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TOP TRENDS IN ERP

CFOs HOOKED ON STARTUPS

FAST MONEY

Can online lenders maintain their torrid growth?

SAM HODGES, co-founder and managing director of Funding Circle USA


MASINA
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FEATURES

February 2016
Volume 32, No. 1

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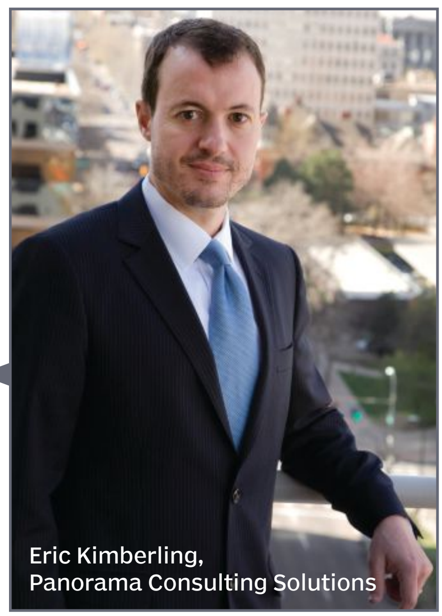

Eric Kimberling, Panorama Consulting Solutions

Cover: Funding Circle USA; clockwise from top left: Thinkstock, courtesy Kabbage, courtesy Panorama Consulting Solutions

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Up Front

By the Numbers

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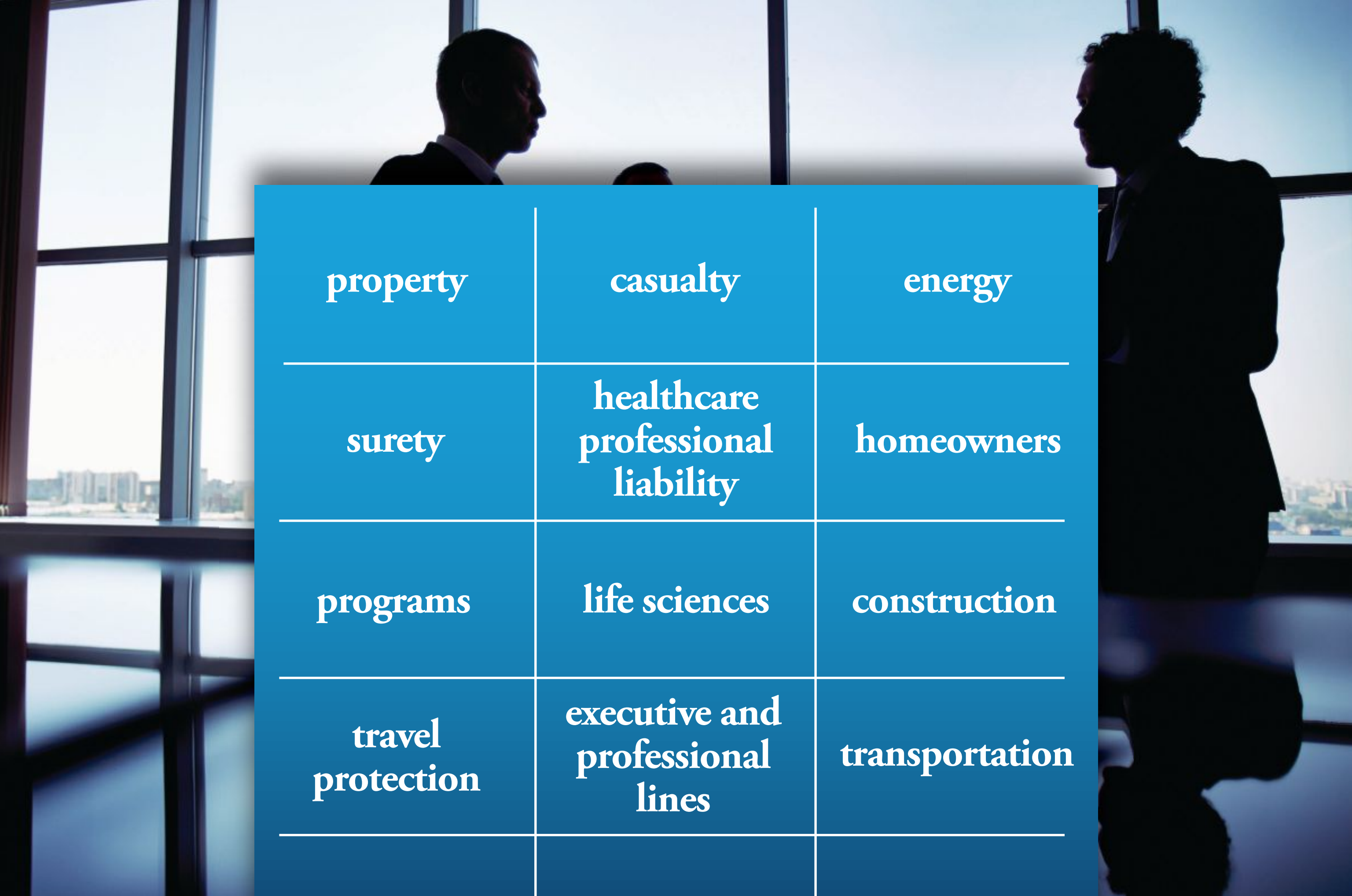


FROM THE EDITOR

Small Is Big

››Small-business lending is becoming a big business, with investors pouring hundreds of millions of dollars into online marketplace lenders like Lending Club, Kabbage, and Funding Circle. As Vincent Ryan reports in our cover story, **"Fast Money"** (page 28), some of these "shadow banks" are peer-to-peer players, matching investors with borrowers and not taking any credit risk themselves. Others are balance sheet lenders, keeping at least some of the loans they make on their books.

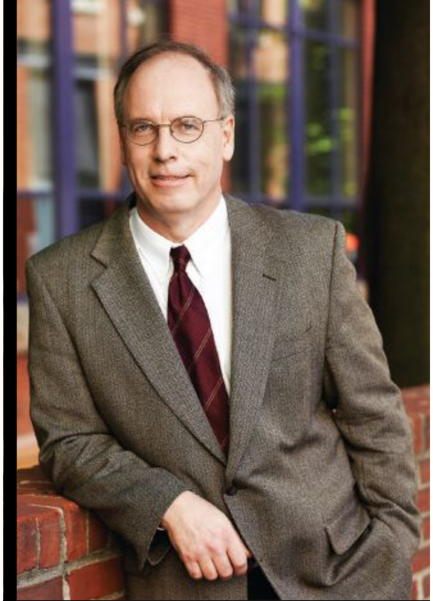
It remains to be seen which is the better business model, and whether the sector's heady growth will stall when interest rates rise and capital becomes more expensive. Still, the competition is good for small businesses that need working capital or short-term loans but can't secure them from traditional banks.

Our second feature explores the rewards and challenges of working at small, fast-growing tech startups. The four CFOs profiled by David M. Katz in **"Hooked on Startups"** (page 34) all have multiple firms on their résumés. They enjoy building finance functions from the ground up and getting deeply involved in operations. Above all, they thrive on change and uncertainty—one finance chief says he left Google because work was becoming routine. Instead of climbing the corporate ladder, they'd rather help start a new company.

Elsewhere in the issue, Eric Kimberling of Panorama Consulting Solutions says more and more small and midsize businesses are adopting ERP systems in **"Trend Spotting: ERP in 2016"** (page 40). Increasingly, those systems are cloud-based, Panorama finds.

And speaking of uncertainty, the latest Duke University/*CFO* magazine business outlook survey shows that economic uncertainty is the number-one business concern of finance executives around the world (**"In Search of Certainty,"** page 44). Executives' optimism about their domestic economy is highest in the United States, lowest in Latin America.

Edward Teach
Editor-in-Chief



EDITOR'S PICKS

STRATEGY

All too often, projects launched by the head office create more trouble than they're worth. Two experts on strategy propose three tests for identifying the bad projects in "Knowing When Corporate Headquarters Adds Rather Than Subtracts Value," at www.mckinsey.com/insights/mckinsey_quarterly.

LEADERSHIP

The annual CFO Rising East Summit will be held on March 9–10 in Boston. Speakers include top finance executives from Siemens, MTV Networks, Dell, GameStop, and Kimberly-Clark. For more information, go to https://theinnovationenterprise.com/summits/cfo-rising-east-summit-boston.

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Kory Addis


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Wanted: Fearless Auditors, Creative Consultants

Very few practitioners, let alone arm's length independent auditors, have perspectives and experience that support fully featured supply chain audits ("The Weakest Links," December).

Paul Myerson [of Lehigh University] correctly identifies a starter kit of concerns driven by a galloping pace of change. Additionally, there are the cataclysmic business-interruption risks that MIT's Yossi Sheffi is forced to repeat periodically because of our collective short attention span. Then there are the entirely valid social issues piled on top of the hazardous-content proclivities of certain offshore product and materiel sources.

There are few mysteries in this maze, however. The basics have been well known and practiced for over three decades. The audit processes are much the same for what is required to certify a Made In America designation.

This might be the time to team up fearless auditors with creatively demented supply chain consultants to deal with the magnitude, materiality, probability, and remedies for the full range of supply chain risk management.

As for justification, the issue should not be justifying the cost as much as a question of the consequences of not discovering and dealing with prospectively fatal conditions.

Art van Bodegraven
Managing Principal
van Bodegraven Associates
Powell, Ohio

The Complete Picture

Your editorial about the value of 401(k)s by age groups ("401(k)s: Not OK," October) ignores the fact that many people, especially in the older age groups, may be in newer jobs, and have moved their previous 401(k) balances to IRAs. You really need to discuss a person's complete financial picture to know if people are in big trouble.

Bradley Kronstat
Finance
CT Gardens Inc.
North Branford, Conn.

Correction:

Our September story on corporate venturing ("Nothing Ventured, Nothing Gained") erroneously stated that Arvind Sodhani helped found Intel Capital in 2005. In fact, that year Sodhani became president of Intel Capital, which was founded in 1991.

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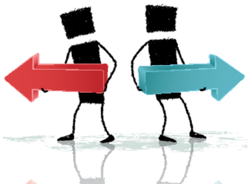
STATS OF THE MONTH



CONFLICTING SIGNALS

18.1%
Percent of consumers expecting an income increase

-0.1%
Retail sales dip in December 2015

-0.2%
Fall in producer price index, December 2015

5.8%
Rise in S&P/Case-Shiller Home Price Index, November 2015

-8.15%
Year-to-date performance of S&P 500, as of January 27

Sources: The Conference Board, U.S. Commerce Department, Department of Labor, S&P/Case-Shiller

Topline

RISK MANAGEMENT

Treasurers Fret Over Currency Risks

But only half of companies surveyed have taken measures to mitigate forex exposure, says a new study.

Although currency volatility jumped onto the list of their most worrisome risks last year, many treasury and finance professionals are only just starting to put together plans to hedge those exposures, according to the Association for Financial Professionals' annual risk survey released in January.

Ranking fourth behind political and regulatory uncertainty, tougher competition, and customer retention, currency volatility appeared in the top five risk factors for the first time in the past four AFP risk surveys (see chart below). Thirty percent of the 335 corporate finance practitioners responding to the association for the 2016 study rated currency worries as the top risk factor, compared with 16% in the prior year's survey.

Given the rapid rise of the U.S. dollar over the past 20 months, along with the equally rapid fall of the euro, ruble, and other currencies, it's not surprising that currency volatility has also risen high on treasurers' worry lists. Still, the survey's finding that only 50% of the finance pros' companies had plans in place to mitigate interest rate, currency, and commodity risks is "not good," says Craig Martin, executive director of the AFP Treasurers Council.

Martin notes that while larger companies have greater financial ability to hedge currency risk with options, futures, and the like, only 60% of companies with annual revenues of more than $1 billion had hedging plans in place. Still, he says it is a promising sign that 27% of larger companies with no hedging program in place said they will

Top 10 Risks
Risk factors that will have the greatest impact on earnings in the next three years

Risk factor	% of respondents
Political/regulatory uncertainty	43%
Tougher competition	42%
Customer satisfaction/retention	40%
Currency volatility	30%
Product innovation	26%
Interest rates	23%
GDP growth	22%
Energy price volatility	21%
Country risk/geopolitical challenges	20%
Liquidity	19%

Source: 2016 AFP Risk Survey

"implement a plan to deal with these risks in the next 6–12 months," according to the study.

Widespread Uncertainty

But currency movements are only one factor in an economic environment that seems more and more unpredictable. Overall, fears about the global economy have spawned widespread uncertainty about future earnings among the CFOs, treasurers, and controllers at public and private companies who responded to the survey, which was conducted in October 2015. Fifty-two percent of the respondents believe their companies are exposed to greater earnings uncertainty than they were three years ago, while another 37% said the level of uncertainty is unchanged.

The 52% share of finance professionals reporting increased earnings risk is much bigger than the 43% found in the previous survey, but is much smaller than the 59% reported in 2013.

The biggest interest rate, currency, and commodity anxieties for finance executives are the increased cost of financing (cited by 61%) and currency translation risk (53%), according to the 2016 study.

Finance professionals from smaller companies (those with annual revenues less than $1 billion) and privately held ones seem more worried about the increased cost of financing and currency translation risks than are their peers at bigger or publicly owned companies, according to the study's authors. "One reason for this is that smaller firms are less likely to have an active hedge program and therefore are more exposed to those risks," they write.

To be sure, the framers of the current study decided to focus on "specifically how companies are addressing interest rate, currency, and commodity risks." Thus, the high rating finance professionals gave currency volatility was perhaps to be expected.

By contrast, the focus of last year's study—cyber risk—has seemingly dropped off finance professionals' radar in recent months, according to the AFP. Only 7% of respondents ranked cyber risk as a key concern in the 2016 survey, compared with 19% in the previous survey.

"This shift in sentiment may likely be due to a growing recognition that cyber risk is now a core business risk requiring active management rather than a rejection of any actual improvement in the cyber risk environment," the study's authors write. **DAVID M. KATZ**

CAPITAL MARKETS

Debt Downgrades at Highest Level Since 2009

The proportion of downgrades to total rating actions reached 69% last year, the highest level since the financial crisis in 2009, but the outlook for global credit markets remains strong, according to Standard & Poor's.

In a report released last month, the rating agency said it downgraded 892 corporate issuers (accounting for about $6.9 trillion in rated debt) and upgraded 394 issuers (accounting for about $2.7 trillion) in 2015. Downgrades also were at the highest level since 2009.

The United States, with its large sample size of rated issuers, led downgrades in 2015, followed by Europe and emerging markets.

"The emerging markets continue to deteriorate, with increased geopolitical risk, slow economic growth, and financial volatility all contributing to a rapid decline in credit quality and substantive increase in downgrade propensity," S&P said, citing Russia, Saudi Arabia, South Africa, Argentina, and Brazil as particular trouble spots.

But elsewhere, the United States, Europe, and other developed markets are continuing to show below-average negative bias (a measure of downgrade potential).

The negative bias, globally and in the U.S., has been slowly rising off historical lows for about two years, indicating a trend of steady credit deterioration, but not quite breaching historical averages, S&P noted.

"We remain guarded in our view that, while we expect further deterioration in global credit markets, we do not see a particularly disruptive or abrupt acceleration, despite a backdrop of financial and market volatility in recent weeks," the report said.

"This view is grounded in our belief that the U.S. economy remains strong and continues to show resilience (as with the recent employment figures) and the European economy continues to gain momentum vis-à-vis its strong business and consumer confidence," it added.

