



Clarity on KPMG Switzerland

Annual report 2020

Together for better

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KPMG generated solid annual results, even despite the challenging environment. Net sales of CHF 443.0 million fell slightly short of the previous year (-2.7%, with gross sales of CHF 583.5 million). That our clients were forced to completely rearrange their projects in response to the coronavirus crisis did not go unnoticed. Net sales generated by Audit services amounted to CHF 218.0 million (-3.1%), CHF 120.8 million (-2.7%) by Tax & Legal services and CHF 104.2 million (-1.9%) by Advisory services.

Ongoing investments in the future

KPMG has once again made substantial investments in its staff, its digital capabilities and key partnerships during the year under review: More than CHF 5 million went toward training and further development opportunities for staff and 6% of the firm's revenue was invested in technological advances. On top of that, KPMG hired around 600 new specialists during this same period and promoted lifelong learning initiatives as well as efforts to boost our employees' good health and their participation in physical activities.

KPMG has also continued to invest in the development of its corporate ecosystem. Commitments with *economiesuisse*, *digitalswitzerland*, *WomenCorporateDirectors* and many other national, regional and expert networks have enabled KPMG to position itself as a reliable partner in the Swiss economy and help

Switzerland flourish as a business location. KPMG's Board Leadership Center additionally provides board members in Switzerland with an exclusive, high-caliber networking platform. The year under review also saw KPMG continue its close collaboration with several universities and universities of applied science and solidify its standing as an opinion leader on key issues currently affecting the market and professional topics, in part through the publication of prominent studies.

Another noteworthy commitment is the KPMG Foundation, a non-profit foundation independent of KPMG. It supports innovative projects in the areas of education, the integration of people with disabilities or socially disadvantaged individuals as well as people in need. The KPMG Foundation provides funding of up to CHF 10,000 each to several small to medium-sized charities and projects every year.

New technologies revolutionize Audit services

218.0

CHF million
Net sales 2020

-3.1%

KPMG generated strong results with its Audit services over the course of the past fiscal year, with this success partly attributable to technological innovations in the area of audit and data analytics as well as extensive investments in employees. Never before have KPMG auditors undergone as many hours of training as they have in the past fiscal year. And never before has digitalization impacted the audit business so strongly. The latter is attributable not only to the wave of digitalization set off by the coronavirus crisis but especially to KPMG's enormous investments in strengthening the firm's digital capabilities.

The launch of KPMG Clara, a globally integrated audit platform, unleashed a wealth of new potential for data analytics and collaboration, both for clients and KPMG alike. This solution leverages the capabilities of artificial intelligence to help us strengthen the reliability of our audit results and the relevance of our reporting even further. What's more, it opens up new types of auditor-client collaboration and now allows us to interact with our clients on the platform in real time to share relevant information. We are increasingly capable of performing analyses directly in clients' ERP systems and then using a tailored approach to visualize the findings.

Our audit clients have been facing a wide range of different challenges throughout the pandemic. Many found themselves forced to take immediate action, whereas others came to the realization that their business models needed long-term changes. KPMG provided its clients with comprehensive support on a diverse range of issues by reviewing the resilience of a variety of scenarios and analyzing the financial repercussions of revised budgets, forecasts and assessments. KPMG's services were also in demand on matters related to the corporate law reform.

For clients from the financial sector, the potential impact of the coronavirus pandemic has shifted their focus to lending, lending-related processes and their valuation models. With the switch to remote work for nearly all relevant banking units, financial institutions focused increasingly on business continuity management and cyber security risks. With respect to cyber security risks, they also paid special attention to outsourced and third-party services.

The importance of certification work, which can take many different forms and extends beyond the traditional audit business, is growing as well. KPMG, for example, is the first institution in Switzerland to have been accredited to carry out and certify the results of equal pay audits. New topics such as these and digitalization have made it necessary for auditors to take on additional tasks and learn new skills, a trend that is both transforming and expanding the profession's job description.

Since many clients' economic prospects remain uncertain as the coronavirus crisis wears on, KPMG's auditors will need to provide clients with close-knit support for the duration and offer tailor-made solutions based on new technologies.

