

Global Business Trends and It's Effect on Accounting, Auditing and Tax

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Accounting Day

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8:10am-9:00am

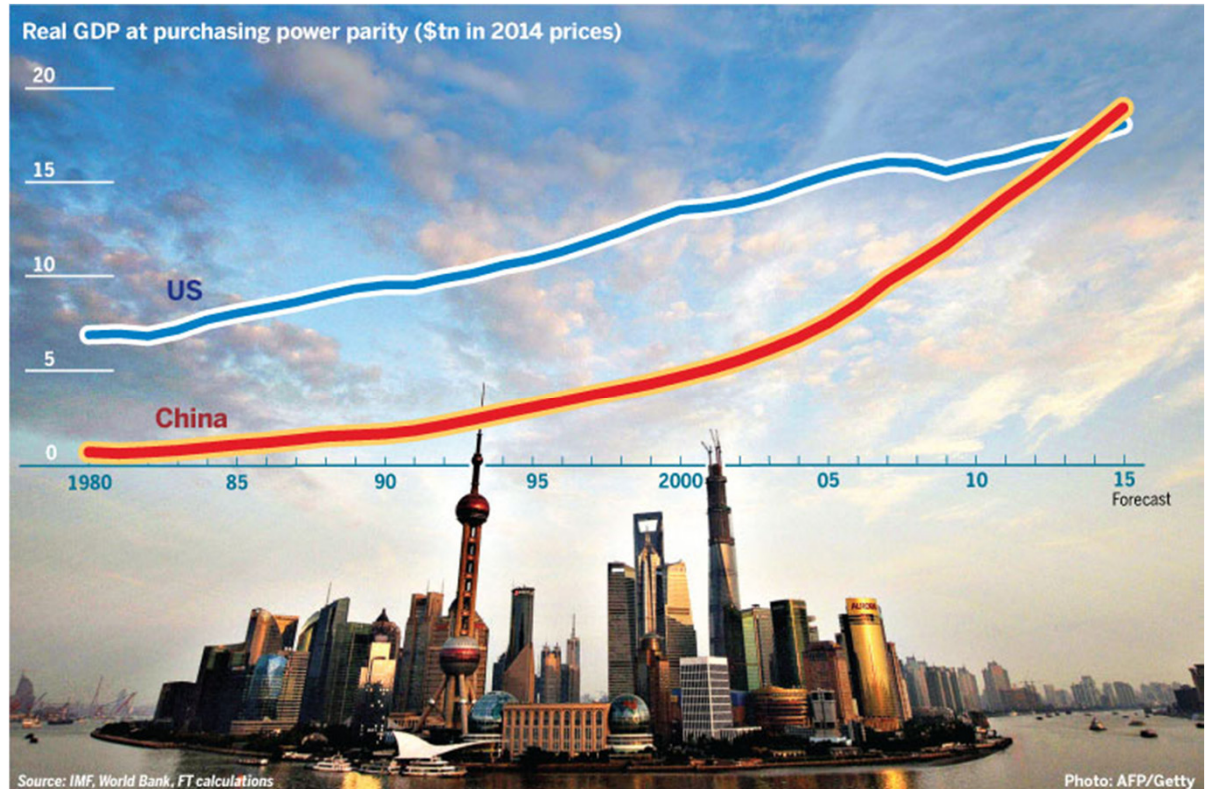
Global Business Trends



China to Overtake US as Top Economic Power this Year

Financial Times | 4/30/14

- In 2005, the International Comparison Programme (hosted by the World Bank) thought that China's economy was less than half the size of the US.
- The US has been the global leader since overtaking the UK in 1872 - 142 years!
- Change was not expected till 2019.



How China Caught Up with the US Economy

Financial Times | 5/1/14

Largest economies

% of US GDP

■ 2005
■ 2011



Source: World Bank

Share of global GDP

By income level, 2011

High-income
(56 countries)

Middle-income
(86 countries)



Source: World Bank

US Corn Exports to China Dry Up Over GMO Concerns

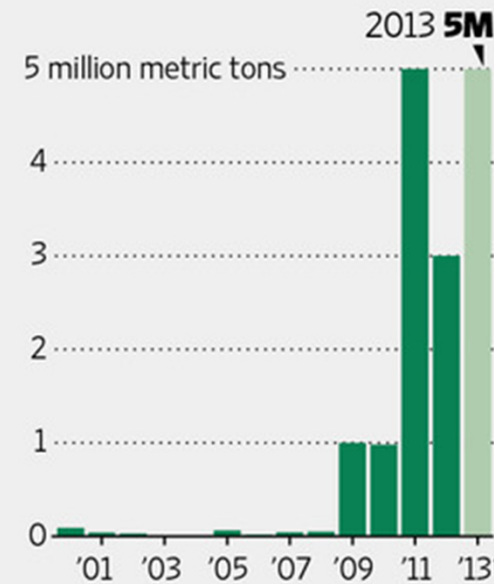
Wall Street Journal | 4/11/14

- Since mid-November 2013, China has repeatedly refused shipments of US genetically modified corn.
- Exports are down by 85% compared with last year.
- The rejected shipments have cost grain companies \$427 million from lost sales and reduced prices for China-bound shipments.

