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Shareholder questions: Considerations for 2013 annual meetings

Events & Trends

Guidance for management and boards of directors preparing for annual shareholder meetings.

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Contents

Words from the Editor

For most Boards, spring signals the onset of the corporate annual shareholder meeting season. To help directors meet the demands of their roles and enrich boardroom discussions, this issue of "Events & Trends" offers information, insights, and practical guidance on the key governance issues they face.

A company's annual meeting provides its shareholders with an opportunity to ask questions of management and the board of directors about the company's performance, and provides management with an opportunity to present its views. To help management and boards of directors in preparing for annual shareholder meetings, the lead feature article, "Shareholder questions: Considerations for 2013 annual meetings," contains examples of shareholder questions that might be asked of them.

This guidance document, originally published by the PwC US assurance services practice in March 2013, highlights the various topics that may be top-of-mind for shareholders, along with background information and suggested actions for management's consideration. While it is not a comprehensive list of questions shareholders may ask, it can be used as a starting point for the preparation.

Besides directors, audit committees play a critical role in overseeing the integrity of corporate financial reporting. The first of our 'Issues' articles, "Key questions for audit committees," offers insights and considerations intended to help board and audit committee members with their oversight responsibilities. This January 2013 update from the PwC US Centre for Board Governance outlines questions they should ask management at the year-end reporting cycle and throughout the year.

Such information should be particularly useful for Taiwanese boards, given the recent new requirement for financial services providers and non-financial companies with capital exceeding NT$50 billion (US$1.7 billion) to set up audit committees. The Financial Supervisory Commission is also considering the mandatory establishment of audit committees for all local listed-companies.

In Taiwan, there have been a number of regulatory changes of late in relation to financial reporting and corporate governance, in particular the adoption of IFRS starting from 1 January 2013. The second 'Issues' article, by PwC Taiwan partners Dexter Chang and Ross Yang, summarises and analyses what these recent changes entail for Taiwanese companies and local corporate leaders, with special emphasis on the issues to watch for when convening board and shareholder meetings this year.

As always, I welcome your constructive feedback and suggestions on ways to improve this PwC publication, and encourage you to contact me at damian.gilhawley@tw.pwc.com

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Damian Gilhawley

Editor-in-Chief, Events & Trends

Feature

Shareholder questions: Considerations for 2013 annual meetings

Accounting for income taxes

What is the company doing to make its tax reporting more transparent and easier to understand? Has the company been challenged by the IRS on any transactions as lacking economic substance?

Background
Financial reporting of income taxes is a complex area that requires a deep knowledge of income tax accounting models, tax laws, and regulations in all relevant jurisdictions. The evolving economic, regulatory and tax legislative environments have magnified income tax complexities. As such, investors have shown increasing interest in obtaining enhanced decision-useful information on income taxes.

Effective Tax Rate and Tax Structures
Investors are interested in understanding a company's effective tax rate and tax-related cash flows. Items greater than five percent of the company's statutory tax rate are required to be disclosed.

In recent years, investor expectations have increased related to transparency on effective tax rates and the related tax structures that impact the effective tax rate. In particular, the "foreign tax rate differential" or similarly named line items within the rate reconciliation have received heightened attention from investors and regulators. Consideration should be given to separately identifying or disclosing amounts which, although related to foreign operations, may not clearly or directly be attributable to the foreign rate differential. Disclosures are required where a company expects a material change to its effective tax rate in the next 12 months.

Indefinite Reinvestment Assertion
There is a general presumption that all undistributed earnings of foreign subsidiaries will be transferred to the parent entity. Many companies overcome this presumption by asserting they will indefinitely reinvest foreign earnings. However, the downturn in the global economy and resulting liquidity needs in recent years can make this assertion more difficult to support.

An entity that asserts it will indefinitely reinvest foreign earnings must compile evidence and have a specific plan to support such a position. There is interplay between a company's indefinite reinvestment assertion for income tax accounting and its liquidity disclosures. Companies that assert indefinite reinvestment of foreign earnings should consider the need to highlight that cash and short term investments currently held by these subsidiaries may be unavailable to fund domestic operations or obligations without incurring a significant amount of taxes upon repatriation.

Valuation Allowances
Establishing a valuation allowance for deferred tax assets requires significant judgment. During the recent economic downturn, some companies have needed to establish a valuation allowance against a deferred tax asset. As the economy continues to recover, companies that have returned to profitability may have reversed, or are considering reversing, a valuation allowance. A continual evaluation of all positive and negative evidence is required when considering whether to establish or release a valuation allowance.

Contemporaneous documentation about management's judgments should be prepared and include how the company (1) evaluated alternative accounting treatments; (2) considered all available evidence; (3) reached its conclusions; and (4) evaluated the transparency and adequacy of the related disclosure.

Uncertain Tax Positions
While the guidance for uncertain tax positions (UTPs) is not new, UTPs continue to be a challenging area. Assessing UTPs is a continuous process that requires companies to reassess unresolved UTPs at each reporting period, and, among other things, consider when to record the benefit of a tax position. If there is an ongoing tax audit that may have a significant impact on the financial statements, a company should disclose an estimate of the range of reasonably possible changes or instances in which an estimate cannot be made.

Management's Considerations
If applicable, management should consider describing how it has enhanced the company's disclosures related to income taxes. Based on what is described in the financial statements, management should also be in a position to support judgments made related to valuation allowances, permanent reinvestments, or uncertain tax positions. Management may also want to ensure it is aware of any recent SEC comment letters received by the company on this topic.

For more information:

- Tax Accounting Services NewsAlert, *Financial Accounting Foundation conducting review of accounting for income taxes*
- PwC's *Accounting for income taxes: 2012 year-end hot topics*
- PwC's Global Tax Accounting Services, *Around the world: When is a tax law enacted or substantively enacted?* (December 12, 2012)

Fair value measurement of financial instruments

Has the company received any comments from the SEC staff related to its fair value measurements or disclosures? How does the company measure its level 3 (hard to value) assets and liabilities? How does the company oversee its third-party pricing service?

Background
New guidance on fair value measurement became effective (for public companies) for periods beginning after December 15, 2011. This guidance provides a consistent definition of fair value and common requirements for measurement of and disclosures about fair value of financial instruments between US and international accounting standards. The guidance did not affect which assets and liabilities are required to be, or can be, measured at fair value. Also, the guidance didn't significantly affect the measurement of fair value, but instead was primarily disclosure-related.

The updated guidance requires various new disclosures. Companies are now generally required to disclose quantitative information about all significant unobservable inputs used to value "Level 3" assets and liabilities. "Level 3" assets and liabilities are those whose values are based on inputs that are both unobservable and significant to the overall fair value measurement. In contrast, "Level 2" measurements are based on inputs other than quoted prices that are observable for the particular asset or liability.

Companies must also include a qualitative discussion of the sensitivity of the fair value measurement to changes in the significant unobservable inputs, the inter-relationship between the inputs, and a description of the valuation techniques and inputs used to measure both Level 3 and Level 2 assets and liabilities. Also, for the first time, public companies must disclose the level in the fair value hierarchy for those financial instruments not measured at fair value, but for which fair value is only disclosed.

Use of Third-Party Pricing Services
Many companies use a third-party pricing service to assist in performing their valuations. Regardless of the valuation source, all valuations, even those performed by a third party, are the responsibility of the reporting entity.

The "third-party pricing exception" in the new guidance allows a reporting entity to omit certain quantitative disclosures about unobservable inputs that are not developed by the reporting entity. However, to comply with the disclosure requirements, companies have been working more closely with their pricing service to obtain an understanding of the models used and the related inputs.

Management's Considerations
All stakeholders continue to be keenly focused on fair value measurement. Based on the updated disclosure in the financial statements and in light of the new fair value guidance, management should be prepared to describe how it values its assets and liabilities as well as how it is planning for future changes in accounting guidance that are being discussed by standard setters.

