

TRANSACTION SERVICES

Financial Integration and Accounting Conversion

ADVISORY

The pace of merger and acquisition activity has increased substantially in recent years as U.S. and global companies compete to develop new markets, increase scale, and leverage cost synergies. But the complexities associated with integrating different entities—such as private and public companies and those from different countries—can pose unique finance and accounting challenges.



In almost all transactions, cross-border or domestic, acquiring companies face differences in the accounting policies of the target when:

- The target prepares its financial statements according to a different accounting standard than the U.S. acquiring company (e.g., International Financial Reporting Standards (IFRS) or other national accounting standards)
- A non-U.S. acquirer, using IFRS or another national accounting standard, acquires a U.S. target
- The target applies U.S. GAAP differently than the acquiring company does

Additionally, the financial reporting processes and controls need to be aligned to the parent-company standards with sufficient documentation and training to ensure a consistent high quality for the reported financial results. And, for SEC registrants, pre- and post-close filings need to be prepared, which may include pro forma and carve-out financial statements.



KPMG has wide-ranging experience in advising enterprises on the challenges facing them in their conversion and integration projects. We offer a tested approach and practice-tested tools applied consistently by KPMG professionals around the world.

Addressing these challenges requires four basic competencies: 1) a thorough understanding of both sets of accounting and financial reporting standards, 2) experience with how to approach a conversion or integration project, 3) a clear understanding of processes and controls in the finance function, and 4) comprehensive project management skills.

Most accounting departments can provide these competencies, but managing them through the requirements of an acquisition can stretch the limit of their resources. Training accounting staff to make these conversions and learn the nuances of local accounting practices can take a significant amount of time—time that often needs to be spent managing traditional accounting issues. Many organizations can ill afford the time or resources to deal with the complexities associated with conversion and integration activities.

How KPMG Can Help

KPMG's Global Conversion Services (GCS) team offers a dedicated group of professionals skilled in converting one accounting basis to another, such as U.S. GAAP and IFRS, and integrating the financial reporting processes of an acquired entity. GCS comprises a global team, drawn from KPMG International's network of member firms, which includes more than 1,000 skilled professionals worldwide who can help you with your financial conversion and integration challenges.

The GCS team has a diverse network of subject matter professionals to assist you in building a financial reporting process that supports a new reporting environment, with core competencies surrounding:

- Accounting and financial reporting:
 - U.S. GAAP technical
 - IFRS technical
 - SEC reporting and filing requirements
- Financial reporting processes and controls—financial integration
- Project management

In particular, for domestic and cross-border acquisitions the GCS team can help to:

- Assess the impact of accounting and reporting differences on enterprise value
- Convert target's historical financial statements to U.S. GAAP or IFRS
- Produce target's opening balance sheet in U.S. GAAP or IFRS
- Assist in the adoption of new accounting policies and financial reporting procedures
- Design and implement new financial reporting procedures for the combined entity
- Integrate the financial reporting of all legal entities
- Support the associated SEC reporting and filing requirements

The GCS team is part of KPMG's Transaction Services practice, which provides merger, acquisition, and divestiture support by placing a strong emphasis on stakeholder value and identifying key risks and benefits early.

As a client, you benefit from:

Experience

KPMG has wide-ranging experience in advising enterprises on the challenges facing them in their conversion and integration projects. We offer a tested approach and practice-tested tools applied consistently by KPMG professionals around the world.

GCS's clients include some of the world's most sophisticated corporations from a variety of industries. We have broad experience working on domestic and cross-border transactions covering a wide range of sectors, including Financial Services; Information, Communication & Entertainment; Consumer Markets; Industrial Markets; Pharmaceuticals & Healthcare; Energy & Natural Resources; Retail; and Automotive.

Tailored Approach

KPMG works closely with your resources and tailors its advisory services to your individual demands and requirements. A joint project with KPMG can vary from:

- Comprehensive support from start to finish, including project management and preparation of all necessary working materials
- Overall higher-level support, in which the GCS team runs workshops on the basic and detailed knowledge necessary for conversion, while the client's staff is responsible for practical implementation

Our approach is scalable, which means we can customize it to your individual requirements based on methods and procedures that have been tested and retested. Faster and better results support management decisions during the project.

