



KPMG LLP Transparency Report 2016

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Letter from the chairman



This 2016 Transparency Report articulates the steps that KPMG LLP takes to uphold its professional responsibilities and describes the firm's structure, governance and approach to quality control. This report shows how we maintain and continuously improve our audit quality processes and procedures through monitoring activities, accumulating and analyzing findings to identify root causes and developing appropriate remedial actions. We then repeat the cycle, monitoring the implementation, execution and effectiveness of the actions taken.

KPMG LLP is committed to providing high-quality professional services in an ethical manner to entities that are listed on capital markets around the globe. In addition to complying with the high standards of our United States regulators, KPMG LLP seeks to respond appropriately to the concerns of auditor regulators outside of the United States where certain of the entities we audit have listings. Some of these regulators impose additional requirements on the firm, such as the publication of the type of information set forth in this report. Publishing this report provides the firm with another opportunity to demonstrate that we take seriously our obligations and responsibilities to the investors, capital markets and regulators in the countries where the securities of the entities we audit are listed.

We are continually working to develop the most effective audit quality standards and processes at KPMG LLP, and are proud of the partners and professionals who strive to uphold them.

Lynne Doughtie
Chairman and Chief Executive Officer



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Who we are

1.1 Our Business, Structure and Ownership

KPMG LLP (the firm) provides audit, tax and advisory services to a broad range of domestic and international entities. The firm operates from more than 90 offices with more than 34,000 employees and partners throughout the United States. KPMG LLP operates as a Delaware limited liability partnership, meaning it is wholly owned by its more than 2,000 partners and principals (referred to here-in collectively as partners).¹ Full details about the services we offer can be found on our Web site at www.kpmg.com/US.

KPMG LLP is the U.S. member firm of KPMG International Cooperative (KPMG International), which is a legal entity formed under Swiss law. KPMG International's member firms have 189,000 professionals, including more than 9,800 partners, in 152 countries. More information about KPMG International, including our relationship with it, is set out in section 4.

1.2 Our Governance

KPMG LLP has two principal governing documents: a Partnership Agreement and Partnership Bylaws. Together, these documents establish the structure and principal procedures of governance for the firm.

KPMG LLP's governing body is its Board of Directors (the Board), and it may have between 13 and 18 members. KPMG LLP takes pride in the fact that it has built several different safeguards into its governance structure to ensure the independence of the Board from the operational management of the firm.

1.2.1 Firm Governing Body – The Board

The business, property and affairs of the firm are managed under the direction of the Board. The Board is responsible for the firm's policies and for the oversight of the firm's management, including the election of the Chairman and Deputy Chairman, approval of senior management appointments and general oversight of management operations. As a general matter, members of the Board other than the Chairman and Deputy Chairman serve a five-year term and may not seek re-election until they have been off the Board for two years. KPMG LLP requires that a majority of the members of the Board be Certified

Public Accountants (CPAs) and prohibits members of the Management Committee – other than the Chairman and the Deputy Chairman – from serving on the Board.

1.2.1.1 Selection Process

A Nominating Committee of the Board selects a slate of candidates for the Board, and the firm's partners may invoke procedures to place other candidates on the ballot directly. At least one-half of this committee must be composed of partners who are not Directors. Members of the firm's Management Committee are not eligible for membership on the Nominating Committee, and neither the Chairman nor the Deputy Chairman is involved in the selection of the Board's slate of candidates. The candidates are voted on by the firm's partners in an election supervised and tabulated by outside counsel. Partners' votes are counted using two methods of calculation. To be elected, each candidate must receive a majority of votes under both methods of calculation.

1.2.1.2 Lead Director

A Lead Director is elected annually by his or her fellow Board members. The Chairman and the Deputy Chairman cannot be involved in the selection of the Lead Director, nor can they serve as the Lead Director. The Lead Director has a number of specific duties, including making recommendations for Board committee appointments, assisting the Chairman in the development of the Board's agendas and acting as the liaison between the Chairman and Deputy Chairman and the other Directors with respect to issues raised during executive sessions of the Board, from which the Chairman and Deputy Chairman are excused.

1.2.1.3 Board Process and Evaluation Committee

The Board Process and Evaluation Committee is chaired by the Lead Director and is responsible for recommending Board governance processes and guidelines designed to foster the active and accountable performance of Board duties, and for developing and implementing annual Board and Director evaluation processes. The Board Process and Evaluation Committee reports the results of its evaluation to the Board of Directors for full Board discussion following the end of each fiscal year.

¹ Partners and principals have essentially the same rights under the firm's partnership agreement except that principals are not licensed as certified public accountants under the laws of any of the various states or territories of the United States.

1.2.1.4 Professional Practice, Ethics and Compliance Committee

The Professional Practice, Ethics and Compliance Committee assists the Board in fulfilling its responsibilities by overseeing the firm's legal, professional practice, regulatory, compliance, ethics and risk management activities. The committee also is responsible for promoting, monitoring and reporting to the Board on activities that manifest the firm's commitment to the highest standards of ethics as well as compliance with applicable legal requirements, professional standards and firm policies.

1.2.1.5 Audit, Finance and Operations Committee

The Audit, Finance and Operations Committee assists the Board in fulfilling its responsibilities by overseeing the internal audit function of the firm and all other matters pertaining to the internal control, audit or reporting of the financial affairs of the firm that the committee deems advisable and necessary. The committee also oversees management's operation of the firm. Specific responsibilities of the committee include annual and interim financial reporting to the partnership; overseeing the firm's capital structure; monitoring the firm's internal controls related to significant financial and accounting processes, including those related to information technology systems and applications; and overseeing the firm's strategic investments and the development of its annual budget.

1.2.1.6 Compensation and Pension Committee

The Compensation and Pension Committee assists the Board in fulfilling its responsibilities by providing guidance and oversight related to the compensation policies that affect the firm's partners and principals, which include the review of the Chairman, Deputy Chairman and Management Committee members' compensation. The Committee also monitors the firm's pension and retirement plans. Specific responsibilities include overseeing the investment of funds deposited in the savings and pension plans maintained by the firm on behalf of the firm's personnel and the selection and appointment of third-party advisers regarding the investment of such funds.

