Building Up Resistance

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Food, Glorious Food
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Two things on the mind of every executive right now to ensure business continuity.

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We Saw It Coming

As the financial crisis took seed, U.S. banks and other businesses were running scenarios for a bird flu pandemic. A Google search provides the trail of evidence. The headlines from the time include “World Bank Says Flu Pandemic Could Cost $3T,” “Threat of Major Global Recession Tied to Bird Flu,” and “Not Enough Countries Have Tested Their ‘Bird Flu’ Response.”

My point isn’t that with the coronavirus we again were focused on the wrong risks; it’s that we foresaw the possibility of something like COVID-19. So, why were the United States government, the healthcare system, and many other sectors caught flatfooted? Nicholas Nassim Taleb says the pandemic doesn’t qualify as a “black swan,” because those are unpredictable. He’s right. We imagined the scenario, even talked about it, but we still didn’t take much action.

Part of the reason coronavirus took us by surprise (if, indeed, it did) is that “perceiving risk is all about how scary or not the facts feel,” according to risk consultant David Ropeik. “A risk in the future feels a lot less scary than a risk that’s presented right now.” (Climate change proponents, take note.) We scoff at the people who get ready for Armageddon by building underground bunkers in their backyards.

In business, risk management departments may surface risks that have devastating human and economic consequences, but that doesn’t mean C-suites will spend the money to be ready. What CFO wants to explain to investors that instead of adding $100 million to a share buyback program, the board of directors has voted to spend the capital on preparing for a global flood?

Once the coronavirus outbreak is contained and a couple of years go by, the fear of pandemics will fade (if we’re lucky). A new threat will emerge. Perhaps a large-scale cyberattack that takes down our nation’s energy infrastructure?

It doesn’t even matter if we get it right. Large corporations just don’t have a strong incentive to be catastrophe-proof. Some risks just cost too much to insure against; some you can’t insure against. And, after all, when a widespread risk is realized, the government is always there—as it is this time—to socialize the losses.

Vincent Ryan
Editor-in-Chief
Tired of the “hot takes” and one-sided coverage plaguing mass media?

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Get the Award-Winning CFO Magazine
“Fractional CFOs Provide Value to SMBs” (CFO.com, March 6) discussed the experience and flexibility that a fractional CFO can add to an organization at a lower cost than hiring a permanent CFO.

“One of the most common mistakes that small companies make is to ignore the financial side of the business by having a mindset that views it as not really contributing much to the growth of the company and costing too much,” one audience member wrote. “What they don’t realize is that a CFO who is truly forward looking will help make sure that growth is of high quality.”

“Digital Transformation: Obsolete Concept or Rare Feat?” (CFO.com, Feb. 20) explored the phrase “digital transformation” and whether it has any real meaning.

“Digital transformation is such a pervasive claim in B2B software that a company can stand out by eliminating it from its vocabulary,” a reader responded. “It seems that use of digital transformation in B2B software marketing has intensified in the last year. Hopefully, articles like this begin to curb its use.”

Another reader added: “Change brings opportunity for those who embrace it wholeheartedly and digital transformation is no different. [The] finance function should not lose sight of the fact that technology, ultimately, is not a strategy, but it is a powerful tool and platform to support strategy.”

CFO Gregory Law outlined his four-year ordeal battling accounting fraud charges in “The SEC Falsely Accused Me of Fraud” (CFO, February/March 2020).

One reader, who responded to the story on Facebook, thought Law’s grievances were misdirected. “They didn’t falsely accuse you. You are responsible for the firm’s numbers. You are accountable. The SEC/DOJ is not the boogeyman or villain and your underlings aren’t out to get you. You’re a victim of that firm’s management who tried to set you up. Your anger and lawsuits should be directed at them. The title of your article should read, “My Predecessor Set Me Up to Be His Fall-Guy.”

