CFO

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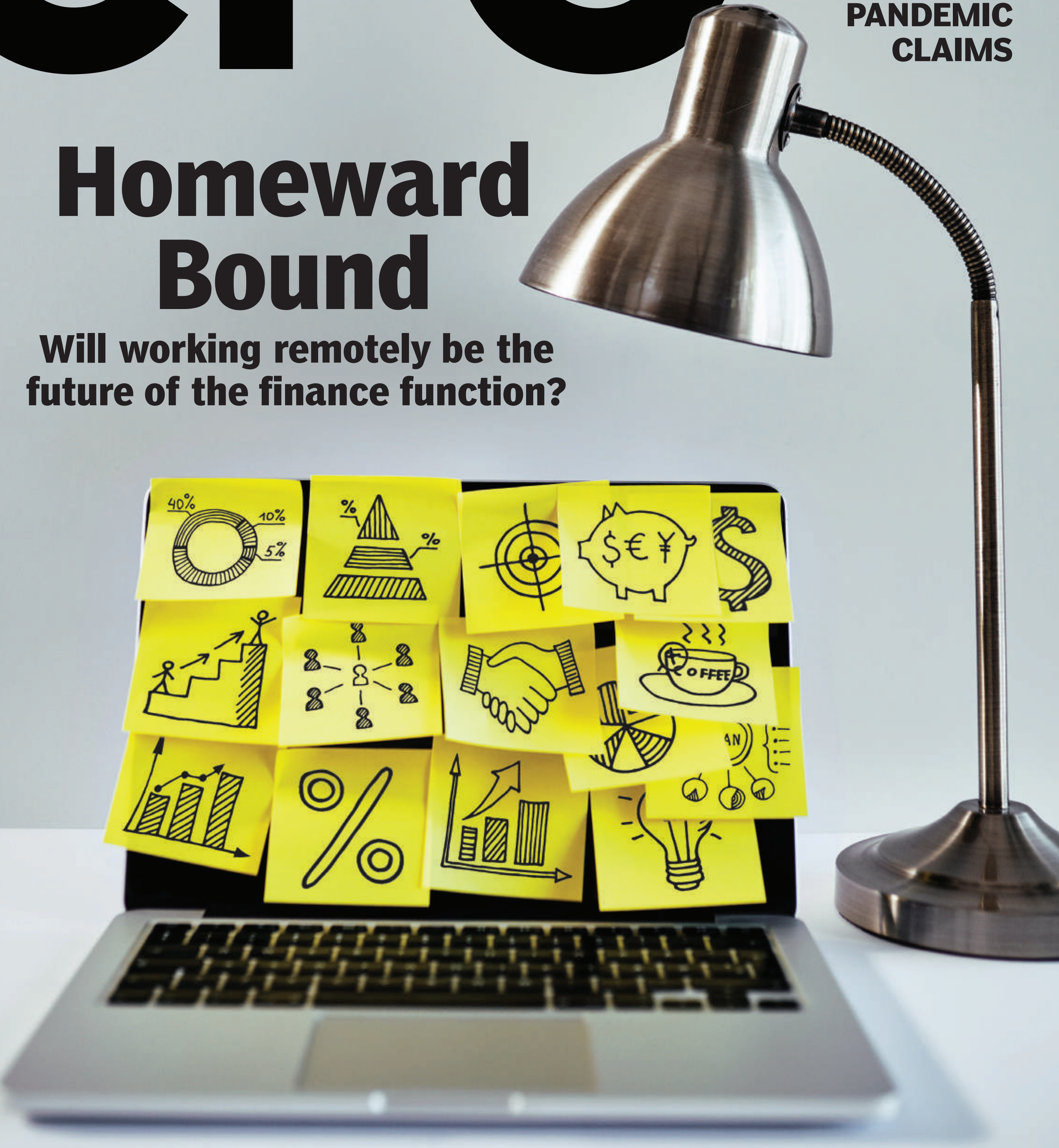
BRUSH UP ON BANKRUPTCY

INSURERS REJECT PANDEMIC CLAIMS

Homeward Bound

Will working remotely be the future of the finance function?



September 2020
Volume 36, No. 4

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Up Front

By the Numbers

Getty Images (4)

FROM THE EDITOR

In the Crosshairs

The COVID-19 pandemic has thrown many issues into stark relief. One of the most damaging to economic wellbeing is that small businesses are at a distinct disadvantage during times of crisis. ¶ We all know the value of small businesses in keeping the U.S. economy healthy. Small businesses are employers, but they are also suppliers to and customers of very large businesses.

Collectively, they generate about 44% of all gross domestic product. Many of them are innovative—startups are small businesses, too, at least until they attract millions in venture capital funding. And, to boot, when COVID-19 was in full bloom it was small business employees that in many instances trudged into work and put their health at risk.

Despite all this, when an economic crisis occurs it is large corporations that get the attention of the federal and state governments and get the bailouts. Sure, Congress and elected officials bemoan the tragedy of small businesses being destroyed, but in the end they do very little to help them.

During COVID-19, with many small businesses shuttered for months (and some still), all the federal government has really come up with is the Paycheck Protection loan program. Through banks, the program has lent $521 billion to 4.9 million businesses. (I don't use the adjective "small" because many of the borrowers were not small.) Even if they were all small businesses, there are 30.2 million small businesses in the United States, so only about one-sixth of them got any funds through the PPP.

Even those that did get some relief may be on the verge of bankruptcy, because of the length of government shutdowns and possible multiple waves of the pandemic. A Goldman Sachs survey found that 84% of small businesses that received PPP money would exhaust funding by the first week of August, and only 16% were very confident that they could maintain payroll without further government relief.

When large corporations face such threats of demise, governments act quickly and with overwhelming power. Indeed, just the threat of laying off thousands of people seems to get Congress motivated to spend taxpayer dollars in unprecedented amounts.

The unspoken attitude about small businesses in the U.S., however, seems to be that if one fails, another will take its place. Politicians don't look at the sum of what small businesses mean to the economy. And that's a big mistake.

Vincent Ryan
Editor-in-Chief

EDITOR'S PICKS

MANAGEMENT
In "**Too Much of a Good Thing? The Perils of Overconfidence**," Don Moore discusses how overconfidence in the U.S.'s ability to deal with the pandemic left the country unprepared for a global crisis. Hear more about overconfidence and decision-making from the author of "Perfectly Confident" on the Knowledge@Wharton podcast.

LEADERSHIP
What kind of management does a crisis call for? If it's COVID-19, demonstrating empathy and engaging with workers to understand their concerns are at the top of the list, says the new CEO of mining company BHP. Providing clarity and a sense of certainty and hope are critical also. Read "**Prioritize People in Times of Crisis**" on the McKinsey Quarterly website.

TIME MANAGEMENT
In "**How to (Actually) Save Time When You're Working Remotely**," three academics discuss how workers can use (wisely) some of the time gained from not having to commute. One valuable tip: give yourself a *feierabend*, a daily evening celebration marking the moment when work is switched off for the day. Read more about it on the Harvard Business Review website.

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Mark Bennington

INBOX

"Under Armour CFO Warned of Possible SEC Action" (CFO.com, July 27) discussed how the U.S. Securities and Exchange Commission has indicated Under Armour CFO David Bergman could be facing an enforcement action over the sneaker company's accounting practices.

"Do the math. Inventory control and sales are a company's mainstay. I always said the difference between a bookkeeper and a CPA is the bookkeeper deals in facts while the CPA moves the money around," said one reader on LinkedIn. "In this case, moving inventory numbers to project goals was a very costly mistake. Instead of just telling the truth, now you have mistrust within the company. **The lesson is that even if you have a great product, human greed can destroy your brand."**

In response to the online version of **"Frequent Worker Reporting Lowers Worker Performance"** (page 11), readers agreed that constant performance reporting interferes with employee success. "The study highlights the importance of **striking that delicate balance between monitoring productivity and providing employees with some latitude to breathe**," said one reader. "Simplified reporting has always boosted the performance from bottom to top," noted a LinkedIn reader. "Continuous internal focus not only lowers productivity but negatively impacts profitability as well," added a reader.

"Building A Finance Full House" (CFO.com, August 18) explains how by recognizing and understanding team deficiencies, CFOs can invest in the necessary expertise to gain controls and efficiencies across a remote workforce. "In times like these, even non-financial executives take a keen interest in the numbers and they have to be on point," said one reader. "As such, it is important to **sharpen the efficiency of the finance function** from transactional and control processes to the analytics."

In response to **"The Prospect of Higher Taxes Could Spur Rush of Year-End PE Deals"** (CFO.com, August 11), one reader commented, "**What is needed is the goal of more revenue**, not just a thought process of higher taxes. How much tax revenue is not being collected?" They continued, "Should we have a carbon tax? Should we have a national sales tax? What deductions should we have for individuals and businesses? Should we have a wealth tax much like the tax Switzerland uses as part of their tax strategy?"

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argyleforum.com

CFO MAGAZINE/CFO.COM
EDITOR-IN-CHIEF
Vincent Ryan
vryan@argyleforum.com

MANAGING EDITOR
Lauren Muskett
lmuskett@argyleforum.com

CFO MARKETING SERVICES
RESEARCH DIRECTOR
Justin Gandhi

EDITORIAL DIRECTOR, CUSTOM CONTENT & RESEARCH
Joe Fleischer

ADVERTISING SALES
Haley Hill, (646) 973-5111
hhill@argyleforum.com

Matt Moore, (646) 973-5112
mmoore@argyleforum.com

EDITORIAL OFFICES
50 Broad St., 1st Floor
New York, NY 10004
(646) 839-0012

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TOPLINE

STATS OF THE MONTH

SPECIAL PURPOSE ACQUISITION COMPANIES

62
Number of SPAC IPOs, 2020*

$25.2B
Amount raised by SPACs

$407M
Average size of 2020's SPAC IPOs

-18.5%
Average performance of SPAC IPOs since 2015**

$4B
Largest SPAC IPO (July 22)

Source:Renaissance Capital, SPAC Research

*Through August 5
**Average return of 89 SPACs that have gone public since 2015

CASH FLOW

Second Round of Paycheck Protection Held Up

Smaller businesses would get priority, but they would have to show a 50% revenue drop. By Vincent Ryan

Around the country, small businesses are still struggling to survive, despite many states partially reopening. The potential for a second outbreak of coronavirus cases nationwide ensures that the economic recovery will take a longer time than some economists initially thought.

Yet in mid-August U.S. lawmakers were still pondering whether to give more financial assistance to small businesses that weren't generating enough cash flow to pay their workers.

When discussions started in mid-July, the Trump administration favored a second round of Paycheck Protection Program (PPP) loans to certain businesses hardest hit by the COVID-19 recession.

At a House of Representatives' small business committee hearing, Treasury Secretary Steve Mnuchin said the remaining $130 billion in the program could be "topped up" with additional funds. But Mnuchin said there should be a revenue test for businesses that received a second payment to "make sure that money is going to businesses that have significant revenue declines."

Mnuchin was also in favor of considering providing blanket forgiveness for the smallest loans, while ensuring there were some safeguards to protect against fraud.

The call for restrictions came amid criticism that in the first round of PPP loans many large organizations and others that didn't need funds received loans. Business applicants certified their own eligibility.

Information on borrowers released on July 6 showed "a long list of lobbying firms, political consultants, and private equity-backed ventures that received PPP funds," according to S&P Global Market Intelligence.

A bill introduced in both houses of Congress in June, the Prioritized Paycheck Protection Program (P4) Act, would allow businesses with fewer than 100 employees to apply for a second loan if they had used up (or were on pace to exhaust) their first PPP loan and could show a 50% loss in revenue due to the COVID-19 pandemic.

The P4 bill would set aside the lesser of $25 billion or 20% of PPP funds for employers with fewer than 10 employees and businesses in underserved and rural communities. The loans would not be available to public companies.

Demand for the first round of PPP loans began tapering before the August 8 deadline, according to data from S&P Global Market Intelligence. About 4.2 million loans were approved as of May 8, and another roughly 650,000 small businesses got loans through June 30, the initial deadline for applications. An additional 27,763 loan approvals were granted through July 13.

The average loan size in the first round of funding was $206,000, said S&P. In the second round, through June 30, it was about $56,000.

Experts attributed the drop-off in applications to the strict rules around the forgiveness of PPP loans. Under the program's rules, borrowers have to use at least 60% of the PPP loan to fund payroll and employee benefits costs. The remaining 40% can be spent on mortgage interest payments, rent and lease payments, and utilities.

If borrowers meet those and other criteria, the loan can be forgiven and turned into a grant that is not subject to income taxes.

Bankers are profiting widely from the first-round of the PPP. Through June 30, the program was poised to generate $18 billion of banker fees in total. "More than 30 banks could earn as much from emergency small-business loans as they reported in net revenue for all of 2019," said S&P.

As of mid-July, JPMorgan Chase had issued the most PPP loans of any bank—$28.8 billion, said S&P. That could yield the bank $863.9 million in fees. CFO

CREDIT

U.S. Banks Tighten Lending

It's raining in the U.S. economy, and the bankers want their umbrellas back. Or, at least, they aren't giving out any new ones.

When the economy clouds over and bankers' risk models start to look not so good, they do what they have to do for their own business's survival: tighten the terms of lending.

Therefore, it was of little surprise that the Federal Reserve's senior loan officer survey, taken in July, showed that banks are tightening standards for commercial and industrial (C&I) loans, along with many other lending products. The tightening of C&I loans standards is happening in deals with large, middle-market, and small businesses.

A significant number of the U.S. banks surveyed said they had also increased their use of interest-rate floors, collateralization requirements, loan covenants, premiums charged on riskier loans, and loan spreads over the bank's cost of funds.

Banks said standards are tightening because of the uncertain economic outlook, worsening of industry-specific problems, and reduced tolerance for risk, according to the Fed survey. A significant number of banks also mentioned deterioration in the bank's current or expected capital position; less aggressive competition from other banks or non-bank lenders; decreased liquidity in the secondary market for C&I loans; and increased concerns about the effects of legislative changes, supervisory actions, or changes in accounting standards.

Demand for C&I loans was also weaker, banks said, and the number of inquiries from potential borrowers fell. Why the fall in demand? Banks cited a decrease in customers' inventory financing needs, a decline in customers' accounts receivable financing needs, a decrease in customers' investment in plant or equipment, and a decrease in customers' merger or acquisition financing needs. Many banks also reported an increase in customers' internally generated funds and a decrease in customers' precautionary demand for cash and liquidity.

The loan terms story is much the same in commercial real estate (CRE). Banks tightened standards and reported weaker demand across all three major CRE loan categories—construction and land development loans, nonfarm nonresidential loans, and multifamily loans.

