



INFORMATION, COMMUNICATIONS & ENTERTAINMENT

The Convergence Revolution

A Thought Leadership Guide

KPMG INTERNATIONAL



Digital convergence has revolutionized daily life—and business along with it. Generation Y is leading the charge by pushing the boundaries of existing technologies, adapting them for uses their designers never even imagined. And as this generation hits the workforce, they are bringing their maverick approach to the office. The result?

Business will never be quite the same.

Fortunately, no organization has to face this uncertain landscape alone. In an environment characterized by disruptive innovation, global competition, and ever-changing business models, KPMG's Information, Communications & Entertainment practice helps companies measure, manage, and mitigate their financial, operational, and regulatory risks. One way we do this is by publishing a wide variety of research that offers deep insight into evolving business conditions and trends.

From the social and technological forces that have made digital convergence a reality to the rules surrounding pricing and financial reporting in various geographies, KPMG's publications study the topics that have a real impact on the way companies operate. The *Consumers and Convergence* report provides a snapshot of our starting point with a broad survey on consumer adoption of digital content and Web 2.0 technologies.

In the Enterprise 2.0 series, we offer a closer look at the implications of the convergence revolution: How might collaborative and social networking technologies change the way we work? Which technologies are making a real difference? Other reports analyze the outlook for specific regions, industries, and business functions.

The future of technology starts now. How would you compete in a converged world? Start here to find your answers.



Gary

Gary Matuszak, Global Chair
Information, Communications & Entertainment



Sean

Sean Collins, Global Sector Chair
Communications & Media



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Digital Convergence

Generation Y took digital media by storm when it started using technology in ways no one expected. Today, less than 15 years after most people first heard of the Internet, digital media rules our lives. But media convergence is changing more than just the way we live. It is transforming the way companies in virtually every industry find, connect with, and develop relationships with customers. In these reports, KPMG explores the social and economic forces that shape the way people use digital technologies—and how those forces will change the face of business forever.



Consumers and Convergence II

In recent years, consumers have started to view media content as separate from its delivery device. Phones, computers, and televisions all offer similar multimedia content delivery capabilities, so people increasingly expect a similar user experience across devices and locations. Consumers want ease of use, convenience, and choice, and they want content and service providers to reflect these needs in their offerings.

This groundbreaking report, now in its second year, surveyed nearly 4,400

consumers in Asia, Europe, and the Americas to examine consumer adoption of digital content and Web 2.0 technologies. The results shed light on consumer behavior—specifically the factors that keep a consumer loyal to a given carrier, content provider, or platform—and the factors that might persuade them to switch.

The survey report, *Consumers and Convergence III*, will be available in winter 2008–2009.

“The implication of consumer price expectations for converged services has to be alarming for service providers, because it cuts to the heart of the strategies carriers are using to attract and retain customers—the triple- or quadruple-play of services. Providers are bundling to maximize customer convenience to increase customer growth and loyalty, and their customers aren’t buying it.”

Sean Collins
Global Sector Chair,
Communications & Media

Sean Collins



Sean has undertaken major assignments for large European and worldwide companies, including financial management advisory, mergers and acquisitions, bid defense, disposals, flotations, profit and cash forecasts, and new investments in more than 20 countries.

Enterprise 2.0

Part 1: *Fad or Future? The Business Role for Social Software Platforms*

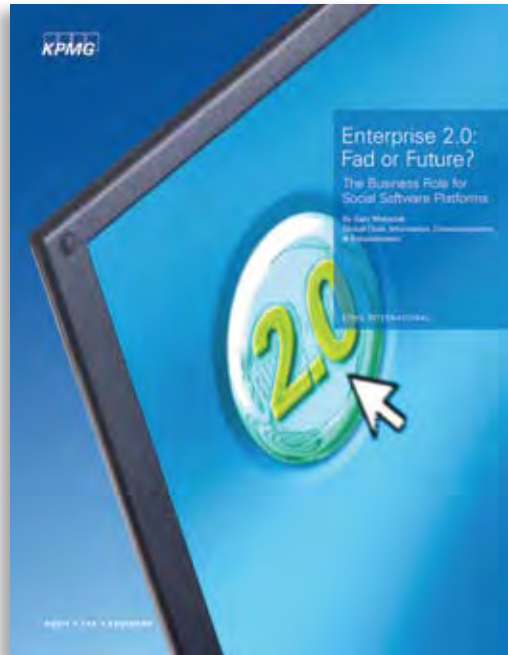
Part 2: *The Benefits and Challenges of Adoption*

Part 3: *Tales from the Trenches*
(slated for publication in fall 2008)

When *Time* magazine named “You” person of the year in 2006, it confirmed what high tech industry watchers have claimed for some time: Web 2.0 has turned traditional media content and the economics of the media business upside-down. But is the success of Web 2.0 sustainable? Can Web 2.0 technologies—which are primarily applied in the social sphere—be used to make business more efficient and effective?

The first report in this series explores potential uses for Enterprise 2.0 in a business setting. How can collaborative applications help companies tackle the key managerial challenges of the twenty-first century—namely knowledge sharing and management, problem solving, innovation, and collaboration? And what are the potential barriers to adoption?

