



2010 KPMG
Perspectives
Conference Recap

KPMG LLP

2010 KPMG Perspectives Conference

Interacting with the Audit Committee – An Executive Discussion

Led by moderator and KPMG LLP partner Dave Middendorf, this executive panel discussed the practical challenges of operating the business while keeping the board and audit committee members involved and engaged—balancing a collaborative, productive relationship. Panel members included Ed Schleper, vice president of Tax, Mohawk Industries; June Howard, senior vice president, Financial Services & IFRS, Aflac; and Tony Spinelli, senior vice president and chief security officer, Equifax.



Dave Middendorf



Dave Middendorf, Tony Spinelli, and June Howard



Ed Schleper

Luncheon and Keynote Address

Frank Blake, chairman and CEO, The Home Depot, enlightened 2010 Perspectives' attendees on topics ranging from globalization and overseas expansion to what keeps him up at night. With a "fire-side chat" format, KPMG's Atlanta Office Managing Partner Bill Kimble hosted this candid and insightful "open dialogue" with Blake.



Bill Kimble and Frank Blake



Frank Blake

Dear Colleague,

On behalf of the partners and professionals at KPMG, we want to thank you for making our first annual Perspectives Conference a tremendous success. Judging from the outstanding attendance and insightful feedback, this year's conference met expectations by providing attendees with valuable content in an interactive format. Your insights and engagement certainly increased the value that the conference brought to all attendees—we could not have done it without you!

In the following pages, you will find a summary of the highlights of the 2010 Perspectives Conference. This year's conference presented a robust agenda that addressed those topics that are top of mind for you and your team, with a goal of providing you with new insights, tools, and strategies to help navigate and manage tough issues in today's business environment.

From SEC regulatory updates to effective transfer pricing, this year's conference provided a wide variety of informative discussions, with a chance for attendees to build their own curriculum based on those topics most relevant to them. We look forward to further enhancing and tailoring the provided content in years to come—with help from your insights and feedback. In addition, this year's program served as a terrific foundation for peer-to-peer networking, which will continue to serve as a critical goal in hosting this conference in years to come.

We thank you again for your contributions and participation in the 2010 Perspectives conference. The planning has already begun for next year's event. If you have any feedback for next year's conference, please feel free to e-mail us at southeastevents@kpmg.com.

Sincerely,

A handwritten signature in cursive script that reads "Bill".

William F. Kimble
Office Managing Partner, Atlanta
KPMG LLP

IFRS Highlights

Paul Munter, Partner, KPMG LLP | Angela Nagy, Mirant Vice President and Controller

International Financial Reporting Standards (IFRS) remain top of mind for accounting professionals as the U.S. Securities and Exchange Commission (SEC) continues to consider a possible transition from U.S. GAAP to IFRS for U.S. domestic issuers. This session, led by Paul Munter, partner, KPMG LLP (U.S.), and Angela Nagy, vice president and controller, Mirant Corporation, focused on IFRS implementation to date, convergence of and key differences between IFRS and U.S. GAAP, and requirements for first-time adoption of IFRS.

Countries around the world have already begun implementing IFRS and many are moving closer to their transition. "We're looking at a seismic shift over the next four to five years," said Munter. "From 160 to somewhere near 1,000 foreign private issuers are or could be using of IFRS."

Munter and Nagy agreed financial organizations should be developing IFRS capabilities in their people, systems, and processes regardless of the timing of convergence to improve their agility in global financial markets. Nagy added, "From a technology perspective, the rate of change

is going to be much more than most companies anticipate."

While opinions vary on how and when IFRS should be incorporated, there is consensus on the need for greater transparency into the SEC's deliberative process and need for more time between the ultimate decision and adoption date. On February 24, 2010, the SEC released a commission statement in support of convergence and a global accounting system. Munter discussed key areas for consideration within the SEC work plan, highlighting areas most relevant to a future determination by the SEC, including sufficient development and application of IFRS, as well as independence of standards-setting for the benefit of investors.

Nagy spoke to IFRS implementation principles and shared a number of insights from her experience with Mirant Corporation. She advised companies to "design operations around the idea that [implementation] is an ongoing activity, not a one-time project. It has to stay fresh within the organization. It's not a project that can be revisited every six to nine months." She also mentioned that change

management is another key issue to consider when contemplating responsibility and centralized project management across the accounting organization.