For loans to households, banks tightened standards on residential real estate loans and across all three consumer loan categories—credit card loans, auto loans, and "other" consumer loans. The demand for consumer loans weakened over the second quarter, especially in auto and other consumer loans. | V.R.

Getty Images (2)

CASH FLOW

Metric: Uncollectable Balances

In a chaotic business environment hampered by a global pandemic, many vendors, suppliers, and other businesses are holding “bad debt” in the form of payments owed that will never be collected from customers. When does a finance chief know his or her company is holding too much bad debt, and what can be done about it?

Through its Customer Credit and Invoicing Open Standards Benchmarking survey, APQC found that uncollectable balances represent 0.51% of revenue or less for top performers, while bottom performers see uncollectable balances of 0.88% of revenue or more. These percentages seem small at face value but add up quickly.

Given the economic impacts of COVID-19, it is reasonable to expect that uncollectable balances will creep up across the board. Even so, there are steps CFOs can take to ensure that uncollectable balances don’t spiral out of control.

While APQC frequently recommends that organizations benchmark their performance relative to their peers for a more holistic performance assessment, it’s also important to benchmark internally and track a company’s data over time. The important question is: Do you know where you stand on this measure relative to where you were three months or a year ago? If your uncollectable balances were relatively low before COVID-19 but are significantly higher now, it may be a sign that you’re carrying too much bad debt.

Also pay attention to leading indicators like your revenue-to-cash ratio. Ideally, this ratio should be as close as possible to 1:1—if a company reports $1 million in sales for one month, it should also bring in the same amount in cash in the subsequent period. If the subsequent period’s cash collections are 80% of the prior month’s reported revenue, ask where that gap is coming from—today’s gap could signal tomorrow’s uncollectable balances.

If you are among the bottom performers on this metric, there are proactive, holistic strategies at your disposal, including:
- Investing time and training in collections.
- Requiring a deposit upfront.
- Leveraging credit holds until the customer pays the existing balance.
- Early pay discounts, which incentivize the customer to pay faster.

Uncollectable balances ultimately represent money you won’t be paid for a service or product you’ve already delivered. It’s more important than ever to monitor this measure, track the trends, and work with customers to recover what you can. | PERRY D. WIGGINS

ARTIFICIAL INTELLIGENCE

ML Startup Was a Sham, Says SEC

The U.S. Securities and Exchange Commission charged technology start-up YouPlus and its CEO with defrauding investors by making false and misleading statements about the company’s finances and sources of revenue.

The SEC’s complaint alleges that from 2018 to 2019, Shaukat Shamim, the founder and CEO of YouPlus, a private company that purported to have developed a machine-learning tool to analyze videos on the internet, raised funds from investors while repeatedly misrepresenting the company’s financial condition.

According to the complaint, Shamim falsely told investors that YouPlus earned millions of dollars in annual revenue and had more than 100 customers.

The scheme unraveled in 2019 when Shamim confessed to certain investors that YouPlus had in fact earned less than $500,000 and had only four paying customers since the company’s inception in 2013.

From November 2013 through October 2019, YouPlus raised approximately $17.5 million in seed funding from approximately 50 investors. Of that $17.5 million, about $11 million was raised in 2018 and 2019 from about 30 investors.

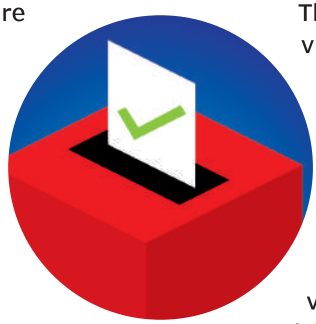
The SEC’s complaint charges YouPlus and Shamim with violating the antifraud provisions of the federal securities laws. It seeks permanent injunctions, civil money penalties, disgorgement with prejudgment interest, and an officer-and-director bar against Shamim. | V.R.

REGULATION

SEC Approves Final Rules on Proxy Advisors

The U.S. Securities and Exchange Commission has voted to adopt new rules that require proxy advisors to provide companies with access to their voting advice at the same time as shareholders.

The SEC's 3-1 vote followed a years-long battle between corporate lobbyists and governance activists over the regulation of firms that advise investors on how they should vote in corporate elections.



The new rules are designed to ensure shareholders have "reasonable and timely access to more transparent, accurate, and complete information on which to make voting decisions," the SEC said in a news release.

But the dissenting commissioner, Allison Herren Lee, blasted the measures as "unwarranted, unwanted, and unworkable."

"At the proposing stage for these rules, I observed that they would harm the governance process and suppress the free and full exercise of shareholder voting rights," she said in a statement. "Unfortunately, that is still the case with today's final rules."

As Reuters reports, corporate groups "had lobbied hard to rein in proxy advisers, which they say have too much power over the shareholder voting process and often make mistakes in their company reports."

The SEC proposed in November that proxy advisors give companies five days to vet their reports. Under the final rules, voting advice must be made available to issuers "at or prior to the time when such advice is disseminated to the proxy voting advice business's clients."

"The final rules will still make it harder and more costly for shareholders to cast their votes, and to do so in reliance on independent advice," Herren Lee said. "That means it will be harder for shareholders to make their voices heard—and harder for them to hold management accountable."

But Tom Quaadman of the U.S. Chamber of Commerce said the SEC had "acted to protect investors, promote transparency, end conflicts of interest, and boost U.S. competitiveness through oversight of proxy advisory firms." | MATTHEW HELLER

WORKFORCE MANAGEMENT

Frequent Reporting Lowers Performance

Among the many changes COVID-19 has forced upon the world of work, high in importance is the physical distance it has effected between managers and workers.

A natural managerial response might be to ask for frequent performance reporting. But, if that seems to make superficial sense, a new study is likely to prompt second thoughts.

The study, in the in the July/August issue of The Accounting Review, begins by acknowledging the conventional wisdom that high reporting frequency "enhances the timeliness and therefore usefulness of the reported information for decision-making." The paper then proceeds to urge managers "to weigh this benefit against potential costs … that are arguably more important—namely, the potentially negative motivational implications that undermine employees' task performance."

Frequent performance reporting, the new research finds, "has negative motivational and performance implications when employees know or assume that the information they report will be used to evaluate their task-related skills." High frequency, the study concludes, serves to increase "avoidance orientation," defined as "an individual's tendency to focus on avoiding unfavorable judgments of competence" rather than on developing competence for the work at hand.

The new study represents a novel detour from a large body of accounting research that has focused on the effect that frequent financial reporting has in inducing short-term corporate thinking. Shifting the investigation to the level of individual employees, the new research concludes similarly that greater performance-reporting frequency "leads employees to adopt a short-term perspective."

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CASH MANAGEMENT

Banks Keeping Short-Term Cash Safe

Before the panic arising from the COVID-19 pandemic had fully set in, the Association for Financial Professionals conducted its annual corporate liquidity survey. The results from the poll of 375 treasury and finance executives in March showed that "financial professionals could see the gathering storm," said AFP President Jim Kaitz.

About 51% of respondents revealed that they had increased their short-term investments in products offered by banks compared with the previous 12 months. That was the highest percentage of finance executives who had chosen to stash more cash in a bank in three years and a reversal of a downward trend that began in 2015. There's no reason to think that number wouldn't have been higher if the survey had been taken just a month or two later.

It's not a total surprise, as many CFOs were expecting a U.S. recession in late 2020 or 2021 even before COVID-19 hit. But the results show companies battened down their

cash management and short-term cash investment tactics quickly. And they will most likely continue to seek safety above all else when it comes to short-term cash, since interest rates are likely to remain low for months.

"Bank deposits saw an increase for the first time in five years, and that's not a coincidence," said Kaitz. … "With companies needing more access to liquidity and drawing down on credit facilities, their relationships with their banks will become more important than ever."

Beyond banks, the majority of organizations continued to allocate a large share of their short-term investment balances—an average of 77%—to safe and liquid investment vehicles: besides bank deposits, that means money market funds and Treasury securities. The most popular kinds of bank deposits used were interest-bearing deposit accounts (62%), time deposits (46%), and structured bank deposit products (31%).

About one-quarter of the respondents said they would be increasing their use of bank vehicles in the next 12 months, 17% planned to do so with government and Treasury money market funds, and 12% with Treasury bills. | V.R.

CAPITAL MARKETS

U.S. Treasury Lends $700M to YRC

Controversial trucking company YRC Worldwide has been given a $700 million loan by the U.S. Treasury Department.

The company said it was being given the loan under the CARES Act after it was significantly impacted by the COVID-19 pandemic. The Treasury Department said the loan was justified because YRC provides a large portion of the less-than-truckload services used by the U.S. military.

"Treasury's determination was based on a certification by the Secretary of Defense that YRC is critical to maintaining national security," the Treasury Department said in a July 1 statement.

YRC said it provides 68% of less-than-truckload services to the Department of Defense. The company said it is the second largest less-than-truckload company in the United States and, along with its operating companies, employs 30,000 people, including 24,000 teamsters.

In May, YRC said there was "substantial doubt" it could stay in business without federal help or a "meaningful stabilization" of the economy. In June, it said per-day shipments were down 20% during the quarter.

Under the terms of the loan, the Treasury Department will receive a 29.6% fully diluted equity ownership in the company. YRC will receive the loan in two $350 million tranches.

In 2018, the Department of Defense sued YRC alleging it overcharged the government, violated contract terms, and failed to comply with procurement rules. In the civil lawsuit, the Defense Department alleged YRC "reweighed thousands of shipments and suppressed the results whenever they indicated that a shipment was actually lighter than its original estimated weight."

YRC has said it will vigorously defend itself and a motion to dismiss the case has been pending for 10 months. "There has been no impact on the Department of Defense relationship," the company said. | WILLIAM SPROUSE

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Google Engineer Gets 18 Months

Former Google engineer Anthony Levandowski has been sentenced to 18 months in prison for stealing trade secrets from the company to benefit himself and Uber's self-driving car program.

Levandowski, 40, was a pioneer of autonomous vehicle technology at Google's Project Chauffeur before leaving to found Otto, a self-driving startup, and then selling Otto to Uber for more than $600 million in 2016. Uber fired him in May 2017.

He pleaded guilty in March to trade secrets theft for downloading thousands of confidential Project Chauffeur files, including development schedules and product designs, onto his personal laptop as he was preparing to leave Google.

"This is the biggest trade secret crime I have ever seen," U.S. District Judge William Alsup said as he also fined Levandowski $95,000 and ordered him to pay $756,499 in restitution to Google's self-driving unit, Waymo.

Anthony Levandowski heading into court for his bond hearing.

As The Verge reported, the sentencing "closes the book on a multi-year legal saga stemming from Levandowski's high-rising and equally fast-falling career in Silicon Valley spanning much of the past decade."

After selling Otto, he joined Uber as a high-ranking executive in its self-driving division. But shortly after the sale, Waymo sued Uber, alleging Levandowski stole Project Chauffeur secrets, which were then used by Uber.

Federal prosecutors filed the criminal charges against Levandowski in August 2019. In a victim statement, Waymo asked that he face a "substantial period of incarceration."

"His misconduct was enormously disruptive and harmful to Waymo, constituted a betrayal, and the financial effects would likely have been even more severe had it gone undetected," wrote Waymo attorney Leo Cunningham. | M.H.

M&A

French Company to Buy Fintech YayPay

Publicly held French company Quadient acquired YayPay, a software-as-a-service, accounts receivable (AR) automation solutions provider that was named a Tech Company to Watch by *CFO* in 2019.

Quadient said the acquisition of New York-based YayPay will expand its business process automation products, notably complementing its cloud-based platform Quadient® Impress, a multichannel document automation platform for small and medium businesses.

YayPay, founded in 2015, provides a combination of automated invoice delivery paired with collections management, credit assessment, payment, and cash application solutions. Its cloud-based platform serves more than 3,000 users globally.

Quadient focuses on four key solution areas: customer experience management, business process automation, mail-related solutions, and parcel locker solution. A recent survey of Quadient customers found that 50% of documents being processed through mailing equipment are invoices or invoice-related, providing a natural connection point with AR teams, the company said.

At the closing of the transaction, Quadient will own an 87% majority stake in the parent company of YayPay, with the two founders of YayPay becoming minority shareholders. Quadient has a mechanism to increase its ownership up to 100% in the coming years, the company said.

The purchase price, excluding transaction-related costs, amounts to more than $20 million. The acquisition will be financed entirely in cash, without recourse to additional debt.

Quadient's securities trade on Euronext Paris. The company has a market cap of more than $500 million. | V.R.

Getty Images(4)

CYBERSECURITY

Title Co. Charged With Security Lapses

The New York State Department of Financial Services has filed administrative charges against First American Title Insurance Company, alleging the real-estate title insurer failed to secure tens of millions of documents containing sensitive personal information of consumers.

In a statement of charges, the New York regulator said that from at least October 2014 through May 2019 the sensitive documents were available "to anyone with a web browser."

The allegations are the first brought under New York cybersecurity regulations that went into effect in 2017.

In May 2019, Krebs on Security reported that First American leaked digitized records, including bank account numbers, mortgage and tax records, Social Security numbers, wire transaction receipts, and driver's license images.

The New York State Department of Financial Services said the leak continued for six months after it was widely publicized.

"For more than four years, First American Title Insurance Company exposed tens of millions of documents ...," the regulator said.

First American said its primary regulator, the Nebraska Department of Insurance, ruled in June 2019 that its response to the breach was sufficient.

"First American strongly disagrees with the New York Department of Financial Services' charges," the company said in a statement.

First American said it would "vigorously defend" itself against "unreasonable charges."

Lisa Sotto, chair of the global privacy and cybersecurity practice of Hunton Andrews Kurth in New York, said companies should expect more actions. "Surprisingly, it's taken this long for DFS to publicly flog a company that it considered to be non-compliant," she said.

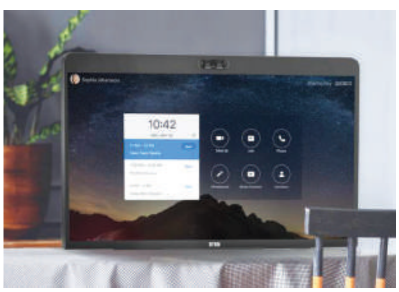
A hearing is scheduled for October 26. | **W.S.**

APPLICATIONS

Zoom Launches Hardware for the Home Office

Will home offices have room for a new piece of equipment? Videoconferencing company Zoom is entering the hardware business with a $599 tablet-like device for scheduling meetings, making video calls, and annotating and sharing content.

The device, called Zoom for Home-DTEN ME, has a 27-inch touchscreen, three wide-angle cameras, and eight microphones.