While China's economic slowdown prompted the International Monetary Fund in January to reduce its global growth forecast for this year to 3.4%, S&P said its impact "has heretofore been more pronounced with respect to market volatility than a rapid, lower revision of our ratings on global corporate (financial and nonfinancial) issuers." **MATTHEW HELLER**

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ACCOUNTING

Firms Slow to Implement New Revenue Standard

Companies still have some time before they must begin applying the new standard for revenue recognition, but many seem to be making slow progress in preparing for the change.

According to a KPMG survey, less than 29% of 400 corporate financial preparers say their companies have a clear plan to implement the new standard, and less than 13% say they have completed an assessment of the effects of the new standard and are planning implementation.

As many as 82%, however, say they are still assessing its effect or have taken no action while they await the completion of the standard setting.

The Financial Accounting Standards Board and the International Accounting Standards Board issued their converged standard on revenue recognition in May 2014. The standard is intended to increase financial-statement comparability and significantly reduce the complexity of current guidance.

The standard is still undergoing clarifying changes as a result of questions raised with the boards. In July, both FASB and the IASB voted to delay the effective date of the new revenue recognition standard by one year.

The IASB also issued its new lease accounting standard in January, and FASB is expected to release its standard imminently. Just 13% of the KPMG survey respondents said they have a clear plan for implementation of those standards, and most participants expect to implement them in 2018 or 2019.

"Both standards will require significant effort, and these results demonstrate the complexity of implementation across entire organizations," John Ebner, KPMG's national managing partner–audit, said in a news release.

Under the FASB proposal, public companies, some nonprofits, and some employee benefit plans would have to apply the new revenue recognition standard in annual and interim reports for annual reporting periods beginning after December 15, 2017. Other entities have an additional year for implementation. M.H.

GOVERNANCE

CEO Exits Fall to Three-Year Low

Turnover among U.S. chief executive officers in December rose 7% over the year-ago period, but total CEO departures for the year fell 9%, according to Challenger, Gray & Christmas.

The global outplacement consultancy reported that 114 CEOs vacated their posts in December, compared with 86 in November, a 33% increase. A total of 1,221 CEOs left their jobs in 2015, the lowest number since 2012, when 1,214 chief executives announced their exits.

In another recent report, Equilar said tenure for S&P 500 CEOs in 2014 increased nearly a full year since 2005. In 2014, S&P 500 CEOs served an average of 7.4 years, up from 6.6 years in 2005; and a median of 6.0 years, up from 5.2 years.

The Equilar numbers may seem counterintuitive, considering such trends as increased M&A activity, scrutiny from activist investors, and an aging boomer population. But Equilar attributed the rising average to "a collection of long-standing CEOs at the top of the list." In 2014, there were 142 CEOs who had served their companies longer than 10 years, compared with only 94 a decade ago.

Since 2009, there have been 265 new CEOs at S&P 500 companies, meaning that more than half of the S&P index has a CEO with below-average tenure. "Since Dodd-Frank passed in mid-2010, only eight newly appointed CEOs have left their position, perhaps an indicator of future stability at the position among the largest U.S. companies," Equilar said.

According to Challenger, government/nonprofit entities led all industries with 27 CEO changes in December and 188 for the year, 5% fewer than the 198 tracked in all of 2014.

Financial firms and hospitals tied for second-most CEO changes with 137 each. Financial companies announced 18 CEO departures in December. M.H.

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PENSIONS

Pension Plan Funded Status Unchanged at 82%

There was no change in the pension funded status of the largest U.S. corporate plan sponsors at the end of 2015, as a rise in interest rates was mostly offset by weak global stock markets, according to a new survey.

Towers Watson estimated the aggregate pension funded status to be 82% at the end of 2015, unchanged from the end of 2014. The pension deficit narrowed modestly by $28 billion to $291 billion at the end of 2015, compared with a $319 billion shortfall at the end of 2014.

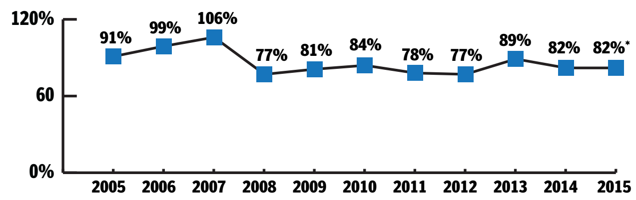
The preceding two years had been more volatile, with funded status rising from 77% to 89% in 2013 and then falling to 82% in 2014.

"An increase in corporate bond rates in advance of the Fed's recent interest rate decision, combined with a flat global stock market, contributed to keeping pension plans in roughly the same financial shape as the previous year," Alan Glickstein, a senior retirement consultant at Towers Watson, said in a news release.

"While pension obligations declined last year, so did assets," he added. "There was a lot of movement in the funded status throughout the year, but at the end of the year, essentially nothing changed overall."

Steady Shortfall

Fortune 1000 aggregate pension plan funding levels



*Estimated
Source: Towers Watson

According to Towers Watson, pension plan assets fell by an estimated 6% in 2015, from $1.41 trillion at the end of 2014 to an estimated $1.33 trillion at the end of last year, reflecting increases of roughly 2% due to investment returns and employer contributions offset by a decline of 8% from benefit payments and settlement transactions.

"If the Fed's decision to raise short-term interest rates... is the first move in a pattern of rising rates, generally we could see improved pension funded status in the coming year, depending of course on how the stock market responds," Glickstein said. **M.H.**

TECHNOLOGY

Tech Pros' Average Pay Nears $100K

Average technology industry salaries rose 7.7% to $96,730 a year in 2015, while the average bonus increased 7% to $10,194, according to a new survey.

The tech job website Dice said the wage gains "paint a picture of an overall solid environment for technology professionals," with the salary growth rate rebounding from a tepid 1.9% in 2014.

Almost two-thirds of the 16,000 tech professionals Dice polled earned higher salaries in 2015. Thirty-seven percent received a bonus, unchanged from last year.

Average salary increases were highest among new technology workers with one to two years of experience, suggesting there is wage pressure for entry-level technology jobs and employers are willing to pay for fresh talent.

"The competition for tech talent today is undeniable," Bob Melk, president of Dice, said in a news release. "Demand for skilled talent and low unemployment rates for tech professionals aren't making the hiring landscape any easier."

Tech pros in Silicon Valley were again the highest paid in the country, with an average salary of $118,523 (up 5% from last year), but six other markets—New York, Los Angeles, Boston, Seattle, Baltimore-D.C., Minneapolis, and Portland, Ore.—also topped six figures.

Those working in Big Data and cloud continued to be the top earners. "As more businesses look to build out their tech infrastructures, employers need solutions to securely store, manage, and process large sets of data," Melk said. **M.H.**

VENTURE CAPITAL

VC Firms Report Another Strong Fundraising Year

U.S. venture capital firms kept up a strong fundraising pace in 2015, with dollar commitments down 9% from 2014 but still well ahead of the annual average since 2006, according to a new report.

Thomson Reuters and the National Venture Capital Association said firms raised $28.2 billion last year, compared with $31.1 billion in 2014. The annual average since 2006 is $20.32 billion. VC firms raised $17.7 billion in 2013 and $19.9 billion in 2012.

"Building on the strong pace set last year, 2015 emerged [as] another strong fundraising year for the industry," Bobby Franklin, president and CEO of the NVCA, said in a news release, noting that close to $60 billion has been raised over the past two years "to help build and grow the next generation of great American companies."

"Overall, the fundraising environment is quite healthy," he added. "It's been encouraging to see such a diverse mix of fund sizes in recent quarters, which demonstrates to us that the fundraising environment is becoming a lot more favorable for firms of all shapes and sizes."

The number of follow-on funds raised during 2015 fell 5% compared with a year ago, to 156, while the number of new funds raised decreased 25%, to 79. A "new" fund is defined as the first fund at a newly established firm, says the NVCA, although the general partners of that firm may have previous experience investing in venture capital.

Commitments to U.S. venture funds in the fourth quarter totaled $5 billion for 46 funds, up 9% from the third quarter. Tiger Global Private Investment Partners X led the way with $2.5 billion, the second-largest fundraising of the year. Also, Trinity Ventures XII LP raised $400 million during the fourth quarter and USVP XI raised $300 million.

The largest of 20 new funds reporting commitments during the fourth quarter of 2015 was Accion Frontier Inclusion Fund, which raised $90 million. M.H.

Something Ventured
For VC firms, 2015 was the second-strongest fundraising year since 2007.

Year	No. of funds	Venture capital ($M)
2006	236	31,107.6
2007	235	29,993.7
2008	214	25,054.9
2009	162	16,103.8
2010	176	13,283.6
2011	192	19,080.5
2012	218	19,904.9
2013	209	17,753.4
2014	271	31,094.4
2015	235	28,151.7

Source: Thomson Reuters/National Venture Capital Association

THE ECONOMY

CBO Increases Deficit Forecast to $544B

In January, the Congressional Budget Office raised its projected U.S. budget deficit estimate for fiscal year 2016 to $544 billion, reflecting in large part the impact of extended tax breaks.

The deficit that the CBO is currently projecting is $130 billion higher than the one that the agency projected in August. At 2.9% of GDP, the expected shortfall will mark the first time that the deficit has risen in relation to the size of the economy since peaking at 9.8% in 2009.

The CBO said about $43 billion of this year's increase in the deficit will result from a shift in the timing of some payments that the government would ordinarily make in FY 2017, but will instead make in FY 2016 because the first day of FY 2017—Oct. 1, 2016—falls on a weekend.

The increase is "largely attributable," the CBO said, to the budget package Congress passed in December, which retroactively extended a number of tax breaks over the next 10 years.

Over the 2016–2025 period, the CBO now projects a cumulative deficit that is $1.5 trillion larger than the $7.0 trillion it projected in August. It said the tax breaks will reduce revenues by $425 billion and increase outlays by $324 billion during that period, adding $749 billion to projected deficits.

The CBO forecast shows deficits widening every year in dollar terms, due to the ballooning costs of federal health care and Social Security, and higher interest payments. M.H.

New Lease Standards May Require Two Sets of Books

The new IASB lease accounting standard and its forthcoming FASB counterpart call for different expense accounting methods. **By David M. Katz**

Launching an era in which many U.S.-based multinationals may be required to keep two sets of books on their leasing arrangements, the International Accounting Standards Board issued its new lease accounting standards last month. ¶ Still to come are the U.S. Financial Accounting Standards Board's lease accounting standards, which FASB has said would be issued in the first quarter of 2016. Both measures would require public filers to report the results of their lease deals on their balance sheets and income statements, rather than in the footnotes to their financial statements.

In any event, the clock has started ticking for companies that file at least part of their financials related to leasing under international financial reporting standards. The new IFRS leasing standard will become effective on January 1, 2019. Companies that also apply another IASB standard, Revenue from Contracts with Customers, can apply for early adoption.

In November, FASB voted to proceed with its own leasing standard, which would be effective for public companies for fiscal years (and interim periods within those fiscal years) starting after December 15, 2018. For private companies, it would be effective for yearly periods beginning after December 15, 2019. The board will permit companies to adopt the measure early once the standard is published.

After attempting to converge on a single lease accounting rule in a project they launched in 2006, the two boards agreed, in effect, to disagree about the issue in 2014. That divergence set the stage for a situation in which certain U.S.-based multinationals would have to account for their lease deals under two different financial reporting systems: U.S. GAAP and IFRS.

The clock is ticking for companies filing leasing-related financials under IFRS.

The key difference between the two standards concerns how corporate lease customers should report lease expenses on their income statements. In its new standard, the IASB has decided to classify all leases as finance leases (also known as capital leases), thus removing the prior distinction between operating leases and finance leases.

The new IFRS standard replaces the previous method of expensing operating leases in equal amounts on a straight line. Now, such expenses will be front-loaded and then depreciated over time. Companies will also have to report the present value of interest costs on lease liabilities.

The difference between the expense-accounting methods in the IASB and the FASB standards is that, in contrast to the IASB's single way of doing it, FASB will require a dual approach. The dual approach would maintain the distinction between operating and capital leases.

Under the forthcoming FASB standard, for most operating leases (called Type B leases), a company would recognize a single lease expense in the income statement, recognized on a straight-line basis. For other leases (called Type A leases), a company would recognize depreciation of lease assets separately from interest on lease liabilities.

That difference could create a big operational challenge for U.S. multinationals with a substantial overseas presence, according to Sean Torr, a director of the Deloitte Advisory unit at Deloitte & Touche. Particularly burdened would be a U.S. company that reports its consolidated financials in U.S. GAAP but has subsidiaries that report in IFRS.

While the data-gathering effort will basically be the same, such parent companies will have to perform calculations to align single-method subsidiaries with the dual-method approach, according to Torr.

Going forward, companies will have to keep a tight rein on their controls

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over how accounts affected by leasing are reconciled. "Maybe things [will] go well in the beginning," but finance and accounting departments will have to make sure that the reconciliation process doesn't "get out of control as time passes," he says.

"You're basically going to have to manage into the future two sets of books as they relate to [lease] accounting for those subsidiaries that have IFRS and U.S. GAAP reporting," Torr adds.

While the difference in expense accounting under the two systems is "not a show stopper," it's "an incremental challenge that global companies will have to deal with," according to the Deloitte accountant.

Nevertheless, both standards agree on the most significant aspect of their revisions of lease accounting: all lease assets and liabilities must now appear on corporate balance sheets.

To be sure, under previous IFRS dictates, leases found to be economically similar to purchases of the underlying asset were classified as a finance lease and reported on a company's balance sheet. But all other leases were classified as operating leases and not reported on a company's balance sheet.

Off-balance-sheet leases were accounted for in the same way as service contracts, with companies reporting rental costs via the straight-line method on their income statements.

As a result, most leasing transactions were not reported on company balance sheets. Listed firms using IFRS or U.S. GAAP disclosed almost $3 trillion of off-balance-sheet lease commitments in 2014, according to the IASB.

The lack of transparency inflamed financial regulators on both sides of the Atlantic, leading them in the new standards to make sure balance sheets would fully reflect lease finance.

For corporate leasing customers, the most significant effect of the new requirements in the IFRS standards will thus "be an increase in lease assets and financial liabilities," according to the IASB's summary of the project.

"Accordingly, for companies with material off-balance sheet leases, there will be a change to key financial metrics derived from the company's assets and liabilities (for example, leverage ratios)," the board reported.

In other words, the typical change for most companies is that they will find themselves with larger assets and liabilities and a larger balance sheet overall, according to Torr.

As with any large accounting change, key stakeholders will be asking CFOs about the effects of the new leasing standards on company finances. "The auditors are going to be asking, analysts will start asking, and being ready with at least a way to get to an answer is going to be important to the CFO and the CFO's teams," he says.

Because of the uncertainty regarding the final standards and because the boards' converged revenue recognition standard has needed a great deal of attention, "companies haven't been as focused on keeping current about the leasing as they might have been, Torr adds. "That will be accelerating because the timeline is not a very long [one] to implement."

One area in which substantial time may be needed for compliance with the leasing standards is data gathering. "It's a significant undertaking," he says, noting that parent companies are likely to have many more data elements to cope with per lease, as well as differences in language and in contracting at their subsidiaries.