For more information:

- PwC's *Guide to accounting for fair value measurements, incorporating ASU 2011-04 (2012 edition)*
- Dataline 2012-20, *2012 year-end accounting and reporting considerations - Leading practices and lessons learned on key topics*
- Dataline 2012-05, *New fair value measurement standard - Adoption of the new guidance: First quarter 2012 measurement and disclosure observations*

Impairment of financial assets

Can you explain the company's process for evaluating impairments? Is there a potential risk of future impairments that could affect the company's financial statements?

Background
Accounting standards primarily require impairment of financial assets to be reflected under an "incurred" loss model. Under this model, losses are not recognized until it is probable that a loss event has occurred. Reflecting back on the financial crisis, many believe that the "incurred" loss model results in delayed loss recognition and does not allow companies to consider all available information when determining credit loss allowances. Some believe that this model has too high a threshold to recognize a credit loss, resulting in losses being recorded too late in the credit cycle.

Recent Developments
The objective of recording an allowance for credit loss is to reflect the estimate of the amount of contractual cash flows not expected to be collected. The FASB has been working on a revised impairment model, and recently issued a proposal that would significantly change how companies recognize and measure impairments. The FASB's proposal, referred to as the "current expected credit loss" model, eliminates any threshold required to record a credit loss and allows entities to consider a broader information set when establishing an allowance for credit losses.

The proposal applies to financial assets that are subject to credit losses and that are carried at amortized cost or fair value with changes in fair value reflected in other comprehensive income. The scope of the model includes loans, debt securities, loan commitments, reinsurance recoverables, lease receivables, and trade receivables. The FASB's proposal calls for a single impairment model that would replace the multiple impairment models that exist today under US GAAP.

The proposal would require companies to consider a minimum of two possible scenarios when estimating expected credit losses. One scenario would assume a credit loss occurs, and another scenario would assume a credit loss does not occur. In other words, the analysis cannot be based solely on the most likely scenario. As a result, all financial assets would have some level of credit loss recorded.

A practical expedient would be allowed for assets accounted for at fair value with changes in fair value recorded in other comprehensive income. The practical expedient would allow a company to not recognize credit losses if fair value is at or above amortized cost and the expected credit losses on the individual asset are insignificant.

Management's Considerations
While the levels of impairment losses companies have taken over recent years have come down from the heights of the global economic slowdown, many companies still have significant impairment losses.

In preparing for the annual shareholder meeting, management may want to monitor standard setting activity on this topic and understand the impact such a change would have on the company's financial performance.

For more information:

- Dataline 2013-01, *Credit losses on financial assets - An overview of the FASB's current expected credit loss model*

FASB/IASB priority convergence projects

How is the company preparing for the implications of the FASB and IASB joint projects on leases, financial instruments, and revenue recognition? Will these projects improve the quality of the company's financial reporting? Is the company actively engaged in providing input into the standard setting process?

Background
The FASB and IASB (boards) are completing the next stages of their priority convergence projects on leases, financial instruments, and revenue recognition. These projects will result in final standards intended to improve financial reporting, and will have broad implications for companies in many industries. We have summarized the status of each of the three projects below.

Recent Developments
Leases: The boards have agreed to a proposed model that requires all leases to be recognized on the balance sheet unless the maximum lease term is 12 months or less. A lease would be classified based on a principle of "consumption" of the underlying asset.

Lessee accounting will follow a dual approach for income statement recognition—generally straight line expense recognition for property leases (land and building) and a financing approach for leases of other than property, such as equipment, that would result in a front-loaded expense recognition pattern.

A revised exposure draft is expected in the second quarter of 2013.

Financial instruments - Impairment: The FASB has proposed a new impairment model for financial assets referred to as the "current expected credit loss" model. The model eliminates any threshold required to record a credit loss and allows entities to consider a broader information set when establishing an allowance for credit losses. This model is different than the one proposed by the IASB.

Companies would have to consider at least two possible scenarios in estimating an expected credit loss: One scenario would assume a credit loss occurs, and another scenario would assume a credit loss does not occur. In other words, the analysis cannot be based solely on the most likely scenario.

The FASB's comment period ends on April 30, 2013.

Financial instruments - Classification and measurement: While the FASB and IASB have substantially agreed on a converged approach for debt investments, other differences will remain, such as accounting for equity investments. Accordingly, there will not be one converged standard.

The FASB has decided that financial assets will be measured and classified according to a company's business strategy and the individual instrument's cash flow characteristics. The classification categories are: (1) amortized cost, (2) fair value with changes in fair value recognized in other comprehensive income, and (3) fair value with changes in fair value recognized in net income.

Financial liabilities generally would be measured and classified at amortized cost.

The FASB issued an exposure draft on February 14, 2013. The comment period ends May 15, 2013.

Revenue recognition: The boards have continued to move toward a converged standard on revenue recognition, with the objective of improving consistency and comparability across all industries and entities globally. This proposed standard is expected to have broad implications as it will not include any industry-specific exceptions.

The boards have reached tentative decisions on key remaining measurement and recognition issues, including the constraint for recognizing revenue from variable consideration, collectability, licenses, allocation of transaction price, and contract acquisition costs. The boards have also decided on disclosure requirements, transition, and the effective date for the standard.

The boards have now substantively concluded their redeliberations on this project, and have agreed to make the final standard effective in 2017 for calendar year-end companies. Instead of requiring full retrospective application, a company would be able to elect a practical expedient to apply the standard to all existing contracts as of the effective date, and to all new contracts. The cumulative effect of applying the standard to existing contracts would be recognized in the opening balance of retained earnings on the effective date.
The final standard is expected to be issued by mid 2013.

Management's Considerations
Management may want to consider how the proposed standards might impact their financial results. The potential standards may also impact the company's systems, processes, and infrastructure. Some of these changes may require considerable cost and lead time in order to be designed and implemented. Management should consider how it will address questions regarding level of preparation for these changes.

For more information:

- In brief 2013-11, *Boards conclude key revenue redeliberations with decisions on disclosures and transition*
- In brief 2013-08, *FASB proposes a new model for classification and measurement of financial instruments*
- Dataline 2012-11, *Leases - One size does not fit all: A summary of the boards redeliberations*
- Dataline 2013-01, *Credit losses on financial assets - An overview of the FASB's current expected credit loss model*
- Dataline 2012-21, *Financial instruments classification and measurement - An update on the FASB's tentative approach to be exposed in Q1 2013*
- Dataline 2013-02, *Revenue from contracts with customers - Boards conclude redeliberations on key revenue measurement and recognition issues*

Corporate political spending

To what extent is the board involved in the oversight of political contributions? What governance processes are in place to ensure appropriate corporate political activity? Is the company's political engagement a part of the board's risk oversight responsibilities?

Background
Campaign finance law changed dramatically in 2010 after the US Supreme Court's (the "Court") ruling in *Citizens United vs. Federal Elections Commission*. In that case, the Court ruled that corporations have a First Amendment right to use their general treasuries to pay for direct communications advocating for or against political candidates. Prior to *Citizens United*, corporations could participate in the political process primarily through political action committees or third-parties, such as trade associations or lobbyists.

Much of the debate involving corporate political activity is related to the issue of disclosure, as there is no mandatory disclosure requirement. Currently, a relatively small number of publicly traded companies (primarily S&P 100 companies) disclose their political contributions. This has led to increased calls for more transparency on corporate political spending among shareholders, making it a topic of discussion in corporate governance in recent years.

Shareholder Interest
Some investors are pushing for more reporting on political spending. They are not only interested in direct contributions, but want to know details of indirect political contributions (e.g., to trade associations). In 2012, there were a substantial number of shareholder proposals asking companies to provide greater disclosure of these expenditures. Indications are that these requests will continue in 2013.

On the Horizon
Political spending disclosure has recently also attracted the interest of the SEC, which may stem from shareholders' demanding more transparency. In January 2013, the SEC signaled that it may consider new rules on political spending disclosures. The SEC updated its unified agenda (a roadmap for rulemaking in coming months), adding a political disclosure rule with the projected timeline of April 2013 for a first proposal.