U.S. GAAP and IFRS are fundamentally very similar; however, there are many differences, noted Munter, as he reviewed some of the technical differences between revaluation, recycling / comprehensive income, debt versus equity classification, derecognition, revenue recognition, impairment, and employee benefits.

On the topic of first-time adoption, Munter advised the session to have an anchor point. He said, "Start with the opening balance of the earliest comparative period and recognize everything from that period forward."

Munter concluded the discussion with a brief review of the general requirements for first-time adoption and emphasis on four mandatory exceptions: derecognition of financial instruments, hedge accounting, estimates, non-controlling interests, and a number of optional exemptions.

"We're looking at a seismic shift over the next four to five years. From 160 to somewhere near 1,000 foreign private issuers are or could be using IFRS."

*Paul Munter,
Partner, KPMG LLP*



Paul Munter and Angela Nagy

FASB Update – Ongoing Standards-Setting Activities, including the Joint FASB/IASB Standards Projects

Scott Givens, Partner, KPMG LLP | Richard Wells, Partner, KPMG LLP
Duane Portwood, Vice President, Corporate Controller, The Home Depot, Inc.

As the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) continue to pursue high-quality accounting standards to help enhance the consistency, comparability, and efficiency of financial statements, standards-setting activities have also continued.



Richard Wells and Duane Portwood

Richard Wells, partner, KPMG LLP (U.S.), started the session with a discussion on major changes in Accounting for Financial Instruments & Hedging Activities, the first of four joint FASB/IASB standards projects covered in the session. Wells identified three major financial instrument measurement categories.

“A big change from current accounting is that transaction costs can go to the P&L when

you purchase the instrument for certain categories,” said Wells. “While the effective date is still a little over a year away, it is something we all need to be thinking about.”

As Wells reviewed the proposed changes to Fair Value Measurements and Disclosures, he noted, “The push for fair value is not going away. As an auditor, it’s much more difficult because it’s not an exact science.”

According to Scott Givens, partner, KPMG LLP (U.S.), lease accounting is one of the highest priority standards in the memorandum of understanding. He identified special provisions for leases, but focused on factors to consider in estimating initial recognition of total cash flows.

Givens said “the only time the assets and liabilities agree is day one,” a clear consideration in the subsequent reporting requirements on a periodic basis.

Duane Portwood, Vice President, Corporate Controller, The Home Depot, Inc., spoke candidly on new standard implications for his organization, saying some areas will be more of an

adjustment than others. For example, The Home Depot owns almost 90 percent of its stores, so the big dollars are already on the balance sheet.

However, to prepare for the changes, Portwood said, “We are researching system alternatives, talking with the audit committee and starting to educate different areas of the organization that will be affected. Good project management is going to be critical as we implement.”

As expected, a common theme throughout both Wells’ and Givens’ review of ongoing standards-setting activities was the level of disclosure that will be required for each interim and annual reporting period, including certain loss contingencies.



Richard Wells



Scott Givens

“A big change from current accounting is that transaction costs can go to the P&L when you purchase the instrument for certain categories.”

Richard Wells, Partner, KPMG LLP

SEC Regulatory Update

Robert Malhotra, Partner, KPMG LLP

Bob Malhotra, partner in KPMG's Department of Professional Practice, led a comprehensive session on the state of the SEC, including current reporting matters and frequent topics in recent SEC Comment Letters. Malhotra's candid perspective on the current state of the SEC is rooted in firsthand experience, having served as senior adviser to the chief accountant at the SEC prior to rejoining KPMG in 2009. He introduced the session with the notion, "It's always good to understand which way the regulatory pendulum is swinging."

rules and regulation changes in the coming years. "In the next three or four years, we're going to be in an era of unprecedented change from an SEC rulemaking perspective," said Malhotra.

According to Malhotra, the Dodd-Frank Act proxy disclosure enhancements, such as executive compensation disclosures, will likely cause operational issues. He said, "I recommend keeping abreast of the proposed rulemaking so that senior management may react accordingly."

financial information provided to investors in the asset-backed market. However, comments on the proposed requirements are extensive to date, and many operational issues are being discussed.