Read *Enterprise 2.0: Fad or Future? The Business Role for Social Software Platforms* to learn more.



“For those companies that wish to use E2.0 technologies, security is of course a concern, but the culture of an organization can also impact successful adoption. The issue is twofold: Social networking requires a high volume of active participants and regular postings—many wikis and blogs fail due to lack of interest, so commitment is key for companies taking this route. Equally, institutional cultures or norms that work against sharing information, either because of concerns about confidentiality or because of hierarchical structures, will also impede progress.”

Sean Collins
Global Sector Chair,
Communications & Media



“There are also cultural barriers to the adoption of Web 2.0 technologies in organizations, particularly in industries that are historically more conservative and where data protection is critical. As organizations begin to realize the effects of Web 2.0 on internal productivity and innovation, many more will look to expand externally and connect with customers, partners, and suppliers, further emphasizing the need for governance and security policies.”

Gary Matuszak
Global Chair,
Information, Communications
& Entertainment

The second report dives deeper into issues surrounding the adoption of Web 2.0 technologies in a corporate environment. Social networking technologies have the potential to enhance collaboration, innovation, and employee productivity—but how can companies measure those benefits? And how should they handle the security risks inherent in information sharing? In *Enterprise 2.0: The Benefits and Challenges of Adoption* you’ll learn more about how executives around the world address those questions.

In the third installment of this report, *Tales from the Trenches*, which is slated for release in fall 2008, executives from prominent businesses will share the lessons they’ve learned as their companies have adopted Web 2.0 technologies.

Gary Matuszak



A frequent speaker on topics impacting the technology industry, Gary has devoted virtually his entire career to serving the needs of fast-growth technology companies. He has been very instrumental in developing industry positions on several emerging issues that impact the software industry and served as the chairman of the AICPA Software Revenue Recognition Task Force.

The Digital Bubble: Balancing Operational Challenges with Growth

Digital content and its many distribution platforms are changing the way consumers create, edit, and distribute content. These changes present many attractive market opportunities—as well as new risks. One of the potential dangers is the risk of a digital “bubble” that would be similar to the dotcom bubble in the early 2000s. Whether this type of phenomenon actually occurs will depend on a variety of factors such as continued investment trends and expansion strategies as well as whether companies in all industries are able to execute the operational aspects of their digital strategies.

KPMG’s *Digital Bubble* paper addresses some of the market conditions media and communications companies face in a digitized world, including those that would point to the rise of a digital bubble.

Read *The Digital Bubble* to find out:

- What opportunities can companies expect in the current environment?
- How can organizations take an enterprise-wide approach to identifying and managing digital risk?
- What can companies learn from the recent dotcom bubble that would help them avoid repeating the mistakes?

Carl Geppert



Carl has more than 27 years of experience assisting communications and media companies in addressing significant financial, regulatory, information technology, and business issues. Carl has extensive advisory experience in working with wireline, wireless, and broadband/Internet carriers, addressing risks related to retail, wholesale, interconnection/access, and miscellaneous revenue.



“The enthusiasm behind digital transformation, should it continue at the pace recently seen, suggests the potential for development of a digital bubble. Whether such an economic phenomenon develops will depend on a variety of factors, including whether companies throughout the industry are able to execute the operational aspects of their digital strategies.”

Carl Geppert
Sector Leader,
Communications & Media,
KPMG in the U.S.



The Impact of Digitalization— A Generation Apart

In just a few short years, Web 2.0 has thrown traditional media companies into turmoil. Generation Y is using technology in ways that vendors never anticipated. The cost of media distribution has declined, making a wider range of content more commercially viable. User-generated content and collaboration are making it more difficult for media outlets to capture and monetize user attention—and are forcing the industry to rethink the entire Western copyright and intellectual property system.

“While traditional media remain popular across the age groups, Generation Y is increasingly looking to the Internet as a source of news and social interaction. Media companies wishing to stay ahead of the curve should consider experimenting with new business models, alongside their existing ones, in order to stay competitive.”

*Sean Collins
Global Sector Chair,
Communications & Media*

At a more fundamental level, collaborative technologies are eroding common national cultures. People are building online communities with others who share their interests at home and abroad. How will the media habits and preferences of Generation Y continue to shape the technology industry? Can companies use the “wisdom of crowds” to their advantage?

Learn more in this report about what it means to conduct business in an economy based on content creation rather than consumption.

Industry Reports

Convergence is an unstoppable force that is transforming businesses of all kinds—but different industries will feel the impact in different ways. Understanding the changes that are under way can help you dodge potential pitfalls and put your company on the path to success in the digital world. In these reports, KPMG studies the particular challenges of technology industries to provide deep insight into industry-specific business problems.

Industry Reports



The Consumer Electronics Boom: How Semiconductor and Consumer Electronics Companies Can Improve Cost, Time-to-Market, and Product Quality

With digital cameras, TVs, and MP3 players high on everyone's wish lists, the demand for consumer electronics products has skyrocketed over the past few years. The result has been a boon for both consumer electronics and semiconductor manufacturers.