Management's Considerations
Management should understand its political engagement program, how that aligns with its business interests and corporate culture, and what governance processes are in place to ensure appropriate corporate political activity. Management might consider as benchmarks the political engagement of industry peers and the extent to which those peers publicly disclose information about their activities. It also may want to understand the corporate governance proxy voting policies of the company's largest investors, as well as evaluate their perspectives on disclosure.

For more information:

- To the point – *Winter 2012 issue*
- BoardroomDirect – *Spring 2012 issue*

Board leadership

If the Chairman and CEO roles are combined, how does the company ensure there is independent oversight? Does the board have a Lead Director? What disclosure does the company include in its proxy statement regarding its board leadership structure? Is the board considering separating the Chairman and CEO roles?

Background
Deciding whether to separate the board Chairman and CEO roles remains an ongoing debate in corporate governance. This issue centers on whether a potential conflict of interest exists when the roles are combined and whether there is an appropriate balance of power between the CEO and the independent board members. Some investors believe separating the roles brings more accountability and oversight at the board level.

It seems momentum has shifted to separating the two roles. According to the 2012 Spencer Stuart Board Index, about 43 percent of the S&P 500 companies have split the two roles. In 2002, the comparable figure was 25 percent.

New disclosure requirements may be contributing to the shift. Since 2010, the SEC has required companies to include in its proxy statement a description of its board leadership structure and the board's role in risk management. The Dodd-Frank Act now requires public companies to explain to investors why they have an independent Chair or why they combine the Chair and CEO roles.

Shareholder/Stakeholder Interest
Investors continue to push for separating the two roles by putting forth shareholder proposals. In 2012, shareholders submitted independent Chair proposals at 48 Russell 3000 companies, a significant increase from the 23 proposals submitted in 2011. The average support level for such proposals rose slightly to 36 percent in 2012, from 33 percent in 2011.[2]

According to PwC's *2012 Annual Corporate Directors Survey*, about half of companies that have the roles of Chairman and CEO combined are having discussions about separating the roles. This suggests many directors are reevaluating their board leadership structure.

Management's Considerations
Management will want to be prepared to address shareholder concerns about the company's board leadership. Management may also want to understand the proxy voting guidelines of the major proxy advisory firms if the company receives a shareholder proposal to split the Chair and CEO roles.

For more information:

- BoardroomDirect – *Spring 2012 issue*
- PwC Center for Board Governance - *Key Issues: CEO and board chair roles*

[2] *ISS 2012 Proxy Season Review: US*, August 16, 2012

Director elections: Board declassification and majority voting

If not already in place, does the company intend to move to declassify its board structure and move to the annual election of directors? If so, will it also move to majority voting? What is the company's process for considering changes to its bylaws as it pertains to director elections? Does the company use the same standard for director elections as it does for other issues voted on by shareholders?

Background
Board declassification and majority voting have received a great deal of shareholder attention in recent years. Historically, directors were elected to multi-year terms in a staggered format, with only part of the board up for election in a given year (classified board). However, board declassification (where all directors are up for election annually) has been widely supported in recent years and is among the most frequently filed shareholder proposals. As a result, a growing number of the S&P 500 companies have declassified their boards.

Some suggest that annual board elections is a leading practice that could make directors more accountable, thereby contributing to improved performance and increased shareholder value.

Majority voting, which requires that a director nominee receive the affirmative vote of the majority of votes cast in an election, has become more prevalent among the largest companies in recent years. This is due in part to the increasing number of shareholder proposals on this topic.

In the past, directors of the vast majority of public companies were elected by a plurality of votes cast. That is, the nominees who receive the highest number of affirmative votes cast, irrespective of how few affirmative votes are cast, are elected. This means that a nominee could theoretically win a board seat under a plurality standard by receiving only one affirmative vote.

Many believe that majority voting provides a more democratic process for director elections. Frequently, a company will move to majority voting at the same time it declassifies its board.

Shareholder/Stakeholder Interest
According to recent reports, corporate governance proposals seeking board declassification and majority voting were among the most successful in the 2012 proxy season. Of the corporate governance shareholder proposals, board declassification was the most popular, averaging 80 percent "for" votes. Proposals seeking the adoption of majority voting in director elections received average support of 61 percent.[3]

[3] *Proxy Voting Fact Sheet*, The Conference Board, August 1, 2012

Management's Considerations
Management may want to be prepared to discuss whether moving to a declassified board structure is in the best interest of the company and its shareholders. Management and the board may also want to evaluate the likelihood of receiving a proposal to declassify the board and consider options for responding to such a proposal.

For more information:

- BoardroomDirect – *August 2012 issue*
- BoardroomDirect – *September 2012 issue*

Managing through the global economic slowdown

How is management responding to the continued effects of the global economic slowdown? How does management plan to grow the business under current economic conditions? What measures are being taken to control costs?

Background
With foreign revenue now accounting for approximately 40 percent of total revenue, many multi-nationals continue to be impacted by the global economic slowdown. However, according to PwC's 2013 US CEOs survey, US CEOs have more confidence than last year in their company's ability to navigate through the anticipated volatility over the next three years and they expressed optimism about the longer-term horizon.

When asked how they will navigate through these uncertain times and the continued effects of the global economic slowdown, US CEOs cite expanding their customer base, entering into strategic mergers and acquisitions, and focusing on cost cutting measures as their top priorities.

Customer base
CEOs are rallying their organizations around the customer in 2013 as they are concerned that shifts in consumer spending and behaviors threaten their companies' growth prospects. Thus, getting closer to the customer is key to their success.

Ninety percent of US CEOs said they are strengthening their customer engagement programs. To accomplish this, CEOs are using tools, such as predictive analysis, to gain a deeper understanding of their customers' behaviors and to help measure success. Leading companies are also using collaboration initiatives, such as configuring their supply chains for specific customer segments and adopting shared planning with customers and suppliers.

Mergers and acquisitions
More strategic alliances and partnerships are expected this year in the US market. CEOs are seeking to increase their companies' ability to swiftly respond to changing demand by collaborating with partners and by diversifying to best ensure uninterrupted business operations through a range of scenarios.

Not surprisingly, given the low interest rates and the global economic uncertainties, 42 percent of US CEOs said they are planning to complete a domestic deal this year. The US market is also attractive to global CEOs; thirty percent said they plan an acquisition or alliance in North America.

Controlling costs
US CEOs continue to focus on controlling costs. In 2012, 81% implemented cost-cutting measures. In 2013, 71% are planning cuts. In an environment of pricing pressure and slow demand growth, every element of expense is getting a fresh look.

Businesses are redoubling efforts on many fronts, including analyzing customer demand, labor costs, technology, transportation, and regulatory/tax regimes.

Opportunities lie in core processes like product innovation, supply chain, and service delivery; or in transforming corporate functions like procurement, tax, and marketing. Leading companies take a global view, and some are seeing performance gains from centralized services that integrate functions and focuses them on customer needs.

Management's Considerations
There is no doubt that the global economy will continue to impact many companies. Management should be prepared to address how it is navigating through this uncertainty in both the near term and in the longer term. Management may want to discuss growth strategies, customer initiatives, or cost containment plans, and their anticipated impact on the company's financial results.

For more information:

- PwC's *2013 US CEO survey - Creating value in uncertain times*

This article was first publised by PwC US in March 2013.

M&A Strategies and Best Practices

A company may adjust its business strategies according to its life cycle and select suitable M&A targets during the planning stage, conduct due diligence investigations to determine the value of the M&A target during the assessment stage, then bargain for the best M&A terms during the negotiation stage before signing contracts and seeking approval from the competent authority. Finally, the company needs to complete settlement during the contract fulfillment and integration stage and proceed with the post-M&A integration.

The book discussed in-depth M&A strategies and best practices from various perspectives including corporate operations, finance, accounting, taxation, and regulations. It covers M&A issues in great width and depth, and enables readers to take thorough considerations when planning, executing, and integrating corporate M&A, thereby mitigating any possible risks.

