



Seizing the opportunity in Global Compliance and Reporting

Survey results and trends

Our overall findings

- ▶ Evolving business models, transforming finance functions and an increasingly complex regulatory landscape demand that global businesses reevaluate their approach to Global Compliance and Reporting (GCR).
- ▶ GCR risks are on the rise. Local jurisdictions are rewriting regulations, focusing intently on revenue collection and sharing information.
- ▶ New opportunities exist to better optimize efficiency, control and value, and to help mitigate risk and improve performance.
- ▶ Many companies are transforming their finance functions, but missing the opportunity to address their changing GCR needs.

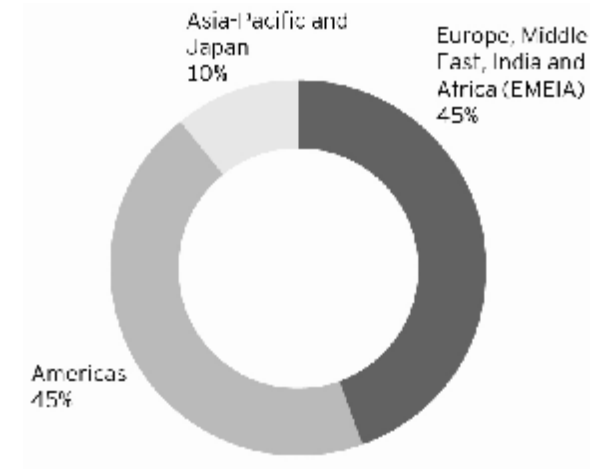
Based on the results of our survey and our experience with clients, we provide five related insights for finance and tax executives:

1. GCR at a tipping point
2. Harnessing the momentum of finance change
3. Local expertise is essential
4. Optimizing outside providers
5. Achieving accountability and governance

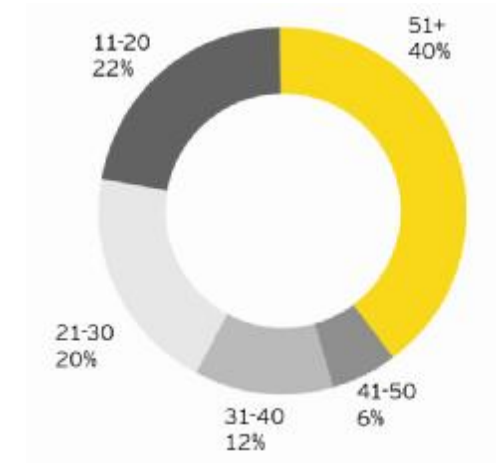
Our survey ...

- ▶ Included interviews with more than 200 finance and tax executives of Fortune Global 500 and Forbes Global 2000 companies.
- ▶ Engaged survey company Consensus Research to conduct those interviews.
- ▶ Reports on developments taking place as multinational companies address their financial reporting and tax obligations.
- ▶ Results show that the need for a new approach to GCR is clear – and stakes have never been higher.

Locations of company headquarters



Number of countries where company has operations



What is Global Compliance and Reporting?

- ▶ Global Compliance and Reporting (GCR) comprises the key elements of a company's finance and tax processes that prepare statutory financial and tax filings as required in countries around the world. These duties include:
 - ▶ Statutory accounting and reporting
 - ▶ Tax accounting and provisions
 - ▶ Income tax compliance
 - ▶ Indirect tax compliance
 - ▶ Governance and control of the above processes