But the growing reliance on these products and the need for shorter development cycles are increasing the pressure on these manufacturers to improve the design processes that help create these products and bring them to market faster.

This KPMG survey of senior engineering executives identifies the critical issues inhibiting faster development and production. The survey addresses key areas such as revenue and profit, time-to-market, and original equipment manufacturer (OEM)-supplier relations. The ongoing success of the consumer electronics industry is based on the continued coordination and collaboration of this integral relationship.

Read this study to get to the bottom line: if OEMs and suppliers cannot find common ground, both could suffer from missed opportunities and significant profit erosion.

Bringing Regulation into the Boardroom

Regulatory challenges are now an increasingly visible part of running a communications company. Despite the strategic nature of the regulatory function, corporate and regulatory executives are frequently not on the same page because regulators are seen as specialists rather than true business partners. To truly integrate regulatory requirements with corporate strategy, executives and board members need to understand more about how regulation affects the business—and regulatory professionals must develop exceptional negotiation and communication skills.

Based on the findings of this KPMG survey, it is clear that many communications companies lack the regulatory capabilities to cope with a truly converged marketplace. Despite the fact that the regulators have not yet devised a system for seamless operation, there is no excuse for a major player in the communications industry not to have a fully integrated organization.

How can you take your company's regulatory function from ivory tower to integral? Read this report for some valuable insights.



"It is essential that communications companies take a proactive approach to defining and agreeing on their regulatory strategy if they are to prosper in an increasingly converged world."

*David Thomas
Director and Head
of Communications Regulation,
KPMG in the U.K.*

David leads KPMG's regulatory practice in the United Kingdom and chairs its global communications regulatory panel. He advises operators and regulators around the world on regulatory strategy focusing recently on pricing and separation issues.

Convergence Takes Hold: The Global Outlook for Information and Communications Technology Markets

The future looks bright for information and communications technology providers. After years of hype, technologies such as third-generation networks and IPTV are finally widely available and generating revenue. But as Internet protocol (IP) convergence creates new revenue opportunities it makes competitors out of companies that previously operated in separate spheres. At the same time, the pressure is on to deliver services at lower prices—so executives must pay close attention to cost efficiency.

This survey of 144 technology executives from organizations across the globe examines not only the trends shaping the industry as a whole but also the forces at work in each geographical region—including the demand outlook for the telecommunications and IT markets, barriers to growth, spending priorities, and key trends to monitor.

Read this report to assess whether your company is properly positioned to capitalize on convergence.



Even in high-growth Asia, broadband adoption is slowing, and it is becoming clear to telephone companies that broadband subscription fees alone likely will not generate the revenue boost they need to compensate for the ongoing decline of their traditional voice businesses. The focus of innovation thus appears to be shifting toward services.

A detailed look at global IT demand patterns reveals a fundamental shift under way as the industry continues to move from a hardware-dominated structure to one defined by services and software.



Digital Insights

Every day, industry professionals turn to KPMG's e-newsletter *Digital Insider* to help them stay abreast of the latest news, insights, and analysis affecting the converging worlds of technology, media, entertainment, and communications. *Digital Insider* editors prepare original articles that analyze the latest market-place trends and select the most relevant articles and features from Reuters and leading business and trade publications.

Digital Insights is a quarterly "best of" compilation of articles published in

KPMG's *Digital Insider*. How are wireless carriers using digital content to develop new revenue streams? Why are leveraged-buyout firms giving venture capitalists who are looking to cash out their portfolio investments an alternative to public offerings?

Request a copy of *Digital Insights* and get some answers to these and other questions.

To register to receive the *Digital Insights* e-newsletter, go to www.kpmginsiders.com.

Revenue Protection

Every year, revenue “leaks” are responsible for billions of dollars in lost revenue for technology companies. As new types of content and new delivery methods have evolved, it has become clear that traditional licensing payment models from the entertainment and software industries are not appropriate or effective in many cases. Even worse, the free-access mentality spawned by the Internet has created an environment where consumers and even some organizations are simply not paying for the digital content they use.

Your business cannot afford such leaks in your value chain. In these reports, KPMG explores several approaches to revenue protection.



Effective Channel Management Is Critical in Combating the Gray Market and Increasing Technology Companies' Bottom Line

In 2002, a KPMG survey uncovered some shocking figures related to the gray market: IT products valued at up to US\$40 billion in sales were passing through the market, and manufacturers were losing up to US\$5 billion annually. In a subsequent study, KPMG looked more deeply and broadly into channel management and found not only a direct link between channel-management effectiveness and gray-market severity but also

"Today, there are strategic measures that IT companies can take to reduce the risks of gray market behavior by properly devising and implementing strong channel partnership programs with proper checks and balances."

*Tom Lamoureux
Global Advisory Sector Leader,
Electronics, Software &
Services, KPMG in the U.S.*

other losses associated with channel incentives that were not adequately monitored and processed.

Sub-optimal channel management is leading to increased gray-market activity, and distributors are seeing a price erosion of as much as 25 percent in its wake. When unauthorized channels get hold of a product (at a lower price due to price arbitrage), they have no contractual obligations or costs associated with brand preservation and customer support. Therefore, they can sell that product at a lower cost than an authorized channel—and they do. The result is that your products are competing with lower-cost products—which are in fact your own!

