young professionals with similar backgrounds, and an opportunity to be part of an international network of firms, seeing many different companies in many different markets—a perfect option for someone just starting his "real-world" work.

In 1996, I had a chance to be CFO at an industrial company, and I took it. I think it was a good decision to "step outside the box," to test myself in new ways, and to see business from the client side. My seniors were not happy to see me go, but they understood and asked me to consider KPMG my home and keep in touch. Four years later, I returned to KPMG—not to simply "go back" but to move ahead in my career as an auditor, with a better understanding of the client's perspective.

In 2004, I left for a two-year rotation at KPMG in the United States. In addition to the international experience, my assignment to a "think tank" for developing audit methodology enabled me to achieve a degree of specialized knowledge that has been a differentiator for me. Upon returning to KPMG in Spain, I had the opportunity to apply that knowledge in managing a major project—a final milestone on my way to partnership.

My advice to young professionals is, first, make sure you've found the type of work you like to do; and second, find a work environment that's truly supportive. KPMG provides that environment, with opportunities for development and international experience in the network, with values you can apply to daily work and so grow in professionalism, and with people who genuinely want to help each other have great careers.

Loughlin Hickey
GLOBAL HEAD OF TAX

"Realize that tax is not just about technical skills. Its inherent complexity means it is about helping clients make the right choices."

Striving for Leadership in a Complex Tax Environment

Loughlin Hickey speaks with passion about tax and the KPMG member firm professionals who provide tax services to clients around the world. In the following interview, Hickey comments on global trends, challenges, and the opportunities they present for clients and for KPMG firms.

What is KPMG's strategy in tax?

Our strategy is to enable our tax people around the world to contribute to the overall KPMG strategy and brand values.

In the rapidly changing world of tax, this means leading the way in tax technical excellence, the highest quality and integrity, the right industry knowledge, and helping to define the role of tax in business decision making.

A better informed and globalized world means ideas spread quickly—not just between companies but also between tax authorities. So our tax professionals must be prepared to look beyond what is happening today and what is happening inside their own countries.

Encouraging a leadership mindset—helping clients anticipate and deal with change—and a global mindset—looking beyond borders—sums up the approach.

How is Global Tax executing that strategy?

We are executing on global and local programs centered around our people to make KPMG firms the place to build a career in Tax, and on market programs that recognize that clients and regulators—notably the tax authorities—together drive change and need trusted relationships to shape and deal with change. We also have programs to manage risks and business performance to produce quality growth so we can invest continuously in improving our capabilities.

What are the current key market trends?

Probably the most profound market change in tax has been the increasing profile of tax in discussions around both a country's and a company's competitive strategy. In the global competitive environment, countries are balancing the need for predictable tax revenues with the need for investment incentives—including business-friendly policies. And companies are ensuring that they are both compliant and adding value through the effective management of tax. This means that tax and the management of tax is discussed by finance ministries, regulators, investors and analysts, as well as by audit committees, CEOs, and CFOs.

Countries are competing for investment, which in turn means there are more choices available to companies for locating people, physical assets, and intellectual property. Despite recent market turmoil, companies still have an appetite for making major investments around the world, and we see a wider range of potential investors from private equity through to companies with ambitious plans from Brazil, Russia, India, and China, and sovereign wealth funds.

How is KPMG responding to marketplace changes?

Our leadership and global mindset help us respond. Increased investment activity means our global Mergers and Acquisitions Tax services have been in strong demand, and the location decisions around assets and people mean our International Corporate Tax and International Executive Services are constantly needed. In terms of leadership mindset, it is one thing to note that corporate income tax rates are falling but another to think through the impact on our member firms' clients and to invest in areas where they need assistance.

Falling revenues from corporate taxes put pressure on governments to use other revenue streams such as indirect taxes and secure revenue streams, for example, through transfer pricing regulations. Our 2007 Corporate and Indirect Tax Survey noted both these trends and the likely implications—namely, that there is a shift from accounts-based direct taxes to accounting systems-based transaction taxes. Therefore, it is not surprising that we have been investing in our global indirect tax services, including customs and global transfer pricing services, and enhancing our global capabilities for advising member firm clients on systems and controls, and governance.

These investments mean we can help all clients deal with the implications of this shift in emphasis. Local and mid market clients need access to these skills, as do the largest global clients.

In what areas has Global Tax taken a leadership role?