The new Zoom for Home product, which may be the first of several, is the result of a collaboration with DTEN, a San Jose-based company that typically makes products for conference rooms and classrooms.

"After experiencing remote work ourselves for the past several months, it was clear that we needed to innovate a new category dedicated to remote workers," said Eric S. Yuan, Zoom CEO. "I'm so proud of the team for continuing to think outside the box and prove why Zoom is the best unified communications platform that can meet the needs of all types of users."

The device will work with an existing Zoom account and provide access to standard Zoom features. The user doesn't need to have a paid subscription or a Zoom Meeting license. It also integrates with the user's calendar, status, contacts, and meeting settings.

According to Nicole Lee of Engadget, the system "is very much geared toward video-conferencing and not much else. ... It lacks some of the more consumer-focused features like YouTube, weather, smart home controls, and photo album integrations. It also doesn't have voice commands like Google Assistant or Alexa."

Zoom has other features for the device on the drawing board, Jeff Smith, the head of Zoom Rooms, told Engadget, including the face-tracking technology on Google's Nest Hub Max that automatically recognizes the user from facial features. | **V.R.**

AUDITING

Curtailing Auditors' Tax Services

Suspicions have persistently dogged firms whose auditors perform consulting services for them in addition to core accounting functions. And perhaps no extra services have evoked more concern than those related to taxes.

Indeed, regulatory actions have likely created an atmosphere that motivated companies to reduce or eliminate tax fees paid to audit firms to bolster the appearance of independence in their auditor-client relationship, according to a new study in Accounting Horizons. But the evidence is mixed on whether the provision of tax services in fact compromises auditors' independence—and thereby diminishes the reliability of their client firms' financial reporting.

The new study investigates a related question that has received sparse attention: What is the financial impact on companies that drop or greatly reduce tax-counseling by auditors for appearances' sake—that is, to forestall suspicion among regulators and investors about the reliability of their financial reporting?

The pursuit of perceived auditor independence turns out to be an expensive proposition, the study reveals.

"Companies dismissing or substantially reducing reliance on their audit firms as tax-service providers ... incurred substantial [tax] costs to avoid the perception of impaired auditor independence," conclude the paper's co-authors, Kirsten A. Cook of Texas Tech University, Kevin Kim of the University of Memphis, and Thomas C. Omer of the University of Nebraska-Lincoln.

More precisely, those companies saw their effective tax rate, as reported on their financial statements, increase by a mean of 1.36 percentage points in the following year and their actual cash payment of taxes swell by 1.64 percentage points. In the 419 instances where tax-counseling auditors were dismissed or their tax services sharply curtailed (as revealed in a large corporate database), the rate increases amounted to an average tax boost per company of about $6.4 million in the amount owed and about $7.65 million in what was actually paid.

Perhaps unsurprisingly, the biggest losers were client firms that curtailed auditors that have tax expertise (with high market share in this specialty); those companies' next-year tax payouts rose by an average of 4.53 percentage points.

BANKRUPTCY

Men's Wearhouse Files Bankruptcy

The parent company of Men's Wearhouse filed for bankruptcy to restructure its $1.5 billion in debt after the coronavirus pandemic derailed its turnaround plan.

Tailored Brands, which also owns Jos. A. Bank and K&G Fashion Superstore, is the latest of more than 20 private and public retailers to have declared bankruptcy this year. In addition to having to temporarily close its 1,274 stores in the U.S., the company has been hit by remote work policies, which have reduced demand for formal office apparel.

Prior to the pandemic, Tailored Brands had been pursuing a turnaround strategy after years of declining sales.

"As evidenced by the positive results we saw in January and February, we have made significant progress in refining our assortments, strengthening our omnichannel offering, and evolving our marketing channel and creative mix," CEO Dinesh Lahti said in a news release. "However, the unprecedented impact of COVID-19 requires us to further adapt and evolve."

The company plans to use the Chapter 11 process to implement a restructuring that will reduce its debt by between about $455 million and $555 million. Lenders have also agreed to provide it with $500 million in debtor-in-possession financing.

Tailored Brands had warned in June that it might have to seek bankruptcy protection after it reported first-quarter sales were down 60% due to the pandemic. The company skipped an interest payment of about $6.1 million on Men's Wearhouse bonds that was due July 1.

With revenue declining by nearly 6% over the past two years alone, Tailored Brands launched a turnaround effort that included selling non-core operations, closing stores, and growing its e-commerce channel. | M.H.

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REGULATION

Consumer Loan Company Charged

World Acceptance, a South Carolina-based consumer loan company, agreed to pay $21.7 million to resolve charges that it violated the Foreign Corrupt Practices Act (FCPA).

The Securities and Exchange Commission said that from at least December 2010 through June 2017, World Acceptance's former Mexican subsidiary, WAC de Mexico S.A. de C.V., paid more than $4 million in bribes to Mexican government and union officials. The bribes were intended to secure the ability to make loans to government employees and ensure that those loans were repaid in a timely manner.

According to the SEC's order, WAC Mexico paid the bribes in a variety of ways, including by depositing money into bank accounts linked to the officials and by hiring an intermediary to distribute large bags of cash among the officials.

"This long-running bribe scheme did not happen in a vacuum," said Charles E. Cain, Chief of the SEC enforcement division's FCPA unit. "Through a lack of adequate internal accounting controls and a culture that undermined its internal audit and compliance functions, World Acceptance Corporation created the perfect environment for illicit activity to occur for nearly a decade."

The SEC charged that WAC failed to make and keep accurate books and records and failed to devise and maintain a sufficient system of internal accounting controls necessary to detect and prevent the bribe payments.

WAC also failed to implement sufficient internal accounting controls over vendor management and accounts payable at WAC Mexico, failed to provide reasonable assurances that WAC Mexico had implemented an FCPA policy and was adhering to it, failed to provide FCPA training at WAC and WAC Mexico, and lacked sufficient entity-level controls over WAC Mexico, the SEC said.

Without admitting or denying the SEC's findings, World Acceptance consented to the entry of an order requiring that the company cease and desist from violating the anti-bribery, books and records, and internal controls provisions of the FCPA, and pay $17.826 million in disgorgement, $1.9 million in prejudgment interest, and a $2 million penalty. | V.R.

How Companies Can Pivot With Agility In the Wake of a Pandemic

COVID-19 changed how U.S. businesses interact with customers, employees, partners, and other stakeholders. Attention pivoted from digital transformation efforts to more immediate concerns such as remote working, supply chains, infrastructure to support go-to-market strategies, and customer experience touchpoints.

The pandemic put a strain on nascent transformational efforts—all of which require an advanced networking solution to support the need for greater agility, bandwidth, and security.

Companies with exclusively on-premise networks were affected by their inability to move to VPN access, cloud-based software, required to move employees to a work from home solution, nor did they have the infrastructure to make instant centralized changes to the network or scale bandwidth easily.

The instant need for increased demand for bandwidth meant companies were potentially unable to provide tools to remote employees or satisfy customer needs at critical times. For example, Comcast saw up to 60% usage spikes in some of the markets we serve, and peak times shifted to earlier in the day.

Managed Services Step In

Resilient business operations topped the list of post-COVID priorities in IDC's COVID-19 Impact on IT Spending[1] survey of global technology decision-makers. While transformation efforts may have been paused, companies are recognizing the criticality to not just revisit those initiatives, but to escalate the components that enhance the ability to increase agility and resiliency in anticipation of a continually evolving business and technology landscape. That can sometimes result in a gap in expertise and knowledge–and reluctance to take on extra resources.

One of the solutions to fill the gap in resources and technology is engaging a vendor that offers a robust set of managed solution options with advanced solutions for network connectivity and security. "This type of vendor can step in and work closely with both the business decision-makers and the information technology group to close that gap and help reduce the disruption," said Christian

Nascimento,Vice President, Product Management & Strategy for Comcast Business.

More Attention to Cybersecurity

Security is a critical concern for all companies, but especially in the financial sector, where handling sensitive data is routine. It's not enough to revamp the network and access to the cloud. Advanced integrated security must be part of the infrastructure from the original concept through deployment and agile enough to respond to changing conditions and threats in real or near-real time.

Cybersecurity applications can reside on an SDN platform such as Comcast's ActiveCore℠ and can be critical components in addressing ongoing threats to network and business infrastructure.

Reassessing Priorities

The pandemic forced executives to rethink organizational priorities and divert resources to connectivity technologies. Non-connectivity related initiatives had to wait. The business had to operate in a new way. Fast, secure, reliable connectivity became instantly more critical.

Far from throwing out digital initiatives, many organizations accelerated adoption and implementation to scale-up networks and move data and operational software to the cloud to enable employees to stay productive. At-home worker solutions like Comcast Business At Home offer safe, separate connectivity to the business, unrelated to the residential connection, for greater reliability.

Companies already investing in solutions like Ethernet connectivity with SDN and SD-WAN could react with enhanced agility, already realizing their commitment to technology with a positive, far-reaching, and permanent impact.

"The greater the commitment to a digital-first strategy already in place, the less disruption to the operations, as cited by IDG in recent research[2]," said Nascimento.

That likely meant better business results and the protection of revenue. "Companies with a virtual- and remote-work model in place may even have seen an improvement in market share because of the ease with which customers and stakeholders could continue to operate with them," said Nascimento.

Looking Ahead

The pandemic underscored the importance of a solution that scaled up or down easily as the shifting landscape dictated. "The best way to address the roadblocks is to outsource to a solution provider with a host of integrated managed services who can manage the upgrade quickly, with an agile, scalable solution and the team to work with the on-premise group," said Nascimento.

The repercussions on organizational productivity, internal communications, customer relationships, and processes are still being felt. As such, businesses continue to focus on technology investments that help improve the experience, productivity, and overall agility to meet changing circumstances.

All this change will have likely long-term or even permanent effects on the criticality of digital adoption and investment. "Digital transformation will be massively accelerated, as business of all shapes and sizes look to support a more distributed and flexible workforce and plan for heretofore unthinkable scenarios," concluded Nascimento.

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1. 2020 Shifting priorities in the C-Suite. IDC
2. 2020 Crisis-Tested IT Teams Accelerate Digital Agility Plans


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ACCOUNTING

Capitalizing On the Lease Accounting Deadline Extension

Rather than shelving the compliance project to be picked up at a later date, firms must leverage this time to be more strategic in their approach. By Len Neuhaus

Traditional lease accounting adoption methodologies involve significant upfront costs, resources, and software deployment. Ongoing, sustained compliance with the new lease accounting standards also requires a commitment of internal resources, time, software administration, and training.

Due to these hurdles and ongoing economic challenges, the Financial Accounting Standards Board (FASB) offered a one-year deferral of ASC 842 for private companies, private non-for-profit (NFP) companies, and certain public NFP companies. The Governmental Accounting Standards Board (GASB) offered an 18-month deferral of GASB 87 for government organizations and certain colleges and universities that report under the GASB standards.

For some organizations, the extension has already paused their decision to move forward with implementation and adoption. According to a recent LeaseAccelerator survey, 25% of respondents noted they had started their GASB 87 implementation but were now delaying it to match the new deadline. Furthermore, 28% of respondents noted that they started their GASB 87 implementation project but were now delayed until work-from-home restrictions are lifted.

While the delay may enable some firms to focus on core business needs, it does pose potential long-term risks and challenges as firms move closer to the ultimate adoption date. Key areas of concern will consist of decreased availability of quality consulting and partner resources, less flexibility in software and services timelines, and premium prices for solutions and support resources.

Rather than shelving the project to be picked up at a later date, firms must leverage this time to be more strategic in their approach. Those seeking long-term adoption success can use this time to yield more favorable implementation terms and more seasoned resources, reduce the overall cost of compliance, and button-up the retrospective requirements of ASC 842 and GASB 87. Additionally, private companies and government organizations can take advantage of lessons learned from public companies to best plan for a smooth, efficient, and compliant implementation without having to sacrifice quality due to time constraints.

Managing Additional Time

Delay does not mean cancellation. The deferment of adoption dates provides an opportunity for organizations to utilize existing resources over a longer time period to smooth out the implementation, achieve compliance with the new standard, and reduce overall costs of both implementation and ongoing compliance.

If prioritized this year, firms can have ample time to document and implement operational and accounting process changes and improvements. They can also avoid resource constraints and related higher demand pricing as the deadline approaches for software costs, implementation services, and technical

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accounting guidance. Organizations can benefit by leveraging software to ensure that lease populations remain complete and accurate until the actual transition date as well as use the additional time to automate processes around GASB 87, which would eliminate a number of manual processes.


Len Neuhaus

For organizations that have not yet started, it is essential to begin early to spread resource commitments across remote teams. Our 2019 study, "Private Companies and Lease Accounting: A 2019 Progress Report," surveyed over 350 finance and accounting leaders from U.S.-based private companies. The survey found higher-than-anticipated complexity. Almost 55% of companies found the lease accounting project to be more complex than originally anticipated. Collecting data, modifying business processes, and project-managing the enterprise-wide effort were among the top three challenges.

By leveraging internal resources over the longer period, firms can significantly reduce overall adoption costs. The longer timeline also enables firms to be in a better position to perform requirements-gathering for potential solutions; identify business partners for support; review software solutions; and gain access to the most experienced consultants.

Public Company Lessons

Private companies and government organizations can further benefit from having an extra year to prepare for ASC 842 and GASB 87 by learning from the real-world experiences of public companies that adopted the standards throughout 2019. Also, as many private and governmental organizations begin their implementation projects, they will have the benefit of being able to consult public SEC filings for their peer group to see real-world examples of quantitative and qualitative disclosures.

One key example of this can be found when public companies in the first quarter of adoption struggled with issues such as proving the accuracy and completeness of their lease population.

However, perhaps the greatest challenge of all was the need to track changes to the lease portfolio. A company with 300 leases will have to track an average of 230 events in a single year as assets come off lease, new leases are signed, and changes occur throughout the lease term. Real estate leases have frequent rent changes as well as expansion clauses, tenant improvement allowances and early renewal options that can be executed at various points in a 10-year lease.

Equipment assets under lease can be lost, stolen, damaged, purchased, returned, renewed, or upgraded during the relatively short term of a three-year lease. Tracking these activities manually with spreadsheets and emails proves challenging to the most organized accountants.

Additional lessons from public companies showcase how collecting data, implementing systems, and modifying business processes were some of the largest work efforts required prior to day one. However, many additional activities needed to be completed as well, which many public companies underestimated. Most of these fell into the "last mile" of the project in the final 90 days before the transition. There are over 100 billion combinations of use cases that can exist under ASC 842 when considering the different payment structures and events that can occur throughout the leasing lifecycle.