Malhotra also discussed the recently issued Compliance and Disclosure Interpretations about non-GAAP financial measures, and detailed some of the key revisions to the guidance. The new guidance clarifies certain language to encourage companies to report on the non-GAAP financial measures that they believe are meaningful to investors. Malhotra advised the session to be cognizant of the use of non-GAAP measures in press releases noting that the SEC staff may inquire why similar measures are not included in periodic filings as well.

Malhotra concluded with an overview of the Center for Audit Quality SEC Regulation's September 21 Committee Meeting. He mentioned the continued focus on loss contingency disclosures and SEC staff comment related to whether companies are in compliance with the existing requirements of GAAP in this area.

"In the next three or four years, we're probably going to be in an era of change."

*Bob Malhotra
Partner, KPMG LLP*



Robert Malhotra

In his review of the current commissioners and recent staff changes at the SEC, he noted, "The SEC works closely with many parts of the federal government and its various prudential regulators." In his discussion on the Dodd-Frank Act, Malhotra pointed out the extent of SEC

Malhotra also discussed proposed changes to Regulation AB to improve the information provided to investors in the asset-backed securities markets. According to Malhotra, this proposed rulemaking is intended to address concerns raised during the financial crisis related to the quality of

FASB Update – Recently Issued Accounting Standards Updates and Related Guidance

Richard Wells, Partner, KPMG LLP | Scott Givens, Partner, KPMG LLP | Tom Panther, Controller and Chief Accounting Officer, SunTrust Banks, Inc.

The second Financial Accounting Standards Board (FASB) update session of the conference focused primarily on five recently issued Accounting Standards Updates (ASUs). Scott Givens, partner, KPMG LLP (U.S.), initiated the session with an overview of ASU 2009-13, Multiple-Deliverable Revenue Arrangements (EITF 08-1), and current guidance requirements. Most notable, Givens mentioned the fair value threshold within ASC 605-25 has been modified to require best estimate of selling price when VSOE or TPE is not available. Givens also highlighted the impact of changing revenue recognition accounting in his overview of transition disclosures.

“One of the things I’ve seen is for companies to have two sets of accounting for the first year. For the first year of adoption you have to quantify the impact of the change,” said Givens. “In other words, you have to show how you are doing it now, and how you would have done it before the update.”

In summarizing ASU 2009-14, Certain Revenue Arrangements That Include Software Elements (EITF 09-3), Givens said the

question to ask yourself is, “If you have a tangible product with software and non-software elements, which elements are essential to the functionality of the product?”

Richard Wells, partner, KPMG LLP (U.S.) reviewed ASU 2009-16, Accounting for Transfers of Financial Assets (FAS 166), emphasizing that if the portion of the financial asset does not meet the definition of a participating interest, the entire financial asset must meet the derecognition criteria to be accounted for as a sale. “The basic impact is less sales of a portion of a financial asset will qualify as a sale,” said Wells.

Panther explained that one of his current businesses went through an exercise to make sure they understood all of their contracts and to ensure the right level of controls. “It’s more difficult when you are not the servicer,” he said. “You need to have the right mechanisms in place to retrieve information.”

Wells and Panther agreed that the transaction environment has significantly slowed. Until capital markets gain more momentum, this probably will not be a hurried issue.

Wells highlighted modifications to the evaluation of kick-out rights as among the most important major changes in ASU 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (FAS 167). As far as transition provisions, companies are required to initially measure any newly consolidated VIEs at their “carrying amounts” at the date ASU 2009-17 first applies.

According to Wells, “This will be very problematic for a lot of people.”

Wells and Panther concluded the session with ASU 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, stressing the importance of considering the users of financial statements in comparative disclosures.

“One of the things I’ve seen is for companies to have two sets of accounting for the first year. For the first year of adoption you have to quantify the impact of the change.”