It is important for our people to have a global mindset, and we encourage it through our knowledge-sharing platforms that we've upgraded to next-generation technology, as well as connectivity through our online Global Tax business school. Personal experience is important. We continue to create global communities by training people from different countries together and also through the innovative Tax TREK program, which provides short-term overseas assignments for our people in the first few years of their careers.

Our thought leadership program informs and contributes to the changing tax environment. Our "Rising Tide" study provides a global and local view of the pressures facing tax departments and the different responses around the world. Our "Governance of Tax" discussion paper identifies practical responses to pressures for transparency around the management of tax. And our European study on the proposals for a Common Consolidated Tax Base is referred to by the European Commission to help inform the debate on this major tax proposal.

What trends are we seeing among clients?

The Governance of Tax paper was designed to address an emerging issue, but it also signals a trend for clients to engage around tax across a wider spectrum—from the in-house tax department to the board of directors, including the audit committee. The appropriateness of this broader attention is borne out by the emerging findings of a study by the Forum on Tax Administration, an Organization for Economic Cooperation and Development body focused on the needs of tax administrations around the world. This clearly signals a desire and need for companies to engage with tax authorities globally at the highest level. We are active in assisting companies seeking leadership in this area.

What do you tell job candidates about why they should join KPMG?

I tell them they should join KPMG only if they want to make a difference. By not just thinking about what happens today, but looking to the future and tapping into what colleagues around the world are experiencing in serving clients.

Realize that tax is not just about technical skills. Its inherent complexity means it is about helping clients make the right choices, given the impact these choices have both on their companies' value and on their presence in the countries in which they operate.

If you want to be in tax, KPMG is the place to be.

Shaun Kelly
VICE CHAIR, TAX, UNITED STATES

"We recognize the need for proper balance. From our perspective it's recognizing our responsibilities to clients, but also recognizing the responsibilities we have to the markets we serve."

Helping Clients Strike the Right Balance in a Complex World

Shaun Kelly, vice chair, Tax, KPMG in the United States, says the dynamic regulatory environment and globalization continue to drive growth for Tax in the United States. And KPMG, through helping member firm clients understand evolving tax issues, is capitalizing on that growth. In this interview, Kelly talks more about the focus and goals of the U.S. Tax practice.

What is driving growth in Tax in the United States?

The primary areas driving growth are the dynamic regulatory environment and continuing globalization.

There also is a continuing focus on making sure financial statements are correctly stated in relation to tax. The focus on transparency of financial reporting will continue to put pressure on tax departments to balance effective governance and controls around tax with making sure their companies are competitive.

How is globalization impacting the tax environment?

Most clients have global operations. There's now much more focus on the tax planning and compliance implications of doing business globally. Governments are increasingly looking at tax incentives as a means of becoming more competitive, and tax authorities are increasingly collaborating on a cross-border basis.

In this complex global environment, clients face multiple tax implications, layered upon increased scrutiny and the sheer complexity in meeting compliance needs. This drives the need for people who understand the global context of business, as well as the tax implications of global business in such areas as transfer pricing, customs, and cross-border mergers and acquisitions.

We're also seeing more inbound investment into the United States, particularly from emerging markets. We need to be geared up to help those clients understand the U.S. tax issues they will face.

How is KPMG positioned for growth?

Our positioning is consistent with the strategy of KPMG's Global Tax practice, with a clear focus on the highest levels of tax technical excellence, quality, and integrity.

We recognize the need for proper balance. From our perspective it's recognizing our responsibilities to clients, but also recognizing the responsibilities we have to the markets we serve. We'll help clients get to the right answer within the context of good governance, which is what clients want.

How are you enhancing what you offer to clients?

We're very focused on continually increasing the skill sets of our people, and driving professionalism and integrity as the platform for everything we do.

We're also enhancing the delivery of our services with operational tax advice that includes consideration of a broader range of issues beyond technical ones, such as financial reporting, data, and monitoring requirements. This increases the quality of our advice and makes it more relevant.

What are some of KPMG's key U.S. client relationships?

One of our key 2007 engagements was in relation to the Thomson-Reuters merger (see page 12). We're the lead tax advisor on that and it's a global engagement, with teaming both cross-functionally and globally.

We continue to have very strong relationships with such clients as Hewlett-Packard, Delphi Corporation, Merrill Lynch, IBM, and many others. One of our goals going into 2008 is to continue to enhance our relationships with U.S.-based global companies on a truly global, not just on a U.S., basis.