Order your copy of KPMG's new gray-market study report to learn how the gray market may be siphoning off your profits, and what can be done to prevent it.

Tom Lamoureux



Tom assists technology companies in creating leading processes to improve risk management and enhance business processes. He developed and implemented leading risk assessment and audit-planning methodologies, led high-value internal auditing services, and created self-assessment strategies and solutions for internal audits. Tom's clients include many leading technology companies.

Identity and Access Management Initiatives: Too Much IT Application Focus, Not Enough Business Process Focus

Identity and access management (IAM) is a comprehensive set of business processes and supporting infrastructure for creating and maintaining digital identities and providing efficient, secure, and documented access to system resources such as enterprise resource planning data, specialized applications, phone service, e-mail, printers, and the organization's internal network.

Program improvement can significantly reduce the cost of IAM for a large organization. Spurred by the promise of IAM, middle-market and Fortune 1000 companies have made (and will continue to make) significant investments in program improvement initiatives. Nevertheless, in KPMG's experience, the success rate and benefits of such initiatives have varied tremendously.

Why has this variance been so significant? To find out, KPMG conducted an in-depth survey of IAM maturity. We looked at three distinct enterprise populations: those that had initiated program improvement, those that had implemented program improvement, and those that had not yet begun. This paper examines some of the reasons for the expectation gap and offers practical insights into how organizations can improve the implementation of their programs.

Request a copy of this study today.



KPMG's survey highlights several key reasons why IAM initiatives are not achieving their expected benefits. The most pervasive reason is an overemphasis on IT aspects of the implementation and an underemphasis on IAM business processes.

As KPMG's IAM Maturity Model makes clear, there are numerous "entry points" to the task of improving identity and access management—and once the task of maintaining the service is rolled out, it never ends.



Contract Compliance in the High Technology Industry

The majority of business partners in the high tech industry have self-reporting relationships. But very few of these companies audit even half of their partner relationships—and as a result, billions of dollars go unaccounted for each year. How can companies effectively test the accuracy and completeness of other parties’ self-reported information to satisfy good corporate governance demands, let alone to enhance bottom-line results?

“The main impediment to tighter verification is generally the importance of business relationships between the parties. However, KPMG’s experience shows that the vast majority of companies that do inspect their self-reporting relationships are likely to improve their revenue through better enforcement of contract terms. And done properly, relations with partners can actually be improved.”

*Ron Safran
National Partner in Charge,
Contract Compliance Services,
KPMG in the U.S.*

KPMG surveyed 155 high tech companies to understand the true extent of contract noncompliance and examine the barriers to effective compliance programs. The results were astonishing: approximately 90 percent of businesses that undertake a review of self-reporting relationships discover underreporting by their partners. However, this misrepresentation is rarely intentional; contracts that lay out the reporting process often are extremely vague or complex, and therefore easily misunderstood.

High tech companies should not rely solely on unverified self-reporting—the risk is simply too great. Read this report for information that can help illuminate the verification and reporting process as well as the potential pitfalls.

Ron Safran



Ron has more than 32 years of experience and has served as lead partner on many Global Accounts. He served in KPMG’s Department of Professional Practice, where he was national partner in charge of computer and statistical auditing and KPMG’s liaison to the AICPA on matters pertaining to assessment of internal controls. Ron has led strategic assessments of internal audit departments for companies in electronics and financial services.

Revenue Assurance for Digital Content

The digital media and entertainment industries have burgeoned in recent years—and they show no sign of slowing down. Because these revenue streams have grown from a lucrative sideline to a substantial mainstream business, it is imperative that companies now find ways to assure that revenue for the future.

Is your company missing out on money you should be making on digital content because you lack the proper controls? Are your business partners increasing your exposure to risk? What points in the value chain are most susceptible to cash “leaks”? This report explores these questions and related issues, such as why digital content requires a different assurance approach than “traditional” business and the taxation issues surrounding digital content.

Order a copy to learn more.



“The digitization and virtualization of today’s content business creates new opportunities but also means radically changed business models, especially in the media and entertainment industries. Content owners should be aware of the specific risks of these business models and in particular the issue of revenue assurance: ‘Am I getting the revenue my contract says I’m entitled to?’”

*Bob Crouwel
Partner and Head of
Intellectual Property &
Contract Governance Group,
KPMG in the Netherlands*

Bob Crouwel



Bob is the author of several articles on intellectual property, the self-reporting economy, and contract compliance issues. He is a frequent speaker on intellectual property and self-reporting in the information, communications, and electronics industries and in a cross-industry context. Bob has served many global companies with issues around revenue assurance and intellectual property and plays a leading role in the development of KPMG services in the digital content industry.

E-mail go-fmglobalmarketsic@kpmg.com for a copy of this report.



Is Unlicensed Software Usage Hurting Your Bottom Line?