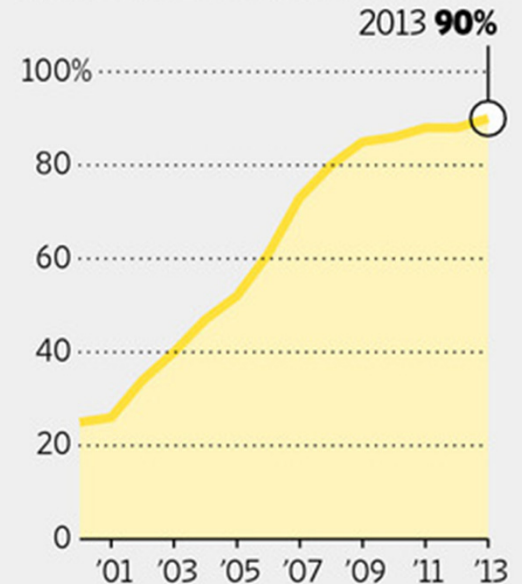
Ears to the Ground

China is becoming a big corn buyer, but it restricts some genetically modified crops, which are increasingly dominant in the U.S.

China's overall corn imports*



Genetically engineered corn as share of total U.S. corn acreage



*Data begin in September of years shown †Projection
Sources: U.S. Agriculture Department

The Wall Street Journal

Global Trade Benefits



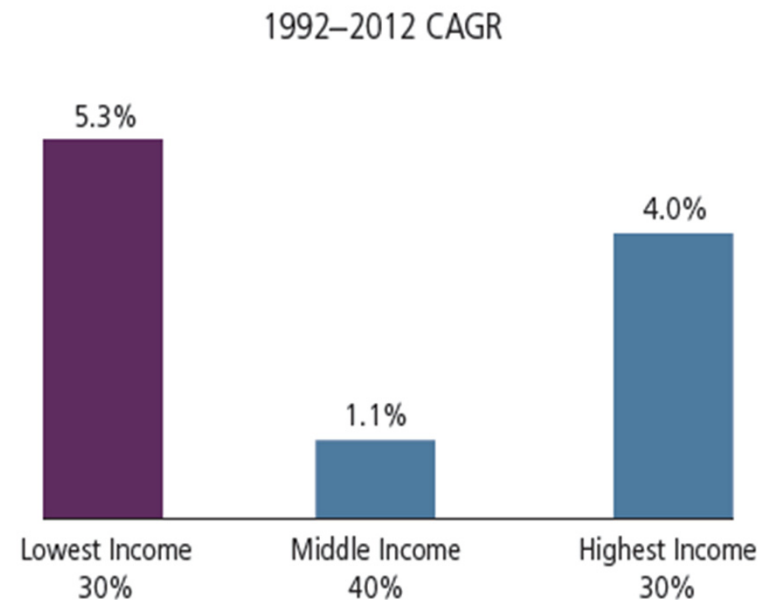
It's Not Just about China, India, and Luxury Goods

AllianceBernstein | Seeing the World Through the Emerging Consumer's Eyes

- Most research into the emerging consumer theme focuses on the “New rich and middle classes in China or India” and their appetite for luxury goods.
- Incomes for the bottom 30% in the 12 largest emerging markets have grown more than 5% a year on average over the past two decades.
- In emerging markets, like developed, people buy symbols of success.

Display 3

Income Growth Has Been Fastest for the Poor



As of December 31, 2013

Weighted average for 12 largest emerging markets

Source: Credit Suisse, Euromonitor International, and AllianceBernstein

Cell Phones Empower the Poor

AllianceBernstein | Seeing the World Through the Emerging Consumer's Eyes

One key reason that incomes have grown most rapidly for low-income people is that cell phones are giving them greater economic power and job opportunities.



An Indian chili farmer uses his cell phone to find out where he can get the best price for his crop.

Brand Wars: Global vs. Local

AllianceBernstein | Seeing the World Through the Emerging Consumer's Eyes

- Developed-market companies with quality global brands are often a better way to gain access to the emerging consumer growth theme.
- Global brands have been gaining market share, helped by the perceived higher quality of their goods.



