



KPMG LLP
345 Park Avenue
New York, NY 10154-0102

March 21, 2018

To the National Peer Review Committee

Ladies and Gentlemen:

This letter represents our response to the report issued in connection with the Peer Review of the firm's system of quality control for the accounting and auditing practice applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended March 31, 2017.

Quality and integrity are the cornerstones of all the firm stands for, and that includes operating with the utmost respect and regard for the regulatory process. KPMG is committed to the highest standards of professionalism, integrity, and quality, and we are dedicated to the public and our clients. The conduct of these individuals referred to in the Peer Review Report was contrary to the firm's Code of Conduct, what we expect and demand of our people, and intolerable. We have taken appropriate, decisive, and timely remedial actions to ensure that the risk identified in the Peer Review Report that existed during the Peer Review period has been eliminated. The responsive actions of our senior leadership and our Board of Directors clearly demonstrates that the firm's tone at the top is strong and unwaveringly focused on conducting quality audits.

This tone at the top clearly was demonstrated even before the period under review had ended. As soon as firm leadership became aware, through an internal source in February 2017, of the inappropriate use of PCAOB confidential information, we immediately informed the PCAOB and the Securities and Exchange Commission ("SEC"), and opened an investigation conducted by outside counsel. Since then, when information came to the firm's attention which indicated that individuals had engaged in conduct contrary to the letter or the spirit of the regulatory process, our Code of Conduct, or compliance with the firm's system of internal controls, the firm took appropriate remedial action, including separating individuals from the firm.

We strongly believe the potential risk that was identified has been addressed and fully remediated. This included, as noted above, taking personnel action with respect to the individuals referred to in the Peer Review Report who were in leadership positions. This resulted in appointing a new Vice Chair-Audit (a former member of our Board of Directors), a new National Managing Partner-Audit Quality and Professional Practice group ("AQPP") (currently a member of our Board of Directors), and a new Inspections Leader (who previously was with the firm's Office of General Counsel). All were chosen for their roles, first and foremost, because of their demonstrated track record of sound judgment, professionalism, ethics, and integrity and their ability to inspire the trust of our people and instill the confidence of our clients.

In addition, we have taken several other actions to strengthen our culture and ensure the tone set by those at every level of leadership – in word and deed – encourages nothing but the utmost respect for the regulatory process. We are reestablishing and reinforcing integrity as the cultural cornerstone of the firm, with the expectation that every individual is personally responsible for the ethical environment of the firm. For example, we have:

- Changed reporting lines so that our Inspections Group now reports outside our Audit practice to our Vice Chairman - Legal, Risk and Regulatory;
- Changed the hiring practices with respect to personnel from the PCAOB;



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- Conducted concentrated values and culture sessions with the firm's Board of Directors, Management Committee, and other key leaders;
- Dedicated our 2017 Partners' Meeting and firm-wide Town Halls, involving all 32,000 of our professionals, to values and culture;
- Released a new Code of Conduct to all professionals; and
- Launched a cultural assessment process, to be driven by an internal team and an independent third party.

KPMG is committed to constantly enhancing our system of quality controls, and we take seriously our responsibilities to the public and our clients. We believe these actions, which reinforce the firm's long-standing commitment to audit quality, have remediated the risk identified in the Peer Review Report, which resulted in the deficiency noted. Although unacceptable, we have confidence that the conduct did not impact any of the firm's audit opinions or any client's financial statements.

Respectfully submitted,

KPMG LLP