Corrections: In “Nailing the Number” (CFO, February/March 2020), we said Philip Peck worked for streaming fitness class provider Peloton. In fact, he works for Peloton Consulting Group.

In “Can Big Retailers Be Saved?” (CFO, February/March 2020), we said both Kohl’s and Best Buy accept Amazon returns. Only Kohl’s accepts the returns.

In CFOs to Watch 2019 (CFO, October 2019), the photos of finance chiefs Brian Newman and Spencer Neumann were swapped.
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Rapid Response to Pandemic

CFOs moved aggressively to conserve cash as the COVID-19 outbreak choked off economic activity. By Vincent Ryan

- How much damage will the coronavirus outbreak and the accompanying economic downturn do to companies’ sales? In a special CFO Research survey, more than half (53%) of finance executives responding said they estimated a drop of between 1% and 20%. But about 29% of finance executives indicated the hit to sales would be larger—a falloff of between 21% and 50%. About 17% of respondents expected a drop of 41% or more.

The results of the late March poll of CFO readers were clear: U.S. companies face a rough couple of quarters ahead, at least. Weak consumer demand from social distancing and state and city lockdowns punished some sectors early, but it didn’t take long for the effects to ripple across the economy. To survive the revenue and profit impacts, the 333 finance executives responding to the survey said they were taking immediate financial action.

Half (50%) of the finance executives indicated that their organization was “scaling back or delaying investments,” 47% working on improving their liquidity position, and nearly 20% shutting down or idling some operations.

But they also weren’t losing sight of the human cost of the global pandemic. Many finance executives said protecting employees, worries about staff becoming ill, and staff safety when dealing with the public were their top concerns.

Still, more than one-third (34%) indicated that they had no choice but to lay off or furlough workers. But the total impact on headcounts was still unclear. About 41% of respondents said they didn’t know how

Top of Mind

What are the top three most pressing concerns for your company’s executive management team?

<table>
<thead>
<tr>
<th>Concern</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Length of economic downturn</td>
<td>68%</td>
</tr>
<tr>
<td>Cash flow</td>
<td>66%</td>
</tr>
<tr>
<td>Weak customer demand</td>
<td>43%</td>
</tr>
<tr>
<td>Supply chain disruption</td>
<td>31%</td>
</tr>
<tr>
<td>Government policy/legislative response</td>
<td>23%</td>
</tr>
<tr>
<td>Access to capital</td>
<td>20%</td>
</tr>
<tr>
<td>Rising input or commodity costs</td>
<td>4%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
</tr>
</tbody>
</table>

Multiple responses allowed

Source: March 26-April 2 CFO survey of 333 finance executives, “The Economy in Limbo”
many employees ultimately would be affected. More than one-third (37%) said 15% or less of their employee base would be laid off. But about 18% of respondents said layoffs and furloughs would affect 20% or more of their workforce.

To keep existing employees paid and business alive, of course, the name of the game is to conserve cash. Cash flow was the second most-cited worry of executive management teams. One finance executive’s response showed how aggressive companies were early on: his organization was cutting marketing spending in half; eliminating any project spending; and reducing all other expenses to “bare bones.”

Indeed, when asked what their company was doing to manage cash flow and cash balances for the next six months, 77% of finance executives said they were halting all discretionary spending. Half (50%) of respondents were stretching out their accounts payables, 16% were cutting employees’ salaries, and 13% suspending executive bonuses. Several indicated that there would be “no investment of any kind” in 2020.

To bolster balance sheets, companies were looking to outside sources. Fortunately, only 19% of the finance executives said they were concerned about their access to capital.

About one quarter (26%) said they had drawn on an existing line of credit or tapped another source of liquidity, and 24% were thinking about doing so. CFOs have clearly learned from the financial crisis of 2008: one CFO said their organization was drawing down all available credit facilities and long-term debt “in an orderly way to ensure maximum liquidity is really available.”