1.2.1.7 Partnership and Employer of Choice Committee

The Partnership and Employer of Choice Committee assists the Board in fulfilling its responsibilities related to the admission and withdrawal of partners and the review of grievances that any partner may have concerning his/her partnership allocation, other compensation, or other career matters, such as the partner's career progression or a request by management that the partner withdraw, transfer or relocate.

1.2.2 Senior Management

The firm's Chairman of the Board is also its Chief Executive Officer (CEO). Subject to the advice of and direction from the Board, the firm's CEO is responsible for the management of the firm's business and affairs and carrying out the firm's policies, and the firm's CEO may act on all matters on behalf of the firm.

The firm's Deputy Chairman who reports to the Chairman, is the Vice Chairman of the Board of Directors and is chairman of the firm's Management Committee. The firm's current Deputy Chairman also serves as the firm's Chief Operating Officer (COO).

The Chairman and the Deputy Chairman are elected for an initial five-year term and may be re-elected for an additional three-year term. They are elected by a majority of the Board, subject to a ratification vote of the firm's partners.

1.2.3 Management Committee

The firm's Chairman and Deputy Chairman are supported by a number of members of senior management who together comprise the firm's Management Committee. The Management Committee is responsible for implementing firm policies as promulgated by the Board, for developing strategies and tactical and operational plans to support such policies, and for the sound and profitable operations of the firm. The firm's current Management Committee includes: the Chairman; the Deputy Chairman; the Vice Chairs of Audit, Tax, Advisory, Operations, Market Development, Innovation and Enterprise Solutions, and Human Resources, and the Vice Chair of Legal, Risk and Regulatory.

Our system of audit quality control

KPMG LLP maintains a system of quality control for its Audit practice that is designed to meet or exceed the requirements of applicable professional standards issued by the U.S. Public Company Accounting Oversight Board (PCAOB) and the American Institute of Certified Public Accountants (AICPA).

Professional practice, risk management, and quality control are the responsibilities of every KPMG LLP partner and employee, who are expected to understand, apply and adhere to the firm's policies and associated procedures at all times.

Our policies reflect individual quality control elements to help the firm's partners and employees act with integrity, professional skepticism and objectivity; perform their work with diligence; and comply with applicable laws, regulations and professional standards.

KPMG LLP's system of audit quality control encompasses the following elements:

- Leadership responsibilities for quality within the firm (the "tone at the top");
- Engagement performance;
- Relevant ethical requirements, including integrity, objectivity, independence and confidentiality;
- Personnel management;
- Acceptance and continuance review of audit entities and specific engagements; and
- Monitoring.

2.1 Tone at the top

KPMG LLP has established a culture that reflects an absolute commitment to audit quality. One of the main drivers of this culture is the assignment of responsibility for audit quality to top management of the firm.

KPMG LLP's Chairman and CEO establishes the strategies and direction of the firm, including its ethical culture and promise of professionalism to investors and other participants in the capital markets, regulators, clients and our partners and employees. Under the direction of the Chairman and CEO, the firm has established core

values, which include, above all, acting with integrity, to guide its decision-making and business conduct, including compliance with applicable laws, regulations and professional standards.

KPMG LLP's Vice Chair of Audit, who reports to the Chairman and CEO and the Deputy Chairman and COO of the firm, has ultimate responsibility for the firm's Audit practice, including our system of audit quality control. Our National Managing Partner of Audit Quality and Professional Practice, who reports to the Vice Chair of Audit, is responsible for the day-to-day operation of our system of audit quality control and our processes to continuously improve audit quality. In this role, the National Managing Partner of Audit Quality and Professional Practice has responsibility for, including evaluating the performance of, the Department of Professional Practice (DPP), the Audit Quality and Process Monitoring Group, the Quality Measurement Group, the Audit Quality Support Program, and the firm's regional and business unit professional practice partners (collectively, Audit Quality and Professional Practice).

Audit Quality and Professional Practice consists of a broad network of partners, managing directors, senior managers and other professionals who support the firm's professionals in meeting their responsibilities in the areas of auditing and attestation, accounting and financial reporting, U.S. Securities and Exchange Commission (SEC) and other regulatory reporting matters, continuous improvement in audit quality, and internal and external inspections.

2.1.1 Department of Professional Practice

The firm's Department of Professional Practice (DPP) provides technical guidance to engagement teams on engagement-related issues and assists in communications with audit committee members and management on those issues, developing and disseminating topic-specific guidance on emerging technical and professional auditing, accounting and reporting matters, and consulting on and assisting with firm and individual audit entity matters pertaining to compliance with regulatory and professional

standards. DPP activities are managed by the firm's Chief Auditor and Chief Accountant, both of whom report to the National Managing Partner of Audit Quality and Professional Practice. Through liaisons with the SEC and PCAOB, as well as active participation in the standard-setting processes at the Financial Accounting Standards Board, the Governmental Accounting Standards Board, the Emerging Issues Task Force, the Auditing Standards Board and other boards and committees of the AICPA, the International Auditing and Assurance Standards Board and other similar organizations, DPP professionals develop and represent KPMG LLP's positions on current topics being addressed by regulatory and other standard-setting bodies. In addition, DPP professionals actively liaise with KPMG International's International Standards Group (ISG), located in London, on international accounting and auditing standards matters.

2.1.2 Issue Council and Audit Quality and Process Monitoring Group

The Issue Council and Audit Quality and Process Monitoring Group (AQPMG) represent key components of our system of audit quality control and our efforts to continue to improve audit quality and effective performance. They are instrumental to our ongoing progress to enhance our ability to identify, analyze and remediate deficiencies in our system of audit quality control and audit engagement performance.

The role of the Issue Council is to provide counsel to the National Managing Partner of Audit Quality and Professional Practice on current and emerging auditing, accounting, reporting and audit quality control matters to achieve our goal of executing consistently high quality audits. The Issue Council is chaired by the National Managing Partner of Audit Quality and Professional Practice.