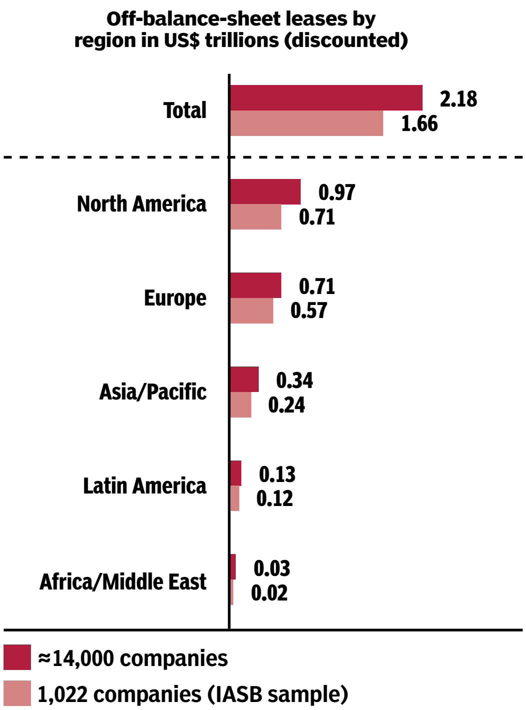
Another potential area of complication in data gathering "is that it's a moving target," Torr says. "Over the three years of implementation, you have a [lease] portfolio that's renewing, modifying, and cancelling. And the maintenance of that portfolio data ... is a long lead-time activity."

Finding and setting up the technology to process compliance with the new leasing regime is also likely to demand a long lead-time. Companies will need "a solution in place that will manage these new calculations, store the data, and facilitate the analysis and reporting that's required by the standard," he adds.

Replacing accounting rules introduced more than 30 years ago, the new IASB standard does give filers a bye on one small item, however. It doesn't require companies to report financial results related to short-term leases (leases of less than 12 months) and leases of low-value assets such as personal computers. CFO

Out of Balance

76% of off-balance-sheet lease value is concentrated among just 7% of companies*



* Listed companies, excluding banks and insurance companies
Source: IASB

CEOs, CFOs Misaligned On Reinvesting Cost Savings?

Finance chiefs are more realistic than their bosses on ROI from growth initiatives funded by cost reductions, Accenture finds. By David McCann

After a decade or two as a stable corporate activity, cost-reduction efforts have already squeezed out the vast majority of excess spending, right? Quite the opposite appears to be true, given the priority companies are still putting on cost containment, primarily because of the growth imperative. In a survey of 700 corporate executives by Accenture, 82% said their companies are focused on cost reduction as a way to free up funds to invest in growth initiatives.

Trouble is, while companies may not reduce costs effectively—cutting back in the wrong areas to the detriment of growth—they may be even worse at figuring out how to best spend the savings. One common, core problem is misalignment on growth strategy among corporate executives, says Kris Timmermans, senior managing director of Accenture Strategy, operations.

That problem goes right to the top. In many cases, CEOs and CFOs can't even agree on whether priorities for reinvesting cost savings are in fact aligned to business strategy. While 51% of chief executives participating in the study said they believe such alignment exists, only 34% of finance chiefs said the same.

The blame for those disparate perceptions lies more on the CEO side, according to Timmermans. "There is a clear trend that messages to the CEO, when there's an escalation or some other issue, are being filtered positively," he says. "They see things as being better than CFOs do."

CFOs, he notes, see bigger challenges in reinvesting cost savings because they see more detail suggesting what could go wrong. In fact, that tendency has wide application outside CFO-CEO misalignment. "Every time we assess functions, CFOs think more negatively about their function than the heads of all the other functions," Timmermans says.

Chief executives and finance chiefs are even further apart when asked if their company uses formal reviews of investment success to assess the return on reinvested cost savings. Only 49% of CFOs said that's the case at their companies, compared with 70% of CEOs.

"On these stats, I believe the CFOs much more," says Timmermans. "They are much closer to the ROI measurements, and [in many cases] they know they're lacking the analytics to get detailed insights on ROI." With regard to deciding where to reinvest cost savings, "there is still a lot of 'gut feel' going on and a lot of local fragmentation."

As to the latter point, he continues, "A number of companies keep cost savings in the budgets of local decision makers, who then decide how to reinvest the money. I have one client with 8,000 budget holders. There is little formality on investment decisions."

Another problem when it comes to reinvesting cost saving is operating models that aren't aligned to fuel strategic growth initiatives. Only 17% of CFOs and 31% of CEOs strongly agreed that their operating model is sufficient for this purpose.

"This gets my attention, because it's a big deal," Timmermans says. "People always want to invest cost-reduction savings into growth initiatives but then realize they're not organized for it. They lack the talent, they can't free up the talent they have, and they don't have a process of budgeting and long-term planning that are agile and flexible enough to handle these initiatives. It's a broken link."

One client, he notes, recently created a new position, "chief disruption officer," to focus solely on fast-moving growth initiatives without being hindered by traditional company processes.

What's the key to mending the broken link? According to Timmermans, it's not saving some money and then deciding how to invest it. Instead, he says, start by developing a growth strategy, understand where pools of profits are going to come from, and let that inform your cost-reduction initiatives so

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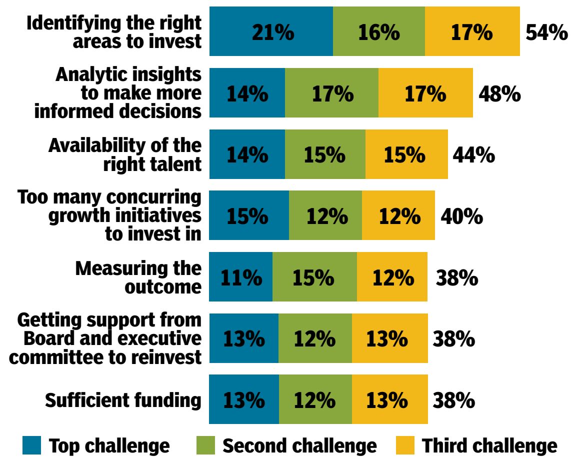
that you don't unwisely cut from areas that will support the strategy.

Only 30% of surveyed executives said they prioritize the reinvestment of cost savings in alignment with business strategy, according to a separate Accenture report based on the same research.

Further, companies should favor funding two or three initiatives that will lead to game-changing paybacks, which generally won't happen in the situation where individual budget holders are making their own, parochial reinvestment decisions.

In any case, it's clear that many companies have trouble making decisions about where to invest. The full survey base, given a list of challenges in funneling cost savings to growth, most frequently selected "identifying the right areas to invest" as the top challenge (21% of respondents). Further, more participants (54%) picked that response as among their top three challenges than any other response. (See chart.) CFO

GROWTH GAMBIT: TOP CHALLENGES



Source: Accenture

Will Hoarders Turn Into Spenders?

More treasurers plan to dish out dollars in Q1, the Association for Financial Professionals finds.

The net percentage of U.S. businesses that boosted their cash and short-term investment reserves jumped by 10 points during the fourth quarter of 2015 compared with the previous quarter, according to a prominent index of corporate cash holdings.

However, the net portion of companies expecting to stash cash during the first quarter of 2016 dove by nine points from the expectations recorded a year ago, resulting in a -1 score (see explanation below), according to the Association for Financial Professionals' Corporate Cash Indicators.

Thus, for the first time since July 2015, more CFOs, treasurers, and other finance executives at the more than 200 companies represented by the index said they would decrease their cash and short-term holdings than build them up.

In the second quarter of last year, S&P non-financial companies reportedly had about $1.4 trillion in cash reserves, the second-highest level in the previous 10 years. Speaking "as a former CFO, sitting on that amount of cash," says Craig Martin, executive director of the AFP Treasurers Council, "you're anxious to invest in the business and grow the business, not to sit on assets and cash." (Martin was CFO and treasurer of Citibank of Maryland from 1990 to 1995.)

That anxiety may have triggered finance professionals' willingness to deploy more of their cash reserves in the first quarter of this year, he thinks.

To put that expectation in context, however, it's important to note that a year ago treasurers and CFOs were expecting their companies to let a whole lot more cash out the door than they're doing now. The net difference between the finance execs who expected to increase reserves and those who anticipated they would draw them down was -14 in January 2015; in the first quarter of 2016 that difference shrunk to -1.

(To calculate its cash scores, the association subtracts the percentage of respondents who report "decrease" from those that report "increase" in their cash and short-term investment hoardings. Thus the -1 expected trend in first-quarter 2016 cash reserves is the result of subtracting the 28% of companies that expect to expand their cash and short-term investment balances over the next three months from the 29% that plan to cut those balances.)

Overall, treasurers are continuing to "sit on their hands" when it comes to moving cash out of their reserves, Martin says. One reason, he adds, is that they are waiting to see the effects of the Securities and Exchange Commission's new money market fund rules, which take effect in October.

Another factor driving investment conservatism is the very low yields available in the money markets, according to the AFP executive. "So, it doesn't pay you to take extra risks," Martin adds. "Treasurers aren't paid to get an extra ten basis points, but they will lose their jobs if they lose principle." **DAVID M. KATZ**

Are You Prepared For a Downturn?

With an economic slowdown inevitably coming, here are four strategies to employ in advance to protect your company from disaster. **By John Cryan and Allison Cavasino**

Economic cycles are a given, so it is inevitable that an economic slowdown is approaching. Be warned: it could pose serious problems for companies that have allowed their financial strategies to become too lax. ¶ There are several fundamental warning signs. For one, the median company among the largest 1,000 publicly traded nonfinancial U.S. companies had gross debt to earnings before interest, tax, depreciation, and amortization (EBITDA) of 2.2x at the end of last year's third quarter, compared with just 1.6x at the end of 2007, according to Fortuna Advisors' analysis of S&P Capital IQ data.

This 42% increase in median leverage is somewhat mitigated by an increase in the ratio of "total liquidity"—cash, short-term investments, and undrawn revolver capacity—to EBITDA from 0.6x in 2007 to 1.5x in the third quarter, although the vast majority of this liquidity increase is in undrawn revolvers rather than actual cash and equivalents.

The risk resulting from this increase in leverage is an increasing concern as business activity slows. On a trailing-twelve-month (TTM) basis as of September 30, 2015, these 1,000 companies grew revenues only 4% compared to TTM revenue growth of 7% a year earlier.

While companies may have more liquidity to survive a downturn, the increased leverage and slowing growth may be a recipe for disaster if left unaddressed.

To develop a downturn preparedness "playbook," we studied the last financial crisis and profiled what outperformers were doing prior to the downfall and how they adapted to the changing environment better than underperformers.

Those classified as outperformers were the top 5% performers during the crisis. As a group, their median total shareholder return (TSR) was -2% between the market peak on October 9, 2007, and the market trough on March 9, 2009. The underperformers were the bottom 5%, which registered a median TSR of -95% over the same period. Each group represented companies from at least 14 of the 20 nonfinancial GICS industry groups.

Ahead of a downturn, the top priority should be building cash as a means of further increasing liquidity. As we saw during the financial crisis, it can be extremely difficult and expensive to raise capital during a downturn.

Leading up to the peak of the market in 2007, outperformers had much more liquidity than underperformers, as one would expect. The median total liquidity to EBITDA of the outperformers was 0.76x, while for the underperformers it was 0.48x. Interestingly, the outperformers' liquidity levels decreased at the bottom of cycle, while the underperformers' liquidity increased. This may seem counterintuitive. However, since the outperformers had ample liquidity going into the downturn, they were able to weather the storm with the liquidity on hand rather than having to raise capital at the bottom of the market, when it was scarce and expensive.

Our research suggests that there are four courses of action that can boost financial strength and strategic flexibility in preparing to better weather the next downturn.

Take Steps to Reduce Debt Burdens

Managers should reduce leverage now to take advantage of accommodative capital markets. Companies are clearly taking advantage of the low interest rate environment to change their capital structure and repurchase shares, but we believe this may get them into trouble when the downturn arrives.

After all, while a median leverage ratio of 2.2x may seem reasonable, aggregate EBITDA of the 1,000 largest nonfinancial U.S. companies reached a new peak in 2014. In a downturn, EBITDA will decline and companies will immediately become more levered

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in comparison. This will tend to reduce credit ratings and increase borrowing costs.

Therefore, companies should improve their leverage position by reducing debt. If you deem your company to have excess cash, consider using it to call or repurchase debt and thereby reduce fixed charges, which would otherwise create a burden in a downturn. The tradeoff between leverage and liquidity must be balanced, but reducing leverage may be a better alternative to sitting on excess cash at today's rates or buying back shares while the market is high.

John Cryan

Reduce Operating Expenses

When business is good, there tends to be less focus on meticulously managing costs. In 2007, the outperformers and underperformers had EBITDA margins of 15% and 13%, respectively. However, by 2009 the outperformers expanded their margins by 11%, meaning they were able to set in motion effective cost reduction strategies. Meanwhile, the underperformers suffered a median margin contraction of -16%.

Now is the time to reevaluate your business strategy and operations to assess the cost structure and identify opportunities to increase flexibility through outsourcing, partnering, subcontracting, and the like.

For example, a company evaluating a lease-versus-buy decision (regarding real estate, machinery, vehicle fleets) may be better off opting to lease with shorter commitments and more renewal options. Managers may fear the hit to earnings with the increase in upfront rent expense, but there is great value in the strategic flexibility of a well-managed lease portfolio. As leases expire, you have the opportunity to immediately reduce capacity and costs, upgrade to new technology, or exercise your renewal option.

Outsourcing can create the same kind of flexibility as leasing. A manufacturer, for example, should pursue outsourcing with limited fixed charges and an emphasis on variable or "per use" charges.

While leasing, outsourcing, or consigning inventory, for that matter, may appear to cost more today, the ability to right-size operational costs in the face of declining activity is immensely valuable, as it can rapidly increase operating cash flow.

Many companies turn down these flexibility options because they do static analysis based on slow and steady GDP growth, and the analysis only shows costs increasing. But with more dynamic analysis of upside and downside scenarios, the value of optionality and flexibility becomes clearer.

Sell Idle, Old, And Non-Core Assets

Admittedly, right now idle assets or non-core businesses may not be at the forefront of a manager's worries. However, we recommend selling these assets in the near term while you can get the highest price for them and therefore the most after-tax cash proceeds.

Contrary to common belief, idle assets are not "free." In addition to their true cash operating costs, these assets tie up capital, consume cash, and negatively impact a company's return on capital. Many companies fail to "sell high" because the drag on performance created by idle assets or non-core businesses is masked by the stronger parts of the business. As a result, companies wind up trying to sell assets at fire-sale prices when they urgently need cash in a downturn.

Issue Equity or Stop Buying Back Shares

S&P 500 companies have spent more than $500 billion on share repurchases over the past 12 months. In 2015 the expenditure surpassed its previous peak set in 2007, despite the fact that many share repurchase programs are generating diminishing returns; the average "buyback return on investment" has declined from 26% to 7% over the past eight quarters.

Eliminating or dramatically reducing buybacks now is an immediate way to build cash and reduce leverage. After all, a share repurchase is nothing more than a means of increasing leverage and reducing liquidity. By conserving cash, the company will be able to purchase shares at a discount when the market inevitably falls.

Most companies view equity issuance as a calamity due to the dilution of existing shareholders. But if a company foresees a need to significantly increase its liquidity, then issuing equity at the top of the cycle is certainly better, and less costly from an economic perspective, than waiting until the bottom of the market.

Allison Cavasino

It's possible that the market will react negatively to an equity raise in the short run. However, the company's shareholders will be better off through the next downturn, as fewer shares will need to be issued than when cash needs are more pressing and the shares are at market-bottom prices. In other words, some dilution now may be better than a lot more dilution if equity needs to be issued in a downturn. CFO

John Cryan and Allison Cavasino are co-founder and senior associate, respectively, at Fortuna Advisors, a boutique consulting firm focused on helping companies create long-term shareholder value.