Fewer executives (23%), at least in late March, were concerned about the government policy and legislative response to the massive economic shock. But many (31%) indicated that the United States should give priority action to low-interest business loans granted or guaranteed by the federal government—a step Congress took for small businesses with the Paycheck Protection program. Only 12% of respondents thought direct capital injections into large employers in the hardest-hit industries should be a first step.

While the U.S. government was pulling out all stops to keep capital flowing, the biggest question on many CFOs’ minds was the length of the economic downturn. Many were hopeful.

A little less than half (46%) said they expected a “V-shaped” recovery, or a return to normal economic activity in the third quarter of 2020. About 42% projected a longer period of slower economic activity, extending into 2021 (a “U-shaped” recovery). And only 10% expected a sustained period of recession, with economic activity not picking up until 2022.

The finance executives were surveyed from March 26 to April 2.

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**ANALYTICS**

**Tech Grabbing Larger Share of Shrinking Budget**

- Is this the year the straw breaks the camel’s back?
- Each year, it seems as if finance is asked to do more with less. This year will be no different, according to the 2020 Finance Key Issues research from The Hackett Group. In fact, budget cuts will be remarkably more than the initial forecast. Most finance executives expected to see a 3.4% decline, on average, in finance’s operating budget. At the same time, other parts of the organization continue to expect finance to provide more value to them.

  The five biggest enterprise “asks” of finance in 2020, all of which were ranked as highly important by a majority of executives, were:
  - Support enterprise cost-efficiency improvement
  - Support enterprise growth strategies
  - Enable/augment enterprise analytics capability
  - Enable enterprise digital transformation
  - Support enterprise customer-centricity

  “Management expectations in the coming year may outstrip finance’s resources,” said The Hackett Group. The high expectations were helping to drive an increase of 5% to 10% in the share of the finance operating budget dedicated to technology. The forecast uptick was the first in 10 years, said The Hackett Group. “Our research shows that executives are setting aggressive year-over-year targets for digital technologies’ adoption.” But the coronavirus outbreak may throw these plans into disarray.

  Before the coronavirus, study respondents projected a rise of 26% in the adoption of data visualization tools, 24% in RPA implementations, 20% in migration to next-gen cloud-based core finance applications, and an 18% increase in the adoption of advanced analytics solutions.

  Said Nilly Essaides, senior research director, finance & EPM, The Hackett Group: “The encouraging news is that more than 70% of the finance functions that have adopted cloud-based solutions have been able to realize or exceed their business [objectives].” | V.R.

April/May 2020 | CFO 9
Aon to Buy Willis Towers Watson

- Aon reached an agreement to buy Willis Towers Watson in early March for about $30 billion in an all-stock deal.

  Under the terms of the deal, Willis Towers Watson shareholders would receive 1.08 Aon shares for each Willis Towers Watson share, representing a 16% premium to Willis Towers Watson’s closing price on March 6.

  The deal would combine the world’s second and third-largest insurance brokers and would create a combined firm larger than Marsh & McLennan, which is currently the largest broker by revenue.

  “The combination of Willis Towers Watson and Aon is a natural next step in our journey to better serve our clients in the areas of people, risk, and capital,” Willis Towers Watson CEO John Haley said in a statement.

  The companies said the deal will result in pre-tax synergies and other cost reductions of $800 million by the third full year. It will produce more than $10 billion in shareholder value, net of $2 billion in one-time transaction, retention, and integration costs, they said.

  Aon CEO Greg Case said the combined firm would be better equipped to deal with intellectual property and cybersecurity risks.

  “When you think about what's going on with clients, volatility in the world is increasing,” Case said in an interview. “All the traditional risks, just the traditional basket, is actually bigger than ever before, and then now you’ve got all the non-traditional stuff kicking in.”

  Aon will keep its operating headquarters in London. John Haley will become executive chairman of the combined company, which will be led by Greg Case and Aon chief financial officer Christa Davies.