What are the biggest challenges for Tax in the United States?

Our greatest challenge is continuing to attract and retain the best people, because it's a very competitive marketplace for talent. Clients are seeing that as well.

In addition, we have the challenge of aligning our talent with the best opportunities in the marketplace as we continue to drive the highest levels of quality and professionalism. At the same time, we have to become more and more efficient.

Noreen Marchand

PARTNER, TAX, KPMG IN CANADA / WATERLOO

Cross-border tax advisor makes connections

I work with the Canadian and other tax systems in tandem, helping clients, mostly Canadian multinationals, to understand the tax implications of the way they structure their cross-border businesses and minimize their overall tax burdens.

I joined KPMG in Canada seven years ago. I'd trained as a lawyer, but I wanted to do tax, so I interviewed with a number of law firms, as well as the Big Four public accounting firms—Big Five then. KPMG was where I felt the best connection with the people.

I continued my formal education, earning a master's in tax—but my training was on-the-job. I did a rotational assignment in the U.S. Tax practice. The technical issues were very similar to those we deal with in Southwestern Ontario—just on a much larger scale. The real opportunity was to extend my personal network within the firm.

KPMG's cross-border Tax services have the largest market presence in this region—so U.S. Tax Advisory is a door opener with Canadian multinationals. I'm quick to introduce other people from other practice areas in the KPMG team so that we can best serve the client's needs.

I tell recruits that the critical thing when picking the organization where they'll build their careers is the people. You spend so many hours each day with your team; you have to be able to connect with them. The team here is open-minded and people-focused. I know my relationships here—particularly with my mentor, the partner-in-charge of my group, who has given me so many opportunities to go beyond my comfort zone—have helped me advance. I don't think that I would otherwise have progressed so quickly. Now, as a partner, I look forward to extending those opportunities to others.

What do you consider the key highlights for U.S. Tax in 2007?

Our financial results were very strong. We grew revenue more than 18 percent in the United States in 2007. But I think our biggest successes were in relation to our people and our commitment to the highest levels of professionalism and integrity.

We've added more than 500 people, and our employee satisfaction survey results have significantly increased. Our staff attrition rate is the lowest it's been in six years. Our people all recognize their promise of professionalism and their personal responsibility in delivering quality services. These essential drivers for growth and success are moving us in the right direction, contributing to our continued success, and creating strong prospects for future growth.

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"Global companies are looking to risk and controls management to become more strategic and forward-looking, with a focus on creating, as opposed to merely preserving, value."

Meeting the Challenges of Growth, Governance, and Performance

Bernd Schmid, global head of Advisory, talks about issues at the top of the CFO agenda, risk management strategy, and the importance of teaming and collaboration in today's global business environment.

What are the most important issues Advisory clients face today?

Market research has revealed that chief financial officers of major corporations are most concerned with controlling costs, expanding into new markets, IT systems, improving regulatory compliance capabilities, enterprise risk management, adopting new service delivery models, and acquiring companies or business units.

Companies also are concerned with implications of the credit crunch. The financial services sector, for example, may face a wave of industry consolidation. Banks are reviewing their business models and are refocusing on their core competencies, while enhancing the risk management models.

In addition, private equity houses are being challenged by more restrictive financing, impairing their ability to leverage large transactions. This makes deal making more complex and they may turn their attention to smaller deals. On the other hand, strategic buyers may find themselves in situations where they can get back into the bidding game for targets that previously had been out of reach.

How are we helping enterprises address today's risk management issues?

Complacency in today's risk management arena is no longer an option given increased volatility in financial markets, business cycles, and market needs. Organizations and the competitive environment also have grown more complex. Leaders face intense pressure to improve performance, reduce operating costs, and optimize revenue streams. Regulatory scrutiny has drastically intensified. Transparency in risk management practices in this business environment is paramount.

Global companies are looking to risk and controls management to become more strategic and forward-looking, with a focus on creating, as opposed to merely preserving, value.

As the risk and controls functions receive greater boardroom attention and become more deeply embedded in the organization, expectations of their aims and outputs are changing. Once largely focused on avoiding losses and complying with regulations, risk and control functions are increasingly required to show that they also add value, namely that they make a measurable, positive contribution to the organization.