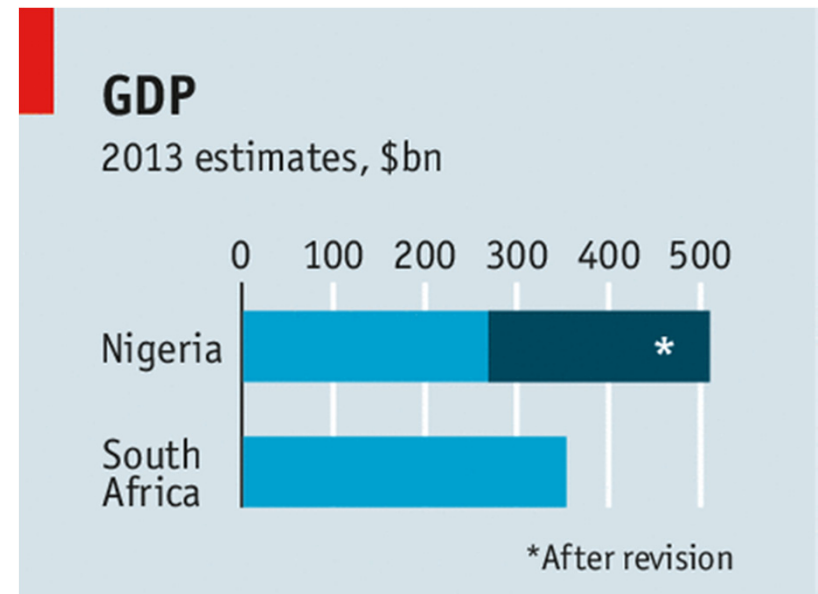
Africa's New Number One

The Economist | 4/12/14



- GDP revision makes Nigeria the biggest economy in Africa.
- It added 89% to its GDP, now worth \$510 billion.
- Nigeria's new numbers confirm that it really is the colossus of the continent.

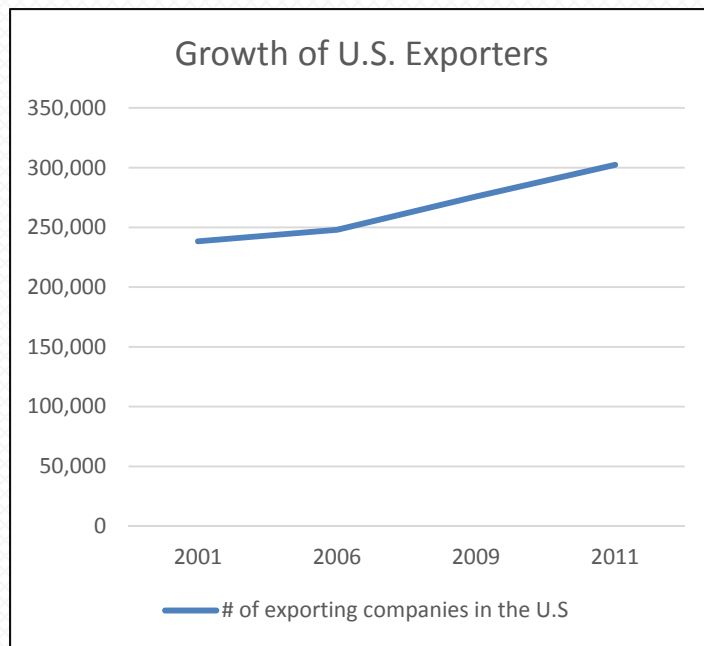
- Country may be a giant, but it is still poor: Nigeria ranks 153rd out of 187 countries in the UN's Human Development Index.



WTCSD Economic Impact Report

WTCSD | 12/31/13

- US adds about 7,000 net new small-business exporters a year.
- 37% of post-recession export growth is to NAFTA countries.



As the global recession taught us, companies to succeed in the 21st century are those able to look beyond the American borders, adapt to international markets, and diversify their risk in any one county.

The Flip Side of the Coin



Business is Going Native Again

Financial Times | 4/10/14

Multi-nationals' hub-and-spoke model will be superseded by “globally integrated enterprises” (GIEs), which will:

- Shed national identity and serve customers from wherever in the world makes most sense, backed by a global supply chain and global support functions.
- Such companies will be more productive, innovative and agile.
- Challenges:
 - Strike the right balance between global and local functions.
 - Trust... both internally and externally.
 - Lack of diversity in the senior management of multinationals.

If the past belonged to
multinationals, the future may
actually lie with globally
disintegrated enterprises.

Financial Times | 4/10/14



WTC Chief Warns on Slow Rebound of Global Trade

Financial Times | 4/10/14

“I don’t sense any big rebound [in world trade] or indeed any big downward cycle at this time.”

Roberto Azevedo, WTO Director-General



Global trade has failed to rebound as sharply as expected in the first three months of this year because of the eurozone’s fragile recovery and slowing growth in emerging economies.