Courtesy the authors

All in the Family

In-house financial analyses hit the mark far more than those farmed out to third parties. By David McCann

Finance departments are notoriously under the gun, given the proliferation of requests for decision-support analyses from business units and functions. This has been going on for the past decade, but the pace is picking up: Just from 2014 to 2015, the volume of such requests per $1 billion of revenue increased by an average of 10%, according to an analysis by research and advisory firm CEB.

It makes sense, then, that companies often rely on consultants to supplement, or even take over, some decision-support activities. But as to that, CFOs should be aware of an unsettling fact: If you're trying to upgrade the quality of your decision support, you're far more likely to deliver analyses that achieve their objectives if they're provided by internally built finance teams, as opposed to consultants.

CEB looked at finance departments' self-assessment on the results of 50 projects—for example, a cost-synergy forecast for an acquisition, a pricing model for a new product line, an analysis of the optimal allocation of marketing dollars—for which business partners sought their help.

Among finance departments that were "more reliant on third parties" (defined as those that rated themselves 1, 2, or 3 on a 7-point scale in response to the statement, "Finance relies primarily on third parties to lead guidance improvement efforts"), only 56% delivered "most" of the forecasted benefits of their analyses.

But departments that were "less reliant on third parties" (i.e., 5, 6, or 7 on the same scale) were 1.5 times more likely to deliver most of the forecasted benefits, delivering most of the guidance objectives 85% of the time.

"CFOs over-rely on consultants, which leaves the muscle in their own organizations under-developed," says Tim Raiswell, CEB's principal research leader for finance. "Often, when consultants leave at the end of engagements, a lot of knowledge leaves with them. You've hollowed out a capability that you should have been building while the consultants were in-house."

That can surprisingly be the case even at high-performing companies, says Eileen Kamerick, who has taken on a number of CFO roles in the past decade and is currently finance chief at ConnectWise, a cloud-based business management platform developer. "I've walked into fast-growing, successful companies that have no [financial planning and analysis] department to help select, analyze, and address their most valuable opportunities for profitable growth," she says. "Once a robust FP&A department is established, there is typically enormous internal demand for its services."

Partly to blame for the lack of internal talent development is the stigma assigned to fixed costs (employees) as opposed to variable ones (consultants). "It's one way finance people look at the world that makes them behave like this," Raiswell says.

There's also what Raiswell calls a "strange phenomenon" in corporate finance, where a significant portion of the budget is allocated to a category called something like "discretionary spend" or "advisory spend." Even in difficult financial times, "it is still acceptable to have a couple million dollars laid aside for high-quality advisory, yet it's absolutely unacceptable to hire anybody while a hiring freeze is on," he says.

Raiswell acknowledges that the scope of demands on finance departments

FIXING FINANCE TALENT MANAGEMENT
Four problems CFOs must address for 2020

- 70% of finance positions will experience a change in skill requirements over the next five years. However, HR competency models lag new skills requirements.
- Only 36% of employees have a real understanding of internal capabilities. HR can design standard career paths but cannot push employees to the right opportunities.
- Traditional training only has a 3% impact on finance skill development. Training vendors often fail to apply courses and content to a given team's day-to-day work.
- Recruiting is not able to identify who would be a strong financial analyst beyond backgrounds and accreditations, limiting the scope of potential strong hires.

Source: CEB analysis

requires them to tap third-party assistance. The trick is using it for the proper purposes (see graphic).

For Arlen Shenkman, CFO of SAP North America, it's imperative to make sure consultants are working for you rather than running the show. "When we use outside parties, our internal experts drive the engagement," he says. "Consultants need to be actively managed to ensure they gain the necessary insights and knowledge into the organization."

Another key to using consultants is forming strong, long-term relationships with them and having them perform repeat assignments and tasks. "Simply switching advisers in order to lower fees and spreading them around the business can result in substandard work product," Shenkman says.

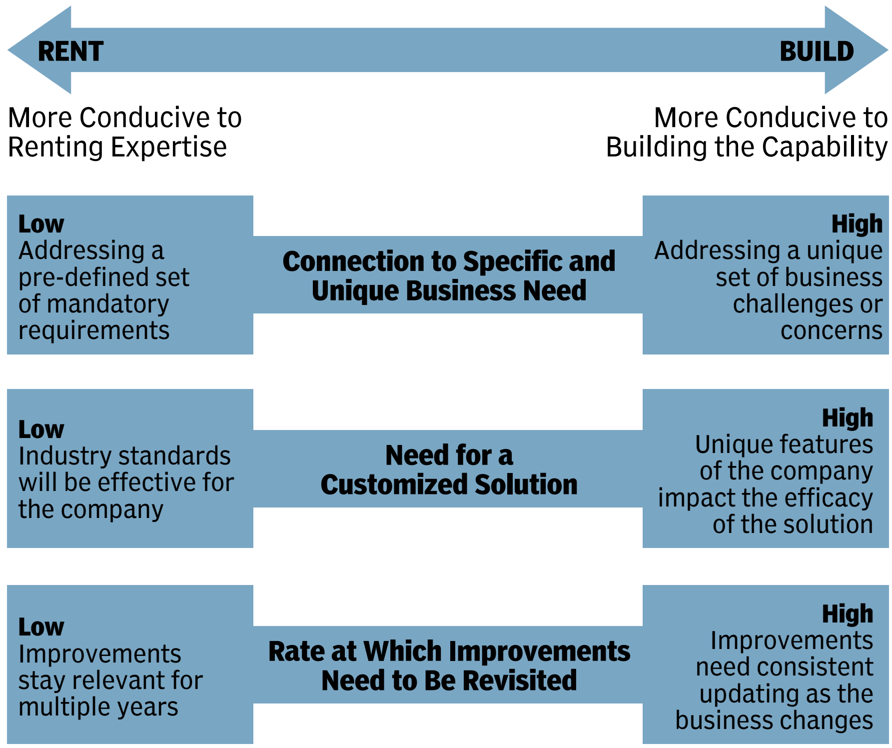
Inside Knowledge

A variation of over-reliance on third parties has to do with finance's relationship with human resources. Just as finance over-relies on consultants, it over-relies on HR when it comes to talent acquisition.

"Finance employees often have unique skills gaps for delivering guidance to internal business partners," Raiswell says. "Business partners can have alpha personalities and be pushy and persuasive. To engage and advise that kind of person requires sophisticated interpersonal skills. But HR doesn't necessarily have time to distinguish among a dozen types of communications skills."

Nor does HR necessarily have the ability to distinguish among many kinds of problem-solving competencies. For example, if finance knows that a business unit is going to expand into a new country in three years, it should make sure it hires staff who are conversant in that country's language and foreign exchange environment. "Finance will be much more successful in doing that if they don't just leave it to HR to figure out," says Raiswell.

WHEN TO RENT EXPERTISE VS. BUILD THE CAPABILITY



Source: CEB analysis

CEB research, he notes, shows that each corporate function, whether it's finance, sales, marketing, or IT, needs to manage for the specific skills and behaviors that the function needs. Otherwise "you'll have HR saying, 'Hey, this guy did his MBA at Wharton and specialized in finance, so he's a great candidate.' And he might be. But unless HR is looking for specific skills gaps that are unique to finance, they may be wasting a whole lot of time and money on the wrong candidates."

Some finance departments steer around that risk by putting the leaders of the various finance disciplines—controllership, treasury, tax, financial planning and analysis, etc.—in charge of managing their own talent. But even that is not optimal, according to CEB.

"When the controller has one view of what distinguishes talent and success and the treasurer has another, you should be worried," Raiswell suggests. In such a scenario, there probably isn't much cross-pollination between teams, with staff moving back and forth between treasury, accounting, and the other finance disciplines in order to gain different experiences. Perhaps worse, they're not being prepared to gain further experience by moving outside of finance into other functional areas or business units, which is something many companies today are seeking.

Instead, CEB advises that the CFO take direct responsibility for managing talent across the entire finance function. That might mean that the finance chief has a monthly meeting with his or her direct reports where all finance employees are placed on a three-by-three grid, where those in the lower left box are low performers with low potential and those in the upper right box are high performers with high potential. "That CFO is helping manage the full portfolio of finance talent," Raiswell says. CFO

Waking Up to New Currency Risks

Volatility will no longer be the "new normal" but just the norm; it will be the "year of the yuan"; and FP&A teams will be pressed for insights. By Wolfgang Koester

The biggest currency story in 2016 will be the Chinese yuan becoming more closely tied to world currencies other than the U.S. dollar, and the very significant business risk that represents for multinational companies. But there will be other significant stories as well. ¶ We are now in an environment where CFOs can no longer manage currency and the associated business risks by a version of the old "80/20 rule" (in this context, having a good [80%] understanding of the currencies impacting a financial statement). CFOs are awakening to the fact that the less-understood 20% may present very material risks.

Given that environment, corporate boards, CFOs, and CEOs will be seeking greater insight into how currency could impact business operations. In 2016, more than ever, corporate executives will need to know "what it means for [this element of our business] if [this currency rises/falls]."

Here are three currency predictions for the rest of 2016:

1. Volatility will no longer be a "new normal," but rather just "normal." Currency-driven business risks are a fact of life for multinational companies. In 2015's third quarter, for the fourth quarter in a row, negative currency impacts to corporate earnings were magnitudes above previous years' averages, according to an analysis by FiREapps. Contrast this sustained volatility with 2012's euro-driven currency crisis, which lasted two quarters and caused more than $40 billion of negative impacts to U.S. corporate earnings. It's a different world now, and all indications point to this trend continuing into 2016.

In 2016 hot spots might include the eurozone, Russia, Japan, and Latin America.

The eurozone: Since mid-2014, U.S. multinationals have cited the euro as an impactful currency as often as they've cited all other currencies combined. The euro hit historic lows in 2015 as concerns about the eurozone economies persisted, new geopolitical risks arose, and the monetary policies of the eurozone and the United States continued to diverge (the European Central Bank continued its pursuit of quantitative easing, and the U.S. Federal Reserve tightened policy with an interest rate hike). Expect uncertainty, volatility, and a weaker euro to continue. While a weaker euro tends to negatively impact U.S. companies' sales in Europe, it is volatility that makes planning such a challenge, which is likely to remain the case through 2016.

Russia: The ruble was incredibly volatile in 2015, rising 42% from a late-January low to a late-May high, then falling 25% by late August. Early last year, we saw multinationals like General Motors go so far as to temporarily suspend operations in Russia, citing accelerated volatility. In 2016, Russia will continue to be a big question mark.

Japan: Though not nearly as much as the ruble, the yen exchange rate was also marked by volatility in 2015, bouncing between 118 and 126 yen to one U.S. dollar. The yen isn't in a position to strengthen; the Japanese economy fell back into recession, and most analysts predict the Bank of Japan will respond as it has been responding: with more monetary stimulus that subsequently drives down the value of the yen. A weak yen has significantly weakened corporate revenue, and multinationals should prepare for more of that in 2016.

Latin America: The Brazilian real and Argentine peso continue to be volatile. In 2015 through November, the real was down 29% (it fell 17% in the first quarter alone) against the U.S. dollar, and the peso was down 11.5%. This volatility has impacted U.S. multinationals, particularly producers of consumer products.

Relative to those currencies and

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others, the U.S. dollar is likely to continue to strengthen in 2016. Given the economic and geopolitical turmoil elsewhere in the world, the U.S. dollar will continue to be a safe haven and sustain an environment in which companies have to operate under a mandate to innovate and focus on quality, rather than produce the cheapest export/product possible. For U.S. multinationals, this means more business risk.

Wolfgang Koester

2. China will further loosen its grip on the yuan. Many multinationals are highly exposed to China's yuan (the basic unit of the renminbi, or RMB, the country's official currency, in much the same way that the British pound is the basic unit of pound sterling). But many haven't been actively managing the currency and its associated risks. That was because of its close peg to the U.S. dollar, which meant there was little exchange-rate volatility for companies to worry about.

That changed on April 11, 2015, when China surprised markets by allowing the yuan to fall by nearly 2% against the dollar. The decline continued in the following days, hitting a four-year low against the dollar. This led to volatility for many Asia-Pacific currencies as countries took action aimed at maintaining parity against the yuan. This tracks with what we've seen as the euro has weakened against the dollar. Volatility in a major currency creates a ripple effect around the world.

China is poised to further widen the yuan trading band in 2016, in large part because the RMB will become the fifth currency in the International Monetary Fund's "basket of reserve currencies," known as Special Drawing Rights (SDR) currencies. As China moves to a freely floating trading band (an expectation of the SDR currencies), the yuan will likely experience unprecedented volatility. In fact, the volatility we saw in 2015—and the associated business risk to corporates—will pale in comparison.

In 2016, for the first time, the yuan will be a risk that many multinationals will actively manage. While Morgan Stanley is calling 2016 "Yen Year," I think "Yuan Year" will turn out to be a much more apt characterization.

3. Boards, CFOs, and CEOs will look to FP&A for insights. Corporate financial planning and analysis (FP&A) teams will need to be prepared to answer tougher questions about how currency volatility will impact business operations. The questions will require granular, often time-sensitive currency data. Such questions may include:

• What does it mean for the supply chain if the Brazilian real has another big first-quarter fall?

• What does it mean for expenses if China widens the yuan trading band by another 2%?

• What does the hike in U.S. interest rates mean for net income?

• What does it mean for the cost of goods sold in Japan if Japan resumes active devaluation of the yen?

• What does it mean for revenue if the euro falls to parity (1 euro = 1 dollar)?

Many CFOs have been asking these questions for the last six months. Until this point, FP&A had not had to be particularly involved with currencies, nor had they been asked to take a specific look at them, at least not to the level that they have to now. These kinds of questions are getting vastly more complex, and they surely will be harder to answer in 2016. CFO

Wolfgang Koester is the CEO and co-founder of FiREapps, a provider of cloud-based currency analytics for corporate finance.

Currency Headwinds Still Blowing

Companies are adjusting their expectations for 2016.

The strong dollar continues to wreak havoc on income statements, with little relief in sight, judging by January earnings reports.

Last month, for example, Procter & Gamble posted a better-than-expected profit for its fiscal second quarter, thanks to higher prices and continued cost-cutting. "With the top-line improvement and continued cost reduction, we delivered solid core operating income and [earnings-per-share] growth in the face of significant macroeconomic and geopolitical headwinds," P&G president and CEO David Taylor said in a press release.

But foreign exchange reduced P&G's net sales for the quarter by 8%, and the consumer-goods giant warned that currency headwinds in fiscal 2016 would be stronger than first anticipated. P&G originally forecast forex to reduce 2016 earnings per share by $0.11, but in January it revised that estimate to a negative $0.37 per share, amounting to a 10% drag on EPS growth.