Enterprises with the desire to improve business performance by optimizing risk and controls management can reduce volatility and increase sustainability. At the same time, they also can enhance the organization's reputation and build shareholder value.

What is Advisory's strategy going forward?

As the biggest potential area of growth for KPMG, the Advisory practice has ambitious objectives. By 2010 the aim is to have more than doubled member firms' revenues, and demonstrated a clear differentiation in the marketplace as the undisputed number one player.

KPMG Advisory helps clients tackle their most difficult challenges and realize their major opportunities in the areas of growth, governance, and performance. The technical skills of KPMG firms' professionals, combined with multidisciplinary approaches, are key differentiators. And by understanding the client's business and its markets, we execute.

What is driving growth in Advisory?

Historically, the growth drivers have been governance-related issues like Sarbanes-Oxley regulations and International Financial Reporting Standards conversions— areas that are part of KPMG's core competencies. Of course, mergers and acquisitions activities also have been key drivers for our business, especially for our growth-related services. Every transaction triggers integration and accounting issues like purchase price allocations, harmonization of reporting and accounting processes, and the realization of deal synergies.

Demand for Advisory services clearly follows business cycles, so we have to be adaptable. While we focus on delivering solutions within one of our three primary areas, we also expand our offerings with supplementary skills. This broadens and deepens our relationships. We don't think of delivering on a project-by-project basis. We think of forging long-term relationships.

Another key area for growth is infrastructure. The Organization for Economic Cooperation and Development predicts that worldwide infrastructure spending will need to be 3.5 percent of global GDP annually through 2030. Market estimates of spending during this period are in the U.S. $30 trillion to U.S. $40 trillion range.

Infrastructure investments are driven by a number of macroeconomic factors including population growth and aging populations, demand for infrastructure to support emerging new economies, a shortage of natural resources, and pressure for greater public sector productivity. Market factors also play an important role, as do investment factors like relatively predictable, income-oriented returns, the potential for capital growth, and asset diversification for institutional investors.

We are developing an Infrastructure proposition, which could become a U.S. $500 million business by 2010.

What are some of the ways KPMG firms and their clients benefit from teaming?

As clients restructure or expand internationally, they need a variety of skills and services to assure success. Bringing together KPMG's many disciplines delivers the broadest strategies possible for clients. We can help them improve their efficiencies and provide the support they need as they adapt to new regulatory environments.

Our challenge is to increase the awareness of our Advisory offerings, not only externally but within KPMG as well. That's why Advisory developed an internal awareness campaign, which we call "chemistry," as a way of representing how we work together and with clients. It's all about how we combine the elements within Advisory to solve client issues.

I think an excellent example of KPMG teamwork is the relationship with the Macquarie Group (see page 20), which began in 2003 with small Transaction Services and Tax engagements. The relationship has blossomed because we have done a good job of teaming with Macquarie and with other KPMG professionals in other disciplines and other countries, always with a long-term view of the company's global growth capability.

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Oliver Tant
GLOBAL HEAD OF PRIVATE EQUITY

Private Equity at an Inflection Point

Oliver Tant, KPMG's global head of Private Equity, says the landscape is changing. Strategies are shifting, opportunities are evolving, and Tant thinks KPMG—backed by extensive experience and a leading team—is well positioned to help member firm clients face those shifts and future trends.

How would you characterize the private equity market today?

The private equity market is at an inflection point. It's been through an unprecedented period of growth and the credit market is changing the opportunities. Market participants had to evolve their strategies and change direction. And they have responded quickly.

Do the new conditions suggest fewer opportunities?

The private equity market continues to present significant opportunities. The current state merely means that the old methodology isn't necessarily the appropriate methodology for the next few years. You can contrast it with changes in the automotive sector. After building bigger cars for decades, the industry now faces a consumer population focused on the environment. Similarly, private equity now has to evolve its strategy as well.

The multibillion-dollar deals we saw in the early part of 2007 cannot be done today because, given the credit crunch, the debt finance isn't there. So today we have a different market.

Where are private equity houses focusing their strategies?

There are significant opportunities in three broad areas. First is the emergence of private equity in Asia-Pacific. For the global funds, Asia-Pacific increasingly will be a more attractive space in which to operate.

Second, the private equity houses will be focusing on the more traditional deals; the really large deals will be fewer in number. We're much more likely to see mid market deals with significant growth potential underlying the rationale for investment.