Risks of Doing Business Abroad

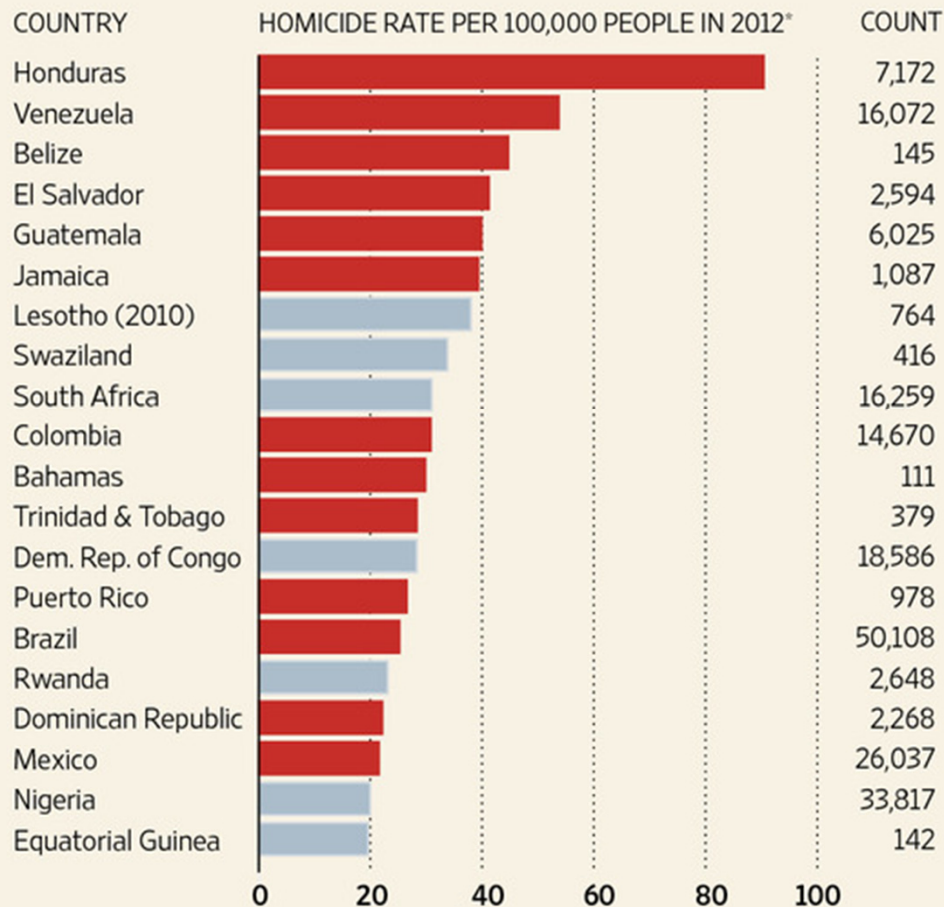


Most-Violent Region in World: Latin America

Wall Street Journal | 4/12/14

Killing Fields

Latin America and the Caribbean have 13 of the top 20 homicide rates in the world.



*Countries with a rate of less than 20 and fewer than 100 homicides are excluded.

Source: U.N. Office on Drugs and Crime

The Wall Street Journal

- Latin America is the world's most violent region, accounting for nearly one in three global homicides, due to:
 - Weak law enforcement
 - Vibrant illegal narcotics trade that led to growth in organized crime
 - Culture of violence
 - Region's chaotic urbanization over the past three decades which has created rings of slums

Global Audit Issues



New COSO Framework

- Finally, the new COSO framework is intended to enable a more current and effective implementation of measures that can complement the auditor's efforts to assure adequate safeguards and accurate financial reporting.
- Adequate training of firm financial personnel, internal auditors, and external auditors will be crucial as the new framework is introduced.
- Also, a detailed analysis of existing controls, as contrasted to the new framework, will be needed to reveal gaps that have emerged over time as systems have evolved.

For further information see
IFIAR Global Survey of Inspection Findings
www.ifiar.org/IFIAR-Global-Survey-Media-Coverage.aspx

The Elusive Goal of Audit Perfection

- The International Forum of Independent Audit Regulators (IFIAR) in April issued its 2013 Survey of Audit Inspection Findings.
- The European Parliament in early April instituted new rules requiring mandatory auditor rotation, expanded audit reporting, and limiting auditor advisory services for audit clients.

Persistent Audit Deficiencies Continue to Raise Alarms

- IFIAR includes regulators from 49 jurisdictions around the world. Its periodic surveys are intended to highlight common audit performance issues that occur throughout the world.
- The recently issued 2013 survey does not pass judgment quantitatively on whether audit quality has improved or deteriorated since the 2012 survey.