Record-to-report and GCR



Insight #1: GCR at a tipping point

In the past 12 months, percentage of companies from Fortune 500 experiencing

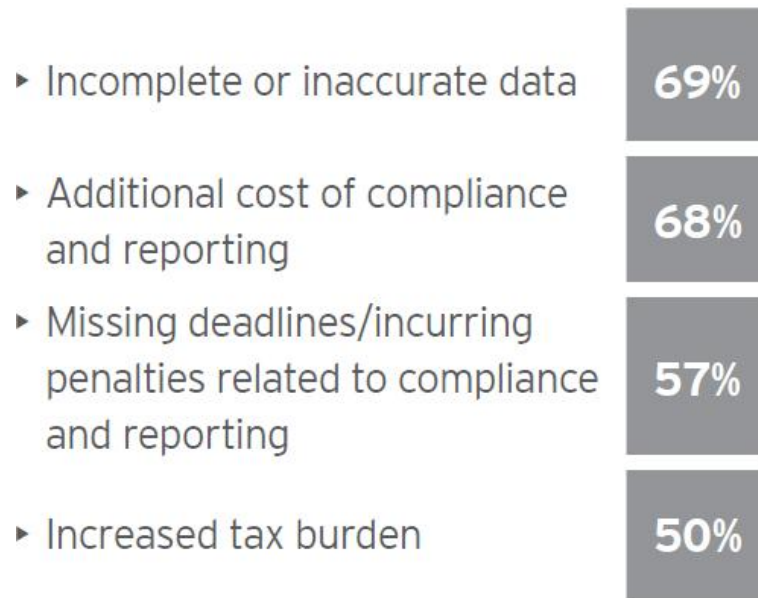


- ▶ Companies have redesigned operating models in efforts to survive financial downturn and take advantage of opportunities for growth.
- ▶ More than half of respondents expect regulatory change and tax audit activity to significantly impact GCR.
- ▶ Increasing operational agility demands a GCR model that is agile and delivers value.
- ▶ Historical operating models are not sufficient to support the needs of the new business environment.

Consequences of inadequate GCR Management

Insight #1: GCR at a tipping point (cont.)

Percentage of respondents who identified the following risks of excluding GCR from the finance transformation



Risks of excluding GCR from finance transformation

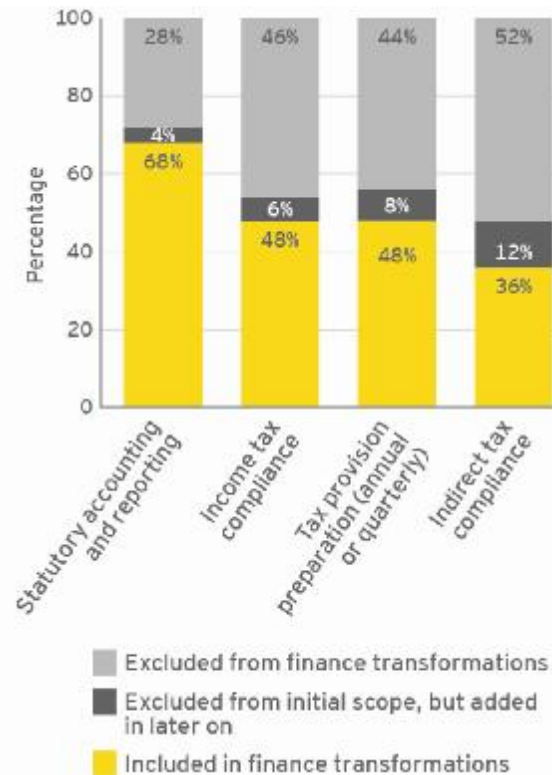
- ▶ Almost 80% of companies have recently completed or will soon complete a finance transformation.
- ▶ Transformations often involve deployment of shared service centers (SSCs) and centers of excellence (CoEs), reduced in-country resources, standardized processes and new systems.
- ▶ A large percentage of finance transformations exclude one or more GCR processes.
- ▶ The question no longer is if GCR processes must be transformed, but rather when – and how.

“Compliance may be a routine function – if done right, it can add tremendous value and if done wrong, it can destroy a company. But not many have reached the stage of optimal global compliance efficiency – they are still maturing.”