  Haley had been set to retire next year.

  Last March, Aon confirmed it was considering an all-stock offer for Willis Towers Watson before announcing it had scrapped the idea.

  The transaction is subject to the approval of the shareholders of both Aon and Willis Towers Watson. The companies have not commented whether the coronavirus crisis will affect the merger.

  The deal was expected to close in the first half of 2021. [WILLIAM SPROUSE]

Fed Shores up Commercial Paper

- The Fed revived the Commercial Paper Funding Facility to ease funding pressures on companies amid the coronavirus outbreak. The program was first introduced during the financial crisis to maintain the flow of short-term debt that companies frequently use to fund everyday expenses such as rent and payroll.

  The CPFF will offer a liquidity backstop to U.S. issuers of commercial paper through a special purpose vehicle (SPV) that will purchase unsecured and asset-backed commercial paper rated A1/P1, as of March 17, 2020, directly from eligible companies. The Treasury will provide $10 billion of credit protection.

  “The commercial paper market has been under considerable strain in recent days as businesses and households face greater uncertainty in light of the coronavirus outbreak,” the Fed said in a news release. By rolling over maturing commercial paper obligations, it said, “the CPFF should encourage investors to once again engage in term lending in the commercial paper market.”

  “While the Fed has already taken several measures in recent days to get liquidity to banks, there are worries banks will be reluctant to pass that cash onto real economy businesses,” Reuters said.

  Commercial paper loans generally mature in fewer than 270 days, with borrowers typically pledging future accounts payables or inventories for cash. The Fed’s purchases will last for one year unless the Fed extends the program. [MATTHEW HELLER]
Fitch Lowers Outlook for Consumer Finance

- Fitch Ratings lowered its credit outlook for the consumer finance sector, including credit card lenders, to negative from stable, warning that lenders’ credit performance could “deteriorate rapidly” as a result of the coronavirus crisis. The credit rating agency said it expects most consumer finance companies to follow the lead of several auto lenders and invoke loan forbearance policies similar to those offered in the wake of hurricanes Harvey and Irma, which hit parts of Texas and Florida in 2017.

  “Fitch believes these forbearance policies are prudent, given the unique nature of the crisis, and should help mitigate more severe credit loss implications, particularly for customers that can get back to work more quickly,” Fitch analysts said in a news release.

  However, once forbearance expires, “credit performance for consumer finance companies could potentially deteriorate rapidly, particularly if displaced workers are unable to secure employment and businesses cannot resume operations once the economy reopens,” they added.

  Regulators have been encouraging financial institutions to work with customers to soften the financial toll of the coronavirus. Among other moves, Ally Financial is allowing auto loan holders to defer payments for up to 120 days with no late fees. Fifth Third Bank is waiving payments on mortgages and car loans for 90 days.

  Fitch noted that the $2 trillion emergency relief package signed by President Trump allows lenders to defer loan payments without having to categorize the loans as troubled debt restructurings, which would trigger special regulatory reporting, tracking, and accounting requirements that can be burdensome for lenders.

  “Still, the increase in forbearance will temporarily suppress charge-offs that will be recognized in future quarters, creating a distortion in asset quality metrics beginning in the second quarter of 2020,” Fitch said. | M.H.

Wells Fargo Cancels Ex-CEO's $15M Stock Award

- Former Wells Fargo CEO Tim Sloan has lost a $15 million stock bonus he received while he was attempting to restore the bank’s fortunes in the wake of its fake-accounts scandal.

  Wells Fargo disclosed in a regulatory filing that it had clawed back the February 2019 award, saying it was conditional on Sloan’s “role and responsibility for the company’s progress in resolving outstanding regulatory matters.”

  The filing said Wells Fargo did not award Sloan an annual incentive for 2019 after taking into account the timing of his March 2019 resignation, the bank’s performance, and the status of its risk management objectives and outstanding regulatory matters.