*Scott Givens
Partner, KPMG LLP*



Scott Givens



Tom Panther

Federal Tax Legislative Update

Hank Gutman, Partner, KPMG's Washington National Tax

As Joint Committee chief of staff, Hank Gutman served as the primary nonpartisan adviser to the House Ways and Means and Senate Finance Committees in the early nineties. Currently heading the Federal Tax Legislative and Regulatory Services group with KPMG's Washington National Tax practice, Gutman offered his audience an overview of pending federal tax legislation, highlighting how recent election results and the nation's fiscal situation may affect future decisions.



Hank Gutman

To summarize the influence recent election results will have on tax legislation, Gutman stated, "I have no expectation that anything radical is going to happen. In terms of specific outcomes, don't get too excited—as I would anticipate

relative gridlock."

Gutman took attendees through the potential makeup of the Senate Finance and House Ways and Means committees, providing a more detailed understanding of how election results will likely influence committee composition and its effect on the current debate around the extension of the Bush tax cuts and extenders.

On the topic of the tax cuts, Gutman remarked, "One unknown answer to the debate is while the long-term fiscal picture is improved, will the prospects of economic recovery be harmed if the tax cuts expire? There is consensus that the unsustainable long-term fiscal situation has to be addressed, but the question is when, how and by whom?"

Gutman was unable to predict whether the "lame duck" Congress will extend the individual tax cuts or other expired provisions. However, his overview of procedural rules shed light on the influence that process has over substantive outcomes. In terms of the growing tax risk

dialogue, Gutman said, "There is no question that there will be increased discussions between financial management and the audit committee on uncertain tax positions. [The subject of uncertain tax positions] has to be a collaborative discussion among all parties."

At the beginning of the session, Gutman shared a quotation from the late Senator Moynihan, "You are entitled to your opinion—but not your own facts," a sentiment that seemed particularly fitting for a large number of topics discussed at the tax legislative update. Gutman took his audience through a variety of legislative topics and the facts that may drive the process to its outcomes. While a spectrum of varying opinions exist surrounding many of these topics, the facts were presented in such a manner that attendees were able to better understand the path to change—and the critical nature of significant fiscal issues.



Hank Gutman

"[The subject of uncertain tax positions] has to be a collaborative discussion between all parties."

*Hank Gutman
Partner, KPMG LLP*

Corporate Sustainability and “Green” Initiatives – Identifying Key Risks and Opportunities, Tax Implications, and Regulatory Considerations

John Simon, Partner, KPMG LLP | Jeffrey Cooper, Director, KPMG LLP | John Hickox, Partner, KPMG LLP
Brian Kennedy, Tax Director, Graphic Packaging International, Inc. | Erin Meezan, Vice President, Sustainability, Interface

Changes in government energy policies and the ascendance and proliferation of cooperate sustainability programs are placing increasing pressures on business to adopt new practices or risk competitive disadvantages in the future economy. That being said, the panel, moderated by KPMG Partner John Simon, provided a plethora of insights surrounding the new “green” movement and how organizations are changing to help maximize their competitive position in today’s marketplace.

To begin the session, Simon opened by defining sustainability, stated simply as, “Ways for you to run your business that are good for society, good for the environment, and good for the bottom line.”

Before diving into the panelists’ take on sustainability practices, an insightful overview of trends in the green movement was presented. What’s ahead for the sustainability movement? Renewable energy seems to dominate near-term investment projections, with wind and biomass likely to be the leading forms of non-hydro renewable energy production.

In terms of why organizations care about sustainability, Erin Meezan with Interface remarked, “The reason we care about [sustainability] is because our customers care about it.” KPMG partner John Hickox added, “Sustainability practices can positively impact the bottom line. In order to do so, however, you really want to weave the concepts into the fabric of your people. It’s a cultural shift.”

The panelists also discussed what lies ahead for the growth of renewable generation, including the extension of federal tax credits and how the new loan guarantee program under ARRA will increase the amount of renewable generation to what was previously estimated prior to the stimulus plan. Cash grants associated with the stimulus plan require projects to begin this year. While solar energy projects are among the most popular projects taken on, wind initiatives have seen the largest increase in the short term.

Investor partnerships are becoming more common, with equity-financing type structures allowing investors to access the tax benefits and

offer lower-cost financing for the projects. In addition to offering a 10 to 15 percent economic return, these investments also provide for positive publicity.