Fortune Global 500, conglomerate

Insight #2: Harnessing the momentum of finance change

A large percentage of finance transformations exclude one or more GCR process

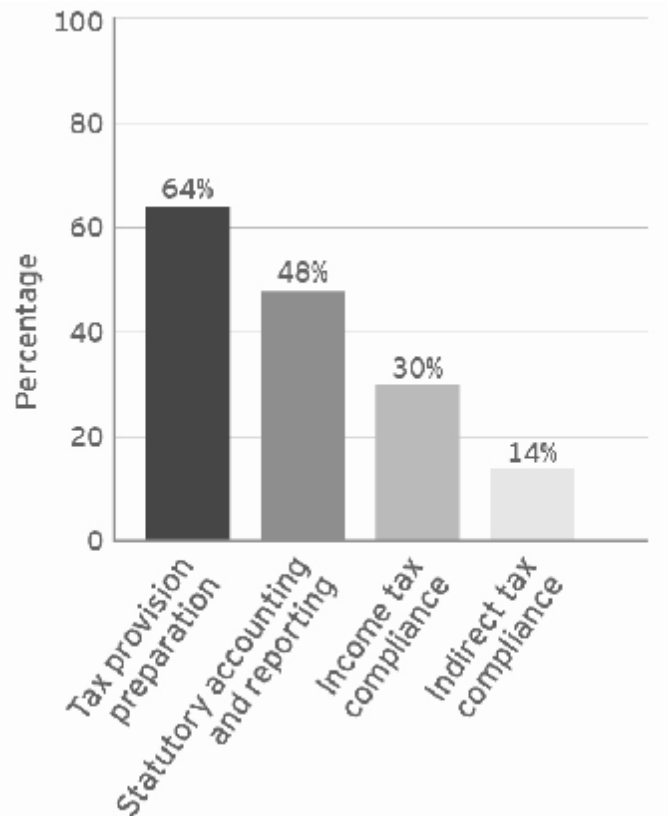


- ▶ Almost half of surveyed companies excluded tax-related GCR functions from finance transformations.
- ▶ Nearly a third excluded statutory accounting and reporting processes.
- ▶ Over 50% of respondents believe exclusion of GCR from finance transformation increases risk.
- ▶ 17% of surveyed Fortune Global 500 companies experienced GCR-related business disruptions during the past 12 months.

Involvement of GCR activities in finance transformation

Insight #2: Harnessing the momentum of finance change (cont.)

GCR processes and systems in most companies lack standardization



Percentage of respondents with global standards for GCR processes and systems

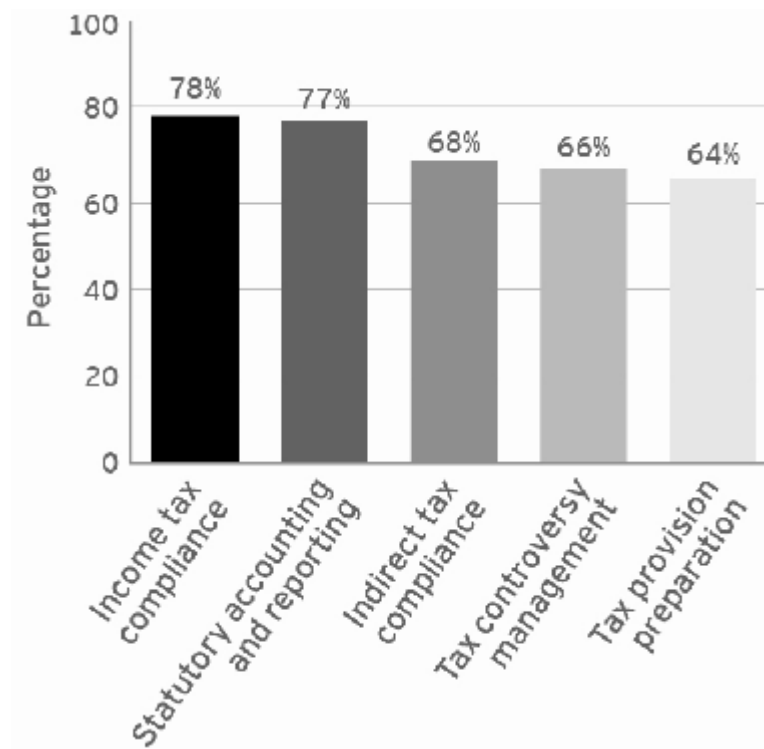
- ▶ Survey results showed varying levels of standardization.
- ▶ Standardized processes offer greater confidence in timeliness and accuracy of filings, improve responses to regulatory and tax inquiries and position companies to identify and sustain cost savings.
- ▶ Standardization can drive greater efficiency and effectiveness through automation, centralization and leverage of outside providers.

"We are just inefficient. We end up being accurate, but it takes way too much effort."