Software license agreement violations, whether intentional or inadvertent, cost software companies billions of dollars in lost revenue every year. Compliance-related recoveries can deliver substantial returns for the company's bottom line—but what is the best approach for managing software license compliance? How can you conduct compliance reviews without damaging your organization's relationships in the marketplace? And how can you create fair settlement policies

designed to strengthen relationships with your clients?

This study offers a broad view of the practices currently in place in the software industry as well as best practices from executives at six prominent software companies. Is your business missing out on revenue because customers are violating their licensing agreements—intentionally or not? And if so, what should you do about it?

Read this report to find out.

“Unlicensed software use has a significant and widespread impact on the industry. Strong and well-executed compliance programs can recoup some of that revenue while maintaining a strong customer relationship.”

*Ron Brill
Advisory Partner,
KPMG in the U.S.*

Ron Brill



Ron is the firm's Global Champion for Software Asset Management (SAM). He has extensive experience in IT governance, information security, software licensing and compliance, and IT asset management. Ron has assisted leading companies in complex SAM initiatives and worked with leading software publishers on licensing, compliance, and asset management, and is a frequent speaker in software industry forums.

Improved Point-of-Sale Reporting Benefits Manufacturers, Channels, and End Users: A Study of the High Tech Industry

In a perfect world, manufacturers would always have up-to-the-minute information about the location, pricing, and handling of their products as they make their way through the distribution channel. Of course, this rarely happens—and point-of-sale (POS) reporting of sales-out and inventory by channel partners is a primary reason why. Gaps in channel tracking and reporting processes can put end users at risk of receiving unauthorized, unprotected, and possibly counterfeit products. In addition, these gaps can negatively affect channel partners and original equipment manufacturers (OEMs) by damaging their brand and reputation and may result in inaccurate incentive-claim payments based on unreliable data.

By improving POS reporting, companies throughout the distribution channel can work together to reduce the risk of brand erosion for the OEM, help minimize circumstances in which distributors are subject to multiple reporting procedures, and assure end customers of the originality and warranty support of the products they buy.

Learn more in this report about how you can streamline your own POS strategy.

Matt Behan



A member of the Contract Compliance Services practice, Matt has led contract compliance reviews, including royalty reviews, supplier reviews, most-favored pricing reviews, and channel partner reviews around the world. He has extensive experience in all aspects of audit engagements, including financial audits, business process analysis, risk assessments, control design and enhancement, and control and risk self-assessment.



“POS information received from channel partners is often used by vendors to calculate incentive programs. As incentive programs are often the second-highest cost of sales after the product cost, ensuring that POS is accurate, complete, and received on a timely basis is critical for a company’s success.”

*Matt Behan
Advisory Principal,
KPMG in the U.S.*

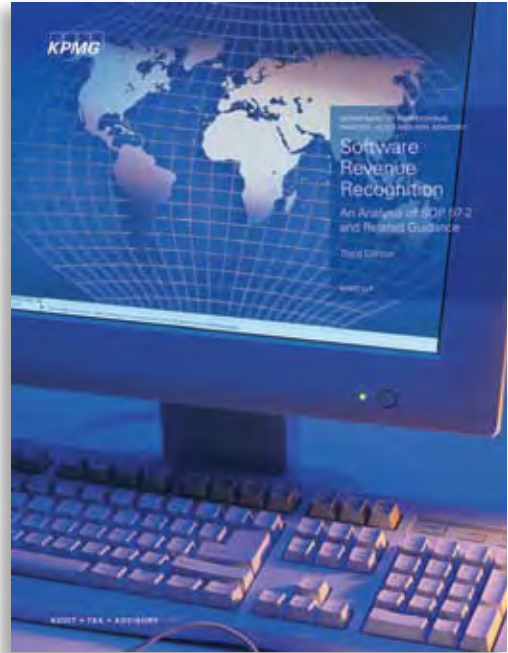
Risk Management

A single security breach or accounting misstep can unravel years of public trust and take a big bite out of a company's bottom line. But even when you understand the stakes, it can be difficult to know exactly how to keep your company in compliance. Regulations surrounding international supply chains, financial reporting, and the privacy of sensitive personal information are more complex than ever—and at the same time both local and international governing bodies are scrutinizing businesses more closely. In these reports, KPMG examines the implications of the regulations that are currently in effect and offers guidance on how to manage risk efficiently and cost effectively.

Risk Management

Software Revenue Recognition: An Analysis of SOP 97-2 and Related Guidance, Third Edition

AICPA Statement of Position No. 97-2 (SOP 97-2), *Software Revenue Recognition*, established detailed guidance on how revenue should be recognized for transactions involving software. The first edition of KPMG's *Software Revenue Recognition*, published in 1998, was designed to assist software vendors and users of their financial statements, as well as auditors, in the adoption of SOP 97-2, which significantly affects revenue recognition practices in the software industry.



Since the issuance of SOP 97-2, a substantial amount of additional accounting and disclosure guidance affecting software vendors has been issued. This guidance includes AICPA statements of position, AICPA technical practice aids, EITF issues, and SEC interpretations. Additionally, business practices in the software industry have evolved since SOP 97-2 was issued, with an increased focus on time-based licenses, subscription arrangements, and hosting services.