Though a bit more cumbersome to delineate, energy efficiency incentives provide a number of tax benefits, while driving innovation and progress. Brian Kennedy added, “The knowledge of local-level incentives paired with heightened interaction within the company can make or break an organization’s sustainability investment.”

Among those in the financial community who are having heightened interest around the sustainability movement, private equity firms have been first adopters for comprehensive reviews of current incentives and efficiencies. KPMG partner John Hickox stated, “The sustainability movement can be seen as ‘revenue protection’ to some as there exists a growing subset of consumers who want to buy from companies who care about being green.”

Basic Market Drivers for a Sustainability Program

- Customers care about it
- Hedge business risks (oil demand/consumption)
- Huge source of innovation
- Competition



John Hickox, Erin Meezan, Jeffrey Cooper, and Brian Kennedy

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Effective Transfer Pricing

Will Williams, Partner, KPMG LLP | Panelists: Steve Blough, Partner, KPMG's Washington National Tax | Tim Inman, Vice President, Tax, Global Payments, Inc. | Paul McMullan, International Tax Director, UPS

"Companies dodge \$60 billion in taxes even as Tea Party condemns – a technique known as transfer pricing... carves an estimated \$60 billion a year from U.S. treasury as it combines tax planning and alchemy." *Bloomberg Press*

Recent headlines depict a less-than-friendly attitude toward the practice of transfer pricing. In an era where governments are searching for avenues that lead to cash, there has been a dramatic run-up in legislation surrounding transfer pricing, thus driving large proposed tax adjustments. This trend exists not only in large countries like the United States, but is also catching on in smaller countries like Denmark.

Among the most strict tax authorities across the globe, Asia Pacific contains five of the top 10 toughest countries, with a recent signal that they intend to heighten scrutiny around transfer pricing compliance and field audit work.

Commenting on this movement of increased inquiry, Steve Blough, partner with KPMG's Washington National Tax group, stated, "In the developing countries there seems to exist a race between aggressiveness (enforcing regulations) and

sophistication (understanding the regulations)."

Due to the tax authorities' unprecedented focus on this matter, companies are evolving their strategies to better develop sound policies. Among tactics organizations are utilizing, agreeing on an upfront policy and developing advanced pricing agreements in which two tax authorities agree to confirm that the policy decided upon is agreeable according to the panelists.

Steve Blough remarked, "Companies need to look at transfer pricing as a risk management exercise rather than a compliance exercise." In doing so, company planning needs to center around the business decision that is driving transfer pricing. Tim Inman shared, "Transfer pricing can be your friend or foe. It's one of the first things that should hit management's minds when making a decision."

In terms of managing global compliance issues, the panelists all noted the importance of maintaining intercompany contracts that lay out the terms of the transactions. Paul McMullan shared, "Among the first pieces of documentation authorities are interested in reviewing is an intercompany

contract. Without providing such background, companies become at the mercy of the authorities and their take on the policies."

Other recommendations to consider:

- Understanding risk and controls is critical
- Know your IP story
- Build an effective strategy for responding to transfer pricing inquiries
- Know your options when in a dispute

Summarizing the day's discussion, Will Williams stated, "Transfer Pricing risk is inherent in international transactions. There is no single right answer that removes all risk. However, transfer pricing risk can be effectively managed if the company has clear objectives as to the risks it wants to mitigate. As such, it is important to understand your significant risks and then plan effectively. This includes knowing your options for resolving disputes if you fall under audit."



Paul McMullan and Steve Blough

Current U.S. Transfer Pricing Trends:

- U.S. becoming significantly more aggressive in auditing transfer pricing in recent months
- Obama administration expects to generate more than \$200 billion in revenue through increased international tax enforcement
- Large Business & International (LB&I) division of IRS expects to add about 875 employees to the existing staff of nearly 600
- LB&I plans to centralize and enhance focus on transfer pricing



Tim Inman, Paul McMullan, Steve Blough, and Will Williams

"Companies need to look at transfer pricing as a risk management exercise rather than a compliance exercise."

