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Head of Audit

Transformation as a source of strength

This past year the audit business was driven more than usual by transactions, restructuring and relocations. KPMG's technologically innovative, interdisciplinary services were extremely successful on the market. The faster the transformation, the more important the peace of mind offered by auditors. The more companies change, the greater the potential for auditors to make a vital contribution. And this is something KPMG has been quite successful at over the past year.

Digitization raises demand for advisory services

There are multiple factors at play here. On the one hand, Swiss businesses and companies located in Switzerland have been involved in numerous deals which need to be assessed by auditors, even if they take place outside Switzerland. The bustling acquisition schedule is partly attributable to the strong franc, which has boosted the purchasing power of Swiss corporations enormously. Yet the strong franc has also prompted both foreign and Swiss firms to take a more critical look at which activities they want to keep in high-priced Switzerland and which services could potentially be provided more economically elsewhere. Many companies have relocated additional activities to shared service centers in Eastern Europe and India.

On the other hand, technological transformation has intensified even further. Many clients are restructuring their IT systems, often with far-reaching consequences: Companies are being reorganized and their age-old structures radically dismantled. Standardized IT solutions now make it possible for tasks previously performed across a large number of subsidiaries to be assigned to just a few global shared service centers. Not only that, but standardized IT solutions also allow global guidelines to be established within corporations, industries and even beyond. Compliance with these guidelines then permits comparisons that are highly useful to clients. For this to happen, however, state-of-the-art technology and data analytics first have to be available, mastered and exploited in a targeted manner. Market players have declared KPMG a leader in this area.



Growing demands on auditors

In its capacity as auditor, KPMG offers its clients peace of mind that every single aspect will be considered during these transformations, with its specialists contributing experience gained through their involvement in similar restructuring projects in other companies. Greater complexity combined with the accelerating pace of change have placed even more exacting demands on auditors, one example from the regulatory sphere being the new Accounting Act. While this complexity has driven prices up, clients also receive more comprehensive, higher-quality, in-depth analyses in return. These then offer businesses a high level of security and establish essential guidelines for the future.

International experience vital

Good auditors are always a step ahead of developments. They deliver precise financial information and ensure that decision makers are supplied with pertinent information. Additionally, auditors are responsible for identifying relevant economic, business, regulatory and technological changes at an early stage, a particularly challenging task during phases when companies and their business models are undergoing rapid transformations. With that in mind, it is crucial that auditors have a good grasp not only of their clients' business but of developments in the respective industries as well. Only then can they ask the right questions and anticipate transformation.

That calls for employees with cutting-edge IT expertise and an ability to coordinate projects at the global level. Since KPMG's clients operate internationally and expect their auditors to have international experience, it is vital that the firm's employees spend a portion of their career abroad. Conversely, this also means that KPMG has to be able to bring top-notch foreign talent into Switzerland. If Switzerland intends to hold on to its status as an attractive location for corporations, it needs to facilitate their access to highly qualified talent. Unfortunately that is an increasingly difficult feat, especially when it comes to people from countries outside the EU.

A blend of audit and IT know-how

For KPMG to be able to provide audit services using state-of-the-art technologies, it needs employees with the right training. To this end, KPMG has now begun recruiting university graduates expressly interested in having two areas of focus: one in accounting and audit, the other in information technology. KPMG then provides its new recruits with any additional training required to achieve this goal. The new career development track also underscores the multidisciplinary approach that is nearly unique to KPMG. The fact that KPMG covers not just a niche but offers a full range of services under one roof puts the firm in extremely high demand among clients with extensive transformation-related needs. Changes help keep a company relevant. As an auditing and consulting firm, KPMG wants to make transformation a source of strength – for itself and its clients.

TAX AND LEGAL



Peter Uebelhart
Head of Tax

Approaching the moment of truth

Uncertainties surrounding the question of how corporate taxes will be structured in the future as well as a downturn in the number of foreign companies relocating to Switzerland have influenced tax advisory services strongly over the past year. Developments in the areas of indirect taxes and transfer pricing, on the other hand, are quite favorable. Furthermore, new topics such as data and analytics are having an increasingly positive impact on the advisory business.