Fortune Global 500, materials company

Insight #3: Local expertise is essential

More than 60% of respondents indicated local resources are important to GCR processes

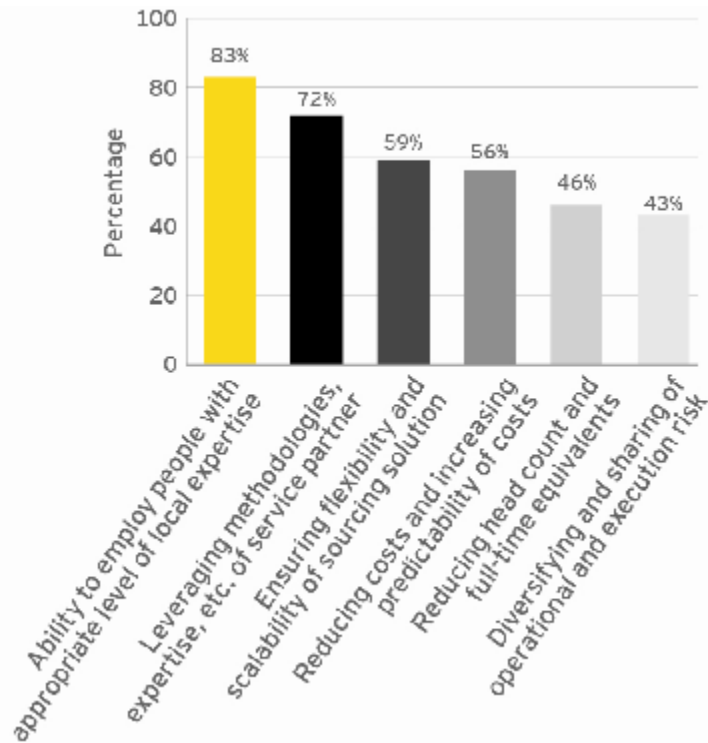


Companies that consider local in-country resources for GCR to be important

- ▶ The trend in finance has been to reduce or redeploy in-country finance and tax resources to global or regional centers.
- ▶ Changing regulations and more aggressive tax enforcement heighten the need for sustainable access to local expertise.
- ▶ 82% of respondents indicated that the lack of skilled resources limits their ability to adopt a more regional or global GCR model.
- ▶ Many companies are considering new or refined relationships with external service providers.

Insight #4: Optimizing outside providers

More than 80% of respondents that use outside providers consider it an effective means of accessing local expertise

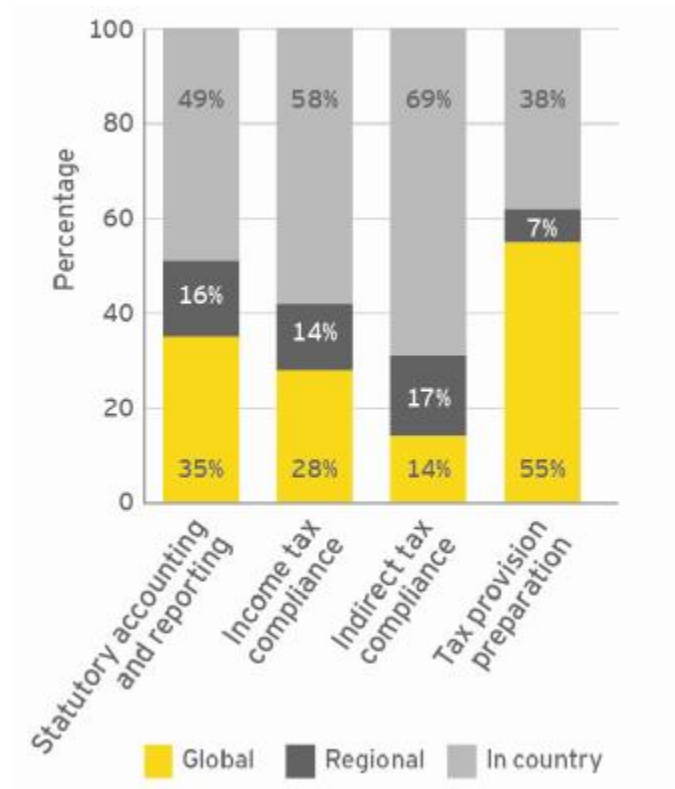


Companies assessing outsourcing as an effective means of achieving business benefits

- ▶ Companies report that benefits of using outside providers include cost-effective and flexible access to specialist skills, broader access to leading practices, greater scalability and heightened focus on value.
- ▶ Most companies find that the best solution to meet GCR needs is a mix of local, regional and global resources, both internal and external.
- ▶ More companies will ultimately partner with outside providers to solve their GCR challenges.