Third, the opportunity to trade investments will be impacted by the broader economic environment. We'll see a greater concentration on improving the performance of investments, as well as far more active involvement or oversight of operational management.

What is KPMG's strategy in the private equity space?

The strategy we've developed over the last five to seven years is to make our services much wider than purely transactional. The Private Equity practice incorporates other services, including performance improvement and portfolio management, to help private equity houses execute their stewardship responsibilities and achieve their ultimate objective—capital gain.

What do KPMG member firms bring to the table in the private equity market?

Private equity houses are now raising increasingly large funds, and those are being invested across the globe, not just domestically. They are opening offices in numerous international locations, and emerging markets—such as Latin America and parts of Asia—are becoming increasingly important to them.

For us, this means we must leverage KPMG's international network and work seamlessly across borders, offering truly global service with consistent quality.

Our strength is in our commitment to private equity across the globe. We have an outstanding presence in Asia-Pacific. We have enormous strength in Taiwan, Japan, Korea, India, and Australia, and these member firms all have done some landmark deals. We have invested strongly in Asia-Pacific in anticipation that funds and investment capacity would gradually move in that direction. We've made the right bets and we're well placed in the region.

At a recent private equity seminar in Taiwan, the local representative of one of the three largest global funds said, "There is only one firm in this region, and that's KPMG. Your people are outstanding and we wouldn't use anyone else." This speaks to the enormous strength and influence of KPMG's Private Equity practice in this region.

Our European and Americas member firm practices also are very strong because of a number of strategic investments.

We also have an outstanding mid market practice in many parts of the world. If you combine that with our regional capability, we're well-positioned to capitalize on opportunities as houses move into the mid market space.

The Tax, Audit, and Advisory skills of our private equity professionals have helped make KPMG member firms among the market leaders. Our record is marked by deal size, deal volume, and broad experience across industry sectors.

We have an effective service model featuring a global lead partner who is the single point of contact for all our services. The professionals serving private equity clients are part of a private equity network, and the partner is able to request resources in that network, regardless of their function or where in the world they are located.

We also recognize that private equity is not just about the transaction. It's about a continuous cycle of fundraising, selected investment, portfolio management, and successful realization. Understanding the relationships among funds, the private equity houses, portfolio companies, and management teams is key. We are set up to support our firms' clients at each stage, to help them make appropriate decisions, and to ultimately create value.

"At a recent private equity seminar in Taiwan, the local representative of one of the three largest global funds said, 'There is only one firm in this region, and that's KPMG.' "

Transaction Services: Expanded Services, Strong Growth

Gopal Ramanathan helped launch KPMG's Transaction Services practice in 1995. It since has grown to more than 3,500 professionals in about 50 countries. The team focuses on acquisitions, disposals, mergers, joint ventures, leveraged buyouts, and initial public offerings.

"We're training our people to be trusted transaction advisors, bringing value to the table by being well prepared for the transaction."

The practice has been growing in excess of 30 percent annually during the past three years. Today, member firms generate combined Transaction Services revenues of U.S. $1.3 billion globally. And Gopal Ramanathan believes the long-term future is even brighter.

How would you describe the mergers and acquisitions market today?

Up until the second quarter of 2007, the market was very upbeat. However, following the subprime crisis in the United States and the tremors being felt in the rest of the world, the mergers and acquisitions (M&A) market seems to have hit a bump. The debate now is what kind of effect it will have on the market in the longer term.

Do you think the downturn will deepen?

No. Life has to carry on and deals have to take place, because corporations at some point have to buy and sell assets.

Private equity firms have collected huge sums of money in the last couple of years, and that money also has to be spent. Beyond private equity, there are sufficient new players in the market—not just the hedge funds—but the sovereign wealth funds as well. China, Qatar, Dubai, and Abu Dhabi are all well funded and looking to purchase assets.

How successful has KPMG been, and what are the prospects?

KPMG's Transaction Services practice, which I currently have the privilege of chairing, had an extremely good year in 2007. While there's obviously some caution about whether the member firms will continue those kinds of Transaction Services growth rates given the market downturn, we still expect to grow at a rate of 20 to 25 percent.

Where do you see the greatest opportunities for Transaction Services?

The most attractive near-term opportunities are in new and emerging markets. We are seeing opportunities in Vietnam, where we just started a practice. There's a huge amount of investment going into that country; they have a well-trained workforce and attractive labor rates.