The role of AQPMG is to gather internally- and externally-generated information associated with audit quality matters, determine the root causes of deficiencies and propose remedial action plans as necessary. AQPMG reports to the Chief Auditor.

AQPMG analyzes root causes associated with audit quality through a process tailored to specific circumstances, but in each case, the process involves defining the problem, understanding the current state, identifying possible causes, collecting data, analyzing the data and defining possible approaches. Data collection includes external and internal inspection findings, engagement team debriefs, focus group meetings, feedback from monitoring activities, as well as gathering engagement-specific information. Selecting the approaches to be implemented, implementing the approaches and evaluating and institutionalizing the approaches are the final steps performed in conjunction with the Issue Council, Audit leadership and the appropriately identified approach team.

2.1.3 Quality Measurement Group

The Quality Measurement Group executes the firm's annual internal inspection program, the Quality Performance Review (QPR) Program, for the Audit practice and liaises closely with the AQPMG. The Quality Management Group maintains the firm's registrations with audit regulators in the United States and globally. In addition, the Quality Measurement Group coordinates the firm's external quality review programs for the Audit practice and also is the firm's primary liaison with our peer reviewer firm, the PCAOB and other auditor regulators' inspection staffs. The Quality Measurement Group also participates on the Peer Review Board and the National Peer Review Committee of the AICPA.



2.1.4 Professional Practice Partners

The firm's nationally managed Audit practice is supported by two regional leadership teams, each with a designated regional professional practice partner. The regional professional practice partners are senior partners who provide professional practice and audit quality leadership and direct adherence to firm policies and professional standards within their respective regions. They are supported in their roles by a network of:

- Senior audit partners who serve as professional practice partners for their business units; and
- A complement of Audit professionals who assist with elements of our monitoring systems and otherwise support the firm's professionals in meeting their risk management and professional practice responsibilities.

The roles of our professional practice partners are to:

- Support and advise the partners, managing directors and engagement teams on entity-specific audit matters;
- Assimilate information pertaining to the professional risks of the firm;
- Provide reasonable assurance that firm policies and professional standards are followed;
- Review firm policies and processes in an effort to continuously improve audit quality; and
- Provide performance feedback for every Audit partner and managing director in his/her business unit on audit quality.

2.1.5 Audit Quality Support Program

The Audit Quality Support program comprises select audit partners who provide direct, real-time engagement-level audit quality coaching and support to audit engagement teams. The engagements subject to this support are selected based on an audit quality risk assessment led by our Chief Auditor. Coaching spans from the planning phase of the audit through to completion and focuses on selected areas that are among the most subjective and present the highest degree of audit risk.

2.2 Engagement performance

Engagement performance encompasses all aspects of the design and execution of an audit engagement, including the firm's audit methodology and the supervision, consultation, documentation, review and communication of audit results. Our global audit quality framework assists every KPMG LLP partner and professional in concentrating on the skills and behaviors needed to deliver an appropriate independent audit. In addition, the firm's training includes programs designed to enhance professionals' ability to

make judgments by employing a framework that addresses how biases impact decision making and how to recognize and overcome biases in making judgments and applying appropriate professional skepticism.

2.2.1 The KPMG LLP Audit

KPMG International's Global Services Centre consists of professionals who develop and regularly update the methodologies that constitute the global audit process, in cooperation with KPMG International's ISG and the U.S. firm's DPP.

The KPMG LLP Audit is, where applicable, an integrated audit model, which incorporates both the audit of the financial statements and the audit of internal control over financial reporting. Our integrated audit is enhanced through timely communications with the audit committee and management throughout the audit process.

We use our knowledge and experience to identify and assess risks to determine the nature, timing and extent of audit procedures to be performed. The higher the risk, the more persuasive the audit evidence needs to be to mitigate such risk. We exercise professional skepticism throughout the audit in gathering and objectively evaluating the sufficiency and appropriateness of audit evidence obtained, which includes evidence that is confirming as well as disconfirming.

The KPMG LLP Audit addresses both manual and automated controls of entities we audit and includes integration of the firm's information technology professionals and other specialists into the core audit engagement team, when appropriate. Our audit also includes procedures aimed at identifying and responding to fraud risks.

Our audit methodology is enhanced through eAudit, the firm's electronic audit tool. eAudit is an activity-based workflow and electronic audit file that integrates our methodology, guidance, industry knowledge and tools needed to facilitate the audit process.

The KPMG LLP Audit also guides the conduct of audits of financial statements consisting of two or more components (group audits) and clearly delineates responsibilities relative to managing group audits and the involvement of the group audit engagement team in the work performed by the component auditor. Our audit methodology includes policies and guidance related to those matters that merit special consideration in performing group audits, including:

- Performing the group risk assessment;
- Identifying significant components;

- Identifying significant accounts/disclosures and relevant assertions at the group level;
- Evaluating group-wide controls;
- Establishing group and component materiality;
- Communicating with the component auditors;
- Being involved in the risk assessment for significant components; and
- Evaluating the results and findings of all work performed and considering whether sufficient appropriate audit evidence has been obtained.

2.2.2 Supervision, Review and Support for the Engagement Team

Supervision entails directing the efforts of professionals who are involved in accomplishing the objectives of the audit and determining whether those objectives were accomplished. Elements of supervision include instructing and guiding professionals; keeping informed of significant issues; reviewing the work performed; addressing auditing, accounting, and reporting matters; and agreeing on appropriate conclusions.

2.2.3 Consultation and Differences of Opinion

The firm has established protocols for consultation and documentation regarding significant accounting, reporting and auditing matters, including procedures to resolve differences of opinion on audit engagement issues. Consultation within the firm is encouraged and, in certain circumstances, required. Technical support for each engagement team comes from a network that includes DPP as well as the professional practice partners.

