KPMG

cutting through complexity

KPMG LLP Transparency Report 2013

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Letter from the Chairman

This 2013 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. The Report shows how we maintain and continuously improve our audit quality processes and procedures through frequent inspection and assessment and rigorous professional training and development.

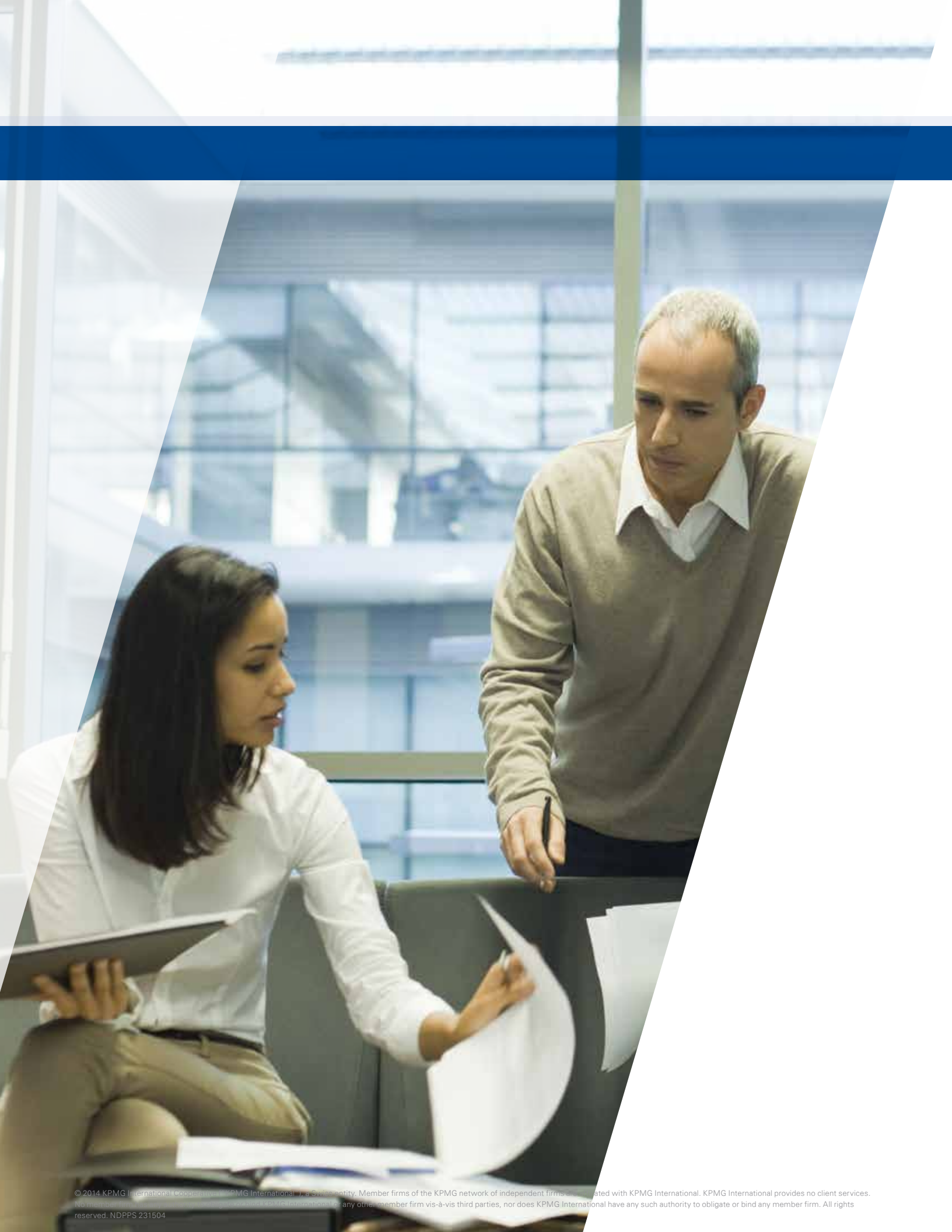
KPMG LLP is committed to providing high-quality professional services in an ethical manner to entities that are listed on capital markets around the globe. In addition to complying with the high standards of our U.S. regulators, KPMG LLP seeks to respond appropriately to the concerns of auditor regulators outside of the U.S. 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 have worked hard to develop effective quality standards and processes at KPMG LLP and are proud of the partners and professionals who strive to uphold them.