In addition to developing a strong test plan, project teams will need to train end-users and communicate policy changes throughout the organization. Perhaps most importantly, companies will need to staff a team of lease accountants to perform ongoing analysis of changes to the portfolio. Some may even need to build centers of excellence that are specifically focused on leasing.

Lease accounting will need to fit into an entity's month-end close process. A proper lease accounting and lease lifecycle management system will have critical features: all the features of a subledger, similar to an accounts receivable or an accounts payable subledger, but with much more detail and the ability to properly close each period. It will also provide both prospective and retrospective reporting information relating to prior closed periods.

As private and government organizations evaluate the new timeline for initial and ongoing compliance, as well as gaining benefits from the lease accounting data being unearthed to benefit the business, they should be mindful not just of initial compliance, but also of the need to set up scalable business processes for day two and beyond.

Perhaps the biggest challenge will be automating completeness, accuracy, and internal controls around new leases and changes to existing leases. Each month new leases are being signed, expiring leases are being terminated or renewed, and existing leases are being modified. These changes will need to be promptly communicated to the accounting team before the month-end close to ensure accurate calculations. Ultimately, success with lease accounting will demand an enterprise-wide effort to regularly communicate changes to the portfolio across business units, corporate functions, and the accounting team. CFO

Len Neuhaus, CPA, is vice president, lease accounting, at LeaseAccelerator.

Courtesy of the author

CFO UPCOMING EVENTS

CFO Magazine, in conjunction with Argyle Digital, is holding a series of virtual events this fall catering to chief financial officers and other finance executives.

Proformative Shared Services Leadership Forum
September 25

An insightful look into how to solidify gains made during the pandemic and devise strategies to scale automation across divisions and deepen usage.

CFO Live: Cybersecurity in Financial Services Leadership Forum
September 29

The C-suite's role in proactively managing cyber-risk and regulation and executing and building a cybersecurity roadmap.

CFO Live: M&A Leadership Forum
October 20

How political, regulatory, and economic conditions will impact deal activity in 2020 and 2021 and which deal-making skillets will be critical to success.

CFO Live: FP&A Leadership Forum
October 27

How FP&A is evolving beyond just serving the finance function, and what skills FP&A teams need to broaden the function's purview to support strategic decision-making.

CFO Live Conference
November 3, 4 & 5

The twice-a-year, multi-track event covering topics critical to CFOs and other senior finance executives.

CFO Live: Finance Leadership Forum
December 17

Strategies and ideas to help spark growth, boost profits, and turn finance into a strategically important partner for other areas of the organization.

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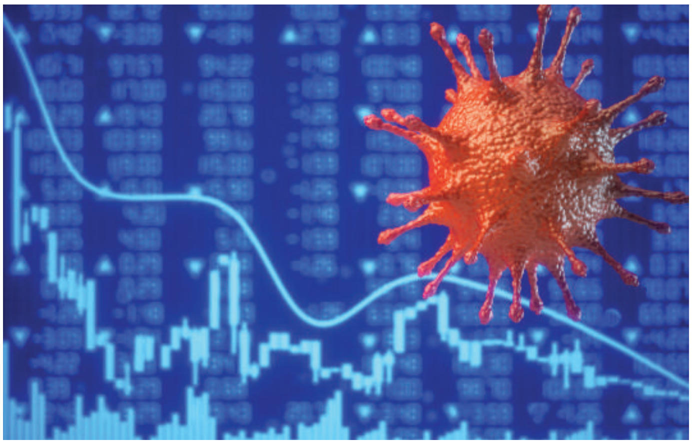
CAPITAL MARKETS

At-the-Market Offerings: A Good Option When Volatility Is High

An at-the-market program is a good way to diversify a company's capital-raising options, especially now. By Brian Hirshberg and Chirag Naidu

Following years of generally low market volatility, public companies are now navigating an uncertain and unprecedented market environment as a result of the global COVID-19 pandemic. In this new environment, many public companies are focused on diversifying their capital raising options. Companies that may need to raise capital as a result of abrupt liquidity and capital resource constraints should consider the option of setting up an at-the-market (ATM) offering program.



An ATM program allows a public company to raise modest amounts of capital over time by offering securities into the already existing trading market. The company sells newly issued shares periodically, over time, on an as-needed basis at the current trading price of the securities.

An ATM offering program may provide a company with a more attractive and less dilutive capital-raising option. The availability of an ATM program also allows a company to take advantage of a temporarily higher stock price or an upcoming milestone event to raise capital. It also may be used in conjunction with other financing options.

Diligence

In a volatile market, the timing and availability of an ATM program are critical. To maximize availability and efficiency, ATM programs should be structured to permit sales during the period of time between the company's earnings announcement and the filing of the corresponding annual or quarterly periodic report with the Securities and Exchange Commission—as long as the periodic report is not expected to contain any material differences from the information conveyed in the earnings announcement.

To avoid a waiting period and to ensure the company's ATM agent that the necessary disclosure is included in the ATM prospectus and the requisite diligence obligations have been met, the earnings announcement should be filed on a current report on form 8-K and thereby incorporated by reference into the ATM prospectus. It should be reviewed by the company's independent auditor. To simplify the bring-down diligence process, companies should satisfy ongoing ATM diligence obligations in conjunction with the company's quarterly earnings announcement and related periodic report filing.

Forward Sales

Many ATM programs have been recently structured to incorporate a forward-sale option. A forward sale allows a company to sell its securities through the ATM program at the current trading price without actually issuing any securities to satisfy the sale until a future date. This new structure is most efficient for companies with a current trading price that represents an attractive cost of capital from the company's perspective. At its discretion, the company is permitted to enter into an agreement with a forward purchaser who would purchase a fixed number of the company's securities at a fixed price at any time during the term of the forward contract (typically six months to one year from the date of the agreement).

Instead of selling newly issued company securities, the ATM agent borrows already outstanding securities and sells them short into the market.

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The forward-sale option is typically structured to provide the company with the option to elect a cash or share settlement for all or part of the transaction. If the company elects to cash settle and the market price at settlement is higher than the forward price, the company would pay the applicable cash amount (the difference between the market and forward price) to the forward purchaser. The forward purchaser would pay the same cash amount to the company in the event the market price at settlement is lower than the forward price. If the company elects to share settle, shares with a current value equal to the cash amount (calculated in the same manner) would be delivered in lieu of cash.

Preferred ATMs

Increasingly, public companies with outstanding listed classes of preferred stock have implemented an ATM program for this class of securities. Most companies with preferred stock ATM programs already have an ATM program established and maintained for their common stock, thereby leveraging the ongoing diligence and maintenance costs across several ATM programs.

Similar to a common stock ATM program, the company may sell preferred securities through the ATM program at varying prices based upon the prevailing market price of the preferred securities. However, for a preferred ATM program, the initial terms (dividend rate, conversion features, and redemption) that were fixed as part of the original issuance of preferred stock cannot change with a subsequent issuance under an ATM program. Importantly, the securities under the subsequent issuance must remain fungible with those that were part of the original issuance. Nonetheless, the size of the preferred stock ATM program is not constrained by the size of the original issuance of preferred securities. The size of the preferred stock ATM program can be significantly larger than the outstanding shares of

Brian Hirshberg

Chirag Naidu

preferred stock at the time the program is established.

A public company is eligible to implement an ATM program if it has a public float of at least $75 million or satisfies certain other qualifying thresholds. However, a company that is able to further qualify as a well-known seasoned issuer (WKSI) may take advantage of a more flexible ATM offering registration process.

The WKSI shelf registration statement is automatically deemed effective upon filing without waiting for an SEC review and comment period to be completed. WKSIs are not required to specify an aggregate dollar amount for their shelf registration statements. As a result, WKSIs are in a position to immediately access the market through a newly established ATM program.

Agency

Companies seeking to establish a new ATM program should choose investment banks with established expertise in operating ATM programs and discuss management expectations and goals for the ATM offering.

In particular, management should discuss any desired volume limitations, the inclusion of block trades, and any timing requirements relating to the execution or suspension of the ATM program.

Companies should consider engaging multiple ATM agents for a single ATM program (all engaged agents would sign one ATM agreement). Engaging multiple ATM agents allows a company to have several options when considering brokerage platforms to use throughout the term of the ATM program. Notwithstanding having access to multiple platforms, the company cannot sell its securities under the ATM program with more than one ATM agent at the same time.

Companies are advised to suspend any ongoing repurchase programs or dividend reinvestment plans before accessing an ATM program. Alternatively, companies may expressly limit the availability of the ATM program to periods that do not overlap with the repurchase programs or dividend reinvestment plans.

ATM programs are typically operated on an agency basis in which the ATM agent is engaged by the company to sell a modest number of securities from time to time on a best-efforts basis. However, most recent ATM programs are now established to include a block trade option. ATM offerings are often also effectively used on behalf of selling stockholders. Similar to a company ATM offering, a selling stockholder ATM offering allows the stockholder to sell securities into the market if an attractive opportunity arises. These types of ATM programs allow selling stockholders to exceed the Rule 144 volume limitations that are applicable for affiliates of a company.

If the selling stockholder in the ATM offering is an affiliate of the company, the parties should consider establishing a trading plan (in accordance with Rule 10b5-1) to form an affirmative defense against insider trading. Any person or entity executing pre-planned transactions pursuant to a Rule 10b5-1 plan that was established in good faith at a time when that person or entity was not aware of material nonpublic information has an affirmative defense against accusations of insider trading. This holds true even if actual trades made pursuant to the plan are executed at a time when the individual or entity may be aware of material nonpublic information. CFO

Brian Hirshberg is counsel and Chirag Naidu is an associate at Mayer Brown.

Courtesy of the authors

COVID-19

Push Past Fear to Resilience And Resurgence

For the long-term health of your business, it's time to move beyond crisis management and cash conservation. By Dayton Kellenberger

As COVID-19 took hold of the global economy, most CFOs went straight into crisis management mode. The focus was vigilant monitoring of cash balances and running multiple scenario plans to ensure adequate liquidity in the short term. Now, a few months into the pandemic and resulting economic uncertainty, it's time to start shifting our focus past fear and reactive cash-conservation tactics to resilience and, eventually, to resurgence.

Here are seven steps to help you and your organization make the transition.

Maintain gross margins.

Although it can be tempting to cut prices to achieve volume, protecting your gross margins will be critical for the long-term prospects of your enterprise.

Maintain tight pricing controls and sacrifice volume for margin where it makes sense. Business volume will return; margins may not if you cut them early.

In addition, use analytics to better understand margin/volume/product drivers. Are you seeing a dip in margin dollars and business? How can you tell the culprits? Using analytics to understand drivers in margin due to region mix, product mix, price, and a subset of each of those allows you to drill into the areas of the most focus. You can't fix the problem if you can't identify it.

Embrace zero-based budget opportunities.

When was the last time you actually did a zero-based budget in practice? As travel expenses have now gone to zero, companies have a unique opportunity to redefine how they approach corporate travel.

Increase approval levels on corporate travel so C-level executives are determining what is considered "essential travel." Put monthly check-ins in place with each department head to monitor, discuss, and determine what the future of business travel will look like for each function.

Find ways to reinvest savings into high-impact areas.

While it can be tempting to take all savings to the bottom line, try to find strategic investments that will help accelerate your rebound. Take the current business landscape as an opportunity to modernize your technology stack, invest in strategic marketing campaigns, train up your sales team, or all three. The benefits to the long-term will far outweigh today's bottom line.

Engage all members of the organization.

To find ideas to save money, improve processes, and otherwise maximize the rebound during a physically fractured time, enlist the support of those closest to your business: your employees.

A good idea is to create an internal "call to action" taskforce with cross-company representatives to identify creative new ways to maximize efficiencies across the organization.

Take practices from disruption and morph them into best practices.

Chances are, the weekly cash forecast process you put in place has turned out to be pretty useful, hasn't it? Take the best of the new processes you have inserted, optimize them, and then

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operationalize them.

Continue your weekly collections, accounts receivable aging, and cash forecast review so you can spot trends earlier and react ahead of future cash issues.

Assess office footprint; don't run straight to a pure mobile workforce if you can help it.

As the initial move to a full work from home staff has started to wear, you might see productivity start to dip. Generally, we will be a more remote workforce than ever before, but there are steps you can take to encourage collaboration and innovation while we all remain remote workers.

Work with your IT team to ensure the right technology tools are in place and that you aren't spending more

Dayton Kellenberger

on software licensing than you actually use. All the "try our free software" offers that flooded inboxes when remote work first launched could come back to haunt you once the "free" expires.

Advance your digital transformation plans.

While it may seem counter-intuitive, the time to make progress on your digital transformation plans is now.

For the sake of getting work done, and done well, cloud technology can deliver many more opportunities than traditional, on-premises systems that now few people can access. Communication is easy and instantaneous. Work is more secure and, if you're paying attention to the data your cloud systems can provide, your decisions are quicker and fact-based.

We continue to operate in uncertain times—no one knows how long this global health crisis will continue or to what extent it will impact our economy. But the time for emergency, knee-jerk reactions has passed. Strategic moves such as those described above will help provide the lift a business needs both today and in the future.

Dayton Kellenberger is CFO for Vendavo, a provider of B2B pricing and commercial excellence solutions.

How COVID-19 is Accelerating Digital Transformation

The pandemic has catapulted digital transformation to the top of the priority list.

As we start to look past the immediate pandemic crisis response and toward a "new normal" where working-from-home is expected, the need for cloud-based infrastructure is a no-brainer and predictive analytics are essential. The pace of digital transformation has been dramatically accelerated—it's not a conversation starter now, it's a basic business requirement.

It is clear that the digital economy trajectory has been accelerated dramatically due to COVID-19. Following are the three core areas where I see the steepest post-pandemic digital adoption curves.

AI-Enabled Analytics

One area showing rapid growth even in the thick of the economic downturn is predictive analytics and business intelligence.

Companies navigating their recoveries need advanced predictive analytics that go beyond conventional econometric measures to understand the impacts of this unprecedented crisis. To do that, they are going to need to be able to track disparate data on government and regulations, consumer health and behaviors, industries, and the macroeconomy to identify key thresholds on the path to the future. AI-enabled business analytics, with its power to find meaningful linkages and connections between seemingly discrete data points, are tailor-made for this task and will see significant growth in this sector in the coming months.

Cloud Infrastructure

The pandemic made it crystal clear: companies that were already on the cloud made the transition to work-from-home look effortless. Those that weren't were left to deal with clunky virtual private network connections and cyberattack-prone remote desktop log-ins as they tried to keep things running in the work-from-home world with one foot still stuck in the office.

In the months to come, expect the cloud to be one area of the IT budget that will be immune from the budget cuts that are affecting nearly every other area of corporate spending.