Differences of opinion may arise within the engagement team, with those consulted, or between the lead audit engagement executive, which may be a partner or managing director, and the engagement quality control reviewer. In circumstances when an engagement team member does not agree with the resolution of the difference of opinion, even after appropriate consultation, and believes it necessary to be disassociated from the matter, we require that individual to document the matter, including the basis for resolution, in the audit documentation and consult with DPP. Where partners or managing directors involved in the audit are unable to resolve an issue, the matter may be elevated for resolution by DPP. In any case, we do not issue the auditors' reports until differences of opinion are resolved, and the resolution is implemented and documented.

2.2.4 Engagement Quality Control Review

An engagement quality control review is an important element of the firm's system of quality control that is designed to provide reasonable assurance that, among other things, the entity's financial statements comply with applicable accounting and reporting standards and relevant regulatory requirements; the engagement team has appropriately identified significant risk(s) in the audit, including fraud risk(s), and designed and executed audit procedures to address those risks; and that the auditors' report(s) is appropriate. The engagement quality control review responsibility is assigned to a partner, or where permitted, a managing director, who has no involvement on the engagement other than that relating to performing a review of the financial statements, auditors' reports and certain audit documentation. Engagement quality control reviewers are expected to maintain their objectivity throughout their review, and if it is concluded that the reviewer's objectivity is impaired, another engagement quality control reviewer is appointed.

The engagement quality control reviewer meets certain qualifications and criteria to perform an engagement quality control review for a particular engagement.

Our firm's policies require some level of engagement quality control review prior to the report release date of the related report(s) for financial statement audits, integrated audits, financial statement reviews, reviews of interim financial information, audits or reviews by component auditors (with certain exceptions), and other reports (except compilation reports) that may be used by more than one KPMG International member firm or relied upon by other parties.

In general, engagement quality control reviewers discuss significant matters arising out of the engagement with the lead audit engagement executive, review audit documentation related to significant judgments and conclusions, review the appropriateness of the financial statements and related disclosures, and evaluate the audit engagement team's response and conclusions with respect to significant risks and the report(s) to be issued. Completion of an engagement quality control review is documented when the engagement quality control reviewer has performed the procedures in accordance with the firm's requirements and applicable professional standards and is satisfied that the significant questions raised have been satisfactorily resolved.



2.3 Relevant ethical requirements

2.3.1 Ethics and Integrity

Our culture is built on the principle that every individual must take personal responsibility for ethics and compliance. As individuals, we take ownership, stay informed, lead by example, consult with others, stand firm and raise our hands when we see something that is inconsistent with our values or professional responsibilities. Those who manage others act as role models; enhance understanding; set appropriate goals; and are responsive, responsible, fair and accountable.

The firm's Code of Conduct (the Code) is the cornerstone of our ethics and compliance program. It helps us to articulate our standards of professionalism and integrity expected of all KPMG LLP partners and employees. By setting forth in clear, conversational prose our values, shared responsibilities, channels of communication, as well as key policies and protocols, the Code provides a roadmap to guide how our individual and collective commitments to professionalism and integrity should be manifested and maintained. This approach directly contributes to the success of our strategic priorities, as we look to grow our business by working with companies that share our values and by recruiting and retaining employees who take pride in the positive contributions they make to our ethical culture.

At the time of hire, and each year thereafter as part of an annual confirmation process, every one of our people is asked to confirm in writing that he or she has reviewed the Code; understands it; and agrees to adhere to our values, shared responsibilities, global commitments and promises.

2.3.2 Objectivity

Independence, integrity, ethics and objectivity are the pillars of our firm and profession. Thus, we work diligently to avoid an actual impairment or even the appearance of an impairment of our objectivity. Firm personnel are vigilant to recognize actual and potential conflicts of interest, identifying them at the earliest opportunity to resolve, manage or avoid the conflict. Conflicts of interest may preclude the firm from accepting an entity as a client or a specific engagement.

2.3.3 Independence

KPMG LLP's independence policies require that the firm, its partners and management group and the personnel assigned to each audit engagement be free from financial interests in and prohibited relationships with the entities we audit and their affiliates, management, directors and significant owners. The firm requires adherence to applicable independence requirements and ethical standards, which meet or exceed the standards promulgated by the PCAOB, SEC, AICPA, Government Accountability Office (GAO) and other applicable regulatory bodies. These policies and procedures, which cover areas such as personal independence, postemployment

relationships, partner rotation of certain engagement personnel, and approval of audit and non-audit services, are monitored continuously.

The firm's Independence Group is responsible for the firm's policies, practices and controls with respect to independence matters, including those relating to Sentinel and KICS (described in the following). It is assisted by the firm's professional practice partners.

Some of the firm's independence policies and processes are described below.

2.3.3.1 Personal Independence

- With the support of the firm's Independence Group, each professional is ultimately responsible for maintaining his or her personal independence.
- In addition to our policies prohibiting any firm partner or employee from trading on inside information, our partners, managing directors, managers and those providing professional services to an entity we audit may not have direct or material indirect investments in an entity we audit or its affiliates (collectively, restricted entities), regardless of whether they are in possession of inside information about such entities.
- Certain other financial relationships with restricted entities we audit (e.g., loans, credit cards, insurance products and brokerage accounts) may be prohibited or subject to limitations.
- Close family members of certain KPMG LLP partners, managing directors and employees may not hold certain accounting or financial reporting roles with restricted entities we audit.

2.3.3.2 Postemployment Relationships

- KPMG LLP professionals are required to report promptly to the firm any discussions or contacts between them and an entity we audit regarding possible employment.
- Firm professionals engaged in negotiations regarding possible employment with an entity we audit are immediately removed from the audit engagement.
- If a professional accepts employment with an entity we audit, the engagement team gives active consideration to the appropriateness or necessity of modifying the audit procedures to adjust for risk of circumvention by the former professional of the firm.
- For SEC-registered entities we audit at the issuer level, a former member of the audit engagement team may not accept employment in a financial reporting oversight role until the required "cooling-off" period has expired.