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Issues

Key questions for board and audit committee members

Introduction

*Our latest edition of **Key questions for board and audit committee members** outlines questions directors should ask at year-end and throughout the year. These questions are intended to help boards and audit committees with their oversight responsibilities. Some questions should be asked each year, while others are targeted to today's lagging economy, changing business landscape, and active regulatory environment.*

Strategy and risk management

How is management evaluating and executing its strategic plan and risk management practices to address today's competitive global marketplace?

Anti-corruption and compliance

What is the company doing to comply with anti-corruption laws and regulations?

Financial reporting and audit quality

How is management addressing contemporary accounting hot topics, including asset impairments, income taxes, and segment reporting, and ensuring the transparency and appropriateness of the company's disclosures?

Does the audit committee engage in sufficient discussions and interactions with the external auditor in response to the current dialogue relative to audit quality and the reliability of financial reporting?

New tax law and potential corporate tax reform

Has management considered the financial and business implications of the new tax law, and what is it doing with respect to the impact of potential corporate tax reform?

Information technology

Is the company effectively addressing the key opportunities and risks of IT?

Does management have processes in place to address cybersecurity risks?

Shareholder and stakeholder communications

What is the board's approach to communications with shareholders and other stakeholders, and should it be reconsidered?

Looking ahead

As regulatory bodies and lawmakers continue to discuss, propose, and enact laws and regulations, and shareholders continue to be active, is management analyzing possible effects and considering "no regrets" moves?

Strategy and risk management

> *"Boards should be as focused on monitoring strategy execution as they are on the strategy setting."*
>
> Mary Ann Cloyd, Leader, Center for Board Governance, PwC

How is management evaluating and executing its strategic plan and risk management practices to address today's competitive global marketplace?

Many companies are investing in emerging markets instead of, or in addition to, developed markets for growth and a competitive advantage. Emerging markets are growing at a far greater pace than developed markets. But investing in these markets has risks; they may be more volatile and the laws in such markets may still be developing, with as yet unknown ramifications. Implications of the current political environment, rule of law, and local business practices are just a few of the risks that need to be considered. The challenge is for companies to determine how to invest in emerging markets with the appropriate balance between opportunity and risk.

Developed markets may offer advantages, such as quality control, more acceptable risk profiles, innovation capabilities, better logistics, and existing relationships. Even if investing in developed markets generates a lower percentage growth, mature markets still provide significant opportunities.

Many companies also look to strategic mergers, acquisitions, partnerships, or other transformational transactions for growth.

Director action

The board-level strategy discussion with management may include items like an analysis of the company's strengths, weaknesses, opportunities and threats, and its long-term vision, overall mission, and guiding principles. It is also important for directors to understand if the company's strategy is being executed and have measures to evaluate its success.

Directors will want to determine whether management's growth plans have the appropriate balance between emerging and developed markets and how growth goals are to be achieved while remaining focused on significant risks.

For companies that choose to grow through mergers, acquisitions, partnerships or other transformational transactions, directors will want to have robust discussions with management to understand, among other things, the underlying assumptions included in any valuations related to the potential transaction and how those assumptions changed during the deal process, particularly in the later stages. Potential questions directors can ask include:

- Is there a clear understanding of the key strategic objectives of the transaction?
- What are the company's key criteria that must be met to get the deal approved?

- What is the company's minimum level of due diligence that must be met for a deal to be approved?
- What was the due diligence conducted regarding compliance with anti-corruption laws and regulations?
- What has been the company's historical performance in prior deals and what lessons have we learned?
- Does the company have the right advisors with the right level of expertise and do these advisors have the courage to challenge management?
- Have management and the board agreed on the level of communication and approvals the board expects during the deal process?
- Is there a cultural fit between the parties to the transaction?
- What is the post-deal integration plan and how will the company monitor execution of the plan?
- Is the projected return on investment (ROI) reasonably predictable (stress-tested) on a risk adjusted basis?
- Does the company have any conflicts of interest or related party transactions that might affect or impede the deal?

Anti-corruption and compliance

What is the company doing to comply with anti-corruption laws and regulations?

Antitrust and anti-corruption laws have continued to be a focus area for enforcement agencies. The Securities and Exchange Commission (SEC) is working with the Department of Justice to more vigorously pursue violators of the Foreign Corrupt Practices Act (FCPA). Many other countries have, or are starting to develop, their own set of anti-corruption laws. Some countries are also coordinating their investigative efforts. Anti-corruption laws extend a company's responsibility—and liability—to activities conducted on their behalf by their agents, resellers, and distributors.

In November, the Department of Justice and SEC released *A Resource Guide to the U.S. Foreign Corrupt Practices Act.* This guide addresses many topics, including the definition of a foreign official, what constitutes proper and improper gifts, travel and entertainment expenses, and hallmarks of effective compliance programs.

Anti-corruption failures can result from a range of actions and behaviors. Some examples include failing to discipline employees or third parties who violate rules and regulations, weak risk assessment processes, inadequate internal controls (particularly after acquisitions), underinvestment in compliance resources, and conflicting company goals.

Director action

Directors should assess the effectiveness of the company's anti-corruption compliance programs and policies, including internal controls and compliance testing, resource allocation, and employee and third-party training and communications. Companies' anticorruption programs may help minimize the risk of enforcement action or severe penalties if a violation is identified.

Directors should receive timely reports of allegations. They should review these reports carefully, considering such factors as the country, issue, division, and manager, to determine whether there are any trends. They may also want to ask management if it has considered aggregating risks in one particular department or related to one individual, as this is often overlooked.

Directors should also assess whether the company's culture is one that embraces compliance with the company's code of conduct. It may be beneficial for directors to meet with individuals below the C-suite level to better understand how the tone at the top is understood and whether it is embraced throughout the company.

Financial reporting and audit quality

How is management addressing contemporary accounting hot topics, including asset impairments, income taxes, and segment reporting, and ensuring the transparency and appropriateness of the company's disclosures?

Asset impairments: As companies continue to struggle with a lagging economy, asset values remain subject to decline. Companies may need to evaluate impairment charges relating to certain investments, long-lived assets, goodwill, and other intangibles.

Income taxes: Negative factors such as cumulative losses, current period deficits, and diminished prospects for future taxable income should be considered when assessing the realizability of deferred tax assets. There is also continued scrutiny of disclosures for US taxes and foreign earnings. Companies will want to assess whether their assertion for the indefinite reinvestment of undistributed foreign earnings is still appropriate. While many entities assert they will indefinitely reinvest foreign earnings, the downturn in the economy and liquidity needs in recent years can make that assertion more challenging to sustain. The SEC staff continues to inquire about assertions that foreign subsidiary earnings will be indefinitely reinvested.

See also *"New tax law and potential corporate tax reform."*

Loss contingencies: There continues to be regulatory scrutiny on loss contingencies disclosures, specifically what did management know and when. Management should ensure the disclosures comply with existing requirements. Its analysis should cover the nature of the matter, materiality, probability, and estimation of the potential loss. A key regulatory focus is on the adequacy of the required disclosure for reasonably possible contingencies and whether it is possible to estimate the loss or range of loss. If it is not possible, the company must include a statement saying so in its financial statements.

Non-GAAP measures: Companies that present non-GAAP financial measures should ensure they are in compliance with existing rules, including that non-GAAP measures are not misleading and are not given the same prominence as GAAP measures. Companies should also ensure that any such disclosures are consistent in all communications.

Segment reporting: Segment reporting is important to consider as a company undergoes operational and structural changes, such as acquisitions, divestitures, and management changes. Management will need to assess whether any of these changes require the company to update its segment reporting. Consideration should also be given to whether segment disclosures presented in financial statements are consistent with the information that the chief operating decision maker (typically the CEO) uses to run the business and with information on the company's website, press releases, and in other external communications.

Director action

Directors should engage in robust and frank discussions with management and the auditors about key accounting issues and the transparency and appropriateness of disclosures. They will want to especially focus on areas that are complex, unusual, and higher risk. Directors will also want to focus on new areas and matters that are different from prior reports, including any changes stemming from economic conditions, business strategy, or new accounting policies.