In response to the additional accounting guidance and changes in the software industry's business practices, KPMG issued the third edition of *Software Revenue Recognition: An Analysis of SOP 97-2 and Related Guidance* in November 2007. This edition focuses on revenue recognition practice issues in the software industry and application of the existing literature to a wide range of transactions.



Improving Transfer Pricing Risk Management in High-Technology Companies

Transfer pricing is no longer a topic reserved for accounting specialists. It is a strategic issue that executives must understand to conduct business effectively in a global environment. National boundaries are more important than ever in today's global business world. Many countries have recognized that technology companies routinely move assets between jurisdictions in the normal course of developing, producing, and selling products—and they are

exploiting that opportunity to boost revenue for their local tax base.

To further compound the challenge, the compliance environment has tightened dramatically as government auditors have become better trained and strict enforcement standards have been applied. However, solid corporate governance practices, a comprehensive transfer pricing policy, ongoing compliance monitoring, and intercompany pricing agreements can help mitigate these risks.

Learn more about transfer pricing and associated risk management practices in this report.

As the number and scope of intercompany transactions continue to grow in the expanding global economy, the frequency of tax audits relating to transfer pricing is increasing—particularly in the high tech sector.

Internal Controls Study of Technology Companies

Since the introduction of the Sarbanes-Oxley (S-O) Act of 2002, complying with S-O section 404 regulations—and managing the associated costs—has been a significant challenge for technology companies. Is your company doing everything it can to identify opportunities for increased efficiencies and other business process improvements?

In this second annual study on process-level internal controls in the high tech industry, KPMG examines controls on both financial and IT processes by cycle (e.g., order-to-cash) and sub-level process (e.g., accounts receivable). The report offers points of comparison within the industry that may help pinpoint ways to realize additional value from S-O 404 compliance investments.

The report also includes the results of the third annual benchmark study of KPMG's 404 Institute, which provides insight into the program tactics used by leading companies that have reduced S-O 404-related costs and achieved lower deficiency rates.

Read this report to learn more.



Technology companies can use the information they collect through S-O 404 assessments to understand where they have opportunities to streamline and standardize business and IT processes—particularly in the finance function.



From the executive suite to call centers, concern about privacy should be part of a company's culture.

Telecommunications Carriers Respond to Information Security and Privacy Protection Concerns

Sensitive personal information, from phone numbers and addresses to social security numbers and credit card data, streams constantly through the networks owned by telecommunications service providers. But even a single security breach can cost a company millions and destroy its reputation.

Privacy protection should involve three tiers: at the network perimeter, within business applications, and at the human

level. Access controls and systems monitoring can provide a first line of defense. Data segregation also can help to protect customer privacy within business systems—although it may require reversing years of costly integration work. Comprehensive audit trails as well as strong policies on the regular review of activities logs help to protect against data theft. Most importantly, though, companies must make sensitivity to privacy issues a core value of their culture.

Read this report and learn how you can make security and privacy second nature at your company.

Regional Reports

“Think globally, act locally” should be the mantra of technology companies in the age of convergence. Digital technologies have made worldwide sourcing, development, and distribution a reality. But at the same time, executives must remember that regional market nuances are more important today than ever. Understanding local cultural factors, infrastructure, business practices, and regulations can make the difference between dominating a market and launching a product that is dead on arrival. In these reports, KPMG explores the opportunities and challenges in specific geographic areas.



The Video Games Market in China: Moving Online

As video games move online, the gaming experience becomes more about community. Online games are no longer products—they are service marketplaces that can support multiple revenue models, ranging from subscription-based access to in-game advertising to merchandise schemes. But how can companies determine the most effective combination of revenue streams? Which companies have already demonstrated success in the market? Which gaming trends are gaining momentum elsewhere in the Asia Pacific market, and what impact will they have on China?

The Chinese online video gaming market represents enormous opportunity for game providers that can develop the right mix of revenue models and connect effectively with their target demographic.

Read this report to learn more.

The online video games market is becoming one of the big drivers of telecommunications and IT services growth, particularly in China where growth in subscribers is parallel with growth in the Internet and mobile subscriber markets. Online games are already a big driver of the entertainment industry, and poised to be the big area of industry growth over the next decade. This combination is producing a profound set of challenges as well as opportunities as the industry struggles to find business models that work appropriately across the converging entertainment and communications sectors.

Competing on Strengths: The Challenge for Europe's IT Companies

In this second annual review of Europe's technology sector, KPMG explores the challenges and opportunities facing European suppliers of hardware, software, and IT services. Among the key findings: although European companies are less competitive on price than their American and Asian rivals, price is not everything. IT managers gave high marks to European suppliers for the high quality of their products and their close attention to local needs. At the same time, European companies are finding new ways to lower costs—for example, by “near-shoring” manufacturing functions to Central and Eastern Europe.

This report also explores steps that industry leaders and policymakers could take to improve the long-term competitiveness of the European IT sector. New IT companies have broad access to start-up capital in Europe, but they face significant challenges in trying to scale their businesses. To help promote sustained IT growth in the region, survey respondents recommended measures such as enhanced education funding, tax incentives for research and development (R&D) investment, improved R&D financing, and increased public funding.