Insight #5: Achieving accountability and governance

Geographic responsibility for various GCR processes is widely distributed

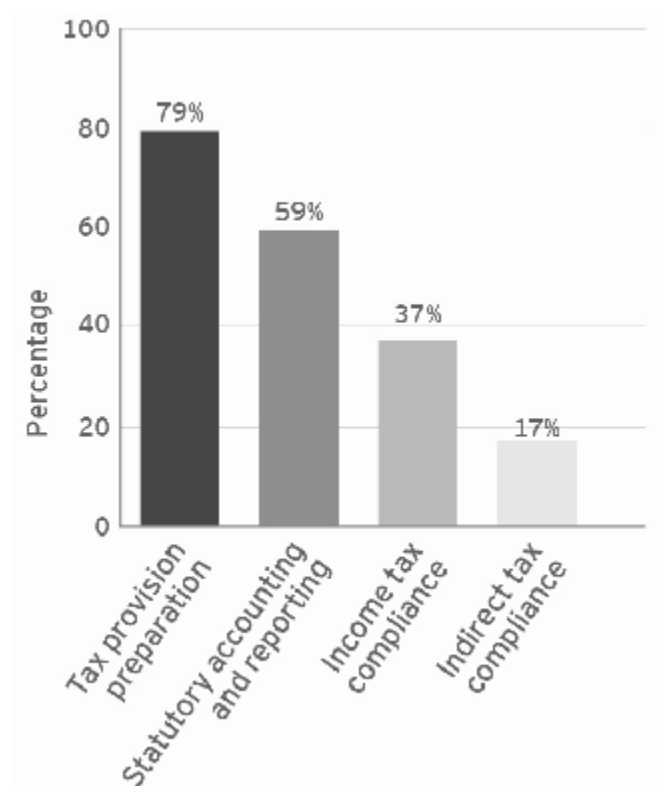


Geographic responsibility for ensuring that compliance and reporting deadlines are met

- ▶ The management of today's GCR processes is often more a product of piecemeal evolution than of conscious design.
- ▶ Typically, GCR responsibility is divided between finance, tax and business operating units.
- ▶ Responsibility often varies significantly across geographies, with inconsistencies at in-country, regional and global levels.
- ▶ With distributed responsibility, controls are often hampered and improvement opportunities are difficult to realize.

Insight #5: Achieving accountability and governance (cont.)

The level of global governance over GCR processes varies widely



Companies with global governance and monitoring of GCR activities

- ▶ Strong governance is essential, with clear accountability and control being prerequisites for an effective GCR model.
- ▶ Leading companies have adopted a global approach to governance, though the adoption rate varies significantly between individual GCR processes.
- ▶ Leading companies identify and use process owners to align governance and operation of GCR processes.

“Because [our GCR processes] are too decentralized, there is an overlap of competencies falling under the responsibility of too many different departments. Sometimes it’s under operational staff, sometimes its legal, sometimes tax and even sometimes the local finance controller.”

Forbes Global 2000, diversified financial company

Summary of conclusions

- ▶ The combination of new business operating models, transformed finance functions and an increasingly complex regulatory landscape have brought GCR to a tipping point.
- ▶ Companies must transform GCR to increase efficiency, control and value, to mitigate risk and improve performance.
- ▶ Companies that have addressed GCR within their finance transformations are reaping the benefits.
- ▶ Leading companies are using a mix of internal and external resources and adopting standardized processes and information.
- ▶ New GCR models incorporate clear global accountability, transparency and control.

The new GCR model ushers in an era where processes are optimized to deliver efficiency, control and value.