Remote Work Solutions

With many large companies already reporting that they will not reopen major office locations after the pandemic, and some governments even contemplating making work-from-home a legal right, we're rapidly building an expectation that everything should be able to be done remotely.

Accordingly, we also need to develop user-friendly interfaces and cybersecurity protocols that can keep pace with this growing reliance on digital communication. All that will require heavy investment in the bandwidth to make it all possible. CFO | BRIAN PECCARELLI

Brian Peccarelli is co-chief operating officer of Thomson Reuters.

Top: Courtesy of the author; Bottom: Getty images

Virtual CFOs Have Their Day

The pandemic forced a grand work-from-home experiment on finance. But is an all-remote team really the future?

By Russ Banham

In mid-March, retail cosmetics shop Ulta Beauty closed all 1,254 stores and CFO Scott Settersten and his 200-person finance team, like much of the country, became remote workers overnight. Settersten characterizes it as "a firestorm erupted, and a dark cloud descended over us." During a period of unprecedented upheaval brought on by the COVID-19 pandemic, though, "everyone in finance executed their daily tasks, closed the books, and filed the financial statements on an entirely remote and virtual basis, something they had not done previously," says Settersten. "It was a surprise to me just how well we performed."

The Ulta CFO was not the only finance chief singing the praises of his team in late summer, with pandemic shutdowns still in effect in some states. In the previous five months, in record numbers, finance professionals had worked on a distributed basis from their homes, using an array of technologies to keep businesses running; to assess the impact of the pandemic; and to stay on top of disclosures to investors, lenders, and regulators.

"The shift to remote work for me and [our] finance organization was relatively seamless," says CFO Steven Horowitz of CareCentrix, a managed home health-care provider. "We already were completing most of the work we did in finance at our physical worksites in Kansas City and New York on a virtual basis. Moving the work to our homes made little to no difference in getting it done."

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Virtual CFOs Have Their Day

The experience of CFOs "using finance and accounting automation software and other technology tools to get work done and close the books on a virtual basis has been surprisingly good," says Tim Koller, leader of McKinsey's strategy and corporate finance practice.

So good, in fact, that Ulta's Settersten and other CFOs maintain that the future of work for finance has been irrevocably altered. In coming years, say some, teams will execute virtually all tasks on a remote basis, going into a physical office only occasionally based on a set schedule.

"Given the data intensive nature of finance and the use of technology tools to mechanize, digitize, and automate traditional finance and accounting processes, there is no burning need for a physical office other than for learning, mentoring, and team-building," Settersten says.

Still, the issue is far from settled. Learning, mentoring, and team-building are actually some of the most important parts of what goes on in finance, after all. And there are still some responsibilities of the finance function that require workers to gather in one location.

Tech Lifesavers

The shift to a remote work paradigm makes an assumption: that finance organizations have already digitized financial data and have highly automated finance and accounting processes.

In some industries, that assumption may be wrong. Accenture recently assessed that up to 80% of the traditional elements of finance, such as accounting, reporting, analysis, transacting, and compliance can presently be automated. Yet, in the average organization today, only one-third of these activities are automated. Given the positive remote work experiences of highly automated finance organizations like Ulta Beauty, finance departments will face new pressure to accelerate their tech investments.

Nothing jolts an organization out of complacency about automation like necessity, says McKinsey's Koller, lead author of the book, "Valuation: Measuring and Managing the Value of Companies." During the early pandemic lockdowns, "digital automation was something of a lifesaver, the difference between continuing business operations and calling it a day," he says.

To keep their companies on top of supply chain disruptions, government shutdowns, and extreme market volatility, many CFOs formed "virtual war rooms," dashboards allowing finance to monitor cash flow and find innovative ways to reduce expenses, squeeze inventory, and conserve as much cash as possible, Koller says. These CFOs could get information faster and were at least in a position to make better decisions and contribute to organizational resilience and financial health.

What technologies proved vital in the spring and summer of 2020?

Ulta Beauty, for one, used Microsoft Teams to collaborate virtually, BlackLine to reconcile its accounts and close the books, AuditBoard to manage internal controls and compliance, and Toppan Merrill to file financial documents

> **"There is no burning need for a physical office other than for learning, mentoring, and team-building."**
>
> —**Scott Settersten**, CFO, Ulta Beauty

JANUARY 2020

FEBRUARY 2020

JAN 3
China notifies the World Health Organization of a novel coronavirus outbreak in Wuhan.

JAN 21
The United States confirms its first case, a man in Washington state who had traveled to the Wuhan area.

JAN 28
United Airlines suspends all flights to China from the United States.

Feb 5
The Centers for Disease Control begins shipping diagnostic test kits to more than a hundred labs in the U.S.

Feb 9
The death toll from the novel coronavirus surpasses the toll from the SARS epidemic of 2002-2003.

Feb 17
Apple warns investors that the company does not expect to meet revenue guidance for the upcoming quarter due to the impact of COVID-19.

Feb 25
San Francisco becomes the first U.S. city to declare a state of emergency.

Feb 29
The United States reports its first death from COVID-19, a man in his fifties with an underlying health condition.

The Germ of a Crisis

The first three months of the COVID-19 pandemic jolted governments, businesses, and the global workforce.

with the Securities and Exchange Commission. "We were fortunate in a way, since we only started implementing these tools a couple of years ago," Settersten says.

At CareCentrix, the finance team relied on a similar set of products—a combination of Webex, Zoom, Skype for Business, and other tools for instant messaging, virtual meetings, and document sharing, says CFO Horowitz. The company used Adaptive Insights to handle financial reporting.

"The videoconferencing platforms "gave us the feeling of being connected," says Horowitz. "We [also] had no trouble collaborating in real-time to perform the analysis and review documents."

CFO Tom Stoltz of Portillo Hotdogs, a privately held company with 62 fast casual restaurants in eight states, chalks up his team's success during the pandemic with having previously migrated its IT systems to the cloud. "It was a godsend, as it gave everyone on the staff remote access to the finance applications," Stoltz said. "We had also recently upgraded the email system to Microsoft Teams, which allowed us to share files and collaborate in video meetings, a big plus."

Finally, more than half (54%) of respondents to a survey by The Institute for Corporate Productivity planned to expand flexible work arrangements in the future, with only 15% expecting to retain the pre-COVID status quo.

Flexible work arrangements, in which employees can choose when and where to put in the hours, are nothing new. Many companies have tested this work paradigm for the past decade and more. But the pandemic turned these ad hoc tests into a universal experiment.

> **"The only time finance staff had to go to the office was to scan physical mail and bills into their smartphones to process accounts payable."**
>
> —**Steven Horowitz**, CFO, CareCentrix

Changing Behavior

Undoubtedly, in many finance organizations, the work environment will not be totally remote or totally on-site. Instead, it may become a hybrid—employees going to the physical office some days, working remotely others.

An April survey by Gartner found that nearly 23% of CFOs planned to shift 20% or more of finance employees to remote work on a permanent basis. About 52% CFOs planned to shift 5% to 10% of their workforce to remote permanently. Another survey, by PwC, suggested that 54% of companies planned to make remote work a permanent option for roles (like finance, IT, and human resources) that are suited for it.

After many, months it has become apparent that some employees working only remotely feel socially isolated and mentally and physically drained. Flexible work arrangements could offset that by breaking remote workdays up with in-person office visits.

In addition, some finance tasks continue to require in-person physical observations and manual sign-offs on pieces of paper, the case with certain internal controls. "The whole idea of internal controls is you manually check off something like inventory and then check it off again," says Eric Knachel, a senior partner in Deloitte's accounting and reporting services practice. "Other controls like segregation

MARCH 2020

APRIL 2020

Mar 3
The Federal Reserve's Open Market Committee cuts its benchmark interest rate by half a percentage point.

Mar 4
The Securities and Exchange Commission announces relief for certain publicly traded company filing obligations.

Mar 8
The number of COVID-19 cases in the U.S. passes 500.

Mar 11
The National Basketball Association suspends its season.
The World Health Organization declares the coronavirus outbreak a pandemic.

Mar 15
New York City public schools close. Twenty-nine other states announce school closures.

Mar 16
The Dow Jones Industrial Average records its worst drop in history: 2,997.10 points.

Mar 22
Global coronavirus cases double from previous week, reaching almost 330,000 cases.

Mar 23
The Fed announces the creation of the primary market corporate credit facility and the second market corporate credit facility.

Mar 24
Japan postpones the 2020 summer Olympics for the first time since World War II.

Mar 26
Unemployment reports show more than 3.2 million Americans filed claims the previous week.

Mar 29
The United States passes 140,000 coronavirus cases—more than any other country in the world.

Mar 31
Moody's cuts corporate debt outlook to negative.

Apr 2
Almost 91% of Americans are ordered to stay at home.

Apr 3
The Small Business Administration launches the Paycheck Protection Program for small businesses.

Virtual CFOs Have Their Day

of duties also require in-person meetings and manual check-offs. These tasks could be redesigned as virtual steps ... or remain as they are in a hybrid workspace."

Several CFOs said the positive work experience during the pandemic has convinced them of the value of flexible work arrangements. "The only time finance staff had to go to the office was to scan physical mail and bills into their smartphones to electronically process the accounts payable," says Horowitz of CareCentrix. "That's the one area where we weren't 100 percent virtual, yet I have no doubt we'll automate the process in the future."

The physical office, then, isn't going the way of the typewriter, although most companies' physical office footprints should narrow.

The finance team at Pega, a publicly traded customer relationship software solutions provider, will migrate to a hybrid workspace in the future, says Ken Stillwell, CFO. "You learn from change," says Stillwell. "Some people work very effectively and productively from their homes and others not so much, with most people in the middle—hence the value of a hybrid workspace."

CareCentrix's Horowitz has a similar perspective. "If someone needs to work from home for a couple days a

Closing Time

Finance teams faced forecasting and other end-of-quarter challenges while working from home.

As the clock ticked toward the end of the second quarter, CFOs working remotely struggled to ascertain the impact of COVID-19 and disclose it to shareholders, investors, business partners, and the government. Thwarted by a continually moving target—different states shutting down business operations, reopening them, and then shutting them down again—CFOs persevered to provide a fair value estimate of revenue, cash flow, credit, expenses, and earnings.

Just in time, too. In the first fiscal quarter, the U.S. Securities and Exchange Commission had given leeway to companies in forecasting the business impact of the coronavirus, but in the second fiscal quarter the SEC expected comprehensive disclosures.

"Sixty percent of companies found it tougher to make their forecasts in the second quarter than in the first quarter," says Eric Knachel, a senior partner at Deloitte. He's referring to a Deloitte survey of more than 10,000 executive and analyst respondents released in June, days after the second quarter close. More than 50% of the respondents acknowledged challenges in forecasting, with "impairment assessments" the far second-biggest challenge at 15%.

"The most difficult reporting element for us, one that permeates nearly all our accounting conventions, whether it's goodwill, asset impairment, or inventory reserves, was the determination of fair or realizable value—our estimate of future events and the resulting cash flows," says Scott Settersten, CFO of Ulta Beauty.

> **"Sixty percent of companies found it tougher to make their forecasts in the second quarter than in the first quarter."**
>
> —**Eric Knachel**, senior partner at Deloitte

While privately held companies arguably have a lighter reporting burden, they, too, typically disclose their future prospects to investors and lenders.

"We tend to frame it with guardrails—if things get really bad, here is what it could mean and how we would be able to get through it," says Steven Horowitz, CFO at CareCentrix. "Lenders were more understanding of our forecast accuracy challenges, mostly because we have a lot of cash and low fixed costs. We could withstand an awful lot of bad news without having any real troubles."

Despite such difficulties, many companies closed their books remotely in the same amount of time it took previously at the office, when finance personnel sat a few feet from each other. "We tactically closed the books and did our internal meeting and external cycles in about a week, our normal schedule," says Settersten.

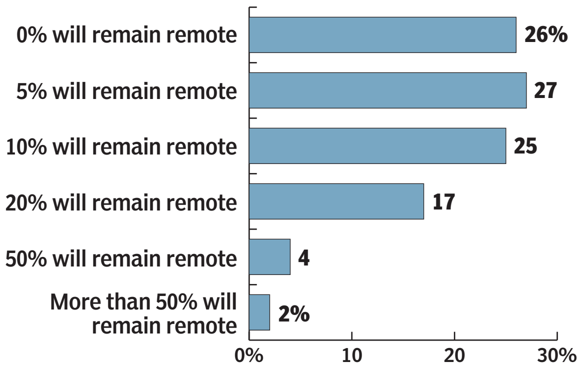
Some issuers executed the close faster remotely. This was the case at public company Pega, a customer relationship software provider. Pega "went through the entire close, audit committee meetings, the audit, and all the financial reporting remotely, as well as changes to disclosures and earnings," says CFO Ken Stillwell. "And we did it two days [faster] than we typically have in the past."

There were two reasons for the triumph. "Without a doubt, our people worked harder than ever before to get the close done remotely, but they would have been lost without the tools that gave them the edge," Stillwell notes. | R.B.

Moving Out

Many finance chiefs seem sold on keeping at least some of their teams at home.

(Percentage of workforce that will remain permanently remote post-COVID who were not remote pre-COVID)



Source: Gartner of 317 CFOs and Finance leaders on March 30, 2020

week, so be it. If it's good for them, it's good for finance."

And what about CFOs themselves?

Personally, the CFOs interviewed found their own remote work experiences remarkably productive. "For me it was an eye-opener," said Mark Partin, CFO at BlackLine. "It gave me the opportunity to reacquaint myself with the finance team and spend more time dedicated to the business and to them. I love being a 'virtual CFO.'"

Partin feels he has "greater symmetry and alignment" with the finance team, via a 30-minute daily video call than when he was on the road calling in between investor meetings. He says he eliminated much of his commuting time and is spending more time with family.

Stillwell also enjoyed working remotely and hopes to do more of it. "I learned a lot about myself these last six months," he said. "I was quite productive and accomplished more than I did at the physical office. That was a big surprise. Do I think it will change my work behavior going forward? Absolutely."

The Downsides

And what about that learning, mentoring, and team-building? Make no mistake, the finance chiefs are highly aware of the flaws in working only from home. Single employees living alone, for instance, express feelings of social isolation. Others feel they are working from morning to night.

"People are social animals and creatures of habit," says Partin. "Part of us likes to yell over the cube to a colleague or walk into someone's office just to elicit a laugh and break the tedium of the day. The physical workspace also keeps us connected to the business. An accountant might not get the computer invite to an important quarterly sales review that otherwise would have been shared in a physical dialogue."

CFO Stillwell is particularly concerned about the career impact of remote work on younger employees.