Turkey is another attractive option. India and Brazil are major markets, and so is Argentina. We are setting up a practice in Chile. Meanwhile, our practice in Russia is booming—it's tripled in size.

The financial information set forth represents composite—not consolidated—information of the separate member firms of KPMG International that perform professional services for clients and is combined here solely for presentation purposes. KPMG International performs no services for clients nor, concomitantly, generates any revenue.

What is the scope of services KPMG brings to M&A clients?

Part of the reason we expect strong growth is that we've expanded our services. For example, we once focused almost exclusively on the buy side. Now the firms have added an array of services on the sell side as well.

We're working increasingly with colleagues in other parts of Advisory to help ensure that the business performance improvements that factored into the purchase price come to fruition.

On the sell side we're helping private equity firms and corporations make sure they've prepared a company properly for a sale. Our professionals are taking a more proactive approach to working with clients in preparing prior to a sale.

We're training our people to be trusted transaction advisors, bringing value to the table by being well prepared for the transaction—whether on the buy side or the sell side. In this respect we are well ahead of our competitors.

What are KPMG's greatest strengths in the transaction services market?

One is the network's global coverage. There are 3,500 professionals across 50 countries and most major economies. It constantly surprises and amazes me—and I've been in this business for the best part of the last 10 years—that you can call a colleague in Australia, China, or the United States, and have a team ready within a couple of hours. We are probably the most global practice within KPMG.

And all of our people are trained in the same way. The quality of the work produced is at a very high standard.

Terry Pesce

PRINCIPAL, ADVISORY, KPMG U.S. / NEW YORK

Cleaning up money laundering

Terry Pesce's career has taken a number of non-traditional turns, all of them by design, and she's flourished every step of the way. Pesce, who leads the Anti-Money Laundering service line in KPMG's Forensic practice, was attracted to the organization because, in addition to the new challenge she was seeking, it provided the opportunity to be part of an industry leader.

Money laundering is a global problem and it involves a staggering U.S. $1 trillion or more each year.

Few people have better credentials in the area of fraud and money laundering than Pesce. She spent 11 years with the U.S. Attorney's office in New York, where she became chief of the office's Major Crimes Unit, prosecuting a host of white collar crimes, including wire, bank and investment fraud; computer crimes; and money laundering. She was the supervising attorney on all anti-money laundering matters.

She then moved into a chief compliance role at a large bank. "When you leave the U.S. Attorney's office, the traditional route is to a law firm," she says. "My thinking was that I wasn't sure I could make a 180-degree transition to the other side."

Pesce says she was more comfortable staying on the enforcement side on some level, because she was helping an institution to get it right. "There's not an institution out there that wants to be the next one to find out that terrorists financed an operation through its bank," she says.

Before coming to KPMG in the United States, Pesce headed up the North American anti-money laundering unit for a global financial services company, where she was part of a global team that covered key cities on nearly every continent.

Helping clients prevent and detect money laundering is a unique challenge. "I don't think many people grasp how complex financial institutions are," she says, "especially large international banks headquartered outside the United States."

Pesce says she's enjoying the interaction with KPMG member firm clients, especially when those engagements are winning ones. She has been impressed with the commitment of the 100 professionals in the U.S. Forensic practice.

"We have a broad depth of industry knowledge," she says, "so we know what's out there. We bring a fresh set of eyes, so we can do a full risk assessment of the issues at any particular time."

Institutions generally don't want to spend money when they don't have to, so purely proactive work is the exception. "We are usually brought in when an issue has already been identified," she says.

Issues are identified in a number of ways by regulators, compliance officers, and internal auditors, and vary in degree of severity. "Money laundering got a lot more attention after the terrorist attacks of 2001 and the enactment of the USA PATRIOT Act," she says. "In the first few years after the enactment of PATRIOT, regulators were primarily looking to be sure institutions had money laundering programs. Now they're getting more specific about what they are looking for. Having a program is no longer enough; you have to have a program that is tuned and that works." That's where KPMG comes in.

"We have a broad offering," says Pesce, including gap analysis, risk assessment, transaction look-backs, and customer remediations. "We were one of several firms competing for business with a client and we won. And the reason, according to the client, was that we listened to them and really understood what they needed."

That's how reputations are built, Pesce says. And that's how industry leaders act.

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