AccountancyASIA

INTERNATIONAL Accounting BULLETIN

MARKET OVERVIEW

ACRA Public Accountants Conference - 2010

Arvind Hickman, Editor

A brief introduction…

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Today's Menu

- **Global analysis** of firm performance, which includes network and association performance
- A few trends in core services as well as regulation and liability
- A comparison of accounting firm growth by country
- **Asia-Pacific focus**, a taste of exclusive research on the Top 10 firms in the market
- Closer look at Singapore and China

CDAS Report on one slide

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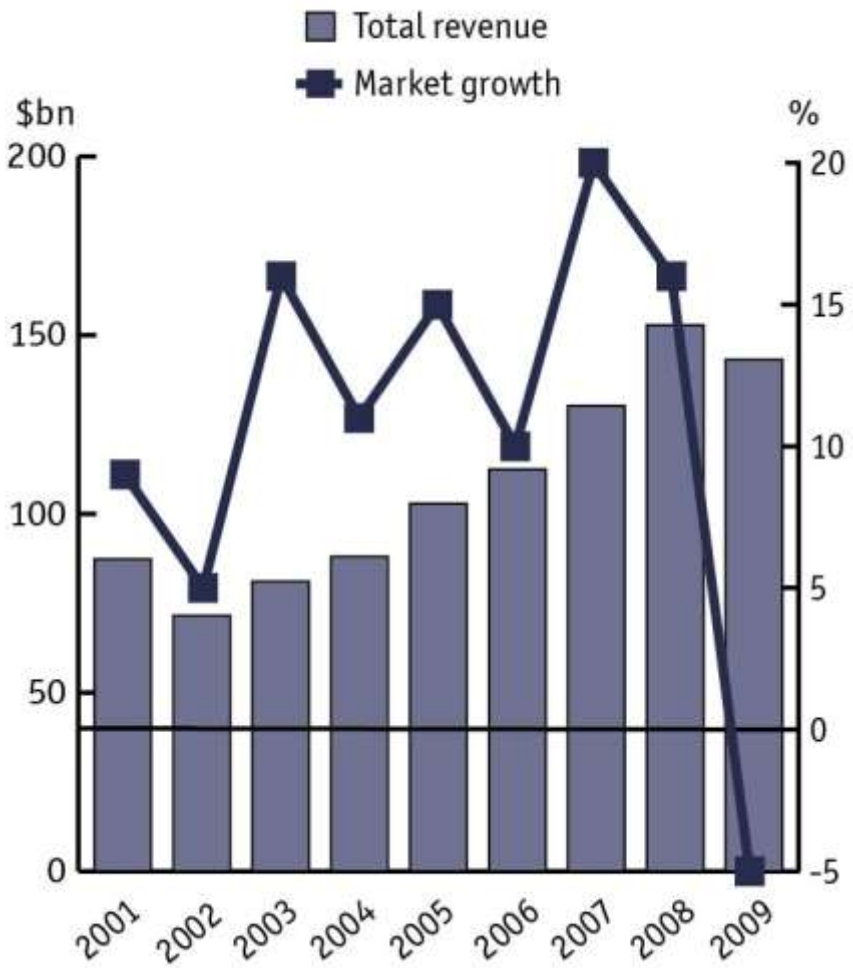
Global analysis