What will global economic pressures mean for the European IT sector going forward? This report provides insights and thoughts for your review.



Nearly nine out of ten participants in the 2006 survey said they would prefer to find local or regional suppliers for at least some IT products and services.

The most significant area of improvement for Europe's IT companies appears to be in their level of innovation.



Confounding conventional expectations, outsourcing is quite popular with companies in Asia Pacific. Half of the surveyed executives said they currently outsource IT solutions.

Asian Outsourcing: The Next Wave

What will outsourcing look like in Asia? How are Asian companies making decisions about which service providers to use? And as the next wave of Asian outsourcing sweeps through the region, how will it change the landscape of global business?

This report explores these questions in-depth through a survey of 305 executives in the Asia Pacific region as well as interviews with companies that outsource and the service providers they employ. Despite a widespread belief that outsourcing is not yet com-

monplace in Asia, the report reveals that outsourcing is more pervasive than generally thought. Even companies in China and India—markets where there is little arbitrage in labor and operating costs—are outsourcing some functions. Companies throughout the region are beginning to realize additional benefits of outsourcing, such as enhanced competitiveness through global best practices and the ability to focus more closely on core competencies.

Order this report to discover how the next wave of Asian outsourcing could change the way you do business.

Mobile Payments in Asia Pacific

A quiet revolution is under way in the Asia Pacific region. Thanks to the rapid, widespread adoption of mobile and wireless technologies, millions of people are newly connected to the global economy—even in remote areas. This access opens the door for new types of content, services, and payment models for companies in the telecom, banking, retail, transportation, and media industries.

However, some significant roadblocks—primarily trust, security, and affordability—are slowing this transformation. How can companies address these issues and use mobile payments to reach the enormous emerging market in Asia? Which countries represent the greatest opportunity? And what potential regulatory obstacles should you watch out for?

Read this report for answers to these questions and more.



“When it comes to innovation in mobile telephony, Asia Pacific continues to lead the way. Across the world, mobile communication has proven to be transformational over the past ten years and will now change the way we deal with financial transactions. There are serious issues of trust, security, and common standards to be faced, but the ‘pull’ of consumer demand will quickly accelerate the development of mobile payment systems.”

*Edwin Fung
Partner,
Information, Communications
& Entertainment,
KPMG in China*

Edwin Fung



Edwin, an audit partner based in Beijing, is responsible for the audits of some of China’s largest telecom and real estate property companies as well as several multinational organizations. Edwin joined KPMG in 1986 and was seconded to KPMG in the U.S. from 1993 to 1995.



“Although a complex subject, transfer pricing strategies deserve thorough discussion in boardrooms, among audit committee members and across senior management. In Asia Pacific, the electronics sector was one of the first to come under serious transfer pricing scrutiny from tax authorities.”

*Steven Tseng
Partner and Asia Pacific Leader,
Global Transfer Pricing Services,
KPMG in China*

Transfer Pricing in the Electronics Industry in Asia Pacific

Some of the world’s largest, most recognizable brands are electronics companies that have achieved dominance by extending their operations across borders, even around the world. One might assume that national boundaries are becoming less relevant in the electronics industry—but with regard to taxation, the opposite is true. Many Asian countries are guarding their revenue bases more closely than ever before, and some have stepped up policy enforcement dramatically. Consequently, it is imperative that companies operating in the region understand how their

transactions function across borders and among related parties.

The electronics industry has been the primary subject of scrutiny to date, but eventually tax authorities will examine other industries as well. And although it can be a complex topic, transfer pricing policy and strategy deserves in-depth discussion in the executive suite of any enterprise operating in the region.

Read this report to learn how transfer pricing issues in Asia may affect the way your company does business in the future.

Steven Tseng



Steven has been active in advising multinational companies on transfer pricing issues since 1994. His transfer pricing career includes experience in Finland, where he was partner in charge of Financial Advisory Services and a member of the firm’s Executive Board. Prior to joining KPMG he worked with other global organizations in New York, Washington, D.C., and Tokyo.

International Financial Reporting Standards

International Financial Reporting Standards (IFRS) are a focus of attention for reporting entities around the world. Since 2005, listed companies in the European Union have been preparing their consolidated financial statements using IFRS and all companies in Australia and New Zealand use their countries' equivalents. Canada will require publicly accountable enterprises to adopt IFRS for fiscal years beginning on or after January 1, 2011, and both U.S. and Japanese authorities are considering adoption around the same time. However, the transition from locally accepted accounting standards to IFRS can be complex. In these reports, KPMG examines how the new standards should be applied, how they compare with local accounting practices, and the particular implications of IFRS for the telecommunications industry.



IFRS: An Overview

With accounting borders crumbling as IFRS is adopted around the world, it is no longer a safe bet that accounting differences between companies in the same industry are due to national variations in accounting standards. Today, a company's accounting will be compared not just with its peers in its home country and region but also with its global competitors. This will inevitably result in ongoing adjustments to accounting policies as norms are established or demanded by users and regulators.