"We surveyed the finance team about their future work preferences and younger people definitely prefer working remotely," he says. "But, as the CFO, I feel challenged in how to develop and promote people who spend most of their time away from the physical workspace. I don't want to disproportionately alter their career paths based on where they choose to work. I don't want bias to intervene because I happen to engage in social interactions with people who come to the office more frequently."

Horowitz has similar hesitation about the impact of remote work on team building. "We have some new people here who haven't had the experience of working with our more tenured staff members," he said. "If we change the work dynamic appreciably, it could affect the culture. In turn, that might result in retention issues."

Settersten agrees. "Younger professionals are adept at working on a virtual basis," he says. "If they're new to the business and the organization, I have concerns they won't get the "shoulder-to-shoulder' mentoring and teaching that helps everyone in finance learn the ropes and build esprit de corps. That's partly why an entirely remote, virtual workspace, in my view, is not feasible. People tend to thrive on physical interactions."

> **"I was quite productive and accomplished more than I did at the physical office. That was a big surprise."**
>
> **—Ken Stillwell**, CFO, Pega

The partially hybrid work experience has been in place on a limited basis at BlackLine for more than a decade, with employees working every other Friday on a remote basis at their homes. But that's a lot different than working a majority of days at home.

"If we polled the entire finance and accounting team, probably 50% would say we benefit from physical proximity and the other 50% would say they felt more productive working remotely," Partin says. "I feel the same way."

BlackLine was already moving toward more flexible work arrangements when the shelter-in-place mandates "proved we could share information, complete work tasks, and collaborate just as easily if not better on a remote basis," Partin says. "The crisis was a successful mass experiment in a hybrid workspace. It's the path we're on." CFO

Russ Banham is a Pulitzer-nominated financial journalist and long-time CFO *contributor.*

Brushing Up On Bankruptcy

A brief guide to navigating Chapter 11 filings and other kinds of financial restructurings.

Have you ever been CFO of a company that has gone bankrupt?

Do you know the risks and rewards of filing for Chapter 11? Or how to prevent a lender from forcing a business into Chapter 11? Do you know the options for restructuring a company outside of the bankruptcy code, and how to figure out whether one of them would be a wise choice?

In this pandemic-induced recession, more CFOs will confront these questions for the first time. Others may have not handled such situations for over a decade, so may have outdated notions of what works and what doesn't.

Bankruptcy and other restructuring situations are filled with dangers. They divert management's attention, reduce going-concern value, reduce brand (intellectual property) value, and make normal operations more difficult, caution restructuring specialists. What's more, Chapter 11 can be an expensive proposition, and the success rate is not high.

So, how does a finance chief steer a company through such tumult? Below are some of the key questions that arise in a restructuring and how experts advise handling them.

Does filing for bankruptcy mean going out of business?

Just because a business files for bankruptcy does not mean it is going out of business. While a Chapter 7 business bankruptcy filing involves liquidation, Chapter 11 allows a business to restructure its debts and remain in operation. A business going through Chapter 11 often downsizes as part of the process, but the objective is reorganization, not liquidation.

> **"Unless a debtor chooses to terminate a relationship, most vendors and suppliers opt to stick around—even when they're owed a pre-petition debt."**
>
> —**David G. Dragich**, founder, The Dragich Law Firm

Some companies don't survive the Chapter 11 process, but many others, including household names such as Marvel Entertainment and General Motors, successfully emerge and thrive. Fundamentally, the result of most Chapter 11 cases is merely a change in ownership in the newly

Getty Images

Brushing Up On Bankruptcy

reorganized entity. The new owners may be equity holders or creditors and bondholders, since creditors and bondholders are entitled to a higher priority on assets than shareholders.

Chapter 11 can be also used as a strategic tool to effectuate different outcomes, including the sale of all or substantially all of the company's assets. Indeed, many companies that enter Chapter 11 have no intention of reorganizing as a going concern. The primary purpose of many cases is to quickly conduct a sale (called a "363 sale") in which a buyer acquires the debtor's assets. The proceeds are used to pay creditor claims. In addition, a company could threaten bankruptcy in order to negotiate more favorable real property lease terms, which could otherwise be rejected in a bankruptcy proceeding.

David G. Dragich, founder of The Dragich Law Firm, represents businesses in all aspects of complex corporate reorganizations and bankruptcy.

How do customers and vendors typically react to a company filing Chapter 11?

Commencing a Chapter 11 case involves filing a petition and paying a filing fee. Most customers of a bankrupt company will likely never know it is in Chapter 11—unless they're skimming through the pages of The Wall Street Journal. People are still buying shoes at Neiman Marcus and renting cars from Hertz. For all intents and purposes, it's business as usual while the reorganization process unfolds in bankruptcy court.

Most vendors and suppliers, on the other hand, become aware when a customer files for bankruptcy. Creditors of the bankrupt company will receive various notices throughout the case. However, unless a debtor chooses to terminate a relationship, most vendors and suppliers opt to stick around—even when they're owed a pre-petition debt.

In some instances, there is an existing contract in place obligating vendors and suppliers to perform. So, vendors and suppliers have no choice but to continue the relationship.

In other instances, they choose to because they're entitled to be paid for goods and services they provide as an "administrative expense" of the bankruptcy. An administrative expense is high in the claim priority scheme established

Manage Your Chief Restructuring Officer

With COVID-19 wreaking havoc, even well-run organizations might soon be forced to work with a chief restructuring officer.

CROs are sometimes used as an alternative to a bankruptcy trustee. Lenders, bondholders, and other parties often want to bring in an outsider to take steps that are necessary but unpopular. And it's definitely true that a CRO frees up managers to focus on fixing the business rather than on running the day-to-day Chapter 11 process.

But CROs can come with loyalty to lenders, who often recommend individual CROs and make the appointment of one a condition of cooperating toward a workout or restructuring. This can lead to CROs feeling indebted to lenders. That means that the debtor's CFO and other C-suite executives should make sure to have oversight powers.

After they're appointed, CROs report to the board of directors, who determine the CRO's powers and authority. As many potential CRO functions are normally performed by the CFO, the CEO, or both, the board and senior management should carefully circumscribe the scope of the CRO's duties. Duties can be added to the CRO's portfolio at later dates as appropriate.

"No information should flow from the CRO to the lender or other adversaries without prior sign-off from management."

Further, CRO retainer agreements should lay out the limits of the CRO's authority. A generic retainer agreement can empower a CRO with an ever-expanding budget and an ever-expanding sphere of influence. The board should limit CRO actions that can be taken without the authorization of the CFO, CEO, or board. The executives who report to the CRO and the persons to whom the CRO reports should be well defined.

The debtor's CFO is management's and the board's key interface with the CRO in assuring that the company has obtained the best deal with lenders. Lenders often request that the CRO be permitted to speak and to provide information to the lender outside of the presence of management. The danger there is obvious. No information should flow from the CRO to the lender or other adversaries without prior sign-off from management. Despite the CRO's expertise and diligence, the risk of errors, omissions, or incorrect assumptions on which the lender and others will rely is too great. At a minimum, disputes with the CRO should be noted.

—Kenneth A. Rosen

by the bankruptcy code. As long as the debtor has sufficient cash flow and debtor-in-possession financing to operate, the risk of not being paid while the debtor is in Chapter 11 tends to be low. **—David G. Dragich**

Are bankers forcing borrowers to default as a result of financial difficulties caused by the pandemic?

Banks have been advised by U.S. regulators to work with borrowers toward out-of-court consensual resolutions of the borrowers' cash-flow difficulties caused by the pandemic. Banks can declare a default, and that can result in the need for the company to seek relief under Chapter 11 of the bankruptcy code. But, at the moment, the bankruptcy court may be an unfriendly place for impatient lenders.

The bankruptcy court will consider whether the lender's collateral is eroding during the pendency of Chapter 11 and what the lender's alternatives are if the bankruptcy court grants the lender relief to take possession of its collateral. Even if the lender's collateral is declining in value, would it decline more if the bank is granted relief? Does the lender want to win its motion, or is the lender seeking just to improve its position?

A debtor can commence Chapter 11 without the lender's approval and without the agreement of the lender to provide financing during the proceeding. The debtor also can seek court permission to use cash collateral (cash proceeds of collections from accounts receivable) over the lender's opposition. The debtor must develop a budget reflecting its ability to operate only on cash collateral proceeds.

Additionally, secured lenders must be cautious about asserting that they are under-secured, and that assertion does not necessarily translate into bankruptcy court relief. No prudent lender wants to go on record at the beginning of a Chapter 11 case as to the value of its collateral, as it may come back to haunt the lender at the end of the case. Technically, a secured lender may be paid only the value of its claim.

Kenneth A. Rosen leads the bankruptcy, financial reorganization, and creditors' rights department at Lowenstein Sandler LLP.

What alternatives do middle-market businesses have to restructuring outside of the bankruptcy code?

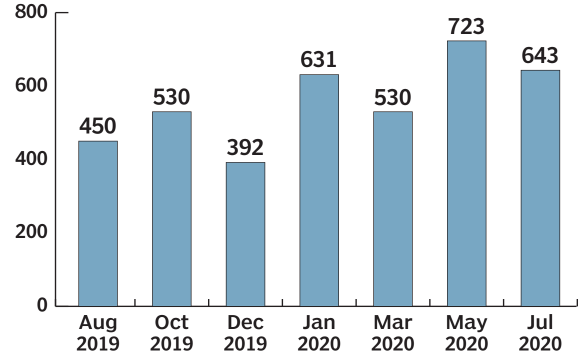
The U.S. bankruptcy system has many good attributes, but no one describes the current system as either fast or cheap.

Alternative options include having financially challenged small and midsize companies (as an example, those with under $20 million of secured debt with a relatively simple debt structure) use bankruptcy alternatives such as those identified below. The key to all of these methods is to have an objective third-party financial adviser put together realistic multi-year financial projections for the distressed business.

A Rash of Bankruptcies

As the pandemic raged, more businesses sought relief in the courts.

(Commercial business bankruptcy filings, by quarter)



Sources: Epiq, American Bankruptcy Institute

A sample plan (albeit each case is different) would be to use, for example, 75% of free cash flow produced by the company to provide pro-rata distributions to unsecured creditors payable twice a year. Unsecured creditor debt would be frozen as a non-interest-bearing note and set aside in an unsecured creditors pool. The following are venues to accomplish this tactic outside of filing bankruptcy:

1. Out-of-Court Debt Composition Plan. This venue assumes that you can get at least 90%, for example, of your unsecured creditors by claim amount to consent to an unsecured creditors' composition plan. You will need a plan with projections and projected payments. Each unsecured creditor must vote and agree to be bound if the debt composition plan achieves a chosen voting threshold.

2. State Court Receivership or State Assignment for Benefit of Creditors (ABC). This is the same as the debt composition plan, but it's done in state court if it is a receivership. An ABC is either a state court process or a common-law process depending on the laws and practice of the specific state involved. These processes work well if all the major creditors are within the state borders of the company or they consent to the process. Having a court process gives the unsecured creditors even more comfort that the debt composition process is fair and objective.

3. Federal Court Receivership. This is essentially the same as a state court receivership and ABC. The difference is that a federal process can bind parties across state borders. So, this is the most powerful tool short of a bankruptcy process.

Dan Dooley is CEO of MorrisAnderson, a financial advisory consultancy. Sheryl L. Toby is business services member at Dykema Gossett PLLC.


SORRY
WE'RE
CLOSED
DUE TO
COVID-19

SPECIAL REPORT

Pandemic Losses

Out in the Cold

Business interruption insurance has offered little protection from the large losses caused by COVID-19 government shutdowns.

By Karen Epper Hoffman

When disasters strike, many businesses rely on insurance to carry them through economic and financial rough patches. Not this time.

The COVID-19 pandemic and the subsequent government-mandated business shutdowns wrecked many companies' top and bottom lines. While there are some noteworthy exceptions, like "Amazon, grocery stores, and other 'essential' businesses, overwhelmingly, the impact [of the pandemic] ranges from hugely negative to devastating to business-threatening or business-ending," says John Ellison, partner in the insurance recovery practice at Reed Smith LLP.

Unfortunately, these businesses have had to make do without the benefit of insurance payouts, even though many held so-called "business interruption" policies that they thought would cover them. Companies filed claims as far back as early March, but they have been almost uniformly denied.

Insurance providers contend that given the nature of the COVID-19 pandemic—and the subsequent government-mandated business closures—the policies are not applicable in most if not all cases.

That stance has set off a monumental and precedent-setting debate over what expenses and lost revenue (if any) from the pandemic should be covered by such insurance.

Robert Gordon, senior vice president for policy, research, and international for the American Property Casualty Insurance Association (APCIA), says that because government emergency orders closed businesses to limit human transmission of COVID-19 and not because there had been direct property loss or damage, business interruption policies are not relevant.

Further, Gordon points out, government closures "have now caused what is expected to be one of the greatest domestic and global economic loss events in history… in the range of $255 billion to $431 billion in losses per month." In other words, in Gordon's opinion, the scale of potential losses is too great for the private sector to shoulder.

> **"Pandemics cannot be insured because they are uninsurable. The risks are too unknowable to price."**
>
> —Robert Gordon, senior vice president for policy, American Property Casualty Insurance Association

In an April 3 statement, Jimi Grande, senior vice president for the National Association of Mutual Insurance Companies (NAMIC), said that no insurance company or industry could cover the pandemic's costs to businesses and the economy—nor should the onus be primarily on insurers.

Many business leaders and the law firms that represent them, however, vehemently disagree. One attorney estimates there are more than 900 lawsuits filed by businesses against insurance companies over pandemic-closure coverages.

Fine Print

The question of insurance coverage, of course, is often in the details of the policy. The trigger for any property insurance policy, and resulting time element or business interruption coverage, is physical damage to insured property by an insured peril, according to Jill Dalton, group managing director for property risk consulting at Aon.

"Insurers are and will most likely be taking the position that the introduction of a virus does not constitute direct physical loss or damage to insured property nor is it a covered peril," Dalton says. So, most insurers have been viewing losses directly related to COVID-19 as "not covered due to standard policy exclusions."

Legal experts who specialize in insurance, however, are taking to court, defending their corporate clients'

Getty Images

policies and claims as not only valid and relevant, but necessary to the health of the economy.

Most large to mid-size businesses have business interruption coverage as a natural part of their property insurance policies, says Linda Kornfeld, vice chair for insurance recovery at Blank Rome LLP. While most of those policies do not have express pandemic coverage, she says, most also do not have an express pandemic exclusion.

"Some policies include the term 'virus' in an exclusion, but that term is surrounded by many other terms that suggest that 'virus' in the context of the exclusion is not meant to exclude losses due to a pandemic," Kornfeld says.