Global revenues plummet

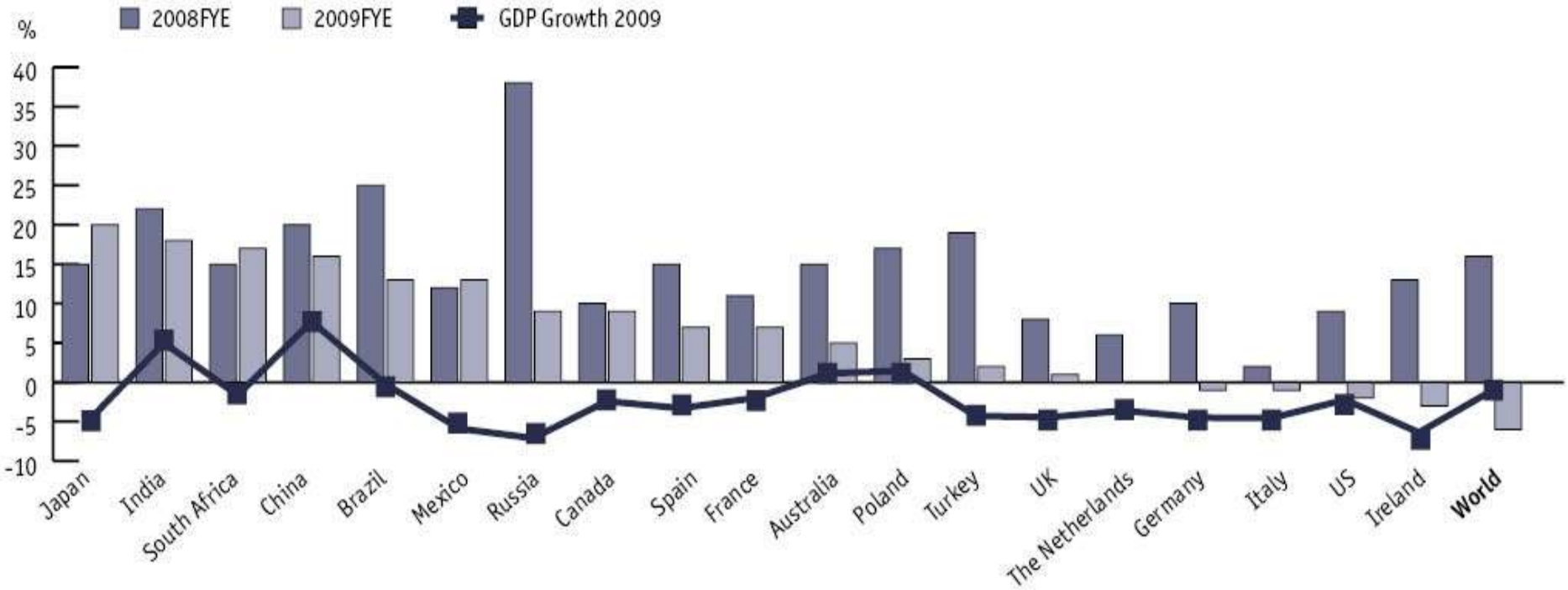
- First market contraction since Arthur Andersen demise
- Larger firms suffered more
- Early signs: 2010 will be tough but the worst is over



Developed doldrums

- Crisis has knocked all markets, especially Europe, UK and US, mostly suffer contraction
  - Individual bright spots: Australia, Canada
- Western firm leaders predict 2010 to be tough
- Early signs are 2008/2009 fiscal was worst, but conditions improving

2009 growth on the slide



Networks find going tough

- Only two of the 10 largest accounting networks report positive growth
- Deloitte likely to pass PricewaterhouseCoopers in 2010, last on top in 2003
- RSM International leapfrogs Grant Thornton International, last ahead in 2005

IAB Rank	Network	Revenue ($m)	Growth
1	PricewaterhouseCoopers	26,171.0	-7%
2	Deloitte	26,100.0	-5%
3	Ernst & Young	21,400.0	-7%
4	KPMG	20,110.0	-11%
5	BDO International	5,026.6	-2%
6	RSM International	3,875.6	8%
7	Grant Thornton International	3,592.0	-9%
8	Baker Tilly International	3,128.6	6%
9	Crowe Horwath International	2,746.7	-5%
10	Nexia International	2,110.0	-5%