2.3.3.3 Rotation

Under the Sarbanes-Oxley Act of 2002 and the SEC's independence rules, the firm's Audit partners, certain other partners, and managing directors are subject to specific rotation requirements that limit the number of consecutive years certain individuals may provide services to an SEC-registered entity we audit. To monitor compliance with these requirements, the firm uses its Partner Rotation System, which assists in monitoring assignments of certain personnel and initiating personnel changes on entities we audit. Additionally, Risk Management-Audit must approve any proposed change of a lead audit engagement partner of a SEC registrant, if the change is for any reason other than required partner rotation or normal partner retirement. Our monitoring system also aids in the development of timely transition plans that help the firm to deliver consistent quality service to the entities we audit. The process of monitoring and tracking service time and rotations is subject to compliance testing as part of various monitoring functions.

2.3.3.4 Approval of Audit and Non-audit Services

The applicable lead audit engagement executive receives notification of all services to be provided to restricted entities we audit. For SEC-registered entities we audit, this person obtains pre-approval of permitted services from the audit committee.

KPMG International's proprietary system, Sentinel, facilitates compliance with the firm's policies related to the provision of services and also is used to identify and manage potential conflicts of interest within and across member firms in the KPMG International network. Lead audit engagement executives are required to maintain legal and ownership structures for their publicly-traded and other entities we audit and their affiliates in the system. KPMG International member firms are required to enter every engagement into Sentinel prior to starting work. Together with our policies, Sentinel helps the firm resolve potential conflicts of interest, helps prevent the provision of prohibited services to the entities we audit, and facilitates the process for audit committee pre-approval of permitted services. Sentinel and KPMG LLP's management of conflicts of interest processes also are described in section 2.5.2 of this report.

For SEC-registered and certain non-public entities we audit, the applicable lead audit engagement executive reviews and approves or denies any proposed service upon receipt of the Sentinel notification. For engagements subject to GAO standards, the firm also requires approval by the lead audit engagement executive before commencement of non-audit services.

2.3.3.5 Business relationships/suppliers

Our firm has policies and procedures in place that are designed to ensure that business and supplier relationships are identified, assessed and maintained in accordance with applicable independence standards. Compliance with these policies and procedures is monitored by the Independence Group.

2.3.3.6 Training and Reporting

KPMG LLP has established processes to communicate independence policies and procedures to our personnel. Among other things, the firm requires all professionals to complete independence training every year and affirm their independence using an electronic confirmation system. This confirmation is completed upon commencement of employment at the firm, every year thereafter and at key promotions.

2.3.3.7 Monitoring

KPMG LLP monitors compliance with its independence policies for financial interests through an independence compliance system (called KICS), as well as through a compliance audit process.

KICS contains an inventory of SEC registrants and other entities that require us to be independent and the securities they have issued; these entities are marked "restricted" in KICS. Before purchasing a security, securing a loan or initiating another financial relationship, partners, managing directors and managers are required to use KICS to determine if the entity is restricted. Additionally, personal investments are required to be reported in KICS, which automatically notifies professionals if an investment becomes "restricted."

To confirm our professionals' and the firm's independence, in fiscal year 2016, the firm audited the financial relationships of more than 500 individuals subject to the independence requirements. Failures to comply with the firm's independence policies are referred to a panel of specified members of leadership for review, remediation, and disciplinary actions, as required, helping to ensure consistent resolution. Also to help ensure that the firm remains independent of entities for which it performs assurance services, the firm's Independence Group reviews all new firm financial transactions for potential independence issues and conducts monthly audits of the firm's investments and loans to confirm that there are no investments in, or loans from, restricted entities. Tests for ownership threshold levels are included to help ensure that any indirect financial interest in an entity we audit is not material.

Through participation in the Audit, Advisory and Tax Quality Performance Review Programs, the Independence Group evaluates engagements for compliance with independence requirements and related firm policies. Audit engagements are reviewed to determine compliance with the following requirements: partner rotation, fees outstanding at commencement of the audit, maintenance of group legal and ownership structures for entities we audit and their affiliates in Sentinel, audit committee pre-approval of services and timing of Sentinel approval, required communications and former partners in an accounting or financial reporting oversight role at the entity we serve. Non-audit services provided by Advisory and Tax to SEC-restricted audit entities are also reviewed to determine compliance with engagement set-up and contracting requirements. These non-audit services are also evaluated to consider their permissibility and if the services provided are consistent with the terms of the engagement and audit committee pre-approval of such services.

2.4 Personnel management

The firm's personnel management system encompasses the areas of:

- Recruitment and hiring;
- Assignment of engagement teams;
- Professional development; and
- Performance evaluation, advancement and compensation.

2.4.1 Recruitment and Hiring

Prior to receiving an offer of employment, all candidates for professional positions complete and submit an application for employment and are provided access to the firm's independence guidelines to ensure these requirements are understood early in the recruiting process. Candidates are interviewed and a decision is made whether to extend an offer to the candidate. For all hires, if an offer is made and accepted, they are asked to complete an authorization for release of information, which authorizes the firm to conduct a background investigation on a candidate. Candidates are subject to background checks where the information provided is verified through independent sources. Upon joining the firm, personnel are also required to complete training programs on independence, ethics, respect and dignity, protection of confidential information, document retention and security, in addition to any practice-related training programs. Situations involving independence or conflicts of interest are resolved before the individual can begin employment.

2.4.2 Assignment of Engagement Teams

Individuals are assigned to specific engagements based on their skill sets, relevant professional and industry experience, the nature of the assignment or engagement, and available capacity. Lead audit engagement executives and engagement quality control reviewer assignments are approved by business unit leadership and may be approved by regional and national leadership based on the individual characteristics of the entity we audit.

The lead audit engagement executive considers whether the engagement team collectively has the appropriate competencies and capabilities, including capacity to perform the audit engagement in accordance with firm policies, professional standards, and applicable legal and regulatory requirements and to enable an appropriate auditor's report(s) to be issued. The competencies and capabilities of an engagement team include:

- An understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation;
- An understanding of professional standards and legal and regulatory requirements;
- Technical skills, including in specialized areas of accounting or auditing such as tax, actuarial and valuation;
- Knowledge of relevant industries in which the audit entity operates;
- Ability to apply judgment and professional skepticism; and
- An understanding of KPMG LLP's audit quality control policies and procedures.