The Findings Indicate that the Same Major Shortcomings Continue to Occur

For public entity audits, the three major areas of deficiency were:

1. Fair value measurement
2. Internal control testing
3. Adequacy of financial statement disclosures

For financial institution audits, the three major areas of deficiency were:

1. Audit of allowance for loan losses and loan impairments
2. Internal control testing
3. Audit of valuation of investments and securities

For inspections of internal control systems, the three major areas of deficiency were:

1. Engagement performance
2. Human resources
3. Independence and ethics requirements

PCAOB's Outlook

- The PCAOB has dismissed the idea of mandatory auditor rotation, but is considering audit report expansion. A proposal for changes to the auditor's report, currently out for discussion, has drawn spirited feedback, pro and con.
- The proposal calls for the disclosure of “critical audit matters” (CAM) in the audit report. Proponents feel that CAM would provide users with informative insights into the audit process that the current boilerplate reports lack.
- Indeed, significant energy can be spent during an audit between the company and the auditor evaluating whether a potentially problematic issue needs to be disclosed. Requiring disclosure would reduce undue pressure on the auditor to remain silent. Critics raise the concern of added legal liability for the auditor, and added cost for matters that are considered company responsibilities to disclose, not the auditor's.

EU Auditor Changes

- The European Parliament's approach addresses the concerns indirectly, by placing more restrictions on auditors.
 - Companies will need to change auditors every ten years.
 - Audit reporting transparency is expanded as well, requiring the presentation of more audit procedure details to the audit committee, and public disclosures concerning risks of material misstatement and going concern uncertainties.
 - Additionally, in order to enhance independence, auditors will be prevented from providing tax, financial and investment advice, or other non-audit services.

Global SEC Matters

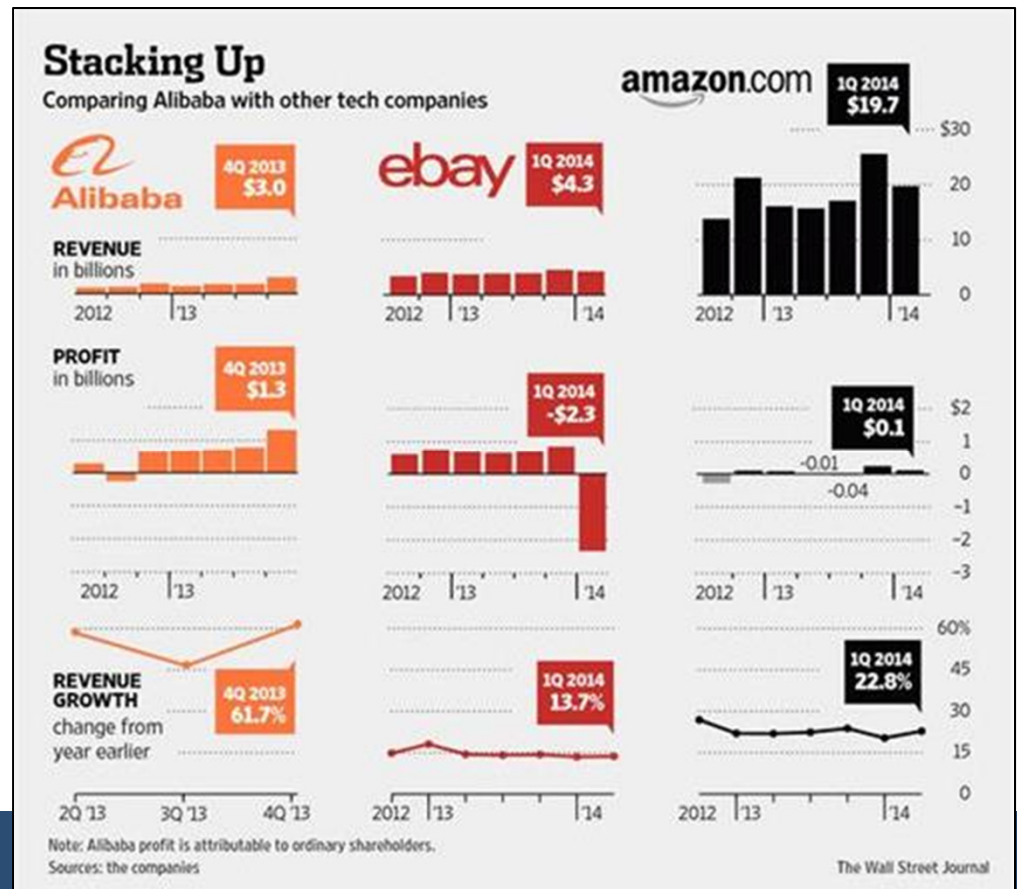


China's Internet Crown Jewel Sets IPO

Wall Street Journal | 5/7/14

Chinese Internet giant Alibaba Group Holding Ltd. officially filed plans to offer shares in the US in a deal that would value the company at more than \$100 billion

- Expected to be one of the largest stock listings in history.
- IPO filing showing the company's scale will open the people's eyes and create a lot of interest in Chinese e-commerce in the US.