An analysis of KPMG's value chains revealed that indirect taxes and transfer pricing were the issues that dominated tax advisory services over the past fiscal year. The tense currency situation coupled with the pressure it puts on margins has prompted numerous companies to analyze their production workflows with the aim of realigning them in order to maximize added value at even greater efficiency. To this end, they also need tax advice. Additionally, clients are eager to understand how radical changes like Corporate Tax Reform III (CTR III) and BEPS work and which impact they will have.

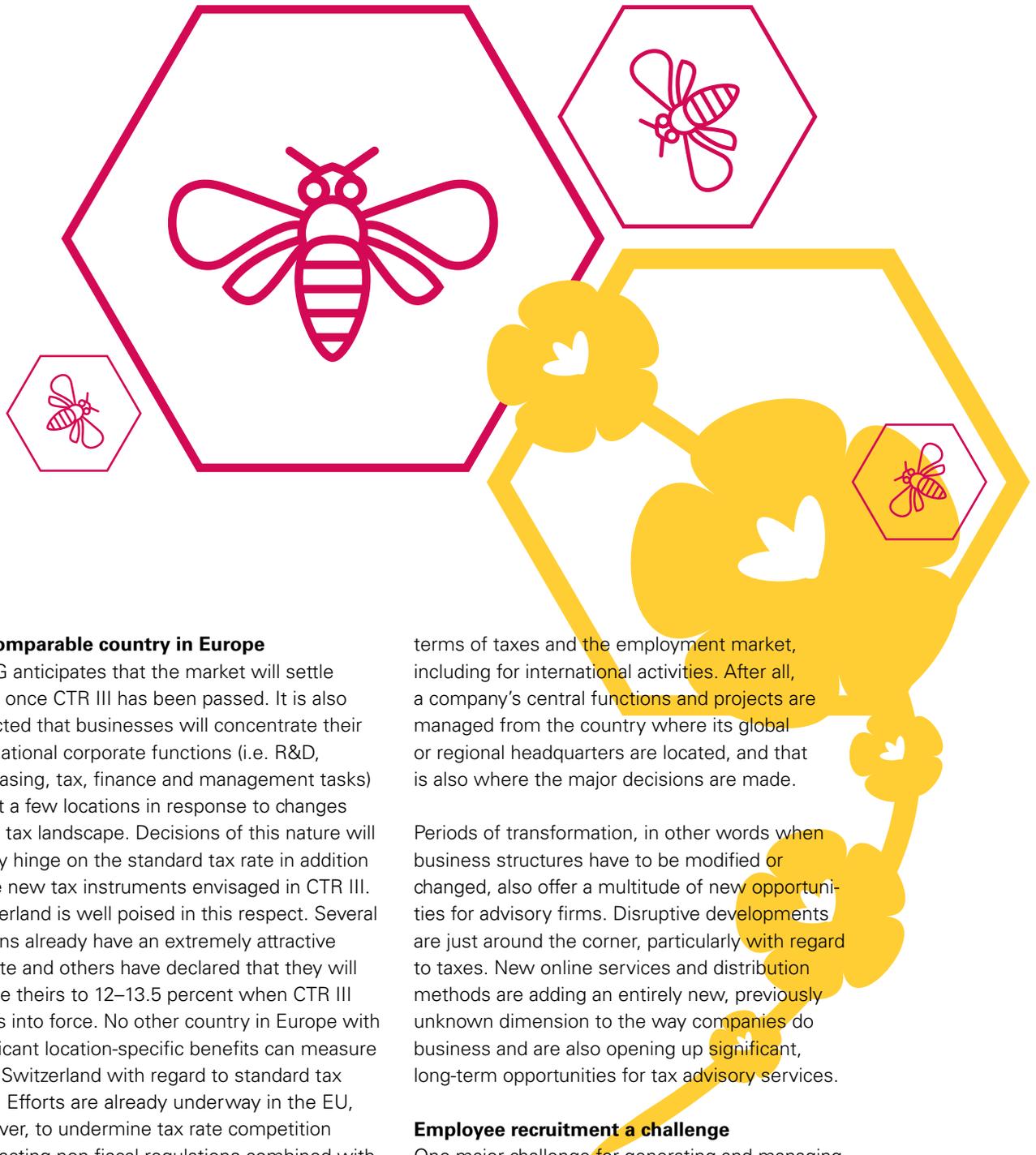
Analytics using state-of-the-art technology

New topics such as data and analytics are picking up speed in the tax landscape. Modern data analysis methods, which are capable of providing far more extensive analyses of clients' data

pools than standard techniques, are arousing clients' interest and offer substantial growth potential. This is where KPMG's multidisciplinary project approach fully comes to bear.