John Veihmeyer
Chairman and CEO

Throughout this Report, 'we,' 'KPMG,' 'us,' and 'our' refer to the network of independent member firms operating under the KPMG name and affiliated with KPMG International, or to one or more of these firms. KPMG International provides no client services.

Transparency Reports, where published, are available on the relevant member firms' Web sites.



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Who we are

1.1 Our business, structure and ownership

KPMG LLP provides audit, tax and advisory services to a broad range of domestic and international entities. The firm operates from 87 offices with more than 23,000 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 1,700 partners and principals.[1] Full details about the services we offer can be found on our website 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 155,000 professionals, including more than 8,600 partners, in 155 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 CPAs and prohibits members of the Management Committee – other than the Chairman of the Board 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 and principals may invoke procedures to place other candidates on the ballot directly. At least one-half of this committee must be composed of partners or principals 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 and principals in an election supervised and tabulated by outside counsel. Partners and principals' 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] 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 of the U.S.

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 developing and implementing annual Board and Director evaluation processes.

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 full Board on activities that manifest KPMG'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 advisors 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 their 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 may act on all matters on behalf of the firm.

The firm's Deputy Chairman 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 and principals.

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, 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; and the Vice Chairs of Audit, Tax, Advisory, Legal, Risk and Regulatory, Operations, Market Development, Strategic Investments, and Human Resources.

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 (the PCAOB) and the American Institute of Certified Public Accountants (the AICPA).

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

Our policies reflect individual quality control elements to help KPMG partners and employees act with integrity, 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 and independence;
- Personnel management;
- Acceptance and continuance of audit entities to serve 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 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 Inspections Group, the Audit Methodology, Tools and Training Specialists (AMTS) network, and the firm's regional and business unit professional practice partners (collectively, the Audit Quality and Professional Practice Network).

2.1.1 Audit Quality and Professional Practice Network

The Audit Quality and Professional Practice Network consists of more than 280 partners, 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) reporting matters, continuous improvement in audit quality and internal and external inspection processes.

2.1.2 Department of Professional Practice

The firm's Department of Professional Practice 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 issues and consulting on and assisting with firm and individual audit entity issues pertaining to compliance with regulatory and professional standards. Through liaisons with the SEC and PCAOB, as well as active participation in the standards-setting processes at the Financial Accounting Standards Board, the Governmental Accounting Standards Board, the AICPA, the Emerging Issues Task Force, the Auditing Standards Board 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, located in London, on international accounting and auditing standards matters.

2.1.3 Audit Quality and Process Monitoring Group and Issue Council

The Audit Quality and Process Monitoring Group is responsible for:

- Accumulating information regarding audit quality matters on a timely and consistent basis (e.g., from internal and external inspections, DPP consultations, litigation and regulatory matters, etc.);
- Analyzing such information and identifying common themes and related root causes;
- Participating in the development of appropriately focused remedial actions in response to those root causes; and
- Monitoring the timely implementation, execution and effectiveness of the remedial action plans.

In addition, the Audit Quality and Process Monitoring Group provides support for purposes of identifying particular characteristics of the firm's audit engagement portfolio (e.g., entities or industry sectors exhibiting higher risk characteristics), for which proactive risk assessment plans may be developed, implemented and monitored.

The National Managing Partner of Audit Quality and Professional Practice chairs the firm's Issue Council, which provides input to and oversight of the Audit Quality and Process Monitoring Group with respect to issue identification, analysis, remediation and monitoring of the most significant audit quality matters.