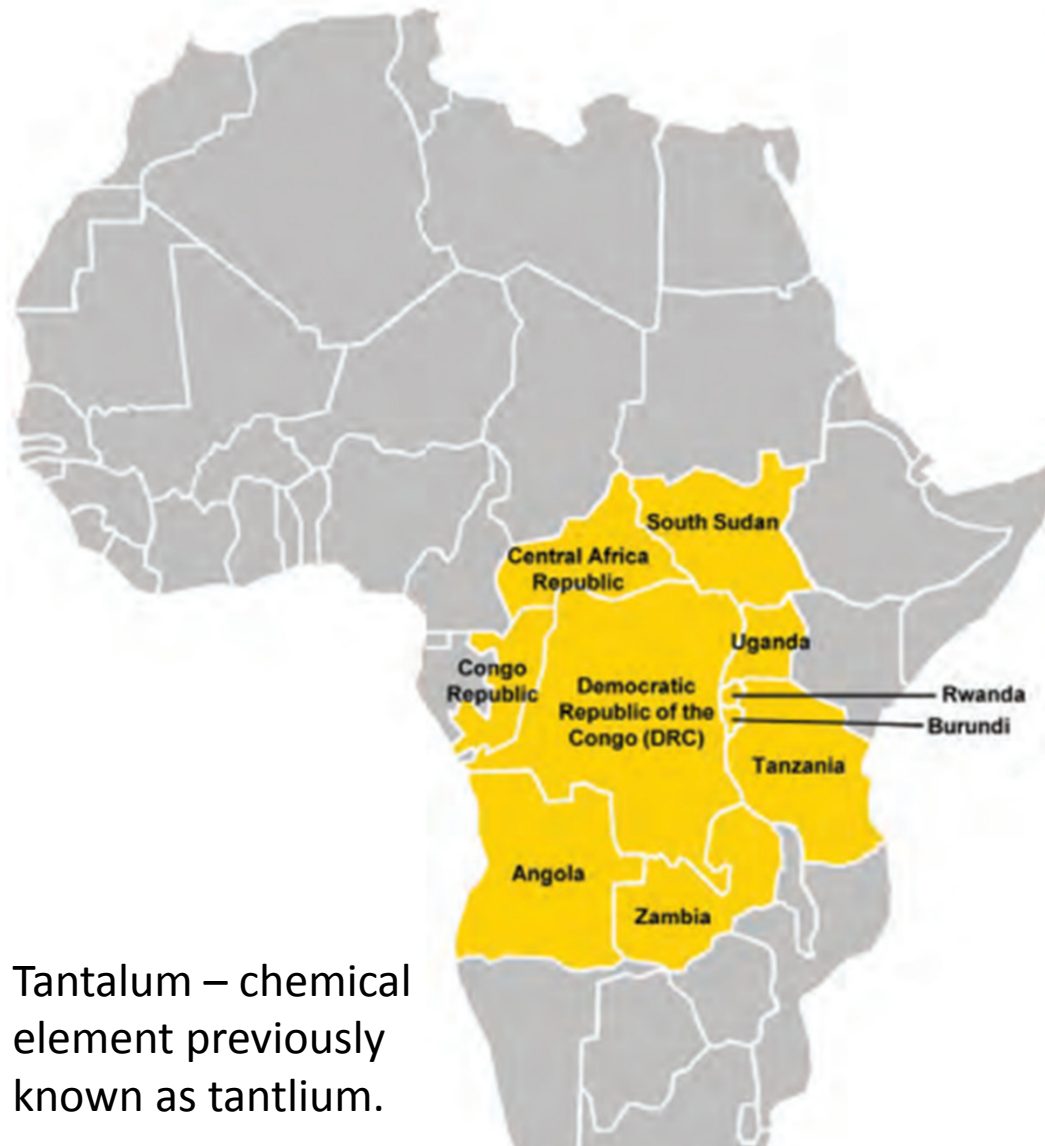
Conflict Minerals: minerals mined in countries of armed conflict and human rights abuses, notably in the eastern provinces of the Democratic Republic of the Congo.