"Ultimately, this dispute will be resolved to some degree in the courts before insurers acknowledge coverage and start paying claims."

—Linda Kornfeld, vice chair for insurance recovery, Blank Rome LLP

Instead, those exclusions cover only "traditional 'pollution' events," she explains. An example would be matter growing in standing water or water-damaged wood after a flood, hurricane, or natural disaster, causing dry rot, wet rot, or fungi. Those damages would not be covered under business interruption insurance.

Regardless of any of this language, though, the property insurance industry is taking a hardline "no coverage" approach to all COVID-19 business interruption claims, says Kornfeld, by "stating that their policies are not even triggered unless there has been some physical event akin to a hurricane, tornado, earthquake, or other disaster."

Recourse for Businesses

When an insurance company denies what the insured and its attorney view to be a legitimate claim, attorneys fight back with letters, calls, arbitration and, if necessary, lawsuits. Peter Halprin, partner for insurance recovery at Pasich LLP, represents business-policyholders in such cases. March was a busy time for him, as businesses lined up to consult him on denied business interruption claims. "Companies were just trying to survive and understand what [coverage] they had," he says.

What do these policies look like? Small or mom-and-pop businesses generally buy a policy "off the rack," Halprin says. Larger companies buy what's known as a "manuscripted policy" tailored to their needs. For large policyholders, virtually every policy is different, and many of these insurance policies can run 600 or 700 pages long, according to Halprin.

"Even a very sophisticated financial professional may not necessarily sit down and read an entire policy, or digest and understand it," he adds. As a specialist in insurance law with decades of experience, "it takes me a significant amount of time to read these policies," Halprin admits.

In a government shutdown, Halprin believes, insurers should pay claims on business losses because they qualify as a valid business interruption. And yet, insurers have been rejecting these claims as exclusions to policy. As early as March, Halprin says, before policyholders even filed claims, insurers sent out notices saying, "we're not going to cover you for this."

Unfortunately, the many lawsuits against insurance companies are generally on hold. Fear of the virus's spread forced courts to stay closed from early spring through midsummer. Among the businesses bringing legal action are restaurants, nail salons, hotels and other hospitality businesses, casinos, music festivals, and entertainment venues. Halprin expects many more suits will be filed.

For corporate business interruption policyholders that haven't taken action, Kornfeld advises they not take insurers at their word regarding the existence of coverage. Professionals should instead carefully evaluate existing policy language to determine whether there may be any clear exclusions related to COVID-19 or pandemic coverage, she adds.

"Ultimately, this dispute will be resolved to some degree in the courts," says Kornfeld, "before insurers acknowledge coverage and start paying claims."

Future Pandemics

Should chief financial officers, general counsels, and risk managers have had their companies better-insured? Even if managements could have predicted the pandemic, strictly from an insurance coverage perspective, "it is hard to say that any particular business was not adequately prepared, given the unprecedented nature of this event," Kornfeld says.

"If policyholders had some form of 'virus' exclusion in their property policies, it is unlikely that they would have appreciated that any such language would apply in the essentially unheard-of event that we are experiencing."

Regardless of what happens with COVID-19 claims, insurers, businesses, and governments will have to wrestle with a tough question: Can future pandemics be insured by the private sector, and if so, how?

The APCIA's Gordon firmly maintains that, "pandemics cannot be insured because they are uninsurable. The risks are too unknowable to price."

Maybe pandemics can't be insured.

Photo courtesy of the company

Covering Contagion

"Communicable disease" extensions might provide some coverage for pandemic-hit businesses.

Some businesses with specialty coverage may have some COVID-19 losses covered. There are business insurance policies that have a specific yet limited grant of coverage for "communicable disease." Says Jill Dalton, group managing director for property risk consulting at Aon: "We expect those insurers will pay sub-limited claims under that and other specialized disease extensions, where the insurers agree that there was actual disease present at an insured location and that the other coverage requirements are met."

A business would have to prove that its employees tested positive for COVID-19, and that its business was directly impacted by the disease. "Some policies with disease extensions require a governmental shutdown order linked to the on-location outbreak and some do not," Dalton adds.

Large commercial property insurer FM Global added communicable disease coverage as a standard element of its core product back in 2016, in a response to requests from some clients. The policy covers costs of cleaning up contamination related to communicable diseases, as well as losses stemming from the closure of company facilities to enable such cleanup, within sub-limits.

The coverage didn't really strike a chord with the overall customer base in the years since its introduction, says FM Global, and there have been few claims. In May 2018, Marsh began offering business protection in the case of "an infectious disease outbreak," but reportedly didn't sell one policy. | **K.E.H.**

But some experts dispute the notion that the insurance industry couldn't possibly cover the large losses from the COVID-19 shutdown.

Tyler Leverty and Lawrence Powell, professors at the University of Wisconsin and the University of Alabama, told Reuters that insurers could be on the hook for a maximum of $120 billion a month in claims (versus the $431 billion the APCIA has been citing). That's on the basis that only two out of five small businesses have business interruption policies, according to the Insurance Information Institute. If the professors' estimate counted only businesses without explicit exclusions for pandemics, claims would only be in the millions per month.

Not surprisingly, the insurance trade group APCIA has been lobbying against politicians' and businesses' efforts to make insurance companies pay out on business interruption claims. The group maintains that since the government mandated the business shutdowns, the federal government should be bailing out the businesses that have a qualified need.

The APCIA has rallied for U.S. legislation to establish a workplace recovery fund. The fund would provide immediate assistance to businesses so they can maintain their viability and pay employees. The APCIA also backs the creation of a business continuity protection program (BCPP) to financially protect businesses in the case of future pandemic-related government shutdowns. The BCPP would provide revenue replacement and protection subsidized by the federal government, similar to the Federal Flood Insurance Program. Insurers would administer the policies. Similarly, The Risk Management Society (RIMS) is backing legislation that would create a pandemic risk reinsurance program with the U.S. Department of Treasury.

John Doyle, CEO of Marsh LLC, a New York-based insurance broker, believes there is a potential middle ground between relying on the private sector and having government underwrite pandemic coverage.

"Companies need access to a viable pandemic insurance market that helps protect their bottom lines in the event another crisis occurs," he says. A public-private partnership, where policyholders, the insurance industry, and the federal government each share in the risk would establish such a market, he proposes.

Meanwhile, business policyholders are not yet letting go of their insistence that insurers cover their losses. Particularly rankling for some owners and management teams may be that insurance companies have reaped enormous profits off of the business policies in question.

Says Reed Smith's Ellison, "Businesses have been purchasing business interruption insurance for decades, and most of them have paid huge premiums over the years with little or no claims made against those policies." CFO

Karen Epper Hoffman is a freelance business writer.

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U.S. Confidence Starts to Rebound

Finance executives are more optimistic about the domestic economy, but they expect a slow recovery. By Lauren Muskett

In the second quarter of 2020, U.S. finance executives said they were more optimistic about the financial prospects of their companies and the direction of the U.S. economy compared with the first quarter, according to The CFO Survey.

The CFO Survey, a collaboration of Duke University's Fuqua School of Business and the Federal Reserve Banks of Richmond and Atlanta, asked respondents to rate their optimism for the financial prospects of their own firms on a scale of 0 to 100. The average optimism rating was 70, an improvement from the first quarter (60). The rating also came close to the average for the past several years (as measured by the survey's predecessor, the Duke/*CFO* Global Business Outlook.)

When finance executives were asked to rate their optimism about the overall U.S. economy using the same scale, the average rating was 60, an improvement from 51 in the first quarter.

Still, executives "continued to express concerns around the shape and strength of the recovery for their firms, their industries, and their customers," said Brent Meyer, policy adviser and economist at the Federal Reserve Bank of Atlanta.

Respondents said their most pressing concerns were sales revenue and customers' demand for their products. Survey respondents said they expected their companies' revenues to decline 2% this year. But they predict 7% revenue growth in 2021.

Many of the executives surveyed said they expected their firms' operating income, employment, and total compensation to bounce back in 2021 after shrinking in 2020. The pessimistic outlook for the current year was corroborated by respondents' low expectations for gross domestic product growth, with almost 40% of firms expecting U.S. GDP growth to be negative for calendar year 2020. U.S. GDP fell at a 5% annual rate in the first quarter and a nearly 33% annualized in the second.

About one-third of the finance executives surveyed said they had cut headcount since March. Respondent firms reduced their workforces an average of nearly 6%. Most attributed the cuts to reduced demand due to the COVID-19 pandemic.

"Although some of these jobs will return by the end of the year, CFOs on average expect year-end 2020 employment to be 5% lower than it was at the beginning of the year," said John Graham, a Fuqua finance professor. "By year-end 2021, employment is still expected to remain below pre-COVID levels."

Lifelines

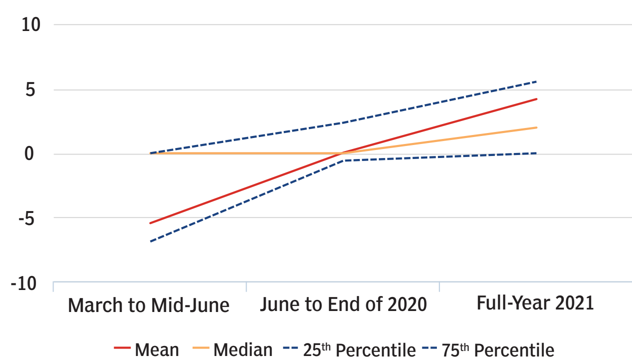
The survey found that about half of the respondent's firms applied for new credit in the past six months. Thirty-three percent of respondents that applied for new credit said it was more difficult to access, while 11% said it was less difficult. The remaining participants said there was no change in their ability to obtain credit. Almost all of the firms that applied for credit received a loan amount at or near what they requested.

Almost all responding firms with less than 500 employees applied for funding from the U.S. Small Business Administration's Paycheck Protection Program (PPP).

"PPP funding has been an important part of the survival mechanism that firms have employed," said Sonya Ravindranath Waddell, economist at the Federal Reserve Bank of Richmond. "The fact that almost all of the firms that reported taking PPP funding anticipate a full forgiveness of the loan is one positive indicator for employment as policymakers try to anticipate the trajectory of the recovery." (The loans are forgivable if the borrower devotes at least 60% of the proceeds to payroll costs. Borrowers also have to maintain the number of people on their payrolls.) CFO

Firms' Expected Employment Trajectory

Percent change in employment*



*Data reflect results for 244 to 265 U.S. firms responding to the June 15-26, 2020, survey. Responses are weighted by employment (truncated at 85th percentile) and winsorized at 2.5% and 97.5%.

Source: Duke University, FRB Richmond, and FRB Atlanta, The CFO Survey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Pushing Ahead With Global Expansions

Finance chiefs are sticking with their international growth plans despite the pandemic-induced economic downturn. By Keith Button

Despite the COVID-19 pandemic, CFOs continue to press on with international expansion, unwilling to give up opportunities to capture market share.

That was one of the findings from a recent survey of 166 finance chiefs and other senior financial executives by CFO Research (part of Argyle Advisory and Research Services) and employer of record (EOR) Globalization Partners. While the economic upheaval caused by the coronavirus has added obstacles, most financial executives said they were not abandoning their global expansion plans.

More Than Coronavirus

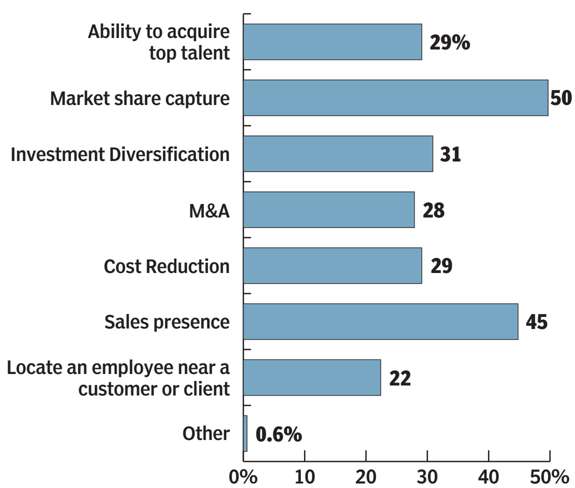
Nearly nine out of 10 of the surveyed executives have had experience with international expansion, reporting that their companies had already expanded to two or more countries outside the United States. Some 16% had expanded into 20 or more countries. Along with this experience comes first-hand knowledge of the business obstacles of entering a new country.

Among the COVID-19 concerns related to global expansion, employee health and safety was first, cited about twice as much as the concerns of developing new business strategies, increasing sales pipeline and revenue, and reducing organizational costs.

Eighty-three percent of the executives were concerned about having to deal with multiple third parties and stakeholders in a foreign country during a volatile economic climate. And 74% were worried about dealing with foreign banks and international employee payrolls in volatile times.

Aside from current pandemic concerns, companies face weighty challenges when carrying out an international expansion. Nearly eight out of 10 of the surveyed executives agreed that legal, human resource, and tax compliance demands were a substantial barrier in the countries they were venturing into. They said managing legal concerns was the most challenging area of a global expansion, followed by dedicating resources to global operations and recruiting talent.

What were the deciding factors that resulted in your company's decision to expand and/or hire internationally?*



If you are now looking to expand globally, in which areas has COVID-19 affected your organization's decision to expand globally?*

*Respondents were allowed to choose multiple responses

Forging Ahead

Despite the hurdles, only 37% of the executives in the CFO Research survey have shut down their global growth plans because of COVID-19. Forty-five percent were either currently expanding globally or delaying their global expansion for less than a year, and 9% were in a year-long holding pattern.

Why persevere with international expansions during the COVID-19 pandemic? Opportunities for capturing market share were the top reason. Second on the list was expanding sales, followed in third by diversifying investments. Tied for fourth place were acquiring top talent and reducing costs.

The surveyed executives reported that their companies' biggest benefits from global expansion would be an expanded talent pool, sales advantages, scaling of operations, and productivity increases.

A company's speed-to-market directly impacts how fast it can build its business and generate revenues, and expanding operations into another country can be frustratingly slow. Global expansion has been or is expected to be a long process for most of the surveyed executives. Eighty-six percent said their global expansion either took or would take at least five months. That 86% figure included 42% who clocked the process at more than one year—an astoundingly long wait.

Speed is one of the key reasons that companies engage a global employer of record (EOR) for international expansion. A company engages an EOR for its workforce in discrete countries and to manage local legal matters, including HR issues. All employee work is directed by the company. A top-tier EOR can have a company's expansion started in a new country—hiring employees there—within just a few business days.