2.1.4 Inspections Group

The Inspections Group executes the firm's annual internal inspection program, the Quality Performance Review (QPR) Program, for the Audit practice and liaises closely with the Audit Quality and Process Monitoring Group. In addition, the Inspections Group coordinates the firm's external quality review programs for the Audit practice and also is the firm's primary liaison with the PCAOB's inspection staff.

2.1.5 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 partners and senior managers devoted to assisting engagement teams with consultations regarding technical accounting and auditing matters.

The roles of our professional practice partners are to:

- Support and advise the partners on audit entity-related 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 in their business unit on audit quality.

2.1.6 Audit Methodology, Training and Tools Specialists Network

The AMTS network, comprising – of approximately 140 partners and managers located in our business units, who provide direct guidance on audit methodology execution to engagement teams in their geographic regions, training support, and assistance with elements of our monitoring systems. The AMTS network is integrated with our other national office functions through our National Office AMTS Leader.

2.2 Engagement performance

KPMG LLP's system of audit quality control is embedded throughout the firm's audit engagement process and includes policies and guidance to enable engagement personnel to perform work that meets applicable professional standards, regulatory requirements and the firm's standards of quality. Engagement performance encompasses all aspects of the design and execution of an audit engagement, including the firm's audit methodology and the review, supervision, consultation, documentation and communication of audit results. Our global Audit Quality Framework assists every KPMG partner and employee in concentrating on the skills and behaviors needed to deliver an appropriate independent audit. A critical element of the framework is a culture that embraces independence, professional skepticism and objectivity in the performance of audits. 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 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 International Standards Group and KPMG LLP's DPP.

The KPMG 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.

In an integrated audit, we use our knowledge and experience to identify a number of different risks (e.g., inherent risk, control risk, fraud risk and risk of failure of a control). We assess each of these risks within a continuous range from lower to higher. The higher the risk, the more persuasive the audit evidence needs to be to mitigate that 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 Audit addresses both manual and automated controls 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 detecting and responding to fraud risks.

Our audit methodology is enhanced through eAudIT, KPMG'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 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 component(s);
- Identifying significant accounts/disclosures and relevant assertions at the group level;
- Evaluating groupwide controls;
- Establishing group and component(s) materiality;
- Communicating with the component auditor(s);
- Being involved in the risk assessment for significant component(s); and
- Evaluating the results and findings of all work performed and considering whether sufficient appropriate 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 are accomplished. Elements of supervision include instructing and guiding professionals, keeping informed of significant issues, reviewing the work performed, addressing issues 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 and auditing matters, including procedures to resolve differences of opinion on engagement issues. Consultation within KPMG 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 engagement partner and 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 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 auditor's report(s) 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 KPMG'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 and that the auditor report(s) is appropriate. The engagement quality control review is assigned to a partner who has no responsibilities on the engagement other than those 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 review partner meets certain qualifications and criteria to perform an engagement quality control review for a particular engagement. Partners who perform engagement quality control reviews of public company audits are provided incremental internal training; these individuals are the firm's most experienced technical partners and are knowledgeable and experienced in SEC accounting and reporting matters and PCAOB professional standards (including specifically, PCAOB Auditing Standard No. 7, Engagement Quality Review).

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 all other reports (except compilation reports) that may be used by more than one KPMG International member firm or relied upon by other parties and when requested to perform an engagement quality control review by another KPMG International member firm.

In general, engagement quality control review partners discuss significant matters arising out of the engagement with the engagement partner, review audit documentation related to significant judgments and conclusions, review the appropriateness of the financial statements and related disclosures, and evaluate the key conclusions of the engagement team with respect to the audit and reports to be issued. For certain nonpublic entity audits, the engagement quality control review may be limited to certain of the matters described above, subject to the engagement quality control review partner's professional judgment. Completion of an engagement quality control review is documented when the engagement quality control review partner has performed the procedures in accordance with the firm's requirements and is satisfied that all significant questions raised have been satisfactorily resolved.