Global Delivery

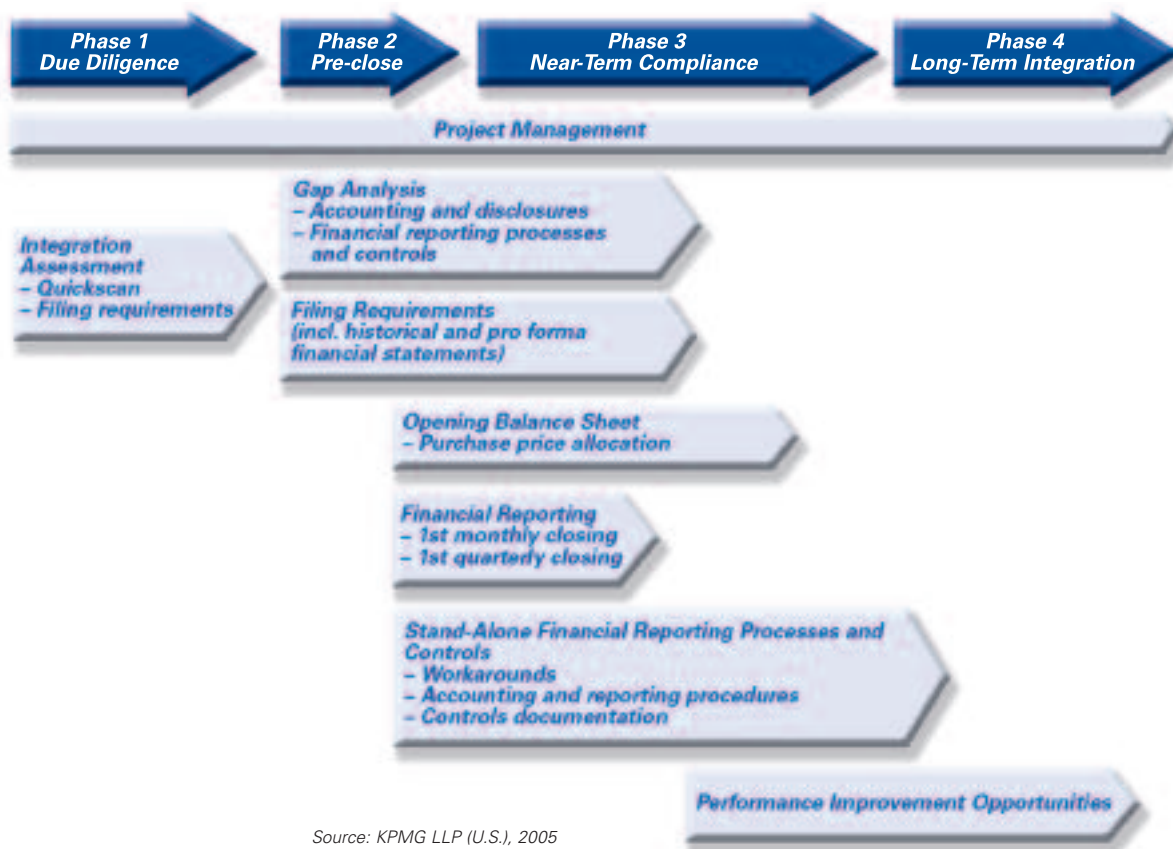
The GCS approach is applied uniformly by all KPMG International member firms around the world to help ensure a consistently high-quality standard for the consolidated financial statements. More than 1,000 professionals around the globe have been trained in KPMG's conversion methodology, ensuring a global exchange of better practices. This gives us the ability to support cross-border transaction projects with local professionals wherever needed.

No Need to Reinvent the Wheel

KPMG provides conversion and integration support without time-consuming preparatory work. From initial assessment to your individual implementation strategy, we move quickly, exploiting the experience we have gained from many similar projects.

The following activities represent the action steps we take.

Global Conversion Services – Methodology and Tools



Source: KPMG LLP (U.S.), 2005

Phase 1: Due Diligence

During the due diligence phase of the acquisition, we will perform a high-level assessment of the differences between the target's and the acquiring company's accounting policies using our Quickscan methodology, a proprietary assessment tool. We will also assess filing requirements related to the transaction. This preliminary assessment highlights the key integration issues for the finance function that need to be addressed immediately after the closing date.

Phase 2: Pre-close

After agreement of the sale, a detailed gap analysis will be performed by documenting and analyzing significant accounting differences between the existing accounting policies and the requirements of the acquiring company. Additionally, financial reporting and closing processes will be evaluated. This stage helps identify the relevant differences. Subjects can be prioritized and the necessary work can be planned to make best use of the time available.