2.4.3 Professional Development

Our professionals are required to maintain their technical competence and to comply with applicable regulatory and professional requirements regarding continuing professional education (CPE). The firm offers a broad range of learning opportunities to help our professionals meet these requirements as well as their own professional development goals while supporting the firm's commitment to audit quality. Our methods of instruction include traditional classroom environments, live virtual classroom sessions, and a variety of technology-based learning solutions, such as: web-based self-studies, performance support assets, and instructional videos. To continuously improve the effectiveness and impact of our learning solutions, the firm assesses results through course evaluations, focus groups, proficiency

assessments, and follow-up surveys. We also provide our professionals with an online system to help them and the firm monitor compliance with the requirements.

The firm requires that client service professionals who are eligible to hold a CPA license (i.e., who have passed the CPA exam and met applicable state educational and experience requirements) be licensed to practice in the states where their principal place of business is located and meet CPA licensing or reciprocity requirements in any other state in which they practice public accounting. We closely monitor license expiration and renewal for our professionals using a database that automatically generates a notification prior to license expiration. Professionals who fail to obtain or renew a license on a timely basis or fail to provide accurate and complete licensing information to the firm on a timely basis may be subject to disciplinary action.

2.4.4 Performance Evaluation, Advancement and Compensation

The firm's professionals, including partners, are subject to annual goal setting and performance evaluations conducted by trained people management leaders, who are familiar with the professionals' performance. The firm's performance evaluation model has been developed to provide a consistent framework by which leadership and performance management leaders may discuss performance relative to goals and objectives and career development aspirations. Each professional is evaluated on his or her attainment of agreed-upon goals, demonstration of skills and behaviors and adherence to the firm's values. Skills and behaviors evaluated include quality focus and professionalism (including baseline ethics and integrity goals for all personnel), technical knowledge, accountability, business and strategic focus, leading and developing people, continuous learning and relationship building. Audit partners and leaders also are evaluated based on an assessment of audit quality indicators. The results of the annual performance evaluation directly affect compensation and advancement of firm personnel, including partners, and in some cases, their continued association with the firm.

Our process for admission to the partnership is rigorous and thorough. Each candidate for the partnership, whether a direct-entry hire or internal nomination, undergoes a background check and is interviewed by several members of firm leadership, including a professional practice or risk management partner and a Board member. Furthermore, an extensive review for each internal partner candidate is completed by a number of departments, including the Ethics and Compliance Group, Audit Quality and

Professional Practice, Risk Management and the Office of General Counsel. All recommendations for admission to the partnership must be approved by an affirmative vote of two-thirds of the firm's Board.

Audit partner compensation is determined annually by Audit leadership and approved by the Management Committee and Board. The professional practice partners have significant involvement in evaluating Audit partner performance, including consideration of audit quality indicators, and compensation.

All partners are compensated out of the distributable profits of the firm. The determination of the profits available for distribution is based on the results of the firm as a whole and is not dependent directly on the performance of any particular line of business or function. Partner compensation is composed primarily of a pre-determined proportion of the profits for the year, which is based, in part, on the seniority and experience of each partner.

Audit quality performance is the central factor in evaluating and compensating Audit partners. One of the factors considered in the compensation of Tax and Advisory partners who participate in audit engagements includes achievement of appropriate audit quality goals. Our policies for setting compensation amounts do not allow an Audit partner (and certain other partners meeting the definition

of an audit partner for purposes of this policy) to be compensated for the sale of non-audit services to an entity that he or she audits.

2.5 Acceptance and continuance reviews of audit entities and specific engagements

We recognize that rigorous entity and engagement acceptance and continuance policies are vitally important to the firm's ability to provide high-quality professional services, and the firm has established policies and procedures for deciding whether to accept or continue a professional relationship and whether to perform specific services for a particular entity. We developed and utilize a tool, known as CLEAS (Client/Engagement Acceptance and Setup), to manage, control and document entity and engagement acceptance and continuance processes. An engagement code cannot be set up in the firm's financial system, and an engagement team is not permitted to commence work on an engagement, before approval is obtained.

Risk Management-Audit is responsible for developing risk management policies for the Audit practice, including those relating to entity and engagement acceptance and continuance. The firm's risk management systems, including CLEAS and the Partner Rotation System, fall under the responsibilities of this group.



2.5.1 Prospective Entity and Engagement Evaluation Processes

Prior to accepting an audit engagement with a new audit entity, firm policies require an evaluation of the entity and its principals, its business and engagement-related matters, as appropriate. This evaluation typically includes a background investigation of the entity and selected senior management personnel.

Factors considered during the acceptance process include, but are not limited to:

- Character and competency of management and the audit committee (company reputation, financial viability and control environment);
- Business-related matters (industry, products, competitors, and extent and location of key foreign operations);
- Service-related matters (firm and engagement team competency and capacity and technical risk associated with services requested); and
- Independence-related matters (employment-related matters, financial relationships, investments, loans and non-audit services).

2.5.2 Conflict Check System

Engagement teams proposing to perform a new audit engagement are required to perform a series of procedures, including a review of any non-audit services provided to the potential entity to be audited. The Sentinel system, discussed earlier in this report, is used to identify and manage potential independence issues and conflicts of interest within and across member firms in the KPMG International network. When a potential conflict of interest is identified, a member of Risk Management determines how to resolve the potential conflict after appropriate consultations, if needed, with the Office of General Counsel, and the resolution of all matters is documented. Resolution of potential conflicts requires approval from someone outside the audit engagement team, which could include the professional practice partner, Sentinel conflicts resolver or the functional risk management group, before signing the initial audit engagement letter.

If the engagement is accepted, it may be necessary to establish “ethical dividers” with respect to the professionals assigned and to communicate with appropriate parties. If a potential independence issue or conflict cannot be resolved satisfactorily, in accordance with professional and firm standards, the prospective entity or engagement is declined.