2.3 Relevant ethical requirements

2.3.1 Ethics and Integrity

KPMG LLP is committed to doing the right thing, in the right way, for the capital markets we serve, our people, and the entities we audit. 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 is the cornerstone of our ethics and compliance program. It helps us to articulate our standards of behavior related to professionalism and integrity expected of all KPMG LLP partners and employees. By setting forth in clear, conversational prose our core 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 core values, shared responsibilities, global commitments, and promises.

2.3.2 Objectivity

Independence, integrity, ethics and objectivity are the pillars of our firm. Thus, we work diligently to avoid impairment of our independence or even the appearance of a conflict of interest. KPMG 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 KPMG from accepting an entity or an engagement.

2.3.3 Independence

KPMG LLP's independence policies require that the firm, its partners, principals and management group and the personnel assigned to each audit engagement be free from financial interests in and prohibited relationships with the entity we audit, its management, its directors and its 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 all 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 nonaudit 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 below). It is assisted by the firm's professional practice partners and Ethics and Compliance Group.

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 KPMG 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 ("restricted entities"), regardless of whether they are in possession of inside information about such entities.
- Certain other financial relationships with entities we audit or their affiliates (e.g., loans, credit cards, insurance products and brokerage accounts) are either prohibited or subject to limitations.
- Close family members of certain KPMG partners, managing directors, and employees may not hold certain accounting or financial reporting roles with entities we audit or their affiliates.

2.3.3.2 Postemployment Relationships

- KPMG professionals are required to report promptly to the firm any discussions or contacts between them and an entity we audit regarding possible employment.
- KPMG 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 certain 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 an individual 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 and initiating personnel changes on entities we audit. Additionally, Risk Management-Audit must approve any proposed change of a lead audit engagement executive, 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 partner rotations is subject to compliance testing as part of various monitoring functions.

2.3.3.4 Approval of Audit and Nonaudit Services

The applicable lead audit engagement executive receives notification of all services to be provided to entities we audit and their affiliates and for SEC-registered entities we audit, obtains preapproval of permitted services from the audit committee. For engagements subject to GAO standards, the firm requires approval by the lead audit engagement executive before commencement of such services.

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 group 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. For SEC-registered and certain nonpublic entities we audit, the applicable lead audit engagement executive reviews and approves or denies any proposed service wherever the member firm is based. Together with our policies, Sentinel helps the firm resolve potential conflicts of interest, prevent the provision of prohibited services to SEC-registered and certain nonpublic entities we audit, and determine that permitted services are properly preapproved. Sentinel and KPMG LLP's management of conflicts of interest processes also are described in section 2.5.1 of this report.

2.3.3.5 Business relationships/suppliers

Our firm has policies and procedures in place that are designed to ensure that supplier relationships are maintained in accordance with KPMG LLP's Code of Conduct and do not, either in reality or perception, create a conflict of interest. Compliance with these policies and procedures is reviewed periodically.

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 the securities they have issued. The firm's SEC-registered entities we audit 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, 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 2013, the firm's Ethics and Compliance Group audited the financial relationships of more than 500 individuals subject to the independence requirements and performed monthly audits of the firm's financial interests. Any failure to comply with the firm's independence policies is referred to a panel of specified members of leadership for review and remediation, 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 Ethics and Compliance 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 ensure that any indirect financial interest in an entity we audit is not material.

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 an authorization for release of information, which authorizes the firm to conduct a background investigation on a candidate. Candidates are interviewed and are subject to background checks where the information provided is verified through independent sources. Prior to their start date, candidates are provided access to the firm's independence guidelines to ascertain and confirm their independence. Situations involving independence or conflicts of interest are to be resolved before the individual can begin employment. Upon joining the firm, personnel are also required to confirm their agreement to comply with KPMG LLP's Code of Conduct and to complete training programs on independence, ethics, respect and dignity, protection of confidential information, document retention and security, in addition to any practice-related modules.

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 review partner assignments are approved by business unit leadership and may also be approved by regional and national leadership based on the individual characteristics of the entity we audit.