Trusted Global EORs

The surveyed executives were familiar with global EORs and held the concept of the "trusted global EOR" in high regard. Forty-six percent of the executives planned to engage a global EOR to support their international business strategies, and 32% said they currently engage a global EOR. Nine out of 10 surveyed executives agreed that a trusted global EOR can do much better than a typical company in overcoming potential barriers to operating in a new country.

Similarly, 88% agreed that it was essential for CFOs to understand the EOR capabilities to better inform enterprise decisions about overseas expansion. And 87% and 84% agreed, respectively, that using a trusted global EOR was a best practice for relieving the management and administrative burden and addressing the enterprise risk that comes with overseas expansion.

83%

Executives who are looking into a remote, global workforce model because of changes brought on by COVID-19

U.S. companies have also turned to global EORs to solve international problems during the economic downturn caused by the pandemic. Some companies negotiated temporary salary cuts with overseas workers through their EOR instead of implementing layoffs. That feat would have been impossible for U.S.-based company managers with a directly employed workforce because of COVID-19-related travel restrictions.

Travel restrictions also led U.S. companies to rely on global EORs to hire international talent in their country of origin. That enables a company to hire its top candidate of choice, without needing to set up an entity. It also allows employees to work for a U.S.-based organization regardless of visa status. An EOR can be a stopgap solution that smooths the path to eventually bringing a candidate to the United States once the H-1B visa program resumes.

It could also be a permanent solution, allowing the company to employ international talent regardless of what changes may come to the H-1B visa program in the future.

For the executives in the CFO Research survey, the biggest benefits realized from global EORs were legal and HR compliance, followed by regulatory compliance and risk management. For global expansion, regulatory compliance was the top area where the surveyed executives would want assistance from a global EOR, followed by the legal, labor law, hiring, payroll, and corporate tax areas.

Working From Home

One trend from the effects of COVID-19 could be felt for the long term: 83% of the surveyed executives say they were looking into a remote, global workforce model because of changes brought on by the coronavirus pandemic. Companies that use a global EOR for their international operations typically employ a remote workforce model. For companies looking to conserve cash during the COVID-19 economic downturn, working through a global EOR has been much less expensive than setting up their own entities and paying for their own global HR, audit, tax, and compliance support.

When the executives were asked about their expansion strategies for specific global regions, every region garnered pledges of new or expanded operations plans from more than 55% of the survey respondents. The most popular region for adding or expanding operations outside North America was the Asia-Pacific-excluding-China region, targeted by 65% of the executives. The Asia-Pacific-including-China region was targeted by 58% of the executives. CFO

Keith Button is a freelance writer based in Valley Cottage, N.Y.

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Reshaping the CFO Role

The pandemic has chief financial officers once again playing an ever-increasing strategic role in forward-thinking organizations. By Keith Button

Surveys conducted before and during the pandemic show the coronavirus crisis may be reshaping the role of the CFO, with senior finance executives shifting their focus to crafting strategy and generating business value.

CFO Research (part of Argyle Advisory and Research Services) and Grant Thornton surveyed 631 CFOs and other senior finance executives in February, then followed up with a survey of 174 CFOs and senior finance executives in May, to gauge the effects of the COVID-19 upheaval. Besides the changing focus of CFOs, the surveys revealed widescale delays for innovation projects, renewed appreciation for business strategy skills, cybersecurity expense increases, and a love for advanced analytics and artificial intelligence.

Roles and Tasks

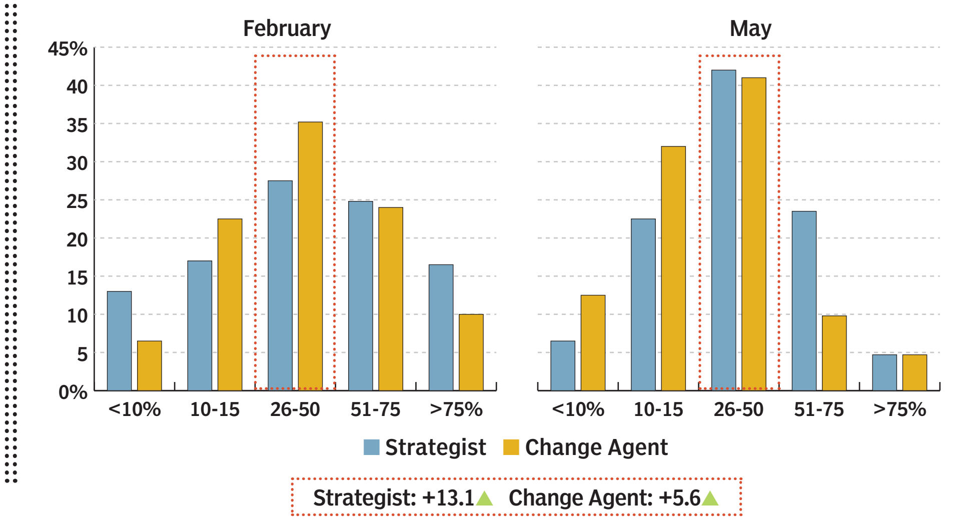
The February and May surveys showed that the role of the CFO shifted when the pandemic hit. In both surveys, the executives were asked how much of CFOs' time would be spent in these four roles: strategist (crafting corporate strategy); change agent (generating business value); producer (standardizing and automating transactional processes); and guardian (standardizing control and compliance processes).

In February, the survey respondents reported that CFOs' time was divided relatively equally across the four roles. But by May that balance had shifted in response to the COVID-19 crisis: strategist and change agent roles were taking more of CFOs' time compared with the producer and guardian roles.

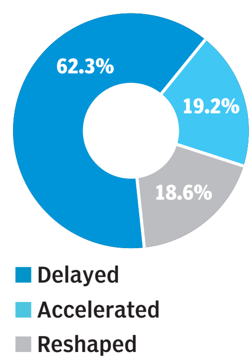
Despite the apparent shift to more forward-looking tasks, the coronavirus forced a large majority of CFOs to put off or change their plans for innovation projects. Eight out of 10 surveyed finance executives had delayed or reshaped innovation projects in May. Sixty-two percent of the respondents reported that the COVID-19 crisis had delayed their transformational projects while 19% said the crisis had reshaped their projects and they were pursuing a different approach. The remaining 19% reported that the crisis had accelerated transformation projects.

Delaying and reshaping innovation projects doesn't mean they are extinguished. More than 90% of 335 finance professionals polled during a Grant Thornton webinar in June said they planned to continue to innovate, even during the COVID-19 downturn.

How much of the CFO's time is dedicated to acting in the following capacities?



How has the crisis impacted your transformational projects?



Source: Grant Thornton CFO Survey–May

Automation Stays the Course

Advanced analytics and artificial intelligence were favored categories of automation technology in both the February and May surveys.

A majority of the executives in the May survey reported that their plans for implementing automation technologies had not been delayed by the pandemic. More executives slated advanced analytics for accelerated implementation (29%) than they did any other category of technology. Artificial intelligence was a close second at 23%.

The February survey had asked executives when they expected to implement a list of specified automation technologies. Most respondents (55%) had already implemented advanced analytics. Optical character recognition was the second-most-already-implemented automation technology, at 40%. Artificial intelligence had the highest percentage of planned implementations within 12 months (33%), followed by robotic process automation (30%).

In a December 2019 recession preparedness survey by Grant Thornton, 70% of respondents reported plans to increase their digital investments in innovation/technology, digital transformation, and/or cybersecurity, even amid growing signs of a slowdown. In the February CFO survey, about 70% of the senior finance executives reported they had either implemented key emerging technologies or they would be implementing them within two years.

When asked in May about how expenses would change over the next year because of COVID-19, cybersecurity had the highest percentage of executives projecting increases (44%) followed by IT/digital transformation (40%), training and development (22%), operations (21%), and marketing (19%). Not surprisingly, the categories with the lowest projections for expense increases were travel (4%), real estate (6%), recruiting (7%), and workforce (7%). Ninety percent of the executives projected their travel expenses would decrease.

44%

Finance executives who plan to increase cybersecurity spending over the next year because of COVID-19

Love for Business Strategy

Fitting with the finding of CFOs seeing themselves in more strategic roles during the pandemic, the finance executives surveyed held business strategy skills in high regard.

They saw business strategy as an important skillset both before and after the onset of the pandemic. Operations management skills were nearly as valued as business strategy skills in the pandemic crisis environment. When finance executives were asked which important skill they had leveraged because of the coronavirus crisis, the most-cited answer was business strategy, chosen by 34% of the executives, followed by operations management (29%). Data analytics and innovation/entrepreneurship were tied as the third-most-cited top skills drawn on during the pandemic, at 10%.

The February survey asked a related question—what was the most important skillset respondents would like to develop within their finance function? Data analytics and business strategy were the most-cited answers, by 23% and 22% of the respondents, respectively, followed by application development (17%) and customer experience management (11%).

Other Impacts

There's no doubt that business strategy development was not the only added responsibility for CFOs arising from the pandemic-induced recession.

Among the short-term priorities and lasting impacts of the pandemic, the executives in the May survey individually listed:

- reduced capex;
- the potential to purchase less-well-capitalized companies;
- reduced cash flow impacting debt covenants;
- resource prioritization in the face of constrained supply chains; and
- long-term implications of an increasing mobile workforce on office space, recruiting and travel.

Most of those impacts will continue to have a large influence on what CFOs spend their time on in the coming months. Respondents said they were seeing CFOs branching out into new areas of organizational leadership, such as leading production and processes, managing layoffs and shuttering operations, working with business units to establish multiple manufacturing sources, managing remote workforces, partnering with the community, and interacting with investors.

Within the traditional scope of finance, new areas of focus for some finance chiefs included acquisitions and divestitures, moves to preserve cash and resources, coronavirus financial-impact models, investment risk, forecasting and budgeting, payments and cash flow management, risk mitigation, liquidity management, revenue development, and cost reduction. Paycheck Protection Program documentation and analysis also appeared on the list.

Among the new areas of focus within technology leadership, finance executives listed moving all functions to paperless, implementing work-from-home technologies, and overseeing IT and security.

And one executive listed a-not-unfamiliar CFO role: therapist. CFO

Keith Button is a freelance writer based in Valley Cottage, N.Y.

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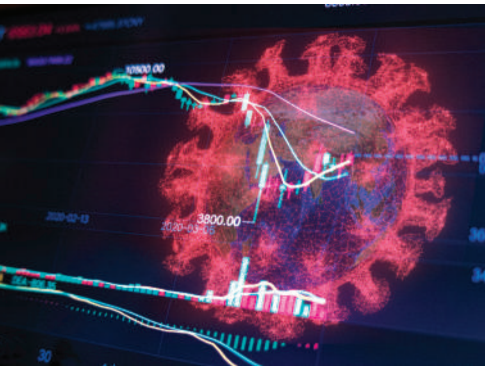
THE QUIZ



Unsettled

Real life crises aren't always reflected in the direction of the markets. While the COVID-19 pandemic has nearly suffocated economies, for example, the U.S. stock market indices have been on a tear. Still, uncertainty about business profits, consumer spending, and government stimulus does create a lot of volatility. Two-thousand twenty has been especially bumpy. How closely have you been following the fluctuations?

1 When was the most recent trading day that the 10-year Treasury yield was above 1%?*

A. March 19
B. February 28
C. June 6
D. August 13

2 During the week of August 17, the 30-year fixed mortgage rate dipped below 3%. What was it two years earlier?

A. 4.2%
B. 5.1%
C. 6.5%
D. 4.6%

3 As of mid-August, the Dow Jones Industrial Average was still a couple of thousand points off its record closing high. What month and date did its high point occur?

A. March 2020
B. February 2019
C. February 2020
D. April 2019

4 Since March 11, when the World Health Organization declared COVID-19 a pandemic, Brent Crude oil traded below $20 at one point.

A. True
B. False

5 During the second quarter, what was the average first-day "pop" of U.S. initial public offerings?

A. 23%
B. 16%
C. 30%
D. 38%

6 The S&P 500's lowest close for the year occurred on March 23. What happened on that date?

A. U.S. COVID-19 cases passed 100,000
B. New York declared a state of emergency
C. The Federal Reserve lowered the federal funds rate
D. President Trump announced new tariffs on Chinese goods

7 As of the end of July, how much in corporate debt was the Federal Reserve holding as a result of its corporate credit facility program?

A. $10.4 billion
B. $5.5 billion
C. $300 million
D. $3.6 billion

8 The CBOE Volatility Index (VIX) has been above 20 since late February. On March 16 it hit its 2020 high point. What did it measure on that date?

A. 55.2
B. 82.7
C. 34.5
D. 41.9

* Performance numbers are as of August 21.
Sources: WSJ, Freddie Mac, Renaissance Capital, CBOE, Federal Reserve

Answers: 1-A; 2-D; 3-C; 4-A; 5-D; 6-C; 7-D; 8-B

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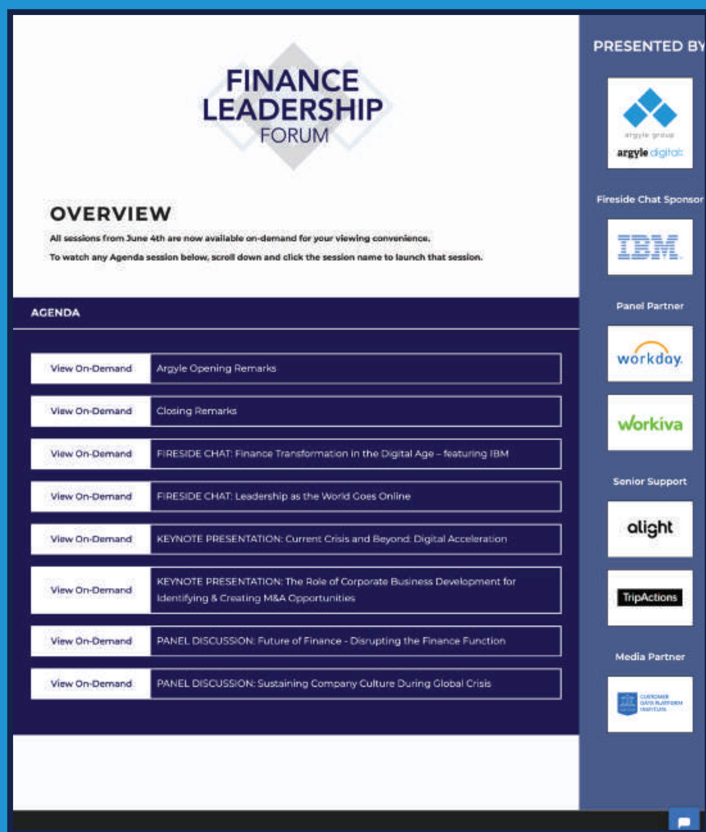

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