2.5.3 Continuance Process

Lead audit engagement executives are required to review and evaluate their existing audit and attestation engagements with their professional practice partner at least annually. An engagement continuance evaluation is a process of formal approvals by various parties, including the regional professional practice partner in certain situations. The objective of these reviews is to identify those engagements where the firm should consider implementing additional safeguards to address audit risk and those instances where the firm should discontinue its professional association with the entity. In addition, certain factors, such as a significant change in the nature, size, structure, ownership or management of an entity’s business, will require additional evaluation procedures to be conducted.

2.6 Monitoring

Our monitoring procedures include the firm’s internal inspection program, or QPR Program, our internal independence and compliance testing processes, pre-issuance monitoring programs and other activities elsewhere described in this report. The results of these monitoring activities, as well as the results of external regulatory inspections by the PCAOB and other auditor regulators and peer reviews, are evaluated continuously and involve ongoing consideration and evaluation by the firm of the following matters:

- Relevance and adequacy of the firm’s structure, messaging, policies, procedures and practices;
- Appropriateness of the firm’s guidance materials, tools and practice aids;
- Effectiveness of professional development activities;
- Compliance with professional and firm standards, policies and procedures; and
- Effectiveness of action plans developed to address systemic findings related to audit engagement performance and our system of audit quality control.

2.6.1 Internal Inspection Processes

Components of the QPR Program include:

- A central review team that resides in the Quality Measurement Group and consists of partners, managing directors, directors, and senior managers, supplemented by other firm professionals with applicable industry and technical knowledge;
- Regular reviews of audit engagements of individual partners and managing directors generally following a three-year rotating schedule;

- Reviews of audit engagements of selected individual managers in a lead role for an SEC-registered entity we audit;
- Reviews of other audit engagements using risk-based selection criteria;
- Reviews of general and functional controls, including independence, audit entity acceptance and continuance, personnel evaluations and document retention;
- Frequent, timely reporting of firm-wide inspection results; and
- Training and guidance that communicates to Audit professionals common inspection findings, those areas where audit quality can be improved, and where appropriate, the action to be taken to achieve improvements in audit quality.

2.6.2 Compliance Testing

The firm's Independence Group is responsible for testing and monitoring compliance with certain firm policies such as those related to independence. The firm's Ethics and Compliance Group is responsible for testing and monitoring compliance with firm policies related to continuing professional education and licensing.

2.6.3 Global Compliance Reviews

Like all member firms of the KPMG International network, we are subject to a cross-functional Global Compliance Review (GCR) once every three years. This GCR is designed by KPMG International and performed by individuals in KPMG International's Global Compliance Group who are external to KPMG LLP. Participation in this program is a condition of ongoing membership in the network. The overall objectives of the GCR are to assess the firm's controls and its compliance with selected KPMG International risk management and various other policies and procedures expected to be implemented by KPMG International member firms.

2.6.4 Risk Compliance Program

In addition to the GCR, the firm is also subject to a cross-functional Risk Compliance Program (RCP) annually. The RCP is a cross-functional self-review program designed by KPMG International to help KPMG International member firms monitor, assess and document the extent of compliance of their system of quality control with KPMG International's Quality & Risk Management policies, the related International Ethics Standards Board for Accountants code, and International Standard on Quality Control-1 requirements. Firms utilize various RCP tools to complete their control descriptions, document compliance testing results, and record resulting action plan items. The GCR program acts as a periodic external validation of a member firm's RCP, and as with the GCR

program, participation in the RCP is a condition of ongoing membership in the network.

2.6.5 Regulatory External Reviews

The enactment of the Sarbanes-Oxley Act in 2002 resulted in the creation of the PCAOB, the mission of which is to oversee the auditors of public companies in order to protect the interests of investors and further the public interest in the preparation of informative, accurate and independent audit reports. To assist it in fulfilling its mission, the PCAOB conducts periodic inspections of registered public accounting firms. We are subject to annual inspection by the PCAOB. Because the PCAOB plays an important role in improving audit quality, the PCAOB's inspection process serves to assist the firm in corroborating areas of focus with our internal inspection program to enhance our engagement performance and strengthen our system of audit quality control.

The 2015 PCAOB inspection report on KPMG LLP is the firm's most recent inspection report and the public portions of the report are accessible through our Web site at: <https://home.kpmg.com/us/en/home/about/regulatory-and-peer-reviews.html>

2.6.6 External Peer Review

To comply with licensing requirements of state boards of accountancy and the GAO and membership in the AICPA, we undergo triennial external peer review. Firms can receive a rating of pass, pass with deficiency(ies), or fail. The firm's most recent peer review report was issued by PricewaterhouseCoopers LLP in December 2014 on the firm's system of audit quality control applicable to engagements not subject to PCAOB permanent inspection (nonpublic entity accounting and auditing practice). KPMG LLP received a peer review rating of pass for the year ended March 31, 2014.

The peer review report and the AICPA's acceptance letter are accessible through our Web site at <https://home.kpmg.com/us/en/home/about/regulatory-and-peer-reviews.html>

2.7 Statement of effectiveness of audit quality controls

As set forth earlier in this report, the Vice Chair of Audit has ultimate responsibility for our Audit practice, which includes our system of audit quality control, and the National Managing Partner of Audit Quality and Professional Practice is responsible for the day-to-day operation of our system of audit quality control. These individuals regularly review the operation and results of the firm's internal inspection program as well as the results of the external regulatory and peer reviews. Based on their review of these matters, the Vice Chair of Audit and the National Managing Partner of Audit Quality and Professional Practice confirm with a reasonable level of assurance that KPMG LLP's system of audit quality control has operated effectively throughout the past year.

Financial information

For the period ended September 30, 2016, KPMG LLP had total fee income of \$8.63B, as follows:

Audit & Accountancy:	33%
Tax Services*:	27%
Advisory Services*:	40%

*Includes fee income associated with direct support of the Audit practice in the conduct of audits



Network arrangement

4.1 Legal structure of KPMG International

The independent member firms of the KPMG network are affiliated with KPMG International, a Swiss cooperative, which is a legal entity formed under Swiss law.

KPMG International carries on business activities for the overall benefit of the KPMG network of member firms but does not provide professional services to clients. Professional services to clients are exclusively provided by member firms.