Demand for mobile workforce services remains strong. Here KPMG can draw on experienced specialists with excellent national and international networks to offer services, using the very latest in cutting-edge technologies, that satisfy the relevant compliance requirements.

Earnings in the location business were moderate. This is a direct result of the distinct decline in the number of foreign companies relocating to Switzerland. No upturn can be expected until the current legal uncertainties regarding future migration rules and CTR III have been eliminated.



No comparable country in Europe

KPMG anticipates that the market will settle down once CTR III has been passed. It is also expected that businesses will concentrate their international corporate functions (i.e. R&D, purchasing, tax, finance and management tasks) at just a few locations in response to changes in the tax landscape. Decisions of this nature will largely hinge on the standard tax rate in addition to the new tax instruments envisaged in CTR III. Switzerland is well poised in this respect. Several cantons already have an extremely attractive tax rate and others have declared that they will reduce theirs to 12–13.5 percent when CTR III enters into force. No other country in Europe with significant location-specific benefits can measure up to Switzerland with regard to standard tax rates. Efforts are already underway in the EU, however, to undermine tax rate competition by enacting non-fiscal regulations combined with minimum tax rates.

Business transformations trigger greater demand for advisory services

Once details have been clarified regarding the implementation of CTR III and the conditions governing future migration policies – policies which have a fundamental impact on the recruitment and international assignment of qualified specialists – the location business will pick up again. From this perspective, it is crucial for KPMG that Switzerland remains an attractive location in

terms of taxes and the employment market, including for international activities. After all, a company's central functions and projects are managed from the country where its global or regional headquarters are located, and that is also where the major decisions are made.

Periods of transformation, in other words when business structures have to be modified or changed, also offer a multitude of new opportunities for advisory firms. Disruptive developments are just around the corner, particularly with regard to taxes. New online services and distribution methods are adding an entirely new, previously unknown dimension to the way companies do business and are also opening up significant, long-term opportunities for tax advisory services.

Employee recruitment a challenge

One major challenge for generating and managing future growth is finding the right employees. KPMG relies on skilled staff with an in-depth knowledge of business, a knack for thinking and working in networks and thus the ability to manage multi-disciplinary advisory projects. To this end, the firm has to be able to recruit qualified candidates both in Switzerland and abroad and that is why it is essential that KPMG be able to draw on foreign specialists without having to deal with major bureaucratic hurdles. Moreover, with several flexible working models, KPMG is well prepared to meet the new needs of younger staff.

ADVISORY



Anne van Heerden
Head of Advisory

Digitization as driver of the advisory business

The Swiss economy is experiencing a massive upheaval. While digitization opens up great opportunities, both for companies and the advisory business, a systematic use of innovative technologies is the key prerequisite for taking advantage of those opportunities.

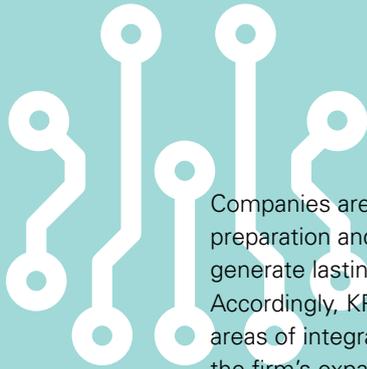
The increasingly extensive use of data analytics to successfully transform business models and develop new products and services has become indispensable to modern-day companies. Accordingly, this and other key digitization-related topics proved to be driving forces behind the advisory business over the past year and prompted the formation of several highly specialized teams. Banks in particular were extremely active in terms of transformation and required broad-based support. Both banks and insurance companies are focusing heavily on optimizing their structures and processes and developing new business models to boost their margins and safeguard future business. Ever since the financial crisis, a considerable amount of consolidation has been happening in the private banking sector; this is set to continue and will go hand in hand with substantial advisory requirements.