  The moves left Sloan, who also did not receive any severance pay, with only his $1.5 million in base salary from 2019.

  When Sloan stepped down in March 2019, the board chair said he had the “full support of the board.” But as the Charlotte Observer reports, “Many had questioned whether an insider like Sloan could fix a bank with the systemic cultural issues Wells had. It appears Wells Fargo’s board now believes that the skepticism was likely well-founded.”

  Sloan tried to move the bank past the scandal by, among other things, investing millions of dollars in media campaigns that touted its “re-establishment.”

  But in a report released in February, House Republicans said Wells Fargo seemed more focused on making it seem like it was making progress on handling the scandal than actually making the changes that regulators asked for.

  “Tim Sloan made a series of incomplete and overly optimistic public statements about the bank’s progress,” the report found. When Sloan said in 2018 that he expected the Federal Reserve to lift its cap on the bank’s growth in the first part of the next year, “there was no basis for such an optimistic prediction.”

  Sloan resigned after providing testimony about compliance at a Congressional hearing. His testimony was contradicted by the Office of the Comptroller of the Currency. | M.H.
Cboe 'Speed Bump' Runs Into SEC Road Block

REGULATION

The U.S. Securities and Exchange Commission has rejected a controversial rule change that would have allowed Cboe Global Markets to put a split-second “speed bump” in the way of an ultrafast trading strategy known as “latency arbitrage.”

Cboe in June proposed delaying incoming executable orders on its EDGA exchange so market makers would have four milliseconds to cancel or modify their orders in response to market-moving information. The proposal sought to address concerns over latency arbitrage, a strategy used by high-frequency traders to execute orders on slightly out-of-date quotes.

But amid opposition from asset managers and electronic trading giant Citadel Securities, the SEC issued an order in late February finding the proposal was unfairly discriminatory and Cboe had not demonstrated it was “sufficiently tailored to its stated purpose.”

“The exchange has not demonstrated why a 4-millisecond delay is sufficient time to effectively protect a wide range of market participants from the latency arbitrage issue,” the commission said.

According to The Wall Street Journal, “the SEC has put the brakes—at least for now—on the proliferation of speed bumps on U.S. stock exchanges” since 2016, when the commission allowed startup IEX Group to become a full-fledged stock exchange.

IEX imposed a brief delay on all orders to buy or sell shares. Cboe’s delay would only have applied to orders that came to EDGA seeking to be immediately executed. Supporters of the CBOE proposal said it would blunt the advantage of high-frequency traders that use costly technology such as cross-country microwave networks to execute trades as quickly as possible.

But the SEC said Cboe had failed to show that “liquidity takers use the latest microwave connections and EDGA liquidity providers use traditional fiber connections,” and that “liquidity takers are able to use the resulting speed differential to effect latency arbitrage on the exchange.”

Xerox Drops HP Hostile Takeover Bid

M&A

After a five-month offensive, Xerox is dropping its hostile takeover bid for HP due to the turmoil in the financial markets caused by the coronavirus.

Xerox had sweetened its cash-and-stock offer for HP to $24 per share in February, representing an equity value at the time of roughly $34 billion. HP rejected the offer, saying it “meaningfully undervalues HP and disproportionately benefits Xerox shareholders.”

Since then, the market caps of both companies have declined as the coronavirus pandemic has intensified, reducing the deal value to about $31 billion.

“The current global health crisis and resulting macroeconomic and market turmoil caused by COVID-19 have created an environment that is not conducive to Xerox continuing to pursue an acquisition of HP Inc.,” Xerox said.

The company also said it was ending its proxy fight to take control of HP and took a parting swipe at the HP board.

“The refusal of HP’s board to meaningfully engage over many months and its continued delay tactics have proven to be a great disservice to HP stockholders, who have shown tremendous support for the transaction,” Xerox said.