It is also important for directors to discuss with management whether the company is providing the "full story" in its financial statement disclosures and not just boilerplate disclosures, particularly in areas where significant judgment was applied. Directors should ask management whether all material information is provided in the financial statements to give readers a clear picture of the company.

Does the audit committee engage in sufficient discussions and interactions with the external auditor in response to the current dialogue relative to audit quality and the reliability of financial reporting?

In August 2012, the PCAOB issued a standard on auditor communications with audit committees. The guidance is intended to help both audit committees and auditors better carry out their responsibilities by encouraging constructive dialogue on significant audit and financial statement matters.

Another August PCAOB release includes inquiries that an audit committee may wish to make of its auditor about the inspections of the audit firm's audit practice conducted by the PCAOB. It also contains information to help audit committees better understand the PCAOB's inspection process. The PCAOB believes this information will help audit committees to carry out their oversight of both the audit engagement and the company's overall financial reporting.

Director action

Audit committees should have dialogue with external auditors about audit quality in general, including the results of internal and PCAOB inspections. A broad discussion of audit quality can help audit committees better understand the investments their audit firms are making in continuous quality improvements at a high level, as well as engagement-specific enhancements. The PCAOB's publications may be useful in fostering these discussions.

New tax law and potential corporate tax reform

Has management considered the financial and business implications of the new tax law, and what is it doing with respect to the impact of potential corporate tax reform?

On January 2, 2013, President Barack Obama signed into law the American Taxpayer Relief Act of 2012. It includes permanent extensions of certain 2001 and 2003 tax provisions for individuals with incomes below $400,000, and joint filers with incomes below $450,000. The new law also includes retroactive extensions through 2013 of certain business and energy tax provisions that had expired. These include the research credit (with modifications), controlled foreign corporation (CFC) look-through, certain energy tax provisions, and bonus depreciation for qualified property.

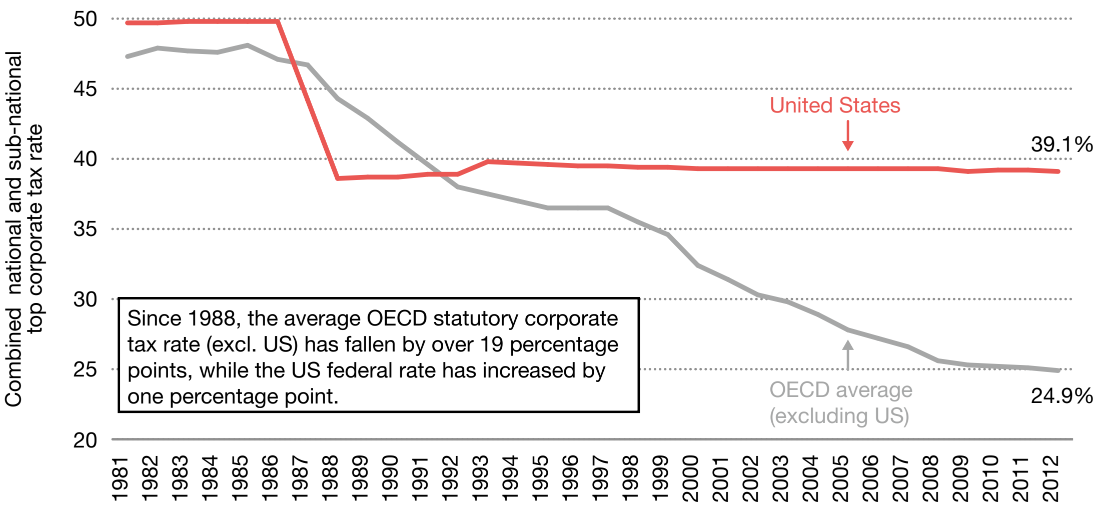
The Joint Committee on Taxation staff estimated that the new law would reduce federal revenues by a total of $3.9 trillion over 10 years.

Companies will need to address how the new tax law impacts their businesses and, in turn, their financial statements. Regardless of the retroactive nature of the legislation, tax law changes are accounted for in the period in which they are enacted. This means that calendar-year businesses should reflect the financial statement effects of these changes in the first quarter of calendar year 2013. Financial statement disclosure in 2012 may be appropriate depending upon the impact of the legislation.

The United States is one of the few developed countries to tax foreign earnings under a worldwide tax system. Most major countries instead use territorial tax systems, under which all or most foreign earnings are exempt from domestic taxation. Many analysts believe the worldwide tax system reduces the ability of US companies to compete effectively in foreign markets. Others criticize the substantial tax barrier to repatriating earnings back into the US economy.

The United States now has the highest statutory corporate tax rate among advanced economies at 39.1%, higher than both Japan and the United Kingdom, which recently reduced their rates. In 2012, the average rate among other countries that are members of the Organization for Economic Cooperation and Development (OECD) was 24.9%. The high US statutory rate, combined with our worldwide tax system, makes the United States an outlier compared to our competitor countries. These differences have many US businesses calling for corporate tax reform. Companies are focused on reducing the corporate income tax rate and moving to a tax system that exempts from US tax the business earnings of foreign subsidiaries.

US and average OECD corporate tax rates, 1981–2012



US rate is based on the 35% federal tax rate and average state taxes of 6.44%, which are deductible from federal taxes.

Source: OECD Tax Database, 2012

Director action

Directors will want to have a discussion with management about the impact of the new tax law. They will want to understand financial statement disclosures in the company's 2012 financial statements and the impact of the law on financial statements for the first quarter of calendar year 2013 and beyond.

There may be more tax policy changes taking place in the next few years. Directors will want to monitor and understand the related tax issues to oversee the risks that changes may have on the company's business model. If any corporate tax reforms result in a potential decrease in revenue for the federal government, they may be offset by reforms that will increase taxes on other business activities, for example, through modification of existing provisions relating to deductions or income exclusion. Those tax increases could negatively impact existing business models.

See also *"Financial reporting and audit quality"* for additional tax discussion.

Information technology

Is the company effectively addressing the key opportunities and risks of IT?

Overseeing information technology (IT) is a challenging area for many directors. Understanding the importance of IT to the company's business model is a key starting point for effective oversight of technology initiatives. Knowing who on the board will "own" IT oversight (both strategy and risk) and deciding whether those directors have the necessary resources and expertise is another important step. More than half of directors in our *2012 Annual Corporate Directors Survey* said IT oversight is the audit committee's responsibility, while one-quarter said IT oversight is the full board's job. Eight percent said there is no board oversight of IT at all.

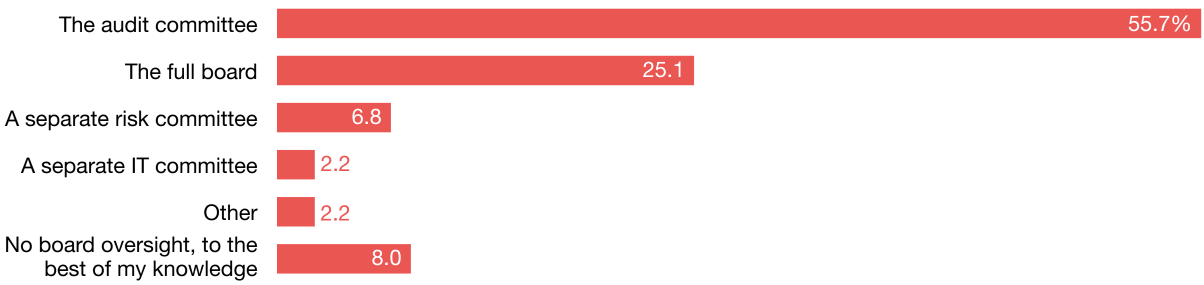
It is important for directors to prioritize their oversight of IT areas that are most relevant to the company. These may include data security, social media, and cloud services, among others. These IT areas should be effectively integrated into the company's business strategy and risk management programs. IT aspects of crisis management planning are also important. This includes monitoring what is said about the company on the Internet and social media platforms. Periodic "fresh looks" at the oversight process can help directors ensure the efficacy of that process.