Steve Blough, Partner, KPMG LLP

Global Tax Transformation

Jon Gaston, Partner, KPMG LLP | David Henderson, Senior Vice President of Corporate Tax, Regions Financial Corporation | Kim Honaker, Director Tax Operations, NCR



As companies seek to heighten tax performance, panelists provided a candid perspective on driving business value through tax. In building a successful corporate tax function, this session reviewed better practices from leading organizations, while highlighting tools and techniques that help drive effectiveness and efficiency across the value spectrum.

To build a well-respected tax organization, Kim Honaker of NCR recommended, “We

really have to shift the focus on how to become effective business partners and how we can move forward, rather than standing in the way.” David Henderson of Regions Financial Corporation added, “I certainly see a different seat at the table considering recent times. [Our tax organization has] certainly leveraged heightened influence among finance leaders in the organization.”

The panelists discussed the competitive environment in terms of recruiting high

performing employees, a critical piece to any high-functioning tax organization. To help fill some of the gaps, many tax organizations have begun to rely on outsourcing options, allowing for the high-value work to be kept in house, while shifting some of the more routine, day-to-day functions to an offshore resource. All of the panelists agreed; however, that a number of difficulties still exist in outsourcing including language barriers, talent poaching, and cultural disparities.

The panelists also discussed enabling technologies and questions to consider when making a decision on a software package. Everything from an Excel®-based provision process to the OneSource package was discussed, with pros and cons considered for each.

Summarizing the key to success in building a fluid process, Kim stated, “Relationships and communication are always the basis to make a process go smoothly.”

A successful tax function strategy helps ensure:

- There is alignment with the overall business (common purpose)
- That people skills are addressed (high-performing teams)
- Control mechanisms are in place (embedded processes)
- Appropriate reporting (timely and accurate information)
- There is efficient and effective data collection and analysis (enabling technologies)
- Clear performance metrics (one view of performance)
- An understanding of the needs of multiple stakeholders (influencing stakeholders)



David Henderson, Kim Honaker, and Jon Gaston

“Relationships and communication are always the basis to make a process go smoothly.”

Kim Honaker, Director of Tax Operations, NCR

Jon Gaston

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Finance Governance Technologies – Enabling Finance Leaders to Implement World-class Processes

Hakan Aytekin, Managing Director, KPMG LLP | Robb Kevers, Division Controller, Georgia-Pacific Corporation
Greg Lebanowski, Director of Finance, AT&T

Over the past five years, the market has seen a noticeable increase in the demand and evolution of Finance Governance Technology systems, particularly surrounding account reconciliation. The need for most organizations to implement a lower cost and higher gain financial technology structure will continue to increase over the next several years.

As software vendors, such as Blackline, Trintech, and Chesapeak, become more aware of this demand, enhancements will be made to improve usability and on-demand capabilities based on feedback from the growing user base. The increase in competition between vendors can help reduce IT costs within an organization while providing various benefits such as enhanced controls and visibility.

As with any implementation or upgrade, the panelists agreed that following leading practices is instrumental to the success of the system. Manual account reconciliations generally equate to higher workloads and costs, while such a system implementation will increase efficiencies, standardization and effectiveness, and reduce costs. Improvement opportunities range from

defining more key metrics, lessening manual input, and grouping accounts. Greg Lebanowski, director of finance with AT&T, noticed surprises were much less likely to happen when these types of controls were implemented. He said, overall this led to a better reconciliation process for his organization.

As an organization moves forward with a system implementation, it is vital to maintain visibility and transparency within your company. Involving your employees from the very beginning of the process increases adoption and enthusiasm about the changes being made with lower levels of user resistance. From a decision maker's point of view, being able to show return on investment (RoI) is key. Hakan Aytekin, managing director with KPMG LLP, indicated experience shows implementing an automation tool has well-established results, with favorable RoI. When properly implemented, such technologies will lead to 20 to 30 percent RoI with break-even in less than one year. Robb Kevers, division controller with Georgia-Pacific Corporation, commented that their use of the tool helped

their organization in ways they originally did not expect, including saving on paper costs, and supporting their green initiatives.

There are several factors to consider when determining the right system. The choice whether to outsource the process with an on-demand service or buy the software and integrate it into your organization are both major factors to consider. Software vendor competition is fierce and choosing the right one for your organization can be challenging. To help ensure success, working with a professional services firm can provide full-cycle integration assistance and many benefits, including end-user training, leading practice use of the tool, enhancing reporting capabilities, and offering an independent, third-party point of view for better acceptance of the technology.