Steady development in advisory business

Demand for advisory services continued to rise over the past year. KPMG succeeded in landing major new engagements in several different advisory areas. Reorganization and efficiency

projects as well as consolidation projects in finance, IT and purchasing are the main drivers of demand. In addition to familiar measures such as downsizing and relocating jobs to low-wage countries, clients are increasingly looking to streamline their organizations, centralize and standardize processes and IT systems as well as exploit the potential offered by digitization and automation. Demand for services related to cybersecurity, data governance and certification has also seen an upturn.

In a Swiss M&A market where the number of transactions continues to fall, KPMG's Deal Advisory business has grown even further. Weak stock market performance early in the year, the unease this sparked and a persistently strong Swiss franc prompted restraint on the market. These uncertainties have increased the complexity of many transactions and it takes considerably more time until the deal is closed – if at all. In the real estate sector, a lack of investment alternatives has led to unrealistic price expectations on the part of sellers, a development that has also left its mark on M&A activities.



Companies are increasingly investing in deal preparation and implementation in an effort to generate lasting value for M&A investors. Accordingly, KPMG's investments in the strategic areas of integration and separation as well as the firm's expansion of its Deal Advisory team in western Switzerland have paid off.

The Forensic services with the highest demand were compliance as well as regulatory advice and investigations. While they will remain a key business area going forward, digitization has been playing a central role in this area for some time now and KPMG has been investing heavily in forensic technology for many years.

Innovative specialist placement solutions

KPMG puts digitization to work for its own advisory business too. Through alliances with Microsoft, IBM Watson and McLaren, KPMG has increased its expertise in the area of cognitive data analytics, developed new tools and invested in new services. One example of this is Marketplace, the online platform launched by KPMG to temporarily place our own advisors with our clients. If a CFO needs an experienced controlling specialist for ten days, for instance, he can post his request online at KPMG and will then be sent a selection of up to three qualified, available specialists via Marketplace within just 48 hours. All he needs to do then is select the candidate he wants and conclude the temporary staffing agreement online.

KPMG also invests heavily in networking activities and supports leading specialist organizations such as "digitalswitzerland" as well as specialist events including the "Swiss IT Conference", "Digital Festival Zurich" and "Hack Zurich".

Digitization also changing the business model of KPMG

The intensity of structural change will continue to grow unabated over the next few years. After all, each and every company will have to consider how it can best structure its organization. The same holds true for KPMG. It used to be that a team of experts visited clients to analyze their workflows and come up with ways of improving them. Today

much of this work is done by computers. What's needed now are more specialists who are familiar with the technology and innovations in this field. KPMG, too, continuously strives to realign its services and focuses intensely on the question of which fields of expertise, business models and skills will be relevant for its market success in five years and where digitization could potentially be brought to bear. Recruiting qualified employees will be one of the biggest challenges.

The advisory business will continue its dynamic development as well. Given the fact that old business models are being replaced by new ones, particularly in the banking, insurance and life sciences industries, the future will bring greater demand for people with extensive IT skills who know what the key stakeholders in these industries need. Developing better solutions for existing situations simply will not be enough. The future calls for new approaches. In that sense, the occasionally disruptive restructuring of the economy is actually an opportunity for the advisory business.

Data security is one of the major challenges presented by current developments. Cybersecurity and data protection are crucial topics not just for financial service providers but for most companies in other industries as well. Even businesses in the manufacturing industry will have to protect their data better if they want to hold on to the edge they gained through innovation. Tools are being developed in Data & Analytics which use sophisticated algorithms to help advisors draw the right conclusions more quickly in highly complex matters. This will place new demands on our employees' expertise.

Requirements continue to grow

The Swiss economy is in the midst of a digital transformation. To ensure that its clients can make the most of any opportunities that arise, KPMG needs to look far ahead to identify the skills needed by future employees. The risk that inventions and developments might make existing business models obsolete is greater today than ever before. Anybody with a wait-and-see attitude now has already lost the race.