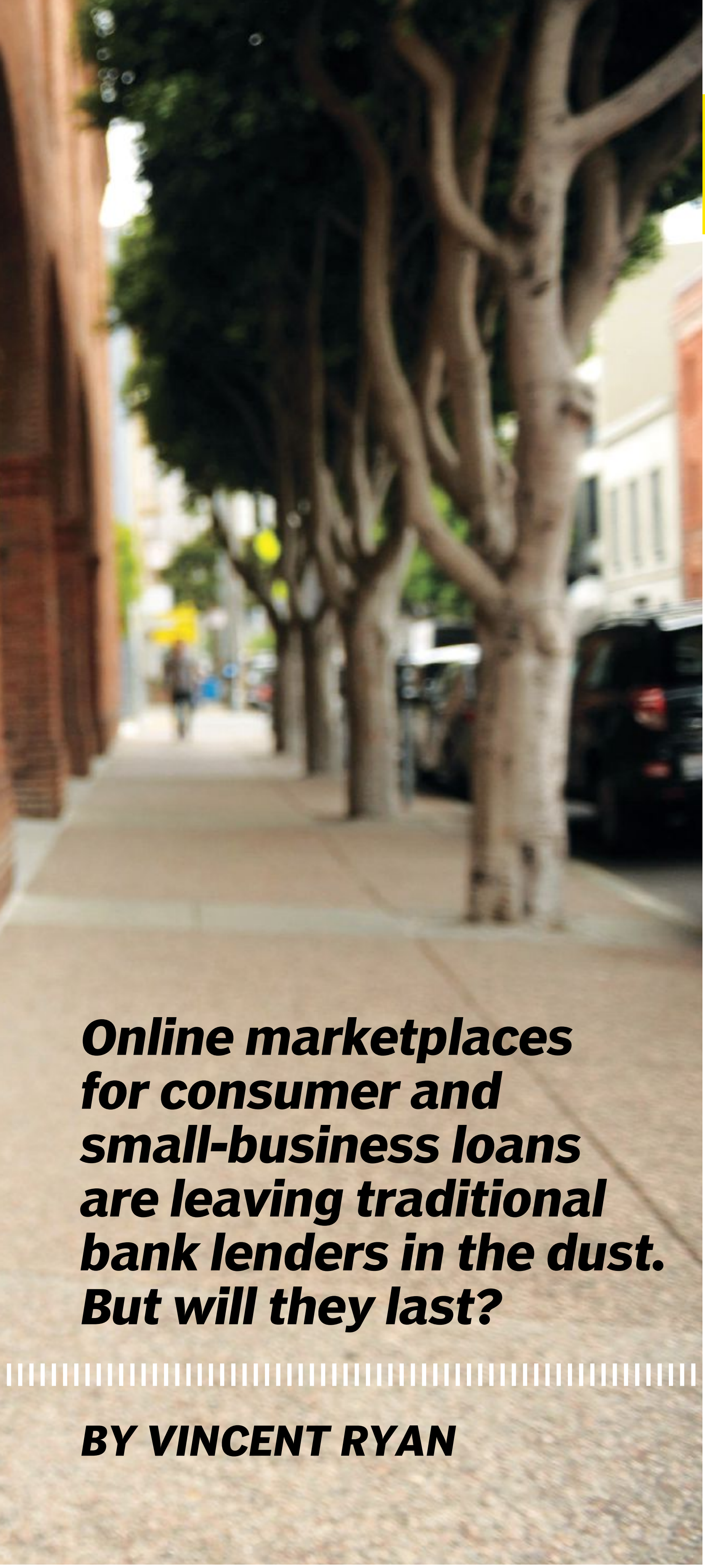
Other companies anticipate significant negative currency impacts in the year ahead. For example, Newell Rubbermaid estimates that foreign exchange will reduce 2016 EPS by $0.26 to $0.28 per diluted share; Kimberly-Clark says that forex will depress annual sales by 5% to 6%; and Coach expects currency exchange to reduce revenue growth by 225 to 250 basis points.

The dollar gained 9.3% in 2015, according to the ICE U.S. Dollar Index, which measures the dollar's strength against six major currencies.

KATIE KUEHNER-HEBERT

FAST MONEY

SAM HODGES, co-founder and managing director of Funding Circle USA



Online marketplaces for consumer and small-business loans are leaving traditional bank lenders in the dust. But will they last?

BY VINCENT RYAN

SUK SHAH, CFO of privately held consumer lender Avant, is building a balance sheet that, while not a fortress, is pretty sturdy. In December 2015, Avant raised $225 million in equity in a Series D funding round and landed a $300 million expansion on its loan. In addition to a warehouse line of credit provided by JPMorgan Chase and Credit Suisse, the three-year-old company has a $400 million financing commitment from investors to buy loans it originates, led by private-equity giant KKR.

"To make sure the mistakes of the Great Recession with finance companies being overlevered don't happen again, we pride ourselves in being safe from a liquidity perspective," Shah, a former HSBC finance executive, says.

But safety is not the holy grail in the marketplace lending business. Instead, these banking disruptors see opportunity—big opportunity. According to consulting firm Oliver Wyman, new customer platforms in financial services could capture $50 billion to $150 billion of revenues from today's banking and insurance markets, "equivalent to several eBays."

So venture capitalists have invested billions of dollars the past five years in Avant and other companies like Lending Club, Prosper, Kabbage, and Funding Circle that are bringing "shadow banking" to consumers online. Large global banks are knocking at these startups' doors with credit facilities, partnership pitches, offers to buy loans, and inquiries about adopting their technology platforms. And consumers and small businesses have borrowed billions of dollars from them through websites that only take minutes to approve credit.

"On average, our customers spend 7 minutes on the website from the time they land on the site until they access the cash," says Kathryn Petralia, COO of Kabbage, which projects to originate $2 billion in small-business loans online in 2016. "People ask, 'Are your customers so desperate for money they need it in 7 minutes?' No, but they are desperate for time."

Why all the excitement around product sectors—consumer finance and small-business lending—that have existed since before the Great Depression? That can go through wild swings in credit performance as access to capital expands and contracts? That many banks exited after the financial crisis because of high losses?

Shah has a compelling answer. "There's a lot of potential in this market if you believe there is

Courtesy Funding Circle

going to be a one-way migration globally to online financial services [providers] that make borrowing simpler and more efficient for consumers," he says. "When was the last time this generation walked into a bank branch, and do you see the next generation going into a branch?"

Marketplace lenders also believe they have better technology than banks. "What's enabling the entire sector is the emergence of more-automated, real-time data feeds that allow the lender to ... [make] a spot underwriting decision very rapidly," says Sam Hodges, co-founder and U.S. managing director of Funding Circle USA.

But while the attention for the new generation of online lenders is warranted, some hear the music slowing down—and see the risk ramping up.

"Shadow banks have had a lot of growth over the last several years as banking regulations pushed out activities and assets," says Nathan Flanders, managing director of financial institutions at Fitch Ratings. But they "are increasingly likely to become victims of their own success, which will translate into incrementally slower growth, increased operating costs, and the beginning of a gradual convergence with the very banks they are aiming to disintermediate."

NIMBLER COMPETITORS

Bloated cost structures, deteriorating credit portfolios, and new regulatory burdens for banks in the wake of the financial crisis have opened the door to these nimbler competitors. Oliver Wyman estimates that new entrants will force banks to overhaul their "inflexible legacy infrastructure" and force them into shaving as much as $340 billion in costs. "The cost of 'replatforming' the world's largest banks is substantial, potentially more than $4 billion each, larger than the average annual dividend paid by the 100 largest universal banks of $1.7 billion," the research firm said in its January report on the financial-services industry.

Carrying lots of overhead, and with interest rates as low as they are, "if it costs a bank $100 to underwrite a loan, but the interest on the loan is less than $100, why would it want to do the loan?" says Paul Schaus, president of CCG Catalyst.

The marketplace-lending opportunity also arose because banks, appropriately, tightened their credit policies after the Great Recession. Avant, for example, targets consumer borrowers with FICO scores in the 600 to 700 range; 660 to 680 is the bottom range for bank underwriters. "After the Great Recession there were a lot of 'fallen angels,' Shah says, "consumers who missed a health care or auto payment. A lot of them fell out of prime status. Suddenly the amount of consumers in this space has grown quite considerably, and the banks are not lending to them."

Lending Club, the oldest lender that matches up individual investors to borrowers, has expanded in both directions on the credit spectrum, says Carrie Dolan, the company's CFO. The publicly held company first targeted borrowers at a FICO of 660 and above, "but as we have put more investors on the platform that have different risk appetites, we went into the very low risk 'superprime' area and have done more near-prime loans [620 FICO score]." (See "Beyond Banks' Appetites?" page 32.)

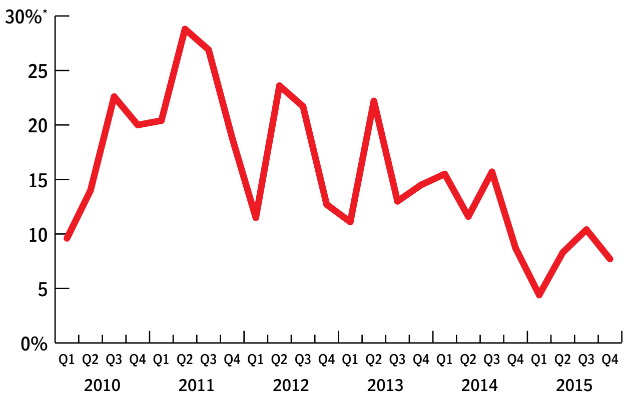
The average size of the personal term loans that Lending Club underwrites is about $14,000, and in most cases the consumer is borrowing to refinance revolving, credit card debt that often carries interest rates of 20% or more; Lending Club rates range from 7% to 24%.

How can online lenders underwrite these credits when banks can't? It's not through some magic formula for gauging credit risk that banks can't get their hands on, say the executives. "We can utilize all the same data that banks get through credit reporting, but we are not positioning ourselves as better. Banks have more data if they have transactional data from the borrower," says Dolan.

Rather, marketplace lenders are matching up a wide range of investors (individuals, banks, pension funds, hedge funds) that have different yield and duration appetites with borrowers, says Funding Circle's Hodges. "It allows us to have a broader set of products and a broader approval threshold," he says.

A Pullback Means Opportunity

With the amount of consumer credit outstanding at its highest level ever recorded, fewer U.S. banks are increasing their portfolios of consumer installment loans.



*percent of banks more willing to make consumer installment loans
Source: Federal Reserve Senior Lending Officer Survey

"When was the last time this generation walked into a bank branch, and do you see the next generation going into a branch?"

—SUK SHAH, CFO, Avant

Courtesy Avant

“On average, our customers spend 7 minutes on the website from the time they land on the site until they access the cash.”
—KATHRYN PETRALIA, COO of Kabbage

But this generation of lenders is doing more with data science, looking to find new attributes indicative of creditworthiness. Kabbage started gathering Facebook account data from small businesses four years ago. “What we discovered is that small businesses that give us access to an active Facebook account are 20% less likely to be delinquent [on a loan] than those who don’t,” says COO Petralia. “Our data science team built a model that was as predictive as a FICO-only model. Just to be clear, I wouldn’t use either one of those as stand-alone models.”

“FASTER AND MORE EFFICIENT”

The other expansion area for many marketplace lenders is small-business lending. “It’s a very daunting process to apply for a small-business loan” at a bank, says Petralia. “Most small businesses don’t understand what it means to provide a financial statement; they feel like they have to go to their accountant to get that information.” On Kabbage, she says, “they don’t have to get a bunch of bank statements, they don’t have to show us a certificate of occupancy or their articles of incorporation; we’re able to access that data directly.”

Lending Club went into small-business lending a year and a half ago. It offers working capital loans, with a typical size of $50,000 to $60,000. In late January, the company announced that it was beta-testing a multidraw line of credit with business partners, one of them Ingram Micro. Qualified channel partners can purchase products directly from the tech distributor via a credit line of up to $300,000.

Funding Circle, originally from the United Kingdom, is already playing in the small-business market. It offers term loans of $25,000 to $500,000 with interest rates of 5.5% to 22.8% and one-to-five-year terms. Origination fees run from 0.99% to 4.99%. A large share of Funding Circle’s customers are “fundamentally bankable,” says Hodges, but are working with Funding Circle because “it’s faster and more efficient.”

Hodges says many banks oversimplify small-business lending policy rules, because it isn’t their area of expertise. “They do it with broad brush strokes—some banks won’t lend to businesses that don’t show multiple years of tax-return profitability,” he says. “But if you model debt-service coverage, there are businesses producing a lot of cash and that have the ability to service loans that aren’t necessarily showing profit on their tax returns, because they are depreciating assets, for example.”

Consultant Schaus sees some dangers for small-business owners and finance personnel in the proliferation of online small-business lenders. “Years ago, there were physical structures, you the borrower saw [a loan officer], and you had a comfort they were real, they were reputable,” Schaus says. “Nowadays you have to be careful—someone is willing to give you a loan, but who are they? The borrower has to do a little more homework than they used to,” especially if they are putting their personal credit on the line or putting up collateral, Schaus says.

In addition, Schaus worries that small-business owners won’t have sufficiently thought through whether borrowing money is wise or the capital is too expensive when it’s available to them so fast. “You get it quicker, you have more choices. There’s people borrowing money who would have hesitated when going through a bank application process,” Schaus says.

ON OR OFF THE BALANCE SHEET?

For outside observers, the big question about marketplace lenders is the risks the lenders themselves face. The

Kendrick Brinson/LUCEO

answers have ramifications for a raft of financial-market players. So far, these lenders have thrived on low interest rates, an abundance of capital in the markets, and a relatively stable economy. What happens when economic growth stutter-steps and capital flows dry up? "The sector hasn't operated through a full credit cycle in a normalized interest rate environment—the underwriting is not proven," says Fitch's Flanders. "Right now they are in a fairly benign environment."

Lending Club's own data, however, show that investors in its consumer loans still made money from credits originated in 2008 and 2009, says CFO Dolan. (The data are available on Lending Club's website.) If an investor had bought loans largely representative of the entire Lending Club portfolio in those years, they still would have earned a three-year return of 3% to 7%, says Dolan. However, the riskiest loans in Lending Club issued in those years, predictably, did not perform well. The $4.1 million of riskiest loans issued in 2008 and 2009 resulted in $902,000 in charge-offs. Still, investors made a positive annualized return, according to Lending Club.

Apart from the loan defaults, though, marketplace and online lenders face the question of what happens if their funding sources disappear. That's where the great argument in online lending begins: Which is the better business model, keeping some or all loans on the balance sheet (and funding them with a line of credit) or being a pure-play market lender (matching up retail and institutional investors and borrowers, and not taking any credit risk)?

Courtesy Lending Club

Online lenders are already regulated. "We comply with fair lending and anti-money-laundering laws and consumer protection rules."

—CARRIE DOLAN, CFO, Lending Club

Lending Club is a pure marketplace, taking no credit risk. About 20% of its loans are invested in by individuals (retail money), while 44% are matched with family offices, other managed money, and accredited investors. The remaining 36% is institutional money, including banks, insurance companies, and pension funds, says Dolan.

Charles Moldow, general partner at Foundation Capital, which led Lending Club's Series C funding in 2010, particularly favors the idea of having retail money fund loans. "It's easier to have one investor buy $1 billion of loans instead of 5,000 retail customers, but it's not a more enduring model," Moldow says. "Large capital coming from hedge and pension funds tends to be very sophisticated and moves from place to place depending on yield and performance. Retail capital tends to be a lot stickier."

In Moldow's view, consumers "tend to have longer-term time horizons, and they don't have the time and inclination to go through the process of redeeming [their investment] and reinvesting somewhere else."

Funding Circle also has a diverse set of loan investors. The diversification, Hodges believes, makes Funding Circle "less prone to liquidity shocks. If you look at what killed a lot of specialty-finance companies in the last downturn, it wasn't credit, it was liquidity." Banks pulled the warehouse lines of credit that were funding the loans on the lenders' balance sheets, and the lenders couldn't tap into the asset-backed securitization market to fund loans either, Hodges notes. (Some online balance sheet lenders use both of those funding sources.)