Dodd-Frank Section 1502 defines the affected countries or "Covered Countries" as follows:

- ▶ Democratic Republic of the Congo (DRC)
- ▶ Central Africa Republic
- ▶ South Sudan
- ▶ Zambia
- ▶ Angola
- ▶ The Republic of the Congo
- ▶ Tanzania
- ▶ Burundi
- ▶ Rwanda
- ▶ Uganda

According to the SEC, the Covered Countries account for 15% to 20% of the world's supply of tantalum and smaller percentages of the other three minerals.

Mineral	Description	Major uses
Cassiterite	Ore from which tin is extracted	Plating and solders for joining pipes and electronic circuits
Columbite-tantalite	Ore from which tantalum is extracted	Electrical components (including those used in mobile phones, computers, videogame consoles), aircraft and surgical components
Gold	Rare metal found in a native (pure) form and obtained as a by-product of other mining operations	Jewelry, electronic, communications and aerospace equipment
Wolframite	Ore from which tungsten is extracted	Metal wires, electrodes and contacts in lighting, electronic, electrical, heating and welding applications



Tantalum – chemical element previously known as tantlium.

Conflict Minerals Update

- A United States Appeals Court ruled parts of the law unconstitutional on the basis of interference with free speech guarantees. While the ultimate outcome remains to be seen, the conflict minerals legislation shows how passionate political issues can impinge on the ostensibly detached world of financial reporting standards.
- While the SEC considers how to respond to the conflict minerals developments, one of its commissioners has lashed out at the Sustainability Accounting Standards Board (SASB). The SASB's has been working on establishing specific industry standards for reporting ESG (environmental, social and governmental) factors in SEC 10-k reports.
- In a speech at the Tulane University Law School Annual Corporate Law Institute, Commissioner Daniel Gallagher expressed concern that Federal legislation has given the SEC too much authority for corporate governance, which he feels is best left at the state level. However, in the area of corporate filings and disclosures, Gallagher remarked that the SEC has been given sole responsibility, such that third parties like the SASB should not get involved. He pointed out that SASB is not an authoritative board, and that it engages in areas other than sustainability.

International Tax Issues



Exploring Taxes from Around the World

Accounting Today | 4/2014

- Increased economic globalization has meant that many businesses are becoming engaged in cross-border transactions resulting in international tax issues.
- CPAs faced with decision as to whether to develop their own expertise in international tax or partner with a firm.
- Three-fourths of CFOs see appeal in consulting when they near retirement (Robert Half Survey, 2014)



Credit Suisse Unit Draws US Tax Scrutiny

Financial Times | 5/1/14



Alleged US Tax Evasion

US officials allege Credit Suisse helped more than 20,000 US clients evade US taxes.

Officials claim the scheme went beyond 'violations of some ex-bankers.'

US authorities believe tax evasion had spread to other areas of private banking.

The bank has said it is wrong to assume that there were violations in all 22,000 accounts.

The Kindness of Strangers

The Economist | 4/22/14

Ireland – Special Incentives to Lure Foreign Direct Investment (FDI) can Prove Worthwhile

- 2007-2008 banking crisis
 - Unemployment rose from 5% to 15%
 - House prices plummeted by 47%
 - Banks collapsed and had to be rescued, which pushed the debt-to-GDP ratio to 123%
 - Country forced to enter an EU bail-out program
- Throughout crisis, Irish government refused to shift the 12.5% tax rate on corporate profits.
- America accounts for 70% of Ireland's FDIs.

Without the presence of those foreign companies the Irish recession would have been even worse.

Worldwide Update



IASB (www.IFRS.org)

International Accounting Standards Board



International
Accounting Standards
Board®

1. **Discussion Paper - *Accounting for Dynamic Risk Management: a Portfolio Revaluation*** – issued on April 17, addresses macro hedging accounting. The IASB separated this topic from IFRS 9-Financial Instruments, which is in the final stages of development. Macro hedging manages risk on a portfolio basis rather than on individual contracts. IASB seeks input on a possible approach that revalues changes in managed risk through profit and loss. The comment deadline is October 17, 2014.
2. **Proposed amendments to IAS 1, *Presentation of Financial Statements***, – issued on March 25, as part of a broader Disclosure Initiative that is designed to make disclosures more effective “instruments of communication and not simply compliance documents,” according to IASB Chairman Hans Hoogervorst. The proposal 1) clarifies materiality, 2) clarifies disaggregation of items in the financials, 3) specifies presentation of subtotals in the financials, 4) clarifies flexibility in the order of footnotes, and 5) cleans up guidance on accounting policies. The comment deadline is July 23, 2014.
3. **Revenue Recognition and Lease Proposal Status** – The proposed joint IASB-FASB standard, *Revenue from Contracts with Customers*, is in final drafting, but issuance has been pushed back to the second quarter 2014, to allow more time for incorporating revisions and references. The differences between the IASB and FASB on the proposed joint IASB-FASB standard, *Leases*, have still not been completely resolved. An April 24 joint meeting was scheduled to address some, but not all, of the issues. Consequently, the timing for finalization of the proposal is currently unclear.
4. **IFRS Research Centre** – web-based resource launched on April 22, 2014, to increase awareness of issues, and to encourage engagement in research and contributions to the standard setting process by research professionals.