Director action

Boards and audit committees will want to implement a process to bring discipline and rigor to IT oversight. They will also want to ensure there is a clear allocation of responsibility for IT oversight at the board level. It is critical that directors have substantive and candid discussions with management and the company's key technology personnel about the risks and competitive opportunities IT presents.

For more, see *Directors and IT—What Works Best, A user-friendly board guide for effective information technology oversight.*

Who on the board currently has primary responsibility for the oversight of IT risks?



Source: PwC's 2012 Annual Corporate Director Survey

The cost of global consumer cybercrime is calculated to be $110 billion a year.[1]

Does management have processes in place to address cybersecurity risks?

Data security is a high priority for directors today: Forty-eight percent of directors said data security is their top concern, nearly double the 25% in 2008.[2] The use of mobile computing, the cloud, and social media in the business world has become more prevalent and with these new platforms comes more security risk—these technologies allow greater data access and more easily accommodate complex data threats. Worms, viruses, and hackers have become more sophisticated and also present threats to a company's data security.

Cybercriminals seek personal and financial information, as well as intellectual property and trade secrets, which often represent tremendous value to a company. An attack can have big implications.

Director action

It is important that directors understand the company's data security program and the controls designed to mitigate data security risk. Effective processes to monitor networks, computers, and user access can help identify potential threats, which can mitigate fraud and protect against diminished shareholder value and negative brand image. It's also important to discuss third-party risks with management if sensitive information is housed outside the company.

"Trusted" internal users—employees, contractors, and other insiders—can present risks. Most are generally well-meaning but may not always follow the company's controls and procedures; 59% of companies indicate that employees circumvent or disengage security features (such as passwords and key locks on corporate and personal mobile devices).[3] A disgruntled employee may also purposely violate company policy and security protocols. Directors will want to understand how the company educates employees and other insiders about data security risks and the company's related policies and procedures.

1 Adam Palmer and Marian Merritt, *2012 Norton Cybercrime Report*, 2012.

2 Corporate Board Member, "Legal Risks on the Radar," 2012 Law and the Boardroom Study, Aug 13, 2012, at 2.

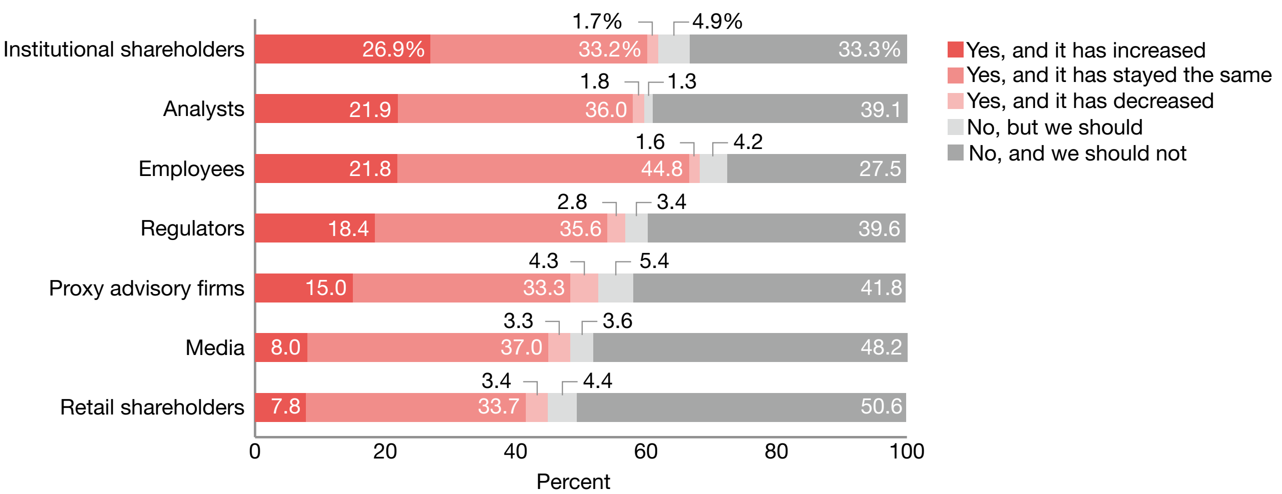
3 Websense, "Global Study on Mobility Risks," February 29, 2012.

Shareholder and stakeholder communications

What is the board's approach to communications with shareholders and other stakeholders, and should it be reconsidered?

Shareholders and stakeholders increasingly want to discuss governance issues with board members, but there are differing opinions as to whether directors should do so. One concern is that such conversations might violate Regulation Fair Disclosure. Advocates believe that if done carefully and with guidance from counsel, discussions can be constructive without overstepping legal bounds. Direct communication between stakeholders and boards is more common outside of the US.

During the last 12 months, has your board participated in communicating substantive issues to:



Source: PwC's 2012 Annual Corporate Director Survey

Advancements in technology, particularly the emergence of social media, have also changed the way companies, directors, shareholders, and stakeholders connect and interact. They allow for faster and more direct communications, but they also bring new risks and challenges that need to be managed.

Director action

The board should consider whether its approach to communications with shareholders and other stakeholders is appropriate or needs revision. If the board agrees that direct communication is appropriate, it needs to decide who will take the lead. This may be the board chair, lead director, or a committee chair, depending on the topic. That individual should be trained on the company's communications policies. Directors should ensure that their communications are clear, balanced, informative, and in compliance with regulations.

> ***"It's evident more stakeholders are interested in talking with directors, and boards need to have an agreed-upon approach to any communications."***
>
> Catherine Bromilow, Partner, Center for Board Governance, PwC

Looking ahead

As regulatory bodies and lawmakers continue to discuss, propose, and enact laws and regulations, and shareholders continue to be active, is management analyzing possible effects and considering "no regrets" moves?

President Obama's second term will have many new leaders. The position of Treasury Secretary will be open, as will many other cabinet and senior positions in the Administration. The Federal Reserve Chairman's term ends on January 31, 2014, and he has hinted that he may not seek another term.

This year will also see implementation of the Affordable Care Act (the Act). Since the June 2012 Supreme Court ruling that the Act is constitutional, implementation deadlines that once seemed far off are rapidly approaching. Companies in all industries need to understand how health care reform affects them.

On January 24, 2013, President Obama nominated former US Attorney Mary Jo White to serve as the next SEC Chairman. Once confirmed, she would replace current SEC Chairman, Elisse Walter, who has been in place since Mary Schapiro stepped down in December 2012. Implementation of remaining mandates of the Dodd-Frank Act will continue to be a priority for the SEC in 2013. To date, approximately 30% of the 100 mandated rules have been implemented. SEC rulemaking is expected in a number of areas, including executive compensation clawbacks and disclosure of pay-for-performance and pay ratios, among others.

One Dodd-Frank rule enacted in 2012 relates to conflict minerals. The rule requires public companies to disclose whether they use conflict minerals (tantalum, tin, tungsten, and gold), and whether the minerals originated in the Democratic Republic of the Congo (DRC) or adjoining countries—called "covered countries." It responds to concerns that conflict minerals mined in covered countries help finance armed groups that are responsible for violence in those countries. The SEC estimates approximately 6,000 issuers and 275,000 suppliers will be impacted, with first-year due diligence costs expected to range from $3 billion to $4 billion. In October 2012, several business groups filed a legal challenge to this rule.

Other rulemaking bodies are also active. The FASB has continued its deliberations on several standard-setting projects. Once final standards for those projects are issued, they will have a far-reaching effect on companies' financial results, operations, and systems.

The PCAOB has also collected a significant amount of feedback on mandatory audit firm rotation, as well as other possible alternatives to increase auditor objectivity and professional skepticism. However, it has not yet indicated whether it intends

"If the company is in the scope of the conflict minerals rule, the cost of compliance, including establishing the necessary systems and gathering the relevant information, may be very significant."