Phase 3: Near-Term Compliance

We focus on detailed analyses of accounting issues and their treatment in conformity with U.S. GAAP or IFRS. The differences between a target's and acquiring company's accounting policies can be numerous, especially when the entities report under different accounting standards. Our team of practitioners knowledgeable in U.S. GAAP and IFRS implementation can guide you to the right strategies, such as preparing the opening balance sheet, comparatives, and the reporting financial statements. KPMG's GCS team helps you convert and conform your accounting to meet regulatory requirements for the first monthly and quarterly financial statement closings after your acquisition is completed.

Phase 4: Long-Term Integration

At an early stage, KPMG outlines the available options and their impact and supports management in the decision-making process. We discuss post-closing issues and challenges, suggest workarounds, and help train your personnel for operating in the new reporting environment.

Key Issues

- Application of group accounting policies
- Differences between the target's and the acquiring company's choice and application of GAAP
- Resource constraints in the financial reporting function
- Understanding and addressing SEC filing requirements
- Implementation of group reporting package
- Availability of historical financial statements for the target
- Tight deadlines for first quarter to meet regulatory filing requirements
- Sufficiency of controls documentation

Key Project Outputs

- Historical financial statements based in the group's new GAAP
- Pro forma financial statements for the combined company
- Opening balance sheet
- Ongoing group reporting under new GAAP consistent with group policies
- Compliant SEC filings

KPMG Support

- Discuss and advise on reporting requirements and differences between accounting standards
- Support a master plan for the financial integration of the target
- Perform accounting and information gap analysis
- Perform process and controls gap analysis
- Support development of accounting policies and procedures manual
- Support implementation of new financial reporting processes and workarounds
- Assist in documenting controls
- Support the preparation and conversion of historical financial statements
 - Key financial reporting integration issues to consider
 - Integration project approach and methodology
 - Technical experience and resource needs and planning
 - Integration of separate reporting workstreams
 - External regulatory filing requirements
- Train company personnel for operating in the new reporting environment

The KPMG Process

Our GCS professionals use a thorough process to help integrate your financial statements. For example, the first financial statements usually will not be generated from the enterprise resource planning systems, so a reconciliation is carried out with workarounds using KPMG tools. This reduces the effort required and the risk of errors, and enables project leadership to check the status of the reconciliation in real time.

Staff Training

Your personnel involved in the financial reporting process will receive training on the basics and on special topics whenever necessary. Standard KPMG training modules provide an important basis and keep the cost of preparing training courses to a minimum.

Executive Training

Company management and possibly other executive staff must be capable of explaining to interested parties the converted financial statements and the differences compared with the former financial statements. Our customized executive training provides a sound basis to enable them to do this effectively. It may also address other business and management issues that may present challenges to management, including dealing with post-acquisition compensation and benefits, material contracts including leasing arrangements, change of control issues, financing requirements and impact on existing financing arrangements, and relationships with third parties including vendors.

Project Management

KPMG makes available experienced project managers who help to ensure that an appropriate level of project communication is put in place, issues are identified and resolved, deadlines are met, and unnecessary tasks are identified and avoided. Project management for conversion and integration projects is characterized by:

- *Breakdown into project phases:* the conversion project is divided into four separate phases: Due diligence, pre-close, near-term compliance, and long-term integration.
- *Structuring the impact of the implementation of the new accounting policies in workstreams:* the impact of the implementation of the new policies is far-reaching. All areas affected are reflected in terms of their contents and in the project structure by corresponding workstreams.



Is That All?

Our focused approach can enable you to present your U.S. GAAP or IFRS financial statements under the tightest of deadlines on an ongoing basis and meet regulatory filing requirements for business combinations.

- The preparation of financial statements under the new accounting policies will have to be business as usual, within the deadlines and with the necessary quality.
- You will need to ensure that any changes you make to the accounting system do not have detrimental effects on other systems.
- IT systems and business processes will have to be tailored to your new requirements.
- You will want to ensure your business takes maximum advantage of all the benefits offered by the new accounting policies for improving control and managing your business.

Conclusion

KPMG has the qualifications and capability to support you through the complete integration process. The GCS team delivers a consistent and focused approach to building a financial reporting process that supports a new reporting environment created by the acquisition, either domestic or cross-border.

While our resources may be extensive, you will benefit from our services whether you are completing a small domestic acquisition within the United States or acquiring a large multinational cross-border target.

We look forward to helping you make your financial integration a success.

Contact Information

For more information on KPMG's Global Conversion Services and to see how our team's approach to financial integration of domestic and cross-border acquisitions can add value to your organization, please contact:

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