A merger would have combined two tech legends, with Xerox better-known for large printers and HP bigger in PCs as well as desktop printers and supplies. Xerox claimed the combination could yield annual cost savings of more than $2 billion that would help the companies weather the decline in the printing industry.

“Xerox’s move to buy a company more than three times its size was always going to be a challenge, but at the outset the company was in a stronger position than it is today,” The Wall Street Journal reported. “It had cash coming in from the sale of its joint venture with Fujifilm Holdings and its stock had been rising as it continued to cut costs.”

Since the virus outbreak, HP’s market value has fallen to around $25 billion, just below where it had been before Xerox’s initial bid emerged. Xerox’s has roughly halved, falling to around $4 billion.

CFO | April / May 2020
RETIREMENT PLANS

Plan Sponsors Slash Contributions

- Large corporate pension plan sponsors in 2019 contributed the fewest dollars to their plans since recession-plagued 2008, according to Russell Investments.

In 2005, Russell began to track a group of 20 publicly listed U.S. companies with defined benefit (DB) pension plan liabilities exceeding $20 billion, dubbing it the “$20 billion club.” While several other plans also now have liabilities over that threshold, Russell continues to focus on the original 20 club members to facilitate observations and comparisons.

Last year’s plan contributions by the 20 companies totaled $11.9 billion, compared with $11.8 billion contributed in 2008, which was the lowest annual level across the 15 years since the $20 billion club was established.

The contribution level in 2019 looked particularly stingy when contrasted with the $37.5 billion and $28.1 billion contributed in 2017 and 2018, respectively. Those amounts—much of which was attributable to tax advantages—were the first- and third-highest annual totals in the 15-year period.

With pension funding stabilization still in place, few sponsors have significant required contributions for their U.S. plans, Russell noted. And given exceptionally strong asset returns in 2019, sponsors saw little need to make discretionary contributions, despite historically high Pension Benefit Guaranty Corp. premiums that penalize the sponsors of underfunded plans, the investment firm added.

Russell forecasts that the contribution level will continue to be low this year among $20 billion club members, at $13.9 billion. But that was before the outbreak of coronavirus in the U.S.

The total funding deficit for the 20 plan sponsors increased last year to $151 billion, from $137 billion in 2018. Aggregate assets at year-end were $830 billion, while liabilities totaled $981 billion.

The deficit spike was largely a result of lower interest rates that translated to a big hike in future plan obligations. | DAVID MCCANN

LEGAL

Facebook Settlement May Trigger More Privacy Laws

- Facebook’s $550 million settlement of a class-action lawsuit in Illinois over alleged privacy violations may lead to a wave of privacy legislation across the country.

The largest-ever cash settlement resolving a privacy-related issue will establish a fund to be shared by Illinois Facebook users. In the case, Patel v. Facebook Inc., plaintiffs alleged that the social media giant violated the state’s Biometric Information Privacy Act (BIPA) by its use of facial recognition software without users’ consent.

Michael Canty, a partner at law firm Labaton Sucharow who served as plaintiffs’ co-lead counsel, predicts that the settlement will be a point of reference for lawmakers in many other states as well as Congress.

Currently, in addition to Illinois, only California, Texas, and Washington have biometric privacy laws, which are intended to regulate the collection of computer data based on people’s identifying physical characteristics.

The Illinois law, enacted in 2008, is the oldest among them and the most stringent, according to Canty. It has stirred controversy because it’s the only biometric privacy statute that allows consumers to bring suit for monetary damages if their rights are violated.

Hundreds of lawsuits have been brought in the state under BIPA. In fact, some observers argued that the law has unleashed excessive litigation and may have a chilling effect on technology innovation. However, it’s working as intended, said Canty.

“Illinois wanted a private right of action and has gotten results,” he said. “We all want to move forward with innovative technology, but consumers need to have protections with teeth.” He added, “As technology advances, corporations must be mindful of the privacy of their customers.” | M.H.
CAPITAL MARKETS

Nasdaq Offers Exclusive Home for Small Cap Issuers

- Nasdaq is seeking to become the exclusive trading venue for the small cap companies that are listed on the exchange. Currently, small caps have “unlisted trading privileges” (UTP), which allow their shares to be traded on any of the 13 national securities exchanges.