Steve Meisel,
SEC Services Leader, PwC

to move forward with a proposal. There is also momentum outside of the US on this topic. For example, in the United Kingdom, the Financial Reporting Council finalized changes that require the largest 350 companies on the London Stock Exchange to retender audits at least every ten years under a "comply or explain" approach. The European Commission's proposals released last year—ranging from audit firm rotation to audit-only firms—are still under discussion.

Shareholders will continue to make their voices heard on issues that concern them such as board declassification, political spending, proxy access, environmental and social issues, and other structural governance reforms. Management will want to understand any issues introduced by their significant shareholders and engage with them about their concerns.

Proxy advisory firms also have influence on shareholder votes. Management should understand the extent to which their companies' practices are under scrutiny from proxy advisors and what influence that has on vote recommendations. It may also want to engage with proxy advisory firms to address any concerns.

Director action

Boards and audit committees should monitor regulatory developments and discuss with management how they might impact the company, as well as how the company is preparing for potential new rules. This should include an evaluation of any "no regrets" actions the company might take (e.g., early actions the company may take so that it won't regret having waited too long to act). This means the CEO and his team will have to evaluate potential rules without the certainty of knowing exactly what they will be.

Directors should also discuss with management whether the company should make its views known to regulators and standard setters. It is important that regulators and standard setters hear from all key constituents in the financial reporting chain, including boards and audit committees.

Directors will also want to discuss with management how their companies' corporate governance policies are perceived by shareholders and proxy advisory firms, the nature and voting results of prior years' shareholder proposals, and shareholder engagement efforts.

Boards and audit committees can consider these questions as they contemplate how the related issues impact their companies. They should also consider other questions they determine to be important to the companies they serve, given their facts and circumstances, as well as those that are routinely asked of management and the auditors.

This article was first publised by PwC US in March 2013.

Taiwan considerations for 2013 board and shareholder meetings

Dexter Chang, PwC Taiwan CEO
Ross Yang, PwC Legal Taiwan Partner

The nation's Company Act and the Securities and Exchange Act have been amended in consideration of development trends in corporate governance. The content of this notice is intended as summarized analysis of implications of relevant amendments on companies and business operators, an overview of matters which need attention with regard to companies convening meetings of the Board of Directors and meetings of shareholders, and an explanation of matters which need attention and to be taken care of when meetings of the Board of Directors and meetings of shareholders are called and held in 2013.

I. The International Financial Reporting Standards (IFRSs) formally sets out

Considering the international development trend that IFRSs have become generally accepted standards in the capital markets worldwide, the Competent Authority develops a two-phase promotion scheme to urge companies in the nation to adopt IFRSs when preparing their financial statements. The first phase includes TWSE-listed companies, OTC-listed companies, emerging stock companies, some financial institutions, which are required to adopt IFRSs starting from 2013, and public companies which willingly adopt such practices before being required. The following are matters which the aforementioned types of companies applicable to the adoption of IFRSs need to pay attention to when convening meetings of the Board of Directors and meetings of shareholders.

Unless under special circumstances for the financial sector as otherwise governed by the Competent Authority, TWSE-listed companies, OTC-listed companies, emerging stock companies, and public companies which adopt IFRSs need to pay heed to the following four aspects when implementing relevant financial reporting processes on account of the amendments of Article 36 of the Securities and Exchange Act and the adoption of IFRSs.

1. The primary format of financial statement

Beginning from this year, consolidated financial statements are of primary reporting format while individual entity financial statements are provided as supplements. Only consolidated financial statements are required for the first, second and third quarters for TWSE-listed companies and OTC-listed companies, and for the second quarter for emerging stock companies and public companies which adopt IFRSs. Both consolidated financial statements and individual entity financial statements need to be prepared and included in annual reports.

2. The attestation to financial statement

Beginning from this year, TWSE-listed companies and OTC-listed companies need not prepare individual entity financial statements for the first and third quarter but

need to provide their consolidated financial statements duly reviewed by a certified public accountant. Moreover, starting from this year TWSE-listed companies, OTC-listed companies, emerging stock companies and public companies adopting IFRSs need not produce individual entity financial statements for the second quarter, but have to provide their consolidated financial statements duly reviewed by a certified public accountant.

3. The requirements concerning the board of directors

Beginning from this year, financial statements for the first and third quarter shall be reported to the board of directors, and those for the second quarter are only required to be reported to but not necessarily approved by to the board of directors.

4. The requirements concerning the audit committee

In accordance with Article 14-5 of the current Securities and Exchange Act in force, annual and semi-annual financial reports shall be subject to the consent of one-half or more of all audit committee members for companies that establish an audit committee. Hence financial reports for the second quarter still have to be approved with the consent of the audit committee albeit they are only required to be reported to but not necessarily approved by to the board of directors. This makes a distinction between financial reports for the second quarter and for the first and third quarter, and requires special attention.

As for public companies not adopting IFRSs, second quarter and annual financial reports need to include individual entity financial statements as well as consolidated financial statements, second quarter consolidated financial statements need to be reviewed by a certified public accountant, and semi-annual individual entity financial statements need to be duly audited and attested by a certified public accountant, pursuant to the existing provisions of the Securities and Exchange Act. Furthermore, it is worth noting that in accordance with the existing Act second quarter individual entity financial statements and consolidated financial statements of public companies not adopting IFRSs are still required to be approved by the board of directors and recognized by the supervisors.

As for companies in the financial sector, second quarter consolidated financial statements are required to be duly audited and attested by a certified public accountant and approved by the board of directors pursuant to the existing Act. This is the main distinction between companies in the financial sector and not in the financial sector.

II. Stricter standards for handling stock affairs

(I) For public companies, filings of handling of stock affairs by themselves shall be approved by resolution of the board of directors.

In accordance with new amendments to Standards for Internal Control Systems in Shareholders Service Department, companies which plan to handle stock affairs by themselves must file relevant documents to the Taiwan Depository and Clearing Corporation (TDCC) and shall not start processing stock affairs by themselves until at least six months after the filing is examined and approved by TDCC. Such companies shall not start handling stock affairs by themselves if the filing is not approved. Furthermore, in accordance with new amendments to Standards for Internal Control Systems in Shareholders Service Department, companies which plan to handle stock affairs by themselves shall meet the criterion of "approved by resolution of the board of directors". On that account, TWSE-listed companies, OTC-listed companies, and emerging stock companies which plan to handle stock affairs by themselves shall especially note that they shall not start processing stock affairs by themselves prior to such plan being approved by resolution of the board of directors, filed to TDCC, and examined and approved by TDCC for at least six months.

(II) Requirements with regard to passive criteria and due diligence are added.

The new amendments to Standards for Internal Control Systems in Shareholders Service Department also add a set of passive criteria on which companies shall not file handling stock affairs by themselves. In addition to the aforementioned stipulations, the new amendments specify that TDCC shall exercise due diligence to examine qualifications of companies filing for handling stock affairs by themselves, situations in transfer of stock affairs information, and relevant tasks to be done, for the purpose of understanding their actual deployment of staff and facilities and their situations in transfer of information relating to stock affairs. Companies planning to handle stock affairs by themselves ought to pay heed to this regard.

III. Conclusion

Starting from this year, some corporations in the nation has formally adopted IFRSs to prepare their financial statements. Since two years ago, the Competent Authority has requested corporations which are urged to adopt IFRSs in the first-phase promotion scheme to develop appropriate plans, to establish dedicated teams, and to disclose relevant information in their annual financial reports. However, in view of constant changes in relation to financial statements announcement timeline, accounting, and the dividend policy, corporations applicable to the adoption of IFRSs should carefully and accurately comply with related laws and regulations.

As corporate governance develops around the world, not only government institutions need to advance in building a more comprehensive legal environment, but also domestic corporations ought to shift their corporate governance goals from regulatory compliance to more than just complying with legislation and policies, from corruption prevention to profits promotion, only that it is fundamental that corporations strictly observe existing legislation and policies. In this sense, public companies should continue to pay close attention to and cautiously review the contents of the aforementioned amendments and put them into practice in the meetings of shareholders and meetings of the board of directors this year to strengthen corporate governance and to further create corporate value.