Avant is a blend of an institutional marketplace and a balance sheet lender, backed up by its large amounts of aforementioned equity and debt capital. It takes the full risk on about half of the loans it originates. "If you don't have a balance sheet, it's difficult to retain cash receipts in times of stress," says CFO Suk. Given the consumer credit space Avant targets, "we also needed to demonstrate that there was no conflict of interest, that loans we could sell to top institutional investors we would also hold," Suk says. "Rating agencies favor this approach because we eat our own cooking."

Beyond Banks' Appetites?

The riskiest and safest loans looking for investors on the Lending Club marketplace on January 25, 2016.

Riskiest*

Interest rate	FICO score	Amount	Purpose
28.9%	675-679	$13,475	Refinancing & consolidation
27.99%	680-684	$28,600	Refinancing & consolidation
27.99%	710-714	$17,500	Small business†
27.99%	695-699	$14,000	Small business
27.49%	675-679	$10,550	Major purchase

*60-month term unless otherwise indicated
†36-month term

Safest**

Interest rate	FICO score	Amount	Purpose
5.32%	820-824	$28,000	Credit card payoff
5.32%	725-729	$4,000	Credit card payoff
5.32%	770-774	$27,000	Refinancing & consolidation
5.32%	795-799	$12,000	Refinancing & consolidation
5.32%	715-719	$28,000	Credit card payoff

**36-month term unless otherwise indicated
Source: Lending Club

But Foundation Capital's Moldow says relying on balance sheet capital puts a lender on a treadmill: "As you grow, investors want to see a bigger equity base, so you have to continually raise new equity, and investors get diluted." In addition, if there is compression in net interest margin from competition, a balance sheet lender might have to take on riskier loans that pay higher rates, says Moldow.

The venture capitalist says his firm has stayed away from investing in companies that use their balance sheets in favor of companies that "have more creative means of lending," he says. "Wall Street values balance sheet lenders at a dramatically lower multiple," he adds.

SKIN IN THE GAME

But there's a significant risk looming for non-balance sheet lenders: the decision in *Madden* v. *Midland Funding,* a May 2015 case in the U.S. Court of Appeals for the Second Circuit that could affect bank lenders, securitization platforms, and nonbank investors.

"As you grow, investors want to see a bigger equity base, so you have to continually raise new equity, and investors get diluted."

—CHARLES MOLDOW, general partner at Foundation Capital

Courtesy Foundation Capital

The case involved the selling of mortgage loans in which the entire lending relationship changed hands. The court held that state usury laws could apply to nonbank investors that acquire a loan from a national bank (which are exempt from state usury laws) or originate a loan to a customer in New York via a bank in Utah, which has no usury limits. "It has been a practice that these marketplace lenders rely on a national bank to originate high-interest loans and do not have to comply with laws in all states," said Fitch's structured ratings team in a September 2015 report. "The ruling ... casts doubts over whether a borrower's contract interest rate can even be enforced when a loan is sold to a marketplace lender from the originating bank."

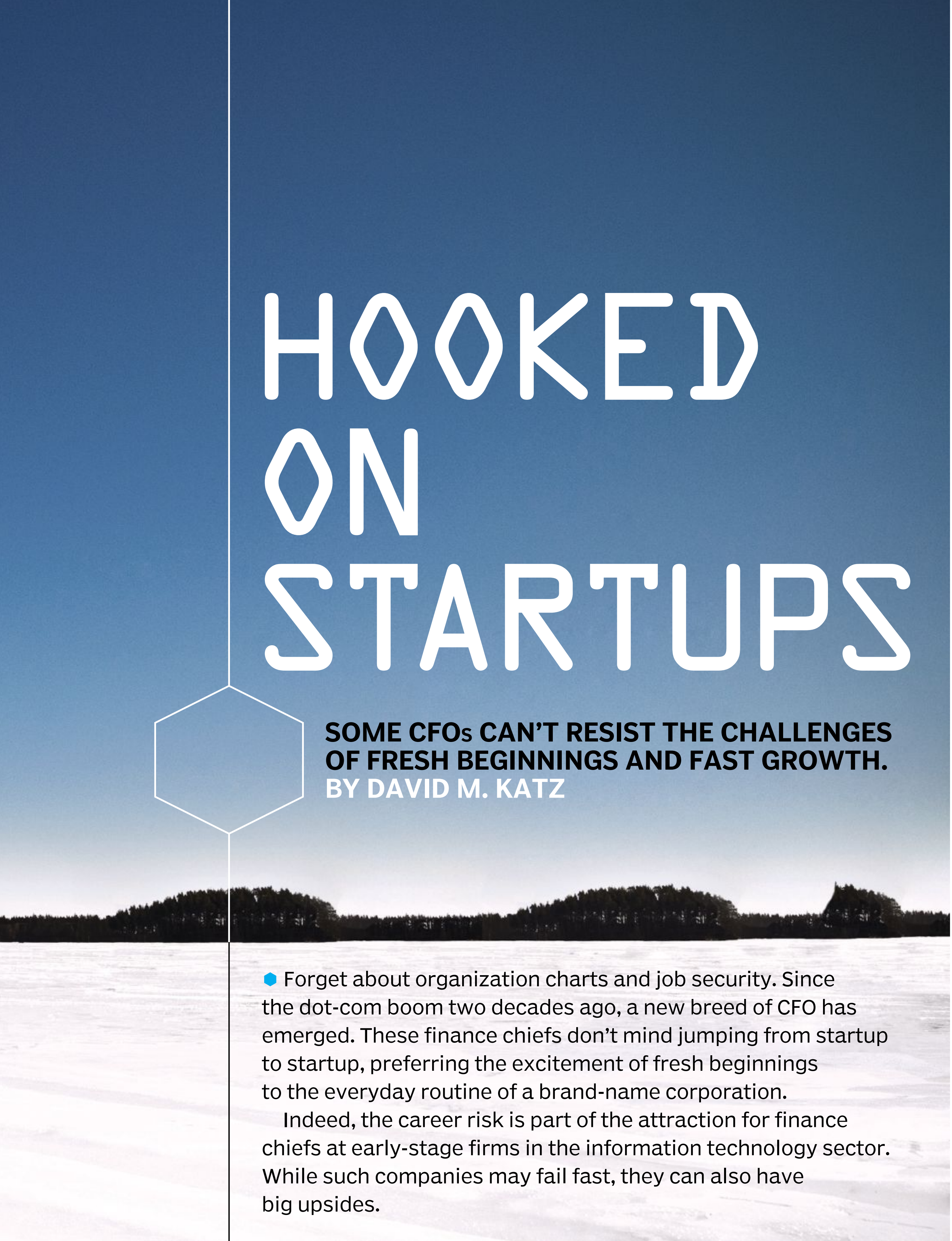
"The court decided that the borrower is not well served by that type of relationship, because the ultimate buyers of the loan do not care about the borrower," says Kabbage's Petralia. One of the ultimate ramifications of *Madden* could be the introduction of regulations that require firms like Lending Club to retain "skin in the game"—some financial stake in the loans they issue. "That would totally change [marketplace lenders'] value proposition to investors," notes Petralia, because they would have to take some credit risk.

Bank industry experts also believe greater regulatory scrutiny of all kinds of marketplace lending is imminent. But executives insist that online lenders are already regulated. Most of them have to partner with banks to originate the actual loans. "What that means is that we comply with fair lending and anti-money-laundering laws and consumer protection rules," says Lending Club's Dolan. In the case of Lending Club, when investors participate in a loan, they are issued a registered security, which is regulated by the Securities and Exchange Commission.

But credit rater Fitch notes that the consumer finance industry is fraught with "substantial regulatory, legislative, and litigation risk." Regulators could also get at marketplace lenders indirectly by assigning a higher capital charge to credit facilities that banks extend to them, or finding other means of keeping a tight rein on the entities that finance their loans.

At Avant, Shah is not only fortifying his balance sheet. The firm has 11 in-house attorneys and close to 40 compliance specialists. "We're anticipating a full-out review, including the Treasury Department looking at liquidity and whether the Basel rules will apply to lenders like us," he says. Regulatory inquiries could actually legitimize or validate the business model, Shah says, adding: "We are ready to take it in our stride." CFO

VINCENT RYAN IS EDITOR-IN-CHIEF, DIGITAL PLATFORMS, OF *CFO.*



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HOOKED ON STARTUPS

SOME CFOs CAN'T RESIST THE CHALLENGES OF FRESH BEGINNINGS AND FAST GROWTH.

BY DAVID M. KATZ

Forget about organization charts and job security. Since the dot-com boom two decades ago, a new breed of CFO has emerged. These finance chiefs don't mind jumping from startup to startup, preferring the excitement of fresh beginnings to the everyday routine of a brand-name corporation.

Indeed, the career risk is part of the attraction for finance chiefs at early-stage firms in the information technology sector. While such companies may fail fast, they can also have big upsides.

More than that, however, the appeal for many CFOs in working for tech startups is the opportunity to create a finance function from scratch, get involved in operations, and play a key part in a fast-growing environment. To be sure, such finance chiefs retain all the traditional finance functions, including accounting, tax, financing, and risk management. But the top finance job also typically demands the flexibility to work on other corporate functions.

While maintaining adequate cash flow is, not surprisingly, high on their list of concerns, helping their companies attract top talent seems an even more critical focus for startup finance chiefs.

Such are the takeaways from recent conversations with four CFOs of software startup businesses about their current jobs and career paths. They represent a rich variety of endeavors: social-media data mining, radiology, accounts payable and payments automation, and—yes—providing grocery shoppers with detailed information about every egg they buy. Here are their stories.

WHY HE LEFT GOOGLE

JULIO PEKAROVIC, DATAMINR

Although it wasn't exactly like working for a traditional startup, Julio Pekarovic feels he got his first exposure to life in the fast lane in 1995, when he became commercial planning director of Expo '98, the 1998 World's Fair in Lisbon, Portugal.

In that capacity, he built a team responsible for the revenue-generating operations of the 132-day exposition that grew from a handful of staffers to a roster of 1,000. His staff's work included rounding up official sponsors, selling tickets, and merchandising.

"That was the first taste I got of hypergrowth and growing companies. In this case it was a World's Fair, but it was on a fast-paced basis," recalls Pekarovic, now the CFO of Dataminr, a seven-year-old firm that mines Tweets for data that companies can use to control their risks.

Just as the dot-com boom was peaking, Pekarovic moved to Silicon Valley to eventually become senior finance manager for financial planning and analysis at Commerce One, where he ran the startup's global trading site. After it went public in 1999, the business-to-business e-commerce firm saw its share price jump nearly 1,900%, leading *Wired* magazine to crown it the top-performing initial public offering of the year.

But by 2002, like many of its peers, Commerce One was going downhill just as fast as it had risen. "Unfortunately—or fortunately—the company was hit very hard by the dot-com bust," says Pekarovic. "I lived through a series of layoffs until I decided to jump ship and move on to a little-known search-engine startup that became Google."

As Google's head of financial planning and analysis, Pekarovic was one of only a few hundred Google employees at the time. At the start of his seven years at the firm, he began hiring a finance team to support the growing business at Google. His first hire was Jason Wheeler, who is now CFO of Tesla Motors, the electric-car company.

In those days, Pekarovic recalls, sales numbers were being calculated and recorded by finance people within sales, rather than overseen by finance. To help achieve what he

1

Pekarovic had seen Google grow its revenue from $50 million to $21 billion, but the opportunity for creativity was shrinking, he says.

2

3

1. Expo '98, the World's Fair in Lisbon, Portugal. **2.** Googleplex courtyard. **3.** Sample of Dataminr's interface, which detects breaking information from Twitter accounts. **4.** Julio Pekarovic, CFO, Dataminr.

Photos 1 and 2: Wikipedia; graphic courtesy Dataminr


4

feels was needed separation between sales and finance, he became director of a new division at Google, which he himself dubbed sales finance, he remembers.

By 2009, Pekarovic had seen Google grow from a company with about $50 million in revenue to a $21 billion tech colossus with some 25,000 workers. But while the company was growing, the opportunity for creativity that he prized was shrinking. “The greatest value that the majority of employees at that time could provide was just to follow the established rules,” he says.

As a result, he decided to leave Google that year to become CFO of Quantcast, a digital ad audience-measurement firm founded just three years earlier. Then, after four years at Quantcast, Pekarovic took the finance helm at Dataminr in September 2015.

By a number of measures, Dataminr, which was founded in 2009, wouldn’t exactly be considered a startup. After all, it’s been valued at $700 million, lists Fidelity Investments among its major shareholders, and employs about 200 people. To Pekarovic, though, the essence of being a startup may be more a state of mind than anything else. “I think Google in many ways considers itself a startup and always did,” he says. “It’s an innovation hotbed.”

And Dataminr? “The way that I would classify us is that we’re a technology company with a huge opportunity in front of us,” says Pekarovic.

DRIVEN BY UNCERTAINTY

ANDREW WEBB, CANDESCENT HEALTH

Two decades of working for small, midsize, and large companies have given Andrew Webb a clear sense of the kind of organization that fits his temperament.

“I figured out over time that smaller companies are where I am most invigorated,” says Webb, CFO and chief administrative officer of Candescent Health. “Part of it is that there is almost immediate feedback on the things that you do.” Moreover, he says, “you can have the most influence on the success and, potentially, the failure of certain things. And that to me is really important.”

Webb’s involvement with small firms began in earnest in 1999, when, as an associate in business development at Merrill Lynch, he helped launch a number of them. He left Merrill in 2002 to join one of those firms, a provider of capital markets data still known as Ipreo, as vice president of strategic development. Following Ipreo he spent five years as a managing director at financial services provider Knight Capital Group (now part of KCG Holdings), where he again helped launch a number of small firms.

Continuing his career pattern of moving from jobs where he provided liquidity for early-stage firms to ones in strategy, operations, and, now, finance, Webb became CFO of Radisphere, a radiology practice, in 2014. The company was acquired by Sheridan Healthcare in 2015, but Radisphere founder Scott Seidelmann retained the firm’s software, analytics, and business processes, subsequently starting Candescent Health as an independent software company. Webb took the finance helm at Candescent.

Unlike Radisphere, which actually provides X-ray services, Candescent provides a cloud-based system that connects medical imaging practices with patients. Webb says that the change in his employer from health care provider to software startup has pushed him to be more innovative and find ways to make the firm more efficient.

Before the sale of Radisphere, the combined company was much bigger in terms of revenue and staff. “Not to take away at all from the team that we had at Radisphere, but that got people into a mindset ... of doing things just because they had been done in the past,” says Webb, who went from overseeing 10 finance staffers to just 2 at Candescent.

That shrinkage prompted the new company to simplify its processes. Thus, even with a smaller finance staff, Candescent was able to slash the time needed to close its books from seven to eight business days to three to four days.

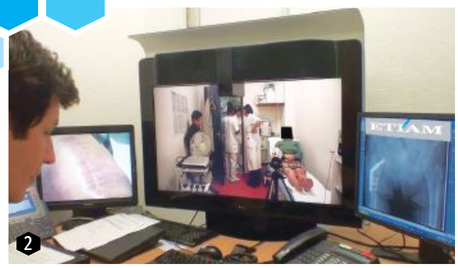
Portrait courtesy Dataminr

Webb attributes the efficiency to two changes generated by the launch of the new company and the separation from the old one. For one thing, shedding Radisphere meant that Candescent's finance team no longer had the burden of having to process the billing necessitated by thousands of radiology studies a month.

The second change involved the winnowing down of the company's personnel to a smaller team more attuned to the life of a startup. "People who choose to work at a startup generally have a certain personality type," says Webb. "And we actively go out and try and find those people."

What kind of personality type is that? "For a startup you want to find people who are really motivated to be in an environment in which there's always an element of uncertainty," explains Webb.