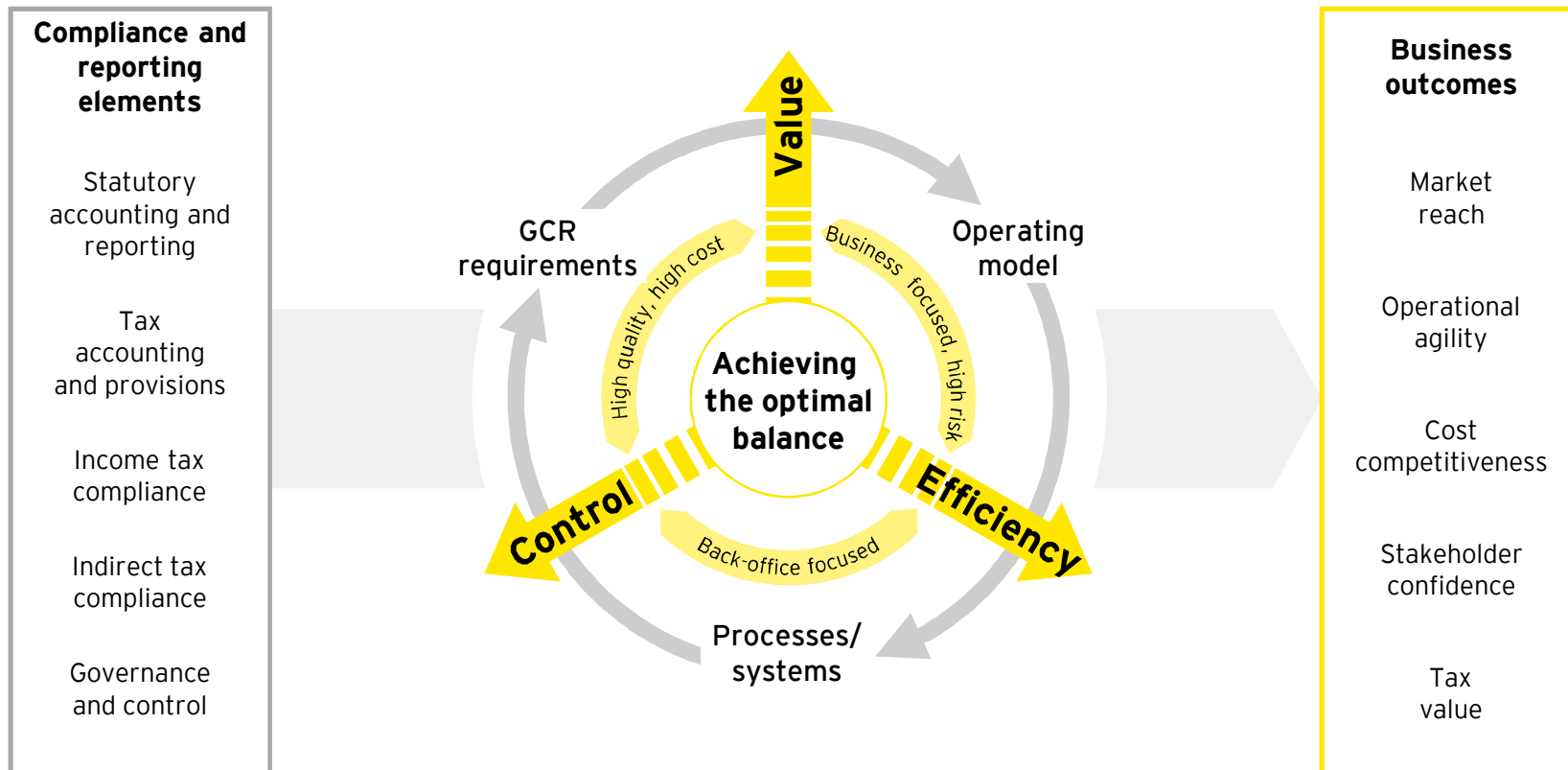
Structured, standardized, reliable, scalable, sustainable and value-focused GCR models will soon transcend the patchwork upon which most companies rely today.

Successful results will require effort. But as our report demonstrates, the benefits and risks demand that companies begin the journey.

Implementing a global GCR model: a suggested approach

Implementing a global GCR model: a suggested approach

High-performing companies balance and drive efficiency, control and value across GCR



A suggested approach

GCR requirements

- ▶ Finance executives must define, inventory and rationalize required filings or submissions.
- ▶ Requirements definition should include responsibility and accountability, timing and key metrics for GCR and related activities.
- ▶ Finance and tax executives should ensure the operating model anticipates and manages accelerating changes – regulatory, legal entity, finance and business – that affect GCR requirements.