In connection with the assignment of professionals to an engagement team, the lead audit engagement executive considers that 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 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 knowledge of relevant information technology and other specialized areas of accounting or auditing;
- Knowledge of relevant industries in which the audit entity operates;
- Ability to apply professional judgment; and
- An understanding of KPMG LLP's audit quality control policies and procedures.

2.4.3 Professional Development

The firm's policies require our professionals to maintain their technical competence and to comply with applicable regulatory and professional requirements regarding Continuing Professional Education (CPE). The firm provides continuous learning opportunities to help our professionals meet these requirements as well as their own professional development goals, by providing learning on an expanding range of topics, through a variety of methods, including traditional classroom courses, virtual courses, and Web-based self-studies. The firm measures results through course evaluations, proficiency tests, and follow-up focus groups to continuously improve the efficiency, effectiveness and impact of our learning initiatives. KPMG LLP provides professionals with an online system to help them track their CPE against the firm's CPE requirements, and the firm also monitors compliance with the requirements.

KPMG LLP requires that client service professionals who are eligible to hold a certified public accountant (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 all CPA licensing requirements in any other state(s) in which they practice public accounting. The firm closely monitors license expiration and renewal for its 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 people management leaders, who are trained in KPMG LLP's performance management process and 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/behaviors and adherence to the firm's values. Skills/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. The results of the annual performance evaluation directly affect compensation and advancement of KPMG personnel, including partners, and in some cases, their continued association with the firm.

KPMG LLP's process for admission to the partnership is rigorous and thorough, involving the appropriate members of the firm's leadership. Each candidate for the partnership, whether via 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 entire 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 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 to be compensated for the sale of nonaudit services to an entity we audit that he or she serves.

2.5 Acceptance and continuance of audit entities to serve and specific engagements

KPMG LLP recognizes 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. KPMG LLP has developed a tool, known as CLEAS (Client and Engagement Acceptance System), to manage, control and document its 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.

The firm's Risk Management-Audit group is responsible for developing risk management policies, 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 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 nonaudit services provided to the potential entity to be audited. The Sentinel system discussed earlier in this report is used to identify and manage potential conflicts of interests within and across member firms in the KPMG International network. When a potential conflict of interest is identified, a member of KPMG LLP 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 a second party, 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.

2.5.2 Prospective Entity and Engagement Evaluation Processes

Prior to accepting an audit engagement with a new 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 nonaudit services).

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

KPMG LLP's monitoring procedures include the firm's internal inspection program, or QPR Program, our internal compliance testing processes and other activities elsewhere described in this report. The results of these monitoring activities, as well as the results of external regulatory reviews by the PCAOB and peer reviews, are evaluated continuously and involve ongoing consideration of the following matters:

- Relevance and adequacy of the firm's policies and procedures;
- 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 recurring findings related to engagement reviews (i.e., QPR Program, PCAOB inspections and other external inspections).

2.6.1 Internal Inspection Processes

Components of KPMG LLP's internal inspection processes include:

- A central, full-time review team that resides in the Inspections Group of Audit Quality and Professional Practice and consists of partners and managers, supplemented by other KPMG 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, CPE compliance and document retention;
- Frequent, timely reporting of firmwide 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 tools needed to achieve improvements in audit quality.

2.6.2 Compliance Testing

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

2.6.3 Global Compliance Reviews

KPMG LLP, like all member firms of the KPMG International network, is 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 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 firms. KPMG LLP is 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 identifying areas where we can improve our performance and strengthen our system of audit quality control.

The 2012 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: http://www.kpmg.com/US/en/about/Pages/regulatory-peer-reviews.aspx

2.6.5 External Peer Review

To comply with licensing requirements of state boards of accountancy and the GAO, KPMG LLP undergoes a triennial external peer review conducted by another peer firm. The firm's most recent peer review report was issued by PricewaterhouseCoopers LLP in December 2011 on KPMG's system of audit quality control for its nonpublic entity accounting and auditing practice. The firm received a peer review rating of pass for the year ended March 31, 2011. Firms can receive a rating of *pass, pass with deficiency (ies)*, or *fail*.