- But in a letter to the U.S. Securities and Exchange Commission, Nasdaq said companies that have an average daily trading volume of less than 100,000 shares in each of the prior six months should be allowed to opt out of UTP and trade exclusively on Nasdaq.

  “Nasdaq proposes to establish a tier nested within the U.S. public equity markets that is better tailored and far more hospitable to thinly-traded securities than is the all-purpose, undifferentiated market environment in which they suffer today,” it said.

  The SEC had asked exchanges in October 2019 for suggestions on how to reduce market complexity, saying a suspension or elimination of UTP may be a worthwhile idea.

  As S&P Global Market Intelligence reports, the eligible companies “are considerably smaller than the household names that represent 53% of Nasdaq’s listed securities,” accounting for 2.6% of the total market capitalization of all of its listings.

  But Nasdaq believes its proposal would encourage more small to midsize companies to tap the public equity markets, citing its First North Growth Market in the Nordic states as a model.

  Rival exchanges, however, are concerned that listing exchanges would have outsized influence over the stocks exclusively available on their venues.

  “[Nasdaq’s] proposed fix is to limit trading to a single national securities exchange, offering a single market structure,” Cboe Global Markets told the SEC in December. “The irony of this solution is not lost on Cboe.” | M.H.

RISK MANAGEMENT

More Companies Opt for Hedge Accounting

- Early adopters of the new hedge accounting standard that took effect for public companies’ 2019 fiscal years drove an uptick in the use of hedge accounting in 2018, research shows.

- Chatham Financial’s analysis of corporate hedging in 2018 indicates that 53% of U.S. public companies with commodities hedging programs applied hedge accounting to them.

  That was up from 45% in 2015, when Chatham last performed the research.

  “The most substantial change in the hedge accounting standard is related to commodity hedging,” Chatham said in its report on the study, which looked at the hedge accounting practices of 1,402 companies. “Companies can now look to identify specific components within commodity contracts to apply hedge accounting.”

  The new standard also increased the proportion of companies with foreign exchange (FX) hedging programs that applied hedge accounting to them, from 63% in 2015 to 70% in 2018.

  Hedge accounting allows companies to avoid earnings volatility associated with the fluctuating value of assets underlying derivative contracts negotiated with financial institutions. Companies enter into them for the purpose of hedging financial exposures. Gains and losses on derivatives are deferred into “other comprehensive income,” a balance sheet line item reflecting as-yet-unrealized financial items.

  The company does not then realize such gains and losses until the derivative contract is settled, which can be years after it was entered into.

  However, not all companies that hedge financial exposures use hedge accounting, which can be complex and challenging to apply correctly.

  Many companies with financial exposures don’t even hedge. For example, among the 91% of companies facing interest rate risk, just 43% addressed it by hedging. | D.M.
U.S. Supreme Court Sides With ERISA Plaintiff

The U.S. Supreme Court rejected a timeliness challenge to an ERISA class action against Intel, potentially making it easier for retirement plan beneficiaries to sue administrators for investing plan funds imprudently.

The plaintiff in the case, former Intel engineer Christopher Sulyma, alleged Intel’s plan administrators breached their fiduciary duty to beneficiaries by over-investing in alternative assets such as hedge funds, private equity, and commodities.

Intel argued the case was untimely because Sulyma filed it more than three years after he had “actual knowledge” of its investment strategy from notices it had posted on the NetBenefits website and other disclosures.

But in a unanimous decision, the Supreme Court ruled Wednesday that actual knowledge “requires more than evidence of disclosure alone.”

Intel’s contention that Sulyma had the requisite knowledge because he effectively held the information in his hand would turn the law into “what it is plainly not: a constructive-knowledge requirement.”