Actions

- ▶ Identify the company's locations and business entities and the associated filing requirements.
- ▶ Determine and formalize responsibility, timing and key metrics for GCR activities.
- ▶ Design a model that anticipates and manages accelerating change – regulatory, legal entity, finance and business.

Points to consider

1. What are the filing requirements in each of your locations worldwide, who is responsible and when are they due?
2. What is your process for monitoring these deadlines and requirements?
3. What is your process for responding when new entities are established or when there are relevant changes in the status of existing entities?
4. How do you monitor changes in finance and tax rules to identify risks, optimize costs and maintain compliance?
5. How does your corporate business development plan impact the need for new entities and, therefore, new filings?

A suggested approach

Operating model

- ▶ The design and implementation of a new GCR model must be an integral part of the design of the broader finance and tax operating model.
- ▶ The required core finance and tax competencies and the sourcing model for sustaining access to these competencies should be identified.
- ▶ A governance framework must be developed and implemented to manage GCR processes on a global basis.

Actions

- ▶ Determine the core finance and tax competencies required and the people and sourcing model for sustaining access to those competencies.
- ▶ Determine the optimal use and locations for internal GCR resources, complemented by third-party service providers where appropriate.
- ▶ Determine and implement the governance framework for managing GCR processes.

Points to consider

1. Do you have the right mix between in-house and external expertise?
2. How does your need for retained resources in local countries compare to plans for the finance function to regionalize or form SSCs?
3. In what countries is the level of work required too small to enable hiring resources with the proper level of expertise?
4. Do you have current SSC operations, and how are they being utilized?
5. Do you have clear owners for GCR processes?

A suggested approach

Process and systems

- ▶ Executives must bring rigor and focus to the record-to-report (R2R) processes, specifically including the GCR processes.
- ▶ Companies should identify opportunities for integration, standardization and more efficient use of data, through extending or making better use of existing R2R systems and pursuing additional technologies that enable core GCR processes.
- ▶ Standardization will create new opportunities for automation and should be generally viewed as a prerequisite for centralization.

Actions

- ▶ Identify opportunities for integration, standardization and efficient use of data to make GCR processes more effective.
- ▶ Ensure that GCR processes are included in the company's information and systems architecture and plans.
- ▶ Identify time-intensive processes and determine what can be standardized, automated and/or centralized.

Points to consider

1. To what extent does your planned or completed finance transformation address the data needs of GCR?
2. To what extent have you standardized your GCR processes globally?
3. Have you sufficiently considered your legal entity accounting requirements?
4. Do you have a clear picture of your information and systems infrastructure?
5. How much rework of data is required to complete your GCR outputs?

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Appendix – Case studies

Leveraging an array of external providers

Fortune Global 500 company

Situation

- ▶ Extensive finance transformation over approximately 100 countries.

Outcome

- ▶ A new finance operating model was developed that included two global service providers, in addition to the company's own in-house finance and tax teams.
- ▶ Business process outsourcing company provides finance transaction processing, P2P and O2.
- ▶ Global accounting and tax firm delivers GCR services, including statutory accounting and tax compliance.
- ▶ Combination leverages complementary skills, expertise and infrastructure.
- ▶ Efficient and effective GCR processes (e.g., GAAP conversion, reconciliations and return preparation).
- ▶ Clear governance framework, scope of services and operational protocols.
- ▶ Three-way service-level agreements and KPIs between company and providers.
- ▶ Clear information and audit trails.

Reengineering GCR on a massive scale

Fortune Global 500 company

Situation

- ▶ Company with hundreds of legal entities spread around the world acquires another global company with hundreds of additional entities.
- ▶ Acquired company has no formal GCR processes or governance.
- ▶ Compliance and reporting was managed at the country level by local employees.
- ▶ While relatively free of a history of noncompliance, risk of tax audits and related controversy is heightened by a complex tax and accounting environment.

Outcome

- ▶ Specialized GCR service and the company co-develop blueprint that identified filing requirements and map of responsible parties.
- ▶ Key filing risks were identified and resolved without penalty.
- ▶ Standardized processes were developed as part of global governance framework.
- ▶ Technology solutions were adopted to provide visibility to key milestones and documents.
- ▶ Robust GCR model is now in place that provides visibility and control over statutory reporting and tax compliance obligations.

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