The peer review report and the AICPA's acceptance letter are accessible through our Web site at http://www.kpmg.com/US/en/about/Pages/Regulatory-Peer-Reviews.aspx.

2.7 Statement of Effectiveness of Audit Quality Controls

As set forth earlier in this report, KPMG LLP's Vice Chair of Audit has ultimate responsibility for our Audit practice, which includes our system of audit quality control, and the firm's 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, 2013, KPMG LLP had total fee income of $6.14B, as follows:

Audit & Accountancy:	**37**%
Tax Services:	**27**%
Advisory Services:	**36**%

Network arrangement

4.1 Legal structure

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 is an entity which is legally separate from each member firm. For the year ended September 30, 2013 the member firms making up the network generated aggregate revenues of US $23.4 billion.

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 its member firms.

The structure is designed to support consistency of service quality and adherence to agreed values wherever in the world the member firms operate. One of the main purposes of KPMG International is to facilitate the provision by the 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 and standards of work and conduct by member firms and protects and enhances the use of the KPMG name and brand.

KPMG International and the member firms are not a global partnership, joint venture 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 oblige or bind any member firm. Member firms are generally locally owned and managed. Each member firm is responsible for its own obligations and liabilities. KPMG International and other member firms are not responsible for a member firm's obligations or liabilities.

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 and regional 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 are also required to have the capability to provide certain types of core services and to refer work to other member firms where appropriate (for example, if the engagement concerns work in that other member firm's country and that other member firm has the required capacity and expertise to perform the work).

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 mutual 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 Executive Team.

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 that KPMG International has no share capital and, therefore, only has members, not shareholders). Among other responsibilities, the Global Council elects the Global Chairman for a term of up to four years (renewable once) and also approves the appointment of Global Board members. It includes representation from 55 member firms that are "members" of KPMG International as a matter of Swiss law. Sub-licensees are generally indirectly represented by a member.

The Global Board is the principal governance and oversight body of KPMG International. The key responsibilities of the 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 Chairman's appointment of the Deputy Chairman and members of the Global Executive Team.

The Board includes the Chairman, the 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. One of the Board members is elected as the Lead Director by those Board members who are not also members of the Global Executive Team (nonexecutive members). A key role of the Lead Director is to act as liaison between the Chairman and the nonexecutive Board members.

The Board is supported in its oversight and governance responsibilities by several committees, including a Governance Committee; an Audit, Finance and Investments Committee; a Compensation and Nomination Committee; a Quality and Risk Management Committee; a Professional Indemnity Insurance Committee; and a Board Process and Evaluation Committee. The Lead Director nominates the chairs and members of Board committees for approval by the Board.

The Global Executive Team is the principal management body of KPMG International. The Global Executive Team drives the execution of the strategy approved by the Global Board and establishes processes to monitor and enforce policy compliance. It is led by the Chairman and includes the Deputy Chairman, the Chief Operating Officer, global practice heads, regional leaders and a number of senior partners of member firms.

The Global Executive Team is supported by Global Steering Groups responsible for executing the approved strategy and business plan in their respective areas. In particular, the Global Quality & Risk Management Steering Group operates under delegated authority from the Global Executive Team.

Each member firm is part of one of three regions (the Americas, ASPAC or 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 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 Transparency Report.

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.

• Atmel Corporation	• HVB Funding Trust II
• BMW US Capital, LLC	• Inter-American Development Bank
• Citigroup Global Markets Holdings Inc.	• International Bank for Reconstruction and Development
• Citigroup Inc.	• International Finance Corporation
• Daimler Canada Finance Inc.	• Juneau Investments LLC
• Daimler Finance North America LLC	• Nestle Holdings Inc.
• Deutsche Bank Capital Funding Trust IV	• Pfizer Inc.
• Deutsche Bank Capital Funding Trust VI	• Signet Jewelers Limited
• Fresenius Medical Care US Finance II, Inc.	• Unisys Corporation
• General Electric Capital Corporation	• Watsco, Inc.
• General Electric Company	• Wells Fargo & Company
• HSBC Finance Corporation	

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