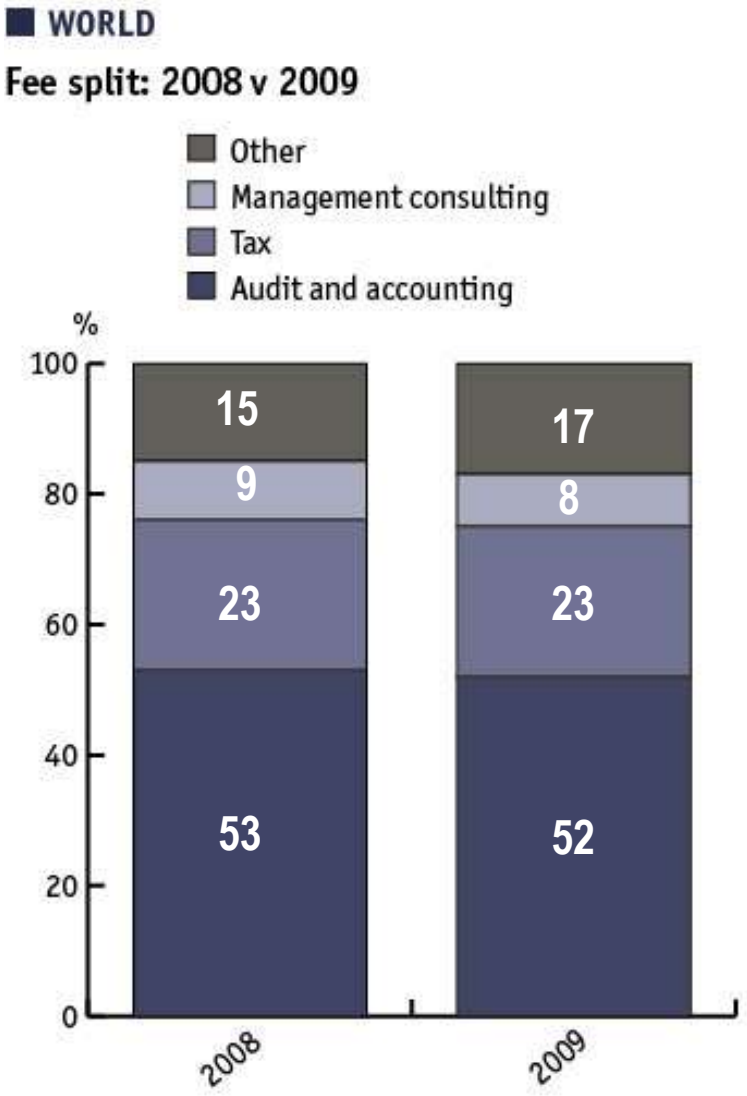
Associations weather storm

- Associations ⬆ 3% to $21bn, networks ⬇ 6% to $122bn on average
- Praxity is association leader
- Kreston International makes switch to network, will more follow?

IAB Rank	Association	Revenue ($m)	Growth
1	Praxity	3,272.2	1%
2	Leading Edge Alliance	2,419.9	16%
3	Moore Stephens Intl.	2,077.9	-7%
4	AGN International	1,535.7	4%
5	Fiducial International	1,485.0	-1%
6	BKR International	1,300.0	-2%
7	IGAF Worldwide	1,267.8	-5%
8	DFK International	1,047.2	10%
9	IAPA	939.3	2%
10	CPA Associates Intl.	910.0	12%

Under pressure

- Audit and tax revenue flat in local currency terms
- Fee pressure intense – up to 40 percent cuts
- Corporate finance down, countercyclical helping. M&A rally in Q4 2009
- Firms piling back into consulting



Source: *International Accounting Bulletin*

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Ed Nusbaum
Grant Thornton International
chief executive officer

"The key as a profession is to not lose the quality because you can cut 10 percent to 15 percent out of anything. If you start cutting 40 percent out of fees the only way you can do that is by cutting the amount of work you do... We have to find ways to lower our costs by being more creative, innovative and using technology better. We have just rolled out a new audit approach that is all computerised."

Regulation should rise

- IFRS convergence with US GAAP ongoing, deadline delayed until end of 2011
- Increased regulation expected, some leaders welcome it but others concerned about over-regulation

Liability alarms

- Liability continues to be tested, particularly in US, but fewer bigger cases than expected
- Parmalat and Bankest lawsuits are important decisions in favour of networks
- Satyam and Madoff frauds show threat of litigation still a danger, mostly Big Four involved in larger cases