As an organization moves forward with a system implementation, it is vital to maintain visibility and transparency within your company.



Hakan Aytekin, Robb Kevers, and Greg Lebanowski

Current M&A and Debt Markets Outlook

Rob Coble, Partner, KPMG LLP | Stockton Croft, Executive Director, Arcapita | Dom Mazzone, Managing Director, Mazzone & Associates | Allen Taylor, Senior Vice President, Bank of America

Economic recovery, current debt and equity markets, and how economic indicators are affecting buyers and sellers were all hot topics at the Current M&A and Debt Markets Outlook panel, which was facilitated by Rob Coble, partner with KPMG LLP. The panelists discussed their viewpoints and provided their outlook as a group.

The session opened with Allen Taylor, senior vice president with Bank of America, who gave an overview of the current debt markets. Taylor discussed the economic risk factors as they pertain to U.S. deficit spending, sovereign CDS rates, historical and projected inflation, and liquidity in the market. Taylor pointed out that with reduced GDP we should expect a slower employment recovery in 2011, continued disappointing home sales, weak manufacturing, and falling consumer confidence. Although benchmark interest rates and high-yield bonds are at historic lows, cash holdings are at an all-time-high. However, capital priorities have evolved with the market conditions and, overall,

leveraged finance conditions are very attractive to issuers right now.

The next panelist, Dom Mazzone, managing director of Mazzone & Associates, discussed the current M&A environment, distress factors, and the current market for capital sources. Although the market is looking up, there is still constricted debt being used to leverage private equity. This surplus is tight but available under the appropriate capital structure. Mazzone said access to capital impacts deal volume as much as interest rates. There is currently a “use it or lose it” mentality with private equity. Companies with strong balance sheets are looking to take advantage of the current market conditions to strengthen their positions in the marketplace. Although the last two years were quite difficult and low in M&A volume, he indicated that 2010 deal volume is on pace to exceed 2009.

Stockton Croft, executive director of Arcapita, led a discussion on the overall financial crisis and the

industry’s response. Economic uncertainty and constrained financing have led to top-and-bottom-line declines across most industries and halted new private equity deals. The industry’s response to the challenges has been to adjust its focus to current portfolio companies and amend financial covenants from existing. Croft explained the broad market challenges and issues including declining demand, sourcing pressures, tighter lending environments, and a need for growth. His firm’s strategy for dealing with the current market conditions is to focus on cost reductions, operational and talent improvements, and capital structure optimization.

- Debt – Interest rates to remain low with availability to open up
- M&A – Activity to increase, especially in the middle market
- Buyers – Will not go on a spree, but will be very thoughtful and rigorous in the process
- Valuations – Will have a spread between buyers and sellers for another year



Stockton Croft, Dom Mazzone, Allen Taylor, and Rob Coble

People and Change ~ Organizational Insights

Claudia Saran, Principal, Advisory, People & Change, KPMG LLP

Claudia Saran stated it best at the beginning of her seminar on People and Change: “The nature of change is changing.” As a principal in KPMG’s Advisory Performance and Technology practice and the national service line leader for People & Change, Saran said during the discussion that change management is evolving within many organizations, and the key is when initiating a change effort, to instill the same degree of discipline in addressing the people and organizational challenges, as is applied in other areas such as process and/or systems. Today’s market realities offer organizations little choice but to drive change. Driving sustainable change within an organization is very difficult, even with the best intentions.

It is paramount to both proactively and tactically address the people and organizational issues brought on by a change effort. Planned and proactive management of change can help improve the organization’s ability to realize the return on investment target associated with the particular change effort.

Within your organization you can apply sound practices by first reviewing past change

initiative’s successes and failures, i.e., assessing your own organization’s history of change. Before initiating a new change effort, evaluate what has worked and what has not worked for you. Ask yourself: How did we (or did we not) achieve the business results we intended?