IFAC (www.IFAC.org)

International Federation of Accountants



1. **Agreement to develop professional accountancy organizations in emerging economies –** UK Department for International Development will provide funding for efforts in Asia, the Caribbean, Middle East and Africa. Infrastructure support will help to improve professional and ethical standards.
2. **IAASB Proposes International Auditing Standard 720 (Revised), The Auditor’s Responsibility Relating to Other Information –** The International Auditing and Assurance Standards Board proposal was reissued in response to significant comments that were supportive but indicated much needed clarification of auditor objectives, scope of documents and work effort. The proposal focuses responsibility on information in a company’s annual report, and requires the auditor to consider whether there are material inconsistencies with the financial statements or other knowledge obtained during the audit. A separate section of the auditor’s report would disclose findings without any opinion. Comments are requested by July 18, 2014.
3. **Proposed Guidance - Developing and Reporting Supplementary Financial Measures— Definition, Principles, and Disclosures –** The February, 2014 Exposure Draft intends to “establish a benchmark for good practice in developing and reporting supplementary financial measures to assist management, investors, and other stakeholders in understanding some aspect of an organization’s performance.” Supplementary financial measures are defined as “those financial measures not specifically identified by a GAAP framework.” An example is EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization). Comments are due by May 26, 2014.

IIRC (www.theIIRC.org)

International Integrated Reporting Council

1. CDSB Framework 2.0 Consultation Draft

-issued in February, 2014, the Climate Disclosure Standards Board is a consortium of business and environmental organizations, whose purpose is for members to “jointly to develop and advocate an international reporting framework for use by companies when making disclosures in, or linked to, their mainstream financial reports.”

Its Technical Working Group is represented by the major accounting organizations and firms. The Consultation Draft expands the original Framework’s focus on the risks and opportunities posed by climate change, to include information on water and forest risk commodities.

ACCA (www.ACCAGLOBAL.com)

Association of Chartered Certified Accountants



1. **Breaking out: public audit's new role in a post crash world** – Report issued in February, 2014, by ACCA's Global Forum for the Public Sector. Contributors weigh in on the future role of auditors in the public sector, emphasizing the need to be involved earlier in the process of how funds are allocated, and to be a catalyst for improvement, along with the traditional role of providing assurance and assessing accountability.
2. **Enhancing the value of the audit committee report** – Report issued in March, 2014, providing examples of how company audit committees are complying with the UK Corporate Governance Code (FRC 2012), that calls for a more customized and company specific audit committee report, which also discloses the most significant financial statement issues.
3. **Understanding investors: the changing corporate perspective-** Report issues in February, 2014, based on a survey of 200 CFOs from Great Britain. Faster external and internal reporting is favored by investors and considered feasible, though not at the sacrifice of accuracy. 40% of those surveyed have moved forward with integrated reporting, while the rest are taking a 'wait and see' approach. Lower audit fees and more competition are desired, but not at the cost of audit quality.

CIMA (www.CIMAGLOBAL.com)
Chartered Institute of Management Accountants



1. Global Management Accounting Principles Consultation Draft
-released February 10, 2014, to assist CFOs and boards with assessing and enhancing management accounting principles, in order to further the success of the business.

Worldwide Update

EUROPE, MIDDLE EAST,
INDIA & AFRICA
(EMEIA)



FRC (www.FRC.org.uk)

Financial Reporting Council



- 1. Proposed Revisions to UK Corporate Governance Code-Consultation**
Document issued in April, 2014, covering various compensation issues, the going concern basis of accounting, risk assessment and management, stating the ability to continue in business, and the monitoring and annual review and reporting on internal control systems effectiveness. Comments are due by June 27, 2014.
- 2. FRED 53: Draft Amendments to FRS101: Reduced Disclosure Framework (2013/14)** – issued in April to update financial reporting disclosures consistent with IFRS issued during the past year. Comments were due by April 30.
- 3. FRED 54: Draft Amendments to FRS 102-The Financial Reporting Standard applicable in the UK and Republic of Ireland: Basic financial instruments** – issued in February, 2014 to address unintended accounting consequences in relation to basic debt instruments. Comments were due by April 30.

EP (www.EUROPARLI.europa.eu)

European Parliament



- 1. Audit reforms pass in European Parliament**
- on April 3, 2014

- 2. Directive on disclosure of non-financial and diversity information by large companies and groups**
- adopted by EP on April 15, 2014



Questions?

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