Tax & Legal focuses on international issues

120.8

CHF million
Net sales 2020

-2.7%

At Tax & Legal services, the fiscal year was dominated by ongoing digitalization, new EU disclosure rules for intermediaries and taxpayers (DAC6) as well as new issues that have arisen as result of the coronavirus crisis. Additionally, implementation of the Federal Act on Tax Reform and AHV Financing (TRAF) and companies' extensive transformation-related needs in connection with the digitalization of global value chains have produced a great deal of momentum. Another striking trend over the course of the past fiscal year has been persistently high demand for global mobility services, which help our clients leverage the benefits of global mobility in a legally compliant manner. Efforts to optimize value chains have increasingly been taking center stage at the same time, not least as a result of the coronavirus crisis.

The tax advisory business also experienced strong demand for services related to large mergers and acquisitions as well as complex restructuring projects. The trend toward outsourcing certain finance functions such as payroll accounting, financial accounting as well as tax and global mobility services remains unbroken. Managed services, for instance, now account for a growing share of the tax advisory business. These automated, computer-aided processes (multi-shore tax reporting, global equity tracker, etc.) make it possible to adopt a legally compliant, reliant, international approach, even when dealing with complex fiscal requirements.

Legal, which now operates within the global KPMG Law network of more than 2,700 legal experts, experienced particularly high demand for services connected with employee mobility and within the framework of Swiss labor market regulation. The second half of the fiscal year saw an increase in the need for advice on problems stemming from the coronavirus crisis, including issues related to remote and short-time work as well as cross-border issues.

The new technological capabilities and our clients' expectations of these have substantially broadened tax advisors' job descriptions, with this expansion in key topics and required skills making the task both more challenging and more enriching at the same time. This trend is also reflected in our demanding employee training and development program.

In demand on many fronts: our Advisory services

104.2

CHF million
Net sales 2020

-1.9%

The advisory business owes its solid results to digitalization, something that has emerged as a common thread connecting our clients' many business areas. Demand was particularly high for advisory services related to cyber security and sophisticated security certifications. The sensitive nature of corporate data, reliance on technical systems and the growing professionalization of cyber criminals have increased the risk of attacks that have serious repercussions such as business disruptions, extensive data loss and leaks.

Not only did KPMG help its clients prepare strategies for managing cyber risks and take organizational and technical measures designed to boost their companies' resilience against cyber attacks, it also helped clients deal with actual cyber incidents. As clients embarked on their journey into the cloud, KPMG's interdisciplinary team provided support with a focus on compliance, data management and risk-related issues in addition to technical questions.

KPMG's specialists faced challenges in the field of forensics, as well. By deploying state-of-the-art forensic technology (machine learning, artificial intelligence and data visualization) and an interdisciplinary team of IT specialists, investigators, auditors and lawyers, the firm was able to provide clients with comprehensive support to address cases of corruption and fraud as well as third-party risks and compliance-related issues. Demand for management consulting services continued to rise. A greater focus on costs combined with the new

digitalization requirements that have arisen in connection with the coronavirus crisis have resulted in specialists being inundated with engagements related to the digitalization of finance functions or the reassessment of value chains, which have become increasingly fragile. KPMG's expertise was also sought for the planning and implementation of ERP systems and ERP-driven transformation processes.

Deal Advisory, which supports clients through every phase of business (or business unit) acquisitions and sales as well as with strategic partnerships and restructuring, also looks back on a successful fiscal year. By adopting a holistic approach and having set up projects in advance, this area managed to offset the temporary slump in the transaction business caused by the coronavirus crisis. Current upheavals can be expected to trigger a strong surge in demand for transformation-related services in the medium term as well as a return to high transaction volumes.

Heavy demand for advisory services in the financial sector

With the Swiss financial center continuing to face major challenges throughout the past year, KPMG's finance and banking specialists were consulted on a variety of matters, especially regarding the increasing regulatory burden and questions on how to correctly implement those regulations. In the regulatory sphere, demand was particularly high for advisory services on upcoming legislative changes and revisions such as FinSA, FinIA, MiFID II as well as preparatory work related to loan origination and monitoring. Support on efforts to combat money laundering and corruption continued to be pivotally important for reducing business and reputational risks.