PwC Taiwan updates

CWEF focused on reinvigorating growth and strategic transformation in an era of slow economic growth worldwide

PwC Taiwan Chairman Albert Hsueh was invited to speak on “Family Business Inheritance and Transformation”

2013 CommonWealth Economic Forum

The 2013 CommonWealth Economic Forum (CWEF) was held on January 7-8 discussing a range of topics focusing on reinvigorating growth and strategic transformation in an era of slow economic growth worldwide. With PwC Taiwan as its strategic partner, the event brought together 30 political and economic leaders and executives of transnational organizations and 500 Asian top talents and business leaders from 8 countries.

PwC Taiwan Chairman Albert Hsueh was invited to speak on “Family Business Inheritance and Transformation” during the discussion of “Transformational Growth—Strategies and Organizational Management”. Albert’s raising of issues of inheritance and transformation faced by many global family businesses prompted extensive and heated debate. He stated that family businesses need to set up their highest level decision making bodies which deal with core issues and function as a communication platform. He also said that corporate governance practices, professionals, and the role of independent directors should be introduced to family businesses when they face complex decision making challenges caused by family relational factors.

(from left)PwC Taiwan Tax Partner Richard Watanabe, PwC HK Tax Partner Jeremy Ngai, PwC China Tax Partner Dan Yao

Conference on Cross-Strait Finance and Tax

On March 7th 2013, the Conference on Cross-Strait Finance and Tax organized by PwC Taiwan took place in the Taiwan Academy of Banking and Finance, where over 150 people from banking and financial sectors gathered together to learn about topics including investment and tax regulations in Mainland China, the current status of RMB funds, and the development of Hong Kong's RQFII.

PwC HK tax partner Jeremy Ngai indicated that foreign investors used to make investments through offshore special purpose vehicles and exit investments when reaping gains through indirect disposal methods. However, in accordance with current PRC tax regulations, foreign investors may be subject to corporate income tax on all their indirect disposal gains. Taiwanese investors are advised to develop an appropriate investment structure before investing in Mainland China to reduce tax risks.

PwC China tax partner Dan Yao stated that investors need to consider if they have permanent establishments in Mainland China no matter which types of investment are made. Financial institutions in Taiwan need to pay special attention to the fact that all investors with permanent establishments in China are subject to China's corporate income tax at a standard rate of 25%, which will result in lower expected return on investment.

PwC Taiwan tax partner Richard Watanabe said that it is a subject which requires immediate consideration that financial institutions in Taiwan need to pay heed to financial regulations in China as well as to evaluate China's increasingly complex tax system in all cases, including financial institutions on both sides setting up establishments in the other side of the Strait, Taiwan's financial institutions purchasing real estate in China, and China lowering the RQFII threshold.

Richard also pointed out that Taiwan's financial institutions should, from a vantage-point perspective, comprehensively examine the impact of different tax systems on two sides of the Taiwan Strait and the effective tax burdens incurred, and properly develop their business and operations framework in the Greater China area, to avoid operational and tax risks.

PwC Taiwan Serves Lunch for Minority Groups

PwC Taiwan, caring about minority groups in the society, participated in "Thanksgiving Luncheon" organized by Taipei City Government on January 27th, 2013, by a total of 18 colleagues volunteering their time serving minority groups at the Expo Dome in the Taipei Expo Park.

After an energetic briefing, the volunteers began a whole day of work, including preparation, welcoming and seating guests, serving dishes, and cleaning, and finished at around 4pm.

PwC Taiwan care about minority groups in the society


PwC Taiwan colleagues volunteered their time serving minority groups at the Expo Dome in the Taipei Expo Park

PwC Taiwan Partakes in Charity Partnership Program: Documentary "Fingertip Vision 2.0"

PwC Taiwan participates the documentary program

PwC Taiwan CEO Dexter Chang was interviewed by reporter

In the press conference for a documentary on the visually impaired massage therapists entitled Fingertip Vision 2.0 held on November 19th 2012, PwC Taiwan CEO Dexter Chang announced that PwC Taiwan will partner the documentary program and be the exclusive sponsor of the screening and promotion of the film, expressing the firm's lasting commitment to caring about the society and disadvantaged groups.

Fingertip Vision 2.0 is hoped to be a catalyst for raising awareness of conditions caused by loss of vision among the public and for initiating self-examination and change of values among the visually unimpaired. The shooting of the documentary already started and is expected to finish by April, 2013.

PwC Taiwan Participates in the Uniform Invoice Cup Race Organized by the Ministry of Finance

On November 18th, 2012, PwC Taiwan, represented by Markets and Strategies Leader Steven Go, numerous partners and nearly two hundred staff members and their families, participated in the Uniform Invoice Cup Race organized by the Ministry of Finance. All the staff members were in light orange polo shirts, had a strong presence on the scene, and made a good impression on all participants. They might be the focus of the public's attention on the day and several officers from the Ministry of Finance came to send their greetings and to take photos together.

That every participating staff member brought three invoices and donated them to charity organizations gave a special meaning to the event—for health as well as charitable purposes. In addition, PwC Taiwan exerted great efforts on the event site to promote the use of electronic invoices instead of paper ones.

PwC Taiwan Participates were in light orange polo shirts, had a strong presence on the scene

Nearly two hundred staff and their families participated in the Uniform Invoice Cup Race

Further reading

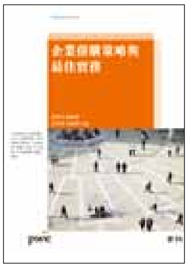
Other PwC Taiwan publications of interest are also available to download on our website at www.pwc.com/tw. Below is a selection of some of our recent and significant publications.

Checking up on Taiwan healthcare: Market challenges and opportunities [English and Chinese]

July 2012

This paper provides an introductory overview of Taiwan's healthcare sector—including the healthcare services, pharma and medical device industries—and highlights the challenges and opportunities for market participants.

M&A strategies and best practices [Chinese]



August 2011

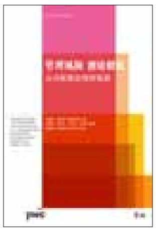
The book provides comprehensive coverage of M&A strategies and best practices from various perspectives. It leads the reader through the planning, execution and integration stages of corporate M&A transactions, and highlights ways to mitigate any possible risks.

PwC Taiwan CEO Survey 2012: Growth and value in a volatile world [Chinese]

July 2012

This report examines the four strategic themes that emerged from a survey of Taiwan CEOs, namely balancing global capabilities and local opportunities; managing global disruptions and regional risks; the talent challenge; and corporate governance and social responsibilities. The survey findings have broad implications for local and multinational businesses in 2012 and beyond, as companies position themselves for long-term growth and sustainability.

Corporate governance for tax: Creating value, management risk [Chinese]



October 2010

The interaction of tax and corporate governance is an emerging issue in business and practice. This book provides a framework for integrating tax and corporate governance in a COSO control structure for the benefit of strategic management and decision making.

Doing business in Taiwan [English]

April 2011

The latest edition of this market-leading business guide answers many of the questions about Taiwan facing current and prospective foreign investors, and it's also a good starting point for companies and individuals looking to conduct business in Taiwan.

Successful entry to Taiwan's capital market [English]

September 2010

With the Taiwan government encouraging foreign firms and overseas Taiwanese-owned businesses to list on Taiwan's stock markets, this introductory booklet provides an overview of the local approval process, procedures and requirements for interested applicants.

Taiwan Business Q&A [Japanese]

March 2012

This Japanese guide examines the different aspects of doing business in Taiwan, including the local accounting, tax and legal requirements. It also looks at the implications of the Economic Cooperation Framework Agreement between Taiwan and China for Japanese companies, as well as the benefits of the investment agreement between Taiwan and Japan.

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