



KPMG TaxWatch Webcast

Operational Transfer Pricing: Bridging the Gap between Transfer Pricing Policy and Accounting Integrity – Part I

June 21, 2012

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Speakers

- Jerry Klopfer, Principal and National Co-Leader for Operational Transfer Pricing, Economic and Valuation Services, Chicago
- Tony Bevacqua, Principal and National Co-Leader for Operational Transfer Pricing, Financial Management, Philadelphia
- Doreen Liu, Senior Manager, Economic and Valuation Services, NY Metro

Administrative

- CPE regulations require online participants take part in online questions
 - You must respond to a minimum of four questions per 50 minutes in order to be eligible for CPE credit
 - Polling questions will appear on your media player on top of the slides
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- To ask a question, use the “Ask A Question” icon on your media player or send an e-mail to us-taxwatch@kpmg.com
- Help Desk: 1-877-398-1471 or outside the U.S. at 1-954-969-3342

Agenda

- The Challenges
- Leading Practices
- The Benefits
- Q&A

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The Challenges

Challenges in Transfer Pricing Implementation and Intercompany Accounting

Companies face significant challenges pertaining to the implementation of transfer pricing and management of intercompany accounting processes.

People	Process	Technology
<ul style="list-style-type: none"> ■ Lack of ownership and accountability: <ul style="list-style-type: none"> – Enterprise-wide owner – Process owners & specialists ■ Poor communication across organization and between trading partners ■ Lack of training ■ Employee turnover and acquisition environments ■ Decentralized and uncontrolled ■ Lack of enforcement of policy ■ Lack of measurement/monitoring ■ Lack of in-depth experience and knowledge regarding intercompany 	<ul style="list-style-type: none"> ■ Out of date (lack of) policies ■ "Different" process from external customers ■ Different processes within intercompany transactions ■ Lack of standardization <ul style="list-style-type: none"> – Data requirements and formats – Tools and techniques – Timing ■ Lack of adherence to policy ■ No continuous improvement program/mentality ■ Manually intensive processes and calculations consuming significant resources ■ Intercompany activities embedded within close cycle ■ Foreign exchange and cross-border transactions 	<ul style="list-style-type: none"> ■ Environment of multiple non-integrated systems leading to data availability and data quality issues ■ Existing systems are not leveraged to full potential ■ Lack of tool to facilitate matching of intercompany balances ■ Complex spreadsheet models

Challenges can Increase Risk and Impact Compliance

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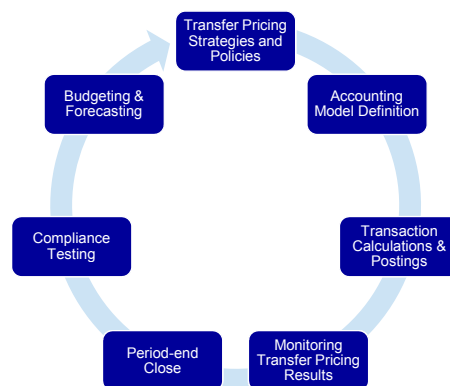
Leading Practices

Leading Practice: End-to-End Process for Transfer Pricing

Leading companies implement a coordinated, end-to-end approach to transfer pricing.

- Leading practice for any business process is to have a single end-to-end owner
- Division of responsibilities across tax and accounting requires clear framework of accountabilities
- Organizations which have not established rigorous end-to-end process maps and responsibilities suffer some or all of the following:
 - Hand-off from tax to accounting not specifically defined (roles and data requirements unclear)
 - Judgment calls employed by accounting team in interpreting tax strategy that are not subject to review by tax
 - Slow response to changes in business operations / transaction flows
 - U.S. GAAP to local GAAP inconsistencies
 - Reliance on manual and / or inconsistent procedures to ensure transfer pricing is accurate (adds inefficiency as well as risk)
 - Inherent limitations of accuracy depending on methods of calculations
 - Forecasting process is disconnected from the detailed inputs needed to model transfer pricing impact on effective tax rate
- Leading practice would be to minimize these risks through a documented and managed process framework

Intercompany Accounting Framework



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Leading Practices: End-to-End Process for Transfer Pricing

Hallmarks of a successful intercompany accounting process include:

- **People**
 - Support from management and recognition that this is a potential issue
 - Training and on-going education
 - Intercompany specialization and expertise exists and is utilized
 - Focal point to manage the process – Inter-company Czar
- **Process**
 - Well documented, current and enforced policies and procedures
 - "Business rules" exist, are well communicated and adhered to
 - Closing schedules are detailed and adhered to
 - Consistent process across the organization for billing, settlement, and reconciliation
 - Defined business model and agreement on how the process is managed (reconciliation of balances or transaction by transaction)
- **Technology**
 - Core business system functionality utilized or a point technological solution to facilitate the reconciliation
 - On-line/electronic invoicing and payment
 - Intercompany functionality is a key component of overall systems design strategy

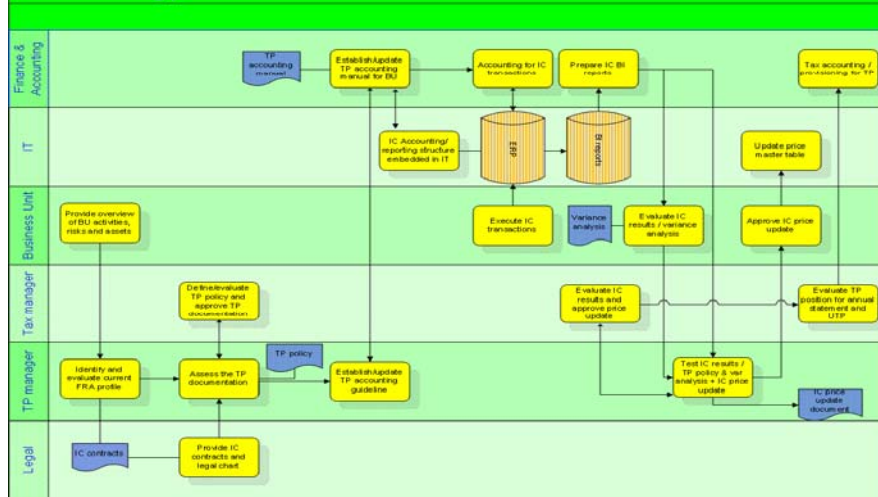
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Leading Practices: Process

The discipline of mapping processes and describing each process step is key to driving efficiencies and improving the integrity of intercompany accounts.

Transfer Pricing process



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Leading Practices: People

Developing an accountabilities matrix corresponding to your process flow is recommended.

Illustrative

Process / Activity	CFO	Tax/TP	Legal	BU
Initiate a new intercompany ("IC") transaction	C	I		A
Establish transfer pricing policy for a new IC transaction	I	A		
Put IC legal contracts in place	A	C	R	I
Reset target transfer prices annually	A	C		R
Change transfer prices during the year	I	C		A
Invoice intercompany transactions				A
Reconcile intercompany accounts				A
Reconcile actual results to transfer price policy	A	C		R
Make year-end adjustments to intercompany accounts	A	C		R
Determine transfer pricing exposure reserves	A	R		C
Local country documentation and compliance		R	C	A/R
Transfer pricing controversy – strategy / response	C	A	C	C

Roles and Responsibilities must be clearly defined:

- Responsible
- Accountable
- Consulted
- Informed

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Leading Practices: Technology

Technology solutions can be leveraged to improve the efficiency and reliability of the intercompany accounting process.

- Configuration of ERP system to facilitate intercompany accounting requirements
- Data management and collaboration tools
- Tools to calculate transfer pricing results
- Tools to facilitate monitoring and reporting

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The Benefits

Benefits of an End-to-End Process for Transfer Pricing

Companies that undergo transformation of their intercompany accounting function stand to achieve significant benefits.

- Improve financial statement accuracy and achieve predictable transfer pricing results
- Shorten financial statement close process related to intercompany accounts
- Reduce the risk of a material weakness due to transfer pricing
- Reduce substantive audit procedures due to improved controls
- Increase transparency of what drives intercompany transaction results
- Improve data quality and data availability, and automate calculations
- Improve ability to accurately forecast effective tax rate
- Mitigate tax audit risk
- Achieve intended tax planning outcomes
- Improve efficiency in your transfer pricing function and reduce costs related to intercompany accounting and transfer pricing compliance

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Q&A

Q&A (continued)

Today's Presenters

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