One of the main purposes of KPMG International is to facilitate the provision by member firms of high-quality Audit, Tax and Advisory services to the entities they serve. For example, KPMG International establishes and facilitates the implementation and maintenance of uniform policies, standards of work and conduct by member firms, and protects and enhances the use of the KPMG name and brand.

KPMG International is an entity that is legally separate from each member firm. KPMG International and the member firms are not a global partnership, joint venture or in a principal or agent relationship or partnership with each other. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

4.2 Responsibilities and obligations of member firms

Under agreements with KPMG International, member firms are required to comply with KPMG International's policies and regulations, including quality standards governing how they operate and how they provide services to entities to compete effectively. This includes having a firm structure that ensures continuity and stability and being able to adopt global strategies, share resources (incoming and outgoing), service multinational entities, manage risk and deploy global methodologies and tools.

Each member firm takes responsibility for its management and the quality of its work. Member firms commit to a common set of KPMG values.

KPMG International's activities are funded by amounts paid by member firms. The basis for calculating such amounts is approved by the Global Board and consistently applied

to the member firms. A firm's status as a KPMG member firm and its participation in the KPMG network may be terminated if, among other things, it has not complied with the policies and regulations set by KPMG International or any of its other obligations owed to KPMG International.

4.3 Professional indemnity insurance

A substantial level of insurance cover is maintained in respect of professional negligence claims. The cover provides a territorial coverage on a worldwide basis and is principally written through a captive insurer that is available to all KPMG member firms.

4.4 Governance structure

The key governance and management bodies of KPMG International are the Global Council, the Global Board and the Global Management Team.

4.4.1 Global Council

The Global Council focuses on high-level governance tasks and provides a forum for open discussion and communication among member firms. It performs functions equivalent to a shareholders' meeting (albeit KPMG International has no share capital and, therefore, only has members, not shareholders). Among other things, the Global Council elects the Global Chairman and also approves the appointment of Global Board members. It includes representation from 58 member firms that are "members" of KPMG International as a matter of Swiss law. Sub-licensees are generally indirectly represented by a member.

4.4.2 Global Board

The Global Board is the principal governance and oversight body of KPMG International. The key responsibilities of the Global Board include approving strategy, protecting and enhancing the KPMG brand, overseeing management of KPMG International and approving policies and regulations. It also admits member firms and ratifies the Global Chairman's appointment of the Global Deputy Chairman.

The Global Board includes the Global Chairman, the Global Deputy Chairman, the chairman of each of the three regions (the Americas; Asia Pacific (ASPAC); and Europe, the Middle East and Africa (EMA)) and a number of senior partners of member firms. It is led by the Global Chairman who is supported by the Executive Committee, consisting

of the Global Chairman, the Global Deputy Chairman, the chairman of each of the regions and currently four other senior partners of member firms. The list of Global Board members, as of 1 October 2016 is available in the [2016 KPMG International Annual Review](#).

One of the other Global Board members is elected as the lead director by those Global Board members who are not also members of the Executive Committee of the Global Board (“non-executive” members). A key role of the lead director is to act as liaison between the Global Chairman and the “non-executive” Global Board members.

[4.4.3 Global Management Team](#)

The Global Board has delegated certain responsibilities to the Global Management Team. These responsibilities include developing global strategy by working together with the Executive Committee. The Global Management Team also supports the member firms in their execution of the global strategy and is responsible for holding them accountable for commitments. It is led by the Global Deputy Chairman, and includes the Global Chairman, the Global Chief Operating Officer, global function and infrastructure heads and the General Counsel.

The list of Global Management Team members, as of 1 October 2016, is available in the [2016 KPMG International Annual Review](#).

[4.4.4 Global Steering Groups](#)

The Global Steering Groups work closely with regional and member firm leadership to:

- Establish and communicate appropriate audit and quality/risk management policies;
- Enable effective and efficient risk processes to promote audit quality; and
- Proactively identify and mitigate critical risks to the network.

The Global Steering Groups act under the oversight of the Global Management Team. The roles of the Global Audit Steering Group and Global Quality and Risk Management Steering Group are detailed in the [2016 KPMG International Transparency Report](#).

Each member firm is part of one of three regions (the Americas, ASPAC and EMA). Each region has a Regional Board comprising a regional chairman, regional chief operating or executive officer, representation from any sub-regions, and other members as appropriate. Each Regional Board focuses specifically on the needs of member firms within their region and assists in the implementation of KPMG International’s policies and processes within the region.

Further details about KPMG International including the governance arrangements, can be found in its [2016 KPMG International Transparency Report](#).

[4.4.5 Area Quality & Risk Management Leaders](#)

The Global Head of–Quality, Risk and Regulatory appoints Area Quality and Risk Management leaders who:

- Assess the effectiveness of a member firm’s quality and risk management efforts to identify and mitigate significant risks to the member firm and network, and actively monitor alignment with global quality and risk management strategies and priorities;
- Share leading practices in quality and risk management; and
- Report to the Global Head of–Quality, Risk and Regulatory.

Appendix

The list below sets out public interest entities we audit listed in European Union member countries for which KPMG LLP carried out an audit during the firm's preceding fiscal year. For this purpose, "public interest entities" are defined in Regulation 3 of the European Communities (Statutory Audits) (Directive 2006/43/EC) Regulations 2010 as follows:

- Companies (or other bodies corporate governed by law of a Member State) whose transferable securities are admitted to trading on a regulated market of any Member State;
- Credit institutions; and
- Insurance undertakings.
 - BMW US Capital, LLC
 - Chemtura Corporation
 - Citigroup Global Markets Holdings Inc.
 - Citigroup Inc.
 - Daimler Canada Finance Inc.
 - Daimler Finance North America LLC
 - Fresenius Medical Care US Finance II, Inc.
 - Fresenius US Finance II, Inc.
 - General Electric Company
 - Juneau Investments LLC
 - National Rural Utilities Cooperative Finance Corporation
 - Nestle Holdings Inc.
 - Pfizer Inc.
 - Signet Jewelers Limited
 - Unisys Corporation



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