Saran said there are many reasons why major change projects fail to realize the desired objectives, including conflicting initiatives, mixed messages, and resistance to the change. To most effectively drive and sustain desired business benefits, KPMG’s change management approach is to apply a pragmatic focus while mitigating risks. The firm’s methodology divides change management interventions into three stages: analysis, engagement, and delivery. These stages have a logical order—but in reality managing change is an iterative process applied in a situational context. The rigor and complexity of your change management plan should be driven by the degree of change and transition required of the organization, Saran said.

One of the more complex dynamics in a change effort is organizational resistance to change. Saran explained that

her experience has shown resistance typically occurs when the people affected are either not well informed, not well prepared and/or simply not willing to adopt the change. By acknowledging that resistance to change exists and seeking to understand the root causes of that resistance, you can help increase your organization’s success rate with change. Several of the audiences’ questions focused on ways of addressing resistance they encounter, whether displayed overtly or in more subtle ways. Saran explained there are numerous tools KPMG uses to help navigate organizations through change and address such resistance. The tools include journey maps, job impact profiles, stakeholder analysis, and communication plans, which help to build the foundation for change and to gain the ultimate buy-in/acceptance of the impacted organization.

As Saran closed her seminar, she stressed that an effective change management strategy should:

- Focus on changing behaviors and mindsets, of individuals and of teams, to help deliver a sustainable improvement in performance

- Leverage robust analysis and diagnosis to identify and mitigate the critical people risks associated with change
- Use “levers” to actively manage the inculcation of new behavioral standards and help drive the performance required for delivery of benefits
- Work to develop change leadership capability and create momentum for sustainable change
- Regard change management as an iterative, rather than a linear process

Without proactive and tactical change management, regardless of the professed merits of a change effort, employee’s hearts and minds are never captured, Saran concluded.



Claudia Saran

“The nature of change is changing.”

Claudia Saran, Principal, KPMG LLP

Mock Scenario of Fraud at a Public Company

Phil Ostwalt, Partner, KPMG LLP | Scott Sorrels, Sutherland, Asbill & Brennan | Joe Reid, KPMG LLP
Scott Hilsen, Alston & Bird | Wayne Shortridge, Carlton Fields | Chuck Riepenhoff, KPMG LLP

The Mock Scenario of Fraud at a Public Company session was designed to provide an understanding of leading investigation practices and pitfalls in managing allegations and probes into possible fraud or misconduct. The moderator, Phil Ostwalt, partner with KPMG LLP, presented a hypothetical situation of possible fraud and misconduct at a fictitious public company.

A panel representing key players in the mock scenario addressed the incident and responded to questions about procedures to use and avoid in managing the allegations. Representative viewpoints included the perspective of a board member, outside counsel, auditor, regulator, and forensic investigator.

Ostwalt introduced the fictitious company and outlined the details surrounding the allegations. Each of the panelists shared their vision and perspective on managing fraud and misconduct and how they would approach an investigation of the allegations described.

More than 75 percent of companies currently believe

fraud is an important issue in their organization and will continue to be a significant threat in the future. The panel conveyed that an organization should never underestimate the impact of fraud and should always address allegations at the very beginning of an incident to eliminate bigger problems down the road. All organizations should maintain a vigilant watch since fraud can be hard to detect.

Substantive and vigorous controls, policies, and processes are also vital. The panelists discussed whether to rely solely on in-house counsel or seek outside counsel when addressing an allegation of fraud or misconduct. They emphasized that considerations should include an analysis of the feasibility of the alleged fraud being possible and independence of potential outside counsel.

There was a wide-ranging discussion surrounding when to inform the SEC and your organization's external auditors of a fraud allegation. Timing is a big factor to consider, as well

as regulatory issues and materiality, including the type of alleged fraud. In the current social media environment, these aspects are becoming more and more crucial.

Several panelists agreed that enlisting a public relations firm can be beneficial, particularly when dealing with the media.

Overall, the panelists agreed that having a broad reaching and in-depth compliance program, including executive oversight, a clear code of conduct and tone at the top, and effectiveness measurements are leading practices to prevent, detect, and investigate fraud and misconduct in your organization.



Phil Ostwalt



Scott Hilsen, Wayne Shortridge, and Joe Reid

More than 75 percent of companies currently believe fraud is an important issue in their organizations with data breaches being the most significant threat.



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