That uncertainty may range from where the next round of financing may be coming from to the nature of the work itself. Webb wants to hire people who are flexible enough to adjust when he says, "I know we told you your job was this, but today it's going to be this, too."



1. Andrew Webb CFO, Candescent Health. **2.** Candescent's cloud-based system at work. **3.** Candescent's offices in Waltham, Mass.

"For a startup you want to find people who are really motivated to be in an environment in which there's always an element of uncertainty," says Webb.

SMALLER IS BETTER

BILL PRICE, MINERALTREE

In 1991, after eight years in public accounting at now-defunct Arthur Andersen, Bill Price had an opportunity to join one of his clients, MediQual.

Bain Capital had just invested in the medical software firm, which had a newly installed chief executive and was looking for a CFO. The leadership of the then-$2 million company "reached out to me, and the timing was right," recalls Price.

Thus began his current 24-year run as a finance chief of nascent software firms. Following MediQual, where he led and managed the company's IPO and helped sell it to Cardinal Health in 1997 for $35 million, Price moved on to stints at NextPoint Networks, MarketSoft, and Zoominfo. Since 2013, he's headed up finance at MineralTree, a venture capital-backed software-as-a-service (SaaS) firm that sells accounts-payable software.

Comparing the desirability of working at larger, well-established companies and emerging firms, Price says: "I've worked for both. I much prefer smaller."

But there are pros and cons to both. "At an early-stage company there are certainly fewer resources to get your jobs done—not as many systems, certainly not as many people," he says. "But on the positive side, everyone at our company is doing original work. There's no such thing as a pure manager at Mineral Tree."

That gives him the chance to get involved in activities outside the realm of "straight-up finance." In January 2015, for instance, MineralTree entered into an agreement in which e-commerce giant First Data is investing in the smaller firm and helping to finance the sale of MineralTree software to First Data customers.

In the wake of the deal, Price is currently working with

An advantage of working at an early-stage company "is that everyone is doing original work," says Price.

First Data to make sure that MineralTree has "policies, programs, practices, and operational steps in place to ensure that [First Data] customers' data is secure" and that the software firm is complying with regulations.

Among the traditional bread-and-butter tasks of a finance chief, Price is most concerned with weighing the need for speed in raising cash against that of investing it wisely. "It's always a challenge financing a growing company," he says, along with that of "balancing the responsibility of managing cash and maneuvering around the ever-changing financial landscape as well."

Now is a good time to raise cash, he observed late last year. Venture capitalists are doing more deals, he says, adding that "private equity is definitely getting involved in the right-sized company. And strategic investors have a ton of cash and are looking to put it to use."

Like other software companies, MineralTree's most important accounting metric is annual recurring revenues. "With a SaaS-based company, it's really all about signing up customers to a subscription, whether it is monthly or annual or multiyear," says Price. "If you can do that, you'll have a very successful software company, with significant growing revenues."

GUARANTEED FRESH

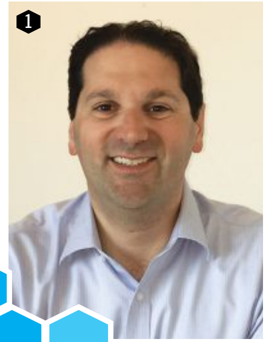
DAREN SCHULTZ, TEN AG TECH

"I like transparency, and I don't like that things are being hidden from people," says Daren Schultz, CFO of TEN Ag Tech, explaining what most appeals to him about the agricultural technology startup's business model.

Schultz, who has been finance chief and treasurer of the private equity-owned firm since July 2015, was referring to the difficulty shoppers might have in determining the freshness of each egg in the cartons they buy in supermarkets. In environmentally conscious Southern California, that's a big concern, he says.

Indeed, the San Juan Capistrano, California-based company aims, via its cloud-based technology, to partner with food retailers and farmers to get them to offer eggs that each have a use-by date and a code unique to the farm where the egg was laid. "We can trace your egg's moment of packing to within 180 seconds," the firm's consumer website boasts.

"Everyone deserves accountability, and everyone's going to be able to understand whether there's freshness, transparency, certification," says Schultz. "They'll be able to understand where the animals are, how they're being treated, and, ultimately, the safety of the food they're consuming."



1. Daren Schultz, CFO, TEN Ag Tech. **2.** Part of TEN Ag Tech's developement is the True Grade ID, an integrated scalable product ID solution that includes hierarchy, tracking, and identification at product, carton, case, and pallet.

The finance chief notes that it's still early days at TEN Ag Tech—and that's precisely one of the things he likes about it. He defines the five-year-old firm as a startup because it's in a "test mode," having spent the bulk of its efforts on research and development and patent work before 2015. It was only last year that the firm did a "soft launch" of its application, he says.

"In established companies the business model and a lot of the processes are in place already. Whereas here, I'm going to be able to add a lot more value," says Schultz.

"We're still very young, and we're not quite out to market yet in full capacity," notes Schultz, who joined the firm in 2014 as director of financial operations before being promoted to his current post.

Previously, he was director of finance at Mitchell International, a provider of insurance claims handling technology owned by private equity giant KKR. Referring to Mitchell as a "more established" company, Schultz feels he has more leeway to make a mark at TEN Ag Tech. "In established companies the business model and a lot of the processes are in place already," he says, "whereas here, I'm going to be able to add a lot more value."

One area in which he feels he's making a difference is in closing the firm's books. "When I joined the company the close process wasn't very thorough," Schultz recalls. Now, "we are taking steps every day to improve and speed up the close." CFO

DAVID KATZ IS A DEPUTY EDITOR OF *CFO*.

Photos courtesy the companies

Eric Kimberling
Founder and Managing Partner,
Panorama Consulting Solutions

Trend Spotting: ERP in 2016

A prominent consultant discusses some of the top trends and issues in the ERP software arena.

An enterprise resource planning system can be one of the most transformative investments a company makes. By integrating accounting and finance with sales, manufacturing, human resources, and other functions, an ERP system can significantly improve a company's efficiency and productivity, and help it take growth to the next level. Over the past 20 years, the software has become increasingly powerful and versatile, offered by an ever-changing landscape of providers. Panorama Consulting Solutions, an ERP consultancy, currently lists more than 120 ERP vendors on its website, from ABAS Software to xTuple.

If the software is better than ever, implementing it has remained an expensive, frustrating exercise for many companies. Panorama's studies reveal a discouraging lack of improvement in completing ERP implementations on time and within budget, while many firms fall well short of realizing the software's anticipated benefits (see charts below).

Today, the ERP industry seems to be reaching an inflection point, with cloud-based systems posing a growing threat to the established order of on-premise software. Recently, *CFO* asked Eric Kimberling, founder and managing partner of Denver-based Panorama Consulting, to put the cloud and other significant ERP trends in perspective for chief financial officers. An edited version of the interview follows.

At what point does a company start thinking about implementing an ERP system?
Usually it's when you start to feel the stress cracks of, say, the QuickBooks system or Excel spreadsheets that you're using to manage the business. And usually it's companies in high-growth mode that feel the stress the fastest. You start to realize that you don't have a handle on what's actually going on within the organization in terms of inventory management and real-time visibility of the financials and things like that. There's a tipping point when the management team feels like they can't grow or scale the company under those circumstances, and they know they need some kind of system that can give them more accurate information, better visibility, more integrated information.

According to Panorama, more and more small and midsize businesses are adopting ERP software systems. What's driving that trend?
For one thing, there is a plethora of options on the market that are cost-effective and relatively low risk compared to 10 or 20 years ago. A lot of upstarts are providing niche solutions or lower-cost systems that can be adopted relatively quickly. Also, you have companies like Salesforce that have gained a lot of traction by focusing on a narrow niche within ERP, like customer relationship management. Those two factors combined are leading a lot of SMBs to adopt ERP systems.

One of the biggest recent trends in ERP has been the rapid emergence of cloud-based systems. What should CFOs know about the cloud?
The first thing they should know about the cloud is that it isn't the only option for organizations looking for ERP solutions. There has been a lot of hype around cloud solutions, and the adoption rate is certainly on the rise. But there are still a number of different ways that companies can deploy an ERP system.

There are two approaches to adopting a cloud-based ERP system, right?
Yes. One is the software-as-a-service or SaaS model. Essentially it's a subscription model where you're accessing a multi-tenant version of the software, meaning you're sharing the same version of the software that everyone else

Thinkstock

is using. Your data is still isolated and protected from other organizations. The other approach is the private-cloud model, where you own the software. You can tailor it to fit your needs, but someone else is hosting the software for you. So it's a hybrid model.

Cloud ERP is touted as a cheaper alternative to on-premise systems. Is it in fact cheaper?
The short-term costs are generally lower for cloud and SaaS solutions. But when you look at the longer-term costs, you usually find that the break-even point for an on-premise ERP system is somewhere around five and seven years. So you're going to pay more money up front, but over time you're probably going to pay less, because you're not going to have those ongoing subscription costs. You're only going to be paying for maintenance and the cost of managing your internal infrastructure—which isn't insignificant, but generally is not as high as the ongoing cost of a SaaS or a cloud solution.

It's almost like the lease-versus-buy decision when you're buying a car: It depends on what you want to do. If you're a small startup, or if you know this is going to be a short-term solution, cloud ERP makes total sense. We've consulted with a lot of companies that are owned by private equity firms, and their goal is to implement an ERP system at a low cost because they know they're going to be sold off to someone else that will probably force them to adopt their ERP system.

"Most cloud ERP providers will provide more security than the average internal IT department does."

For a large multinational corporation that has a robust and sophisticated IT group, it may make more sense to get some of those economies of scale by investing in an on-premise solution. Now, my observations could change over time as the SaaS model and the cloud model continue to evolve. But today, there's still a very healthy market for on-premise solutions.

Is security an issue with a cloud system?
A lot of people are afraid to pull the trigger on cloud applications because they worry that they're not going to have control over the security and the actual data itself. But in reality, most cloud providers will provide more security than the average internal IT department does.

So cloud ERP is safer than on-premise software?
It is. You have to think about the business models of the cloud and SaaS providers: If they have even just one breach, their entire business goes away. Not to mention the fact that the cloud and SaaS providers generally have entire teams whose sole responsibility is providing and monitoring security, usually in a more sophisticated way than the average internal IT department provides.

Have there been any breaches at cloud ERP providers?
I'm not aware of any. I'm sure there have been plenty of attempts, and probably some minor breaches that we don't hear about.

Two more trends in ERP are consumerization—designing interfaces that resemble social media—and mobility, making the system accessible via smartphones and tablets.
Yes, vendors are spending a lot on user interfaces to make them look and feel more like Facebook or Twitter—not only the visual aspects, but also how you communicate in the system, using features like the Chatter application in Salesforce, for example. So the user-interface aspect is certainly becoming consumerized.

As for access to the ERP system anywhere through smartphones and tablets, that doesn't get a lot of attention, but it's something that more and more people want, especially employees and executives who aren't tethered to their PCs at the office but are working remotely a lot of the time.

ERP systems have incorporated more and more functionality over the years. What functions do they still lack?
Enterprise performance management is one. Another is point-of-sale, even though that's not a sophisticated system per se—every retailer has some form of it. But the integration with ERP

ERP Implementations: Reality Check

Year	Average cost	% with cost overruns	Average duration	% with schedule overruns	% delivering ≤50% of benefits*
2014	$4.5MM	55%	14.3 months	75%	41%
2013	$2.8MM	54%	16.3 months	72%	66%
2012	$7.1MM	53%	17.8 months	61%	60%
2011	$10.5MM	56%	16 months	54%	48%
2010	$5.5MM	74%	14.3 months	61%	48%

Source: Panorama Consulting Solutions 2015 ERP Report

*anticipated from new ERP system

is inconsistent at best. Also, few vendors have cracked the code on demand planning and forecasting. Business intelligence is still an area that some vendors are struggling with. Those are just a few examples.

Customization is still seen as a dirty word by many CFOs and CIOs, but you recently predicted that customizing ERP will become mainstream practice.

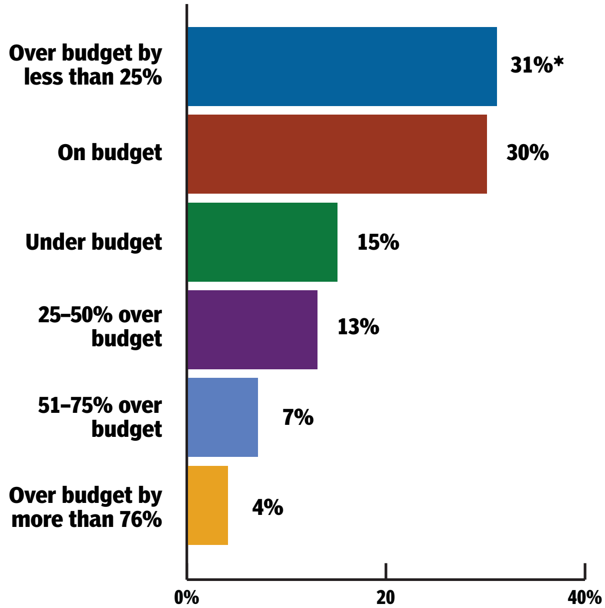
Our research shows that roughly 9 out of 10 organizations customize their software to some degree. That's not to say that customization is a good thing and you should just embrace it, but no ERP system is going to meet every need of an organization. So it's a matter of cherry-picking areas that are the high-value core competencies of your organization where maybe it does make sense to customize—without going too far down that slippery slope.

Let's talk about ERP implementation. In 2014, according to Panorama, 55% of ERP projects exceeded their budgets, 75% ran over schedule, and 41% delivered half or less of the anticipated benefits. Many CFOs would find these numbers daunting.

Not only are those numbers daunting to many people, but the bad news is they haven't improved much over the past five years. But the good news is that organizations can avoid being on the negative side of those statistics if they manage their projects effectively. And the first and foremost thing they need to do is just have realistic expectations from the start. Where companies go sideways in their implementations is when they have completely unrealistic expectations, either because they don't have the experience of implementing ERP, or because they are relying too much on what a sales rep is telling them regarding the duration and the cost.

Mostly Over Budget

ERP implementation costs

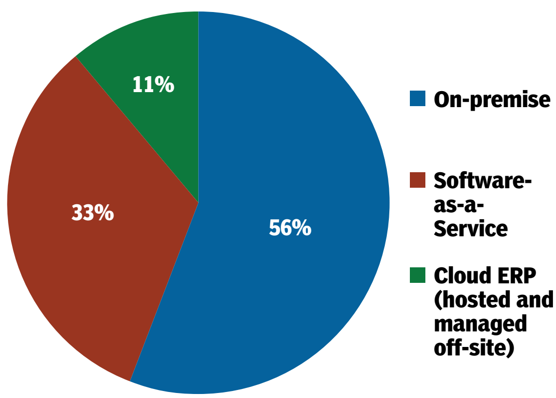


Source: Panorama Consulting Services 2015 ERP Report, survey of 562 companies

*percent of projects

Partly Cloud

Type of ERP software adopted



Source: Panorama Consulting Services 2015 ERP Report, survey of 562 companies

How do you achieve the right balance between finance and IT in an ERP implementation?

It's a good question, because you don't want to let the technology get away from you and become so complicated that it turns into an IT project rather than a business transformation. So it's important to find that right balance between business and technology.

Before going down the path of trying to figure out whether you need a single ERP system or best-of-breed, an on-premise solution or a SaaS solution, it's better to back up and look at the overall objectives of the company—to make sure that what you're trying to accomplish with an ERP system is clearly defined. Then you can make the technical decisions through the lens of what you're trying to do strategically, rather than, say, just adopting SaaS for SaaS' sake, because you've heard all the hype and you decide that it's the way to go.