A focus on Asia-Pacific

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www.vrlfinancialnews.com

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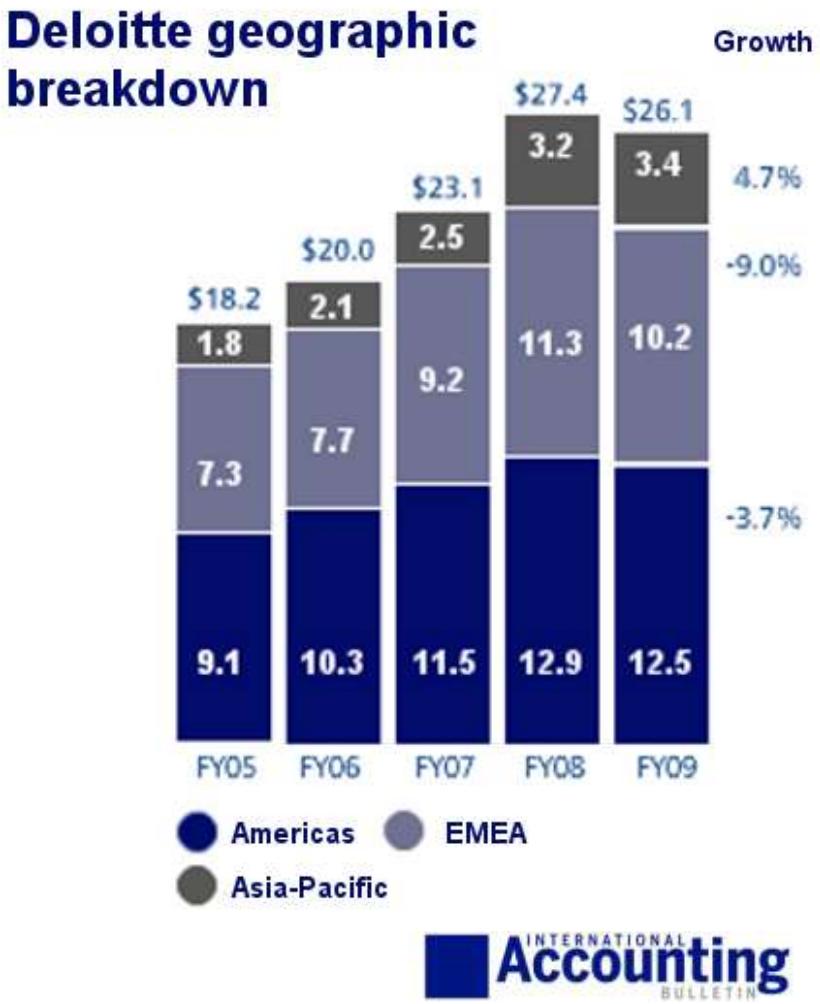
"The pace of change over this next period is going to be even greater and more fundamental then we have seen in previous decades… for an organisation like ourselves we expect more than half of our workforce to be in the developing markets: China, India, Africa, Latin America and Russia. It is a significant geographic shift for us and our clients who see the same thing."

Paul Boorman
PwC International COO

Emerging strength

- China, India and Latin America lead the way
  - Russia suffers the largest fall, trailing its BRIC competitors
- Asia-Pacific best performing region for most
- Leaders articulate power base shift (economy and staff) towards the East



Asia-Pacific – The Top 10

Rank	Network	Revenue ($US)	Growth	Staff
1	PricewaterhouseCoopers	$3,803 million	-4%	39,585
2	Deloitte	$3,400 million	5%	34,154
3	Ernst & Young	$3,157 million	-1%	34,222
4	KPMG	$3,007 million	u/a	30,932
5	Crowe Horwath International	$651 million	20%	8,656
6	BDO	$448 million	5%	8,844
7	Grant Thornton International	$389 million	7%	5,921
8	RSM Asia-Pacific	$353 million	8%	6,423
9	Nexia International	$328 million	u/a	5,034
10	Baker Tilly International	$325 million	23%	6,442