IFRS: An Overview is an executive summary of the key requirements of IFRS. It is organized by topic, following the typical presentation of items in financial statements. Separate sections deal with general issues such as business combinations, specific balance-sheet and income statement items, and special topics such as leases. Another section focuses on issues relevant to entities making the transition to IFRS.

Read the report to learn more.

IFRS Compared to National GAAP (U.S., Canadian, Dutch, Russian, and Swedish)

A second wave of countries is expected to adopt or converge with IFRS around 2011. Companies in these areas have the distinct advantage of being able to learn from the experiences of early adopters—in terms of both managing the process and understanding the standard.

These five white papers provide a detailed analysis of the differences between IFRS and generally accepted accounting principles (GAAP) in five second-wave countries: Canada, the Netherlands, Russia, Sweden, and the United States.

Is your company ready to transition to IFRS? The information in these reports can help you find out.



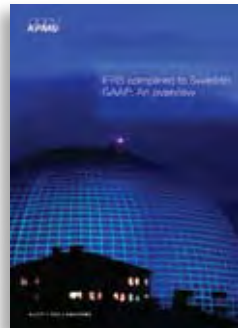
IFRS compared to Canadian GAAP: An overview



IFRS compared to Dutch GAAP: An overview



IFRS compared to Russian GAAP: An overview



IFRS compared to Swedish GAAP: An overview



IFRS for Technology Companies: Closing the GAAP?

Conversion to IFRS from U.S. GAAP for financial reporting can change the accounting for transactions, including revenue recognition, and affect a company's people, processes, information systems, and controls.

Although the United States is one of the last major markets to consider adoption of IFRS, there is increasing U.S. support for a single set of global accounting standards among preparers, investors, auditors, standard-setters, and regulators, and the momentum in the technology sector toward IFRS appears to be building.

In light of these developments, KPMG is publishing a series on industry-specific issues facing technology companies currently using U.S. GAAP as they consider a transition to IFRS. The first in the series, *IFRS for Technology Companies: Closing the GAAP?*, provides background on the current state of IFRS–U.S. GAAP convergence efforts from a regulatory and standard-setter perspective, discusses how IFRS compares with U.S. GAAP in key accounting areas for technology companies, and shares views on how transition may affect business processes, systems, and people—focusing primarily on revenue recognition. Future publications will continue to focus on technology industry challenges and opportunities.

“The executives who have the information to understand the IFRS adoption challenges and changes specific to their industry and company are more likely to set out on the right path from the start, saving time, minimizing costs, and reducing compliance risk.”

*Gary Matuszak
Global Chair,
Information, Communications
& Entertainment*

IFRS Accounting in the Telecommunications Industry

Telecom accounting has never been a straightforward matter, and with the introduction of IFRS, the situation became even more complex. Revenue recognition remains a hot topic for the telecom industry, as does cost recognition—particularly the question of whether costs should be expensed, capitalized, or deferred to future periods. Although IFRS has a specific revenue recognition standard, guidance remains vague in several areas.

Continual changes in telecom accounting make it imperative that telecom executives and managers stay current with accounting developments. Rather than provide a definitive guide to policies that should be followed under IFRS, this publication examines which policies may be followed by organizations adopting IFRS and what constitutes best practices within the telecom industry.

An update to this report is due in winter 2008–2009.



Where GAAP is clear, few in the industry are willing to push the boundaries of what is considered “best practice” for their sector. However, in many areas it is evident that applying GAAP to telecom businesses is not straightforward.



IFRS Practical Issues: Accounting Solutions for the Media and Publishing Industries

A new series of brochures, “IFRS Practical Issues” by KPMG in Germany, focuses on providing practical solutions for specific IFRS accounting issues arising in the relevant industries. Currently, there are publications for the media and publishing, automotive, and consumer goods and retail industries.

The publication for the media and publishing industries mainly addresses accounting for the various types of media and publishing rights, revenue recognition principles for the media and publishing industries, and issues such as accounting for launch and subscriber acquisition cost, business combinations, and transmission capacities. The various accounting issues are presented in a Q&A format.

An English translation of this report is due in late 2008.

Digital convergence is driving expansion and growth in the information, communications, and entertainment (ICE) industry, bringing new opportunities for profit as well as spiraling operational demands.

Many of today's companies are just now addressing the operational risks and challenges inherent in their digital strategies—whether monetizing new digital assets or ensuring that internal financial, IT, and other systems are integrated and functioning well globally.

We understand that when it comes to tackling tough problems, KPMG member firms' clients look for a relationship based on trust that is facilitated by regular and open communications. We're pleased that many of the world's largest ICE companies have chosen KPMG member firms as their business and financial advisers. It is a distinction our ICE professionals work hard to earn every day.

ICE services focus on assisting KPMG member firms' clients with key issues facing their industries, including:

- Licensing and rights management
- Content security
- Software license management
- Outsourcing
- Tax implications of digital services
- Regulatory compliance
- Consolidation
- Changing revenue and distribution models.

KPMG member firms have the experience, resources, and skills to work with ICE clients globally to address issues affecting their businesses. For information on our services, please contact us at go-fmglobalmarketsic@kpmg.com.

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