Given that the ERP landscape is so complex and changing so quickly, companies should be more strategic and really think through their options. Too many companies just want to rush ahead and make a quick decision. The more time you invest up front in thinking things through, evaluating the software, and planning the implementation, the better off you will be downstream. CFO

INTERVIEW BY EDWARD TEACH

In Search Of Certainty

Fourth-quarter results from the Duke/*CFO* Business Outlook Survey show the effects of economic uncertainty.

By David W. Owens and Chris Schmidt

The business environment, infused with uncertainty, has muted the growth of business confidence, according to the results of the Duke University/*CFO* Magazine Global Business Outlook survey for the fourth quarter of 2015.

"Economic uncertainty" was the top business concern cited by executives around the world, across virtually all regions. (See Figure 1, page 45.) The survey, which concluded early in December, generated responses from more than 1,000 finance and corporate executives from companies of all sizes, including 500 executives from the United States and Canada, 118 from Asia (including Japan), 101 from Europe, 250 from Latin America (including Mexico), and 61 from Africa.

In the U.S., finance executives said that their companies have entered a holding pattern, awaiting clearer direction from a business environment shaped by continued depression of oil prices, slippage in China, troubles in Brazil, and terrorism touching Europe.

The outlook of U.S. finance executives for their economy remained essentially unchanged in the fourth quarter, rising to 60.3 from the previous quarter's 60.0 on a scale from 0 to 100 (still down from the year's high point of 64.7 in the spring). Confidence in U.S. respondents' own companies also remained virtually unchanged. However, the 65.9 rating that U.S. executives assigned to their level of optimism for their own companies still remains close to historical lows.

Capital spending for U.S. companies is expected to remain somewhat soft in the next 12 months, increasing modestly by 2.6%. On the bright side, the earnings-growth outlook rebounded sharply at the end of last year, reaching 9.5% for 2016, and expectations for employment levels registered steady 2.4% growth. At the same time, attracting and retaining qualified employees was a top concern for U.S. businesses.

56.9

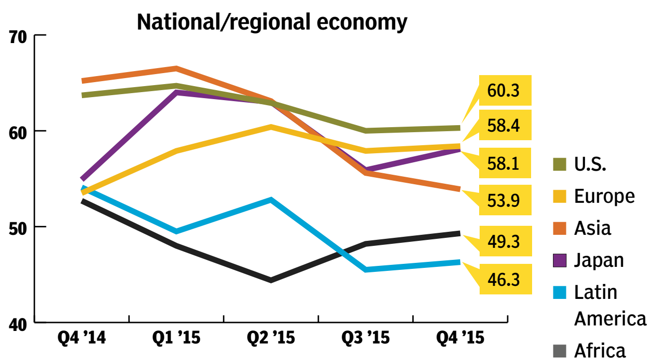
Confidence of Asian finance executives in their own companies, a historical low

MODEST MOVEMENT OVERSEAS

Despite treading water last quarter, U.S. economic optimism remained higher than in any other region.

Economic confidence in a holding pattern as Asia declines

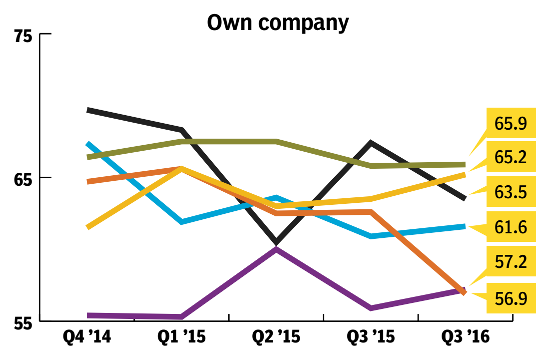
Finance executives rate their optimism about their domestic or regional economy*



*On a scale of 0–100, with 0 being least optimistic

Asian business confidence also takes a downward turn

Finance executives rate their optimism about their companies' financial prospects*



*On a scale of 0–100, with 0 being least optimistic

Source for all charts: Duke University/*CFO* Magazine Global Business Outlook Survey of finance and corporate executives. Responses for the current quarter include 464 from the U.S., 84 from Asia (outside of Japan), 34 from Japan, 101 from Europe, 250 from Latin America (including Mexico), and 61 from Africa.

In Europe, optimism about domestic economies improved slightly in the fourth quarter, increasing from 57.9 to 58.4. Despite modest declines versus third-quarter findings, European executives' expectations still topped those of their U.S. counterparts in terms of capital spending (an anticipated 3.7% increase over the next year) and full-time employment (rising 3.6%). On the other hand, expected earnings growth for the next 12 months fell drastically for Europe, to only 0.7%, versus 8.1% in the third quarter. European top business concerns also still included weak demand, along with difficulty attracting the right employees.

For the second consecutive quarter, optimism was lower in all emerging regions than in either North America or Europe. Asian confidence (excluding Japan) took the biggest hit, with economic optimism falling to 53.9, down from 55.6 in the third-quarter survey. Full-time employment is expected to increase by a modest 1.0% at the same time that a 7.2% hike in wages is foreseen. Top business concerns across Asia included weak demand for products/services and currency risk, reflecting the strengthening U.S. dollar and last year's revaluation of the yuan.

In Japan, however, the outlook was somewhat more positive. Japan's economic optimism in the fourth quarter reversed a prior negative trend, rising from 55.9 to 58.1. In addition, the full-time employment outlook improved from negative to flat.

Latin American economic optimism remains lowest in the world (46.3 on a 100 point scale), though it is a region of contrasts. Optimism in Brazil (41.7) remained low, while optimism was strong in Mexico (64.3). Full-time employment and capital spending in 2016 both were expected to fall by more than 5% in Brazil, while both were expected to increase by at least 2% in Mexico. In fact, the strong U.S. dollar is having a net positive effect on its neighbor and production partner in Mexico. Top concerns across Latin America also included government policy and weak demand for products/services.

FIGURE 1

Top Three External Concerns

	1st	2nd	3rd
United States	Economic uncertainty	Cost of benefits	Attracting and retaining qualified employees
Latin America	Economic uncertainty	Government policies	Weak demand
Europe	Economic uncertainty	Weak demand	Attracting and retaining qualified employees
Asia	Economic uncertainty	Weak demand	Currency risk
Africa	Economic uncertainty	Currency risk	Government policies

African optimism increased slightly in the fourth quarter, from 48.2 to 49.3. Employment was expected to increase by 3.2% over the next year, wages by 7.1%, and capital spending by a median 5%. More than half of African firms indicated that their asset stocks were aging, implying that more investment in new assets will be required. African CFOs were also worried about currency risk and government policies and regulations.

AGING ASSETS AND PRODUCTIVITY

Sparse spending on new assets will lead to an aging of the stock of assets in place. Fifty-four percent of U.S. firms said their assets are aging at a moderate or faster rate. Forty percent of these companies said aging assets reduce their overall productivity.

Other factors have also dampened productivity growth. Nearly 60% of U.S. firms said that regulation has negatively affected productivity, and nearly half said that weak economic conditions have hurt.

Other factors are having a counterbalancing effect on productivity, however. More than 80% of CFOs said that automation and technology have made their operations more productive, and nearly 80% also said process changes have improved efficiency.

REFUGEES IN EUROPE

European executives had a mixed reaction to the ongoing refugee crisis. Nearly 60% said that the influx of refugees will help solve the looming demographic problems their nations face, and 55% believed the overall economic impact will be positive.

At the same time, European executives recognized the costs and challenges presented by the influx of refugees. Eighty-one percent said that they think European leaders have mismanaged the crisis, and a majority (55%) believed refugees will increase competition for jobs and drive down wages. Nearly 40% said their own firms would be willing to hire refugees to help with the crisis—but nearly 30% said that their firms would not. CFO

Managing Your Margins

Finance's role in improving enterprise profitability is expanding. By Christopher Schmidt

Who is responsible for profitability? Increasingly, concern about managing a company's profit margin is no longer confined to finance and the C-suite, but is shared across the enterprise. For this reason, finance teams feel a growing responsibility to serve up the timely data and targeted insights that can help businesses meet profitability targets.

To find out more about finance's role in catalyzing profitability improvement, CFO Research recently surveyed 104 senior finance executives from U.S. firms with more than $1 billion in annual revenues. In this survey, sponsored by Vendavo, respondents confirmed that margin management is indeed a challenging task.

A strong majority of survey respondents (73%) agree that it will become increasingly difficult to improve margins over the next two years. This will be just as true for companies that have recently been successful in making margin improvements as for companies that have recently fallen short. Nearly 6 in 10 respondents (57%) report that their companies are more profitable this year than last, while 43% say they either have gained no ground (18%) or have slid backwards (25%).

Finance executives also recognize that they need to step up their efforts to weave profitability tightly into the corporate fabric rather than focusing only on cost control. The corporate head of a media/entertainment firm writes, "We are crash dieting to fit into a wedding dress, rather than thinking about what sort of life we want to live in the future."

CFOs are optimistic that finance is up to the task of supporting profitability improvement. (See Figure 1.) More than 8 in 10 (84%) respondents say they are likely to see their finance functions serve as key players in enterprise profitability improvement, and 7 in 10 (70%) say they believe their current finance teams have the expertise and knowledge needed to support profitability improvement.

FIGURE 1

To make meaningful, measurable improvements in profitability at my company...

	% agreeing
The involvement of the finance function is important	84%
The finance function has the skills and expertise it needs	70%
The finance function has the technology and information resources it needs	56%

Percentage of respondents

85%
Percentage of finance executives who say that their finance functions have either a deep or a good understanding of profitability drivers

DATA-DRIVEN IMPACT

The first challenge for finance is developing an understanding of what information will have the greatest impact on profitability when it is shared across the business. An increasingly complex business environment generates enormous volumes of data, and companies are increasingly looking to the finance function to help them sift through the data, identify critical trends, and develop effective responses that will help protect and improve margins.

Survey respondents say that finance teams will have to become more flexible, responsive, and forward-looking to manage the data challenge, and to do so they will need to rely on advanced information-management capabilities. IT systems and tools must be able to handle "an environment highly influenced by F/X rates, inflation, and market volatility," as a controller from a large manufacturer says in the survey. An executive from the financial services sector underscores the importance of having the right tools when he writes, "Improved IT systems have helped profitability. The reduction in staff has not worked as well."

And while a majority (56%) of respondents say that their finance functions have the technology and information they need to support profitability improvement, finance chiefs representing the largest companies surveyed (i.e., $10 billion +) are more likely to indicate that technology and information to support profitability improvement are lacking. Likely this is because the larger the firm, the more data that is generated by and stored in multiple systems across multiple business lines, subsidiaries, or separate companies.

Finance leaders also recognize that responsibility for profitability extends beyond the finance function. One respondent describes the most effective action his company has taken to improve profitability: "The establishment of a dedicated enterprise analysis team has enabled company leadership to learn more about the company margins."

And an enterprise-wide understanding of the drivers of profitability is grounded in the accuracy, reliability, and relevance of the information that the finance function can provide. Two-thirds of respondents (66%) say that their companies are effective at accessing and analyzing relevant data to discover profit opportunities. But they believe they can do even more: Nearly three-quarters (74%) agree that using data more effectively could make a substantial difference in their companies' ability to improve profitability.

FIGURE 2

For each of the following groups, how would you grade their understanding of your company's profitability drivers?

	A (deep)	B (good)	C (average)	D (below average)	F (unacceptable)
Finance	**45%**	40%	14%	1%	1%
C-Suite	32%	**37%**	23%	5%	4%
Operations	13%	38%	**40%**	9%	0%
Sales	12%	28%	**40%**	18%	2%
Marketing	7%	31%	**39%**	19%	4%

Most frequently selected grade for each group

EMPOWERING SALES

Placing the right information in the right hands is critically important, and a majority of finance executives believe that the "right hands" belong to their sales organizations. A large majority (85%) of the executives in the survey say that a close working relationship between the finance function and the sales organization is important for optimizing their company's profitability.

Survey respondents point to a key reason. Overall, nearly 4 in 10 (39%) say that their sales organizations rely more on their own skills and experience than on information systems and data tools to make profitable sales. At the same time, nearly three-quarters of respondents (74%) say that "providing better customer information to the sales force would go a long way toward improving my company's profitability."

Finance executives taking the survey feel that their sales and marketing organizations would benefit from additional help in understanding their companies' profitability drivers. Most respondents (63%) say that their sales forces should be emphasizing profitability more than they do currently—despite the fact that two-thirds (67%) say that profitability already is one of the metrics used to evaluate their sales forces.

In fact, 6 out of 10 finance executives (60%) give their sales organizations a grade of C ("average") or lower in terms of their understanding of their companies' profitability drivers. (See Figure 2.) They rate their marketing functions just as low, with 62% of respondents assigning them a grade of C or lower.

Interestingly, only about two-thirds of respondents (69%) believe that their corporate leadership has either a good or a deep understanding of profitability drivers. For some companies, the need for education may well extend into the C-suite.

Finance executives see themselves as one of the best resources for that kind of education. Respondents rate their own finance functions the highest, with 45% saying they have a deep understanding of their company's profitability drivers and 40% saying they have a good understanding.

Given their confidence in their own understanding of profitability, finance executives feel some responsibility for working with their sales organizations to provide them with the information and tools they need to make decisions that support profitability goals. In fact, in our survey, a stronger working relationship between finance and sales is associated with companies that have been more successful in making profitability improvements.

So, in answer to our opening question, everyone in an organization is responsible for profitability. But finance will remain at the center of margin management across the enterprise, using new tools, capabilities, and technology to lead the way. CFO

THE QUIZ

Fed Watching

The Federal Reserve Board has been the subject of public scrutiny since the onset of the financial crisis, with investors poring over every public statement by its members, seeking clues about the direction of monetary policy. But how much do you know about the Fed's more distant past? Take our quiz and find out.

1. When did Congress pass the bill creating the Federal Reserve System?

   A. 1903
   B. 1908
   C. 1913
   D. 1919

2. The House co-sponsor of the bill was Carter Glass, of Glass-Steagall Act fame. Who was the Senate co-sponsor?

   A. Nelson Aldrich
   B. Robert Owen
   C. Paul Warburg
   D. William Jennings Bryan

3. Charles Sumner Hamlin was the Fed's first chair. Which future President succeeded Hamlin in the post?

   A. Franklin D. Roosevelt
   B. Warren G. Harding
   C. Calvin Coolidge
   D. Herbert Hoover

4. The Federal Reserve Board has seven members (two seats are currently vacant). How long is a member's full term?

   A. 6 years
   B. 7 years
   C. 10 years
   D. 14 years

5. Passed in 1978, this act requires the Fed to report to Congress on monetary policy twice a year:

   A. Riegle-Neal Act
   B. Humphrey-Hawkins Act
   C. Garn-St. Germain Act
   D. Sarbanes-Oxley Act

6. In 2001, the Fed lowered the federal funds rate 12 times, from 6.5% to:

   A. 1.25%
   B. 1.75%
   C. 2.25%
   D. 2.5%

7. Between 2004 and 2006, the Fed raised the federal funds rate 17 times, from 1% to:

   A. 3.75%
   B. 4.25%
   C. 5%
   D. 5.25%

8. In 1980, the Fed raised the federal funds rate to its highest-ever level of:

   A. 18%
   B. 19%
   C. 20%
   D. 21%

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

Source: Federal Reserve Board

Wikimedia Commons: AgnosticPreachersKid