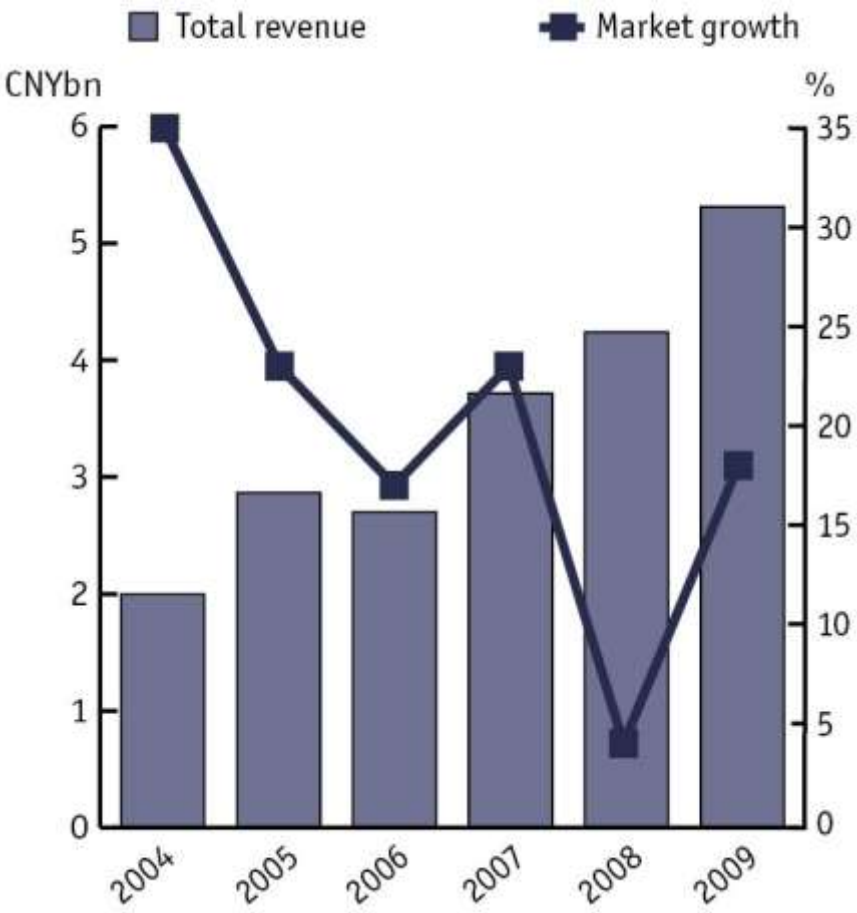
Notes: All financial results are for the 2008/2009 fiscal year. Results not yet published.

A few regional trends

- Audit fee pressure in Asia-Pacific less severe, firms maintain rather than cut
- Demand in non-audit services on the rise
- Growth for firms in all ASEAN countries, commonly in the 10-20% region
- Top 30: Aust. produces most rev. ($5.3bn), China has most accountants (49,000)

China continues rapid growth

- Firms grew 18% on average, GDP up 8%
- MoF plans a huge opportunity for mid-tier
- Consolidation of firms is rife
- Audit dominant, but shift is towards non-audit services
- Singapore can help China grow



Singapore in a nutshell

- Audit fee split: Big Four 74%, mid-tier 7%, SMPs 16%, but this will change with threshold rise
- Well represented by 30 largest global networks/associations
- Fee growth moderate, but worst is over
- Western clients applying fee pressure
- IPOs on the rise, leaders optimistic

"In the past few years, we've had a lot of Chinese, Indians, Vietnamese and Thais sending their children to our university here. So why don't we create our own brand? If it is as good as the UK or Australian programmes, eventually these kids from foreign countries will study here to become qualified Singaporean accountants and hopefully we can position it to be top quality."

Chaly Mah
Deloitte Singapore chairman

More professionals per person

Professional body	Members	Per pop.
Chinese Institute of Certified Public Accountants	165,000	8,112
Institute of Chattered Accountants of India	157,241	7,552
CPA Australia	80,255	279
Federation of Accounting Professions of Thailand	51,737	1,228
Institute of Chartered Accountants of Australia	51,338	437
Japanese Institute of Certified Public Accountants	28,237	4,511
Malaysian Institute of Accountants	26,154	1,082
Institute of Certified Public Accountants of Singapore	**22,000**	**227**
Philippines Institute of Certified Public Accountants	20,575	4,569
Korean Institute of Certified Public Accountants	12,620	3,944
Indonesian Institute of Accountants	8,600	27,230

In conclusion…

- Singapore is a developed, highly-skilled and multilingual workforce
- All the major players have large Singaporean offices
- Singapore can lead in quality, not quantity
- Asia-Pacific continues to power global accounting firm growth, Singapore can play a crucial role

Thank you for your attention

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