34.0%

Share of net sales

The current low-interest environment as well as central banks' expansionary monetary policy are intensifying pressure to transform business models in the interest of optimizing costs and tapping new earnings opportunities. Here, KPMG had the chance to assist financial institutions with many transformation projects, the majority of which were technology-based. Investors' growing appetite for sustainable investments and related regulations aimed at ensuring adherence with general standards have elevated demand for consulting services related to sustainable finance (ESG). Most financial institutions have identified this trend as a strategic market and it is the subject of growing interest.

Our insurance clients found themselves confronted with challenges that were similar to those of banks. The trend toward digital business models, for example, continues unabated in the insurance industry, as well, while demand for automated solutions is high, particularly in the area of claims processing. Additionally, our KPMG specialists provide insurance companies with the support they need for their compliant introduction of the new IFRS 9 and 17 accounting standards as well as the introduction of new IT and reporting systems in the finance function.

Doing the right thing

A hand is shown holding a large, golden bell. The background is a bright, hazy sun, creating a warm and optimistic atmosphere. The bell is the central focus, symbolizing a call to action or a significant announcement.

Corporate responsibility, sustainability, ethics and compliance – those terms are gaining renewed importance in today’s world. Companies, their boards of directors as well as their auditors are held to high standards: Not only are companies expected to serve their shareholders, they also have to satisfy a variety of different stakeholders and contribute to the wellbeing of society. Auditors are expected to act “in the public interest”; to not merely focus on their clients and fees but always act with an eye to protecting investors and other relevant parties.

As far as audit firms are concerned, this holds true for both audit engagements and advisory services. That is why KPMG has positioned “Integrity” at the heart of its value system. To us, acting with integrity means doing the “right thing”; something that is not only measured on the basis of our relationship with a client and our financial success, but also on how an adequately informed third party might evaluate an action or matter.

Often, the situations that arise when assessing economic transactions are not black or white but instead call for a great deal of discretion. That makes it all the more important that critical judgements like these are not made single-handedly, but rather within a team and in

consultation with the “right” authorities and specialists. With that in mind, we cultivate a culture that embraces collaboration and communication – across all hierarchical levels. In our opinion, consulting with others is not a sign of weakness, rather an expression of responsible conduct. Because generally speaking, a team produces better decisions and results than a lone professional working behind closed doors.

At KPMG, quality and risk management comprises a set of guidelines, processes, controls and activities which ensure that we maintain our independence and infuse the necessary integrity, objectivity and quality into everything we do. Read our Transparency Report for additional information.

Regions post encouraging results

After years of stability, the course of business in our market regions proved very robust again this year. Not only did KPMG continue to support its longstanding clients but it also succeeded in making several prominent new client acquisitions.

41.2%
Share of net sales

Generating around 40% of KPMG's net sales, the regions contribute substantially to the success of the firm. Accordingly, KPMG invests considerable resources to ensure that it is capable of meeting its regional clients' every need. This includes investments in employees at the individual locations, in the IT infrastructure and in efficient processes and integrated client solutions. KPMG additionally engages in vital networks by participating in trade associations and chambers of commerce, for example, and by cooperating with networks and local businesses.

Unsurprisingly, the coronavirus crisis was the main driver among regional clients this year. When it comes to dealing with the economic and regulatory consequences of the crisis, Swiss companies have been and still are facing a plethora of challenges. Topics such as liquidity management and coronavirus loans, remote work and short-time work have given rise to a long list of unresolved questions at SMEs that even seasoned advisors consider unprecedented. Digitalization, the enormous regulatory burden as well as ongoing legal uncertainty related to bilateral relationships with the EU have resulted in heavy demand for audit and advisory services. KPMG, which has been facing challenges of its own but has not applied for short-time work, will continue to actively support regional businesses during these turbulent times.

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