The case has been closely watched by retirement plan sponsors and providers. Allowing Sulyma’s suit to proceed “would mean that it would not be enough to provide plan documents, but sponsors would have to prove participants read them, and perhaps prove that they also understood them,” William Delany, an employment attorney at Holland & Knight, told BenefitsPRO.

“That’s a much harder burden of proof to establish the three-year limitation period,” he noted.

Sulyma testified he did not “remember reviewing” the investment disclosures while he worked at Intel and that he was unaware that his plan contributions had been invested in hedge funds or private equity.

Intel urged the Supreme Court not to allow an ERISA plaintiff to sustain a lawsuit simply by asserting “that he did not read the relevant plan documents, or simply that he cannot recall whether he saw them.” | M.H.
A Capital for Capital

With a pro-business regulatory environment, affordable operational costs and one of the lowest state insurance premium taxes in the nation, Iowa provides an ideal environment to expand, relocate, or launch a business. And though a wide variety of industries have found success in the state, the financial services and insurance industries have a longstanding and lucrative history in Iowa. Home to 6,700 finance and insurance companies and boasting GDP growth of 49 percent over the last 5 years (Bureau of Labor Statistics, 2018; Bureau of Economic Analysis, 2018), Iowa is one of the nation’s top hubs for insurance and finance, attracting companies such as Nationwide, Prudential, Principal Financial Group, and Transamerica, each of which contributes to Iowa’s vibrant economy.

Beyond the operational advantages Iowa offers—including a central geographic location that can conveniently serve clients on both coasts—two key qualities set Iowa’s finance and insurance industries apart from the rest: a skilled workforce and an unwavering commitment to innovation and growth.

Bankable Talent

Iowa businesses benefit from advanced technologies that help unleash the creative potential, knowledge, and productivity of Iowa’s talented workforce. Currently, more than 94,000 professionals drive Iowa’s insurance and financial services industries. That represents a 17 percent growth within the last 15 years. In fact, Iowa now has the fourth-highest concentration of commercial banking employees and the second-highest concentration of loan interviewers and clerks in the U.S. Moreover, Iowa’s higher-than-average concentration of financial examiners, financial managers, loan interviewers, and clerks and loan officers provides a solid foundation of talent ready to lend their expertise to companies currently operating in the area or considering expansion to Iowa.*

“Iowa has been our headquarters since we were founded in 1879. It has remained so, even as we evolved into a global company, because of the access to a talented, highly productive labor pool,” said Dan Houston, chairman, president, and CEO, Principal Financial Group. “Iowa is affordable, with great education and a quality of life that appeals to millennials, seniors, and everyone in between. The state has also emerged as a hub of innovation, another reason companies should have Iowa at the top of their list as they look to start up or expand a business.”

Accelerating Insurance Innovation

Building upon the state’s extensive history and experience in the insurance industry, Iowa is the birthplace of numerous advancements in insurance technology (insurtech) that are showing early signs of revolutionizing the industry. A number of these advancements can trace their origins back to Iowa’s Global Insurance Accelerator (GIA), the world’s first business accelerator geared toward insurtech. Founded in 2014, GIA is a mentor-driven program designed to foster innovation by connecting well-established insurance companies with startups driving innovation for the global insurance industry for a 100-day immersive experience that facilitates an open exchange of ideas. Early-stage startups can glean important insights about the industry from executives (to whom they may otherwise not have access), while executives are able to see, firsthand, the new technologies that will advance the field.

San Francisco-based Cowbell is an example of a success story coming out of a recent GIA cohort. Currently specializing in AI-powered cyber insurance for small to mid-size businesses, Cowbell’s founder possessed the software development know-how, but the lessons learned about the insurance industry through mentorship from GIA partner companies helped perfect the company’s offering. Relationships developed during the program also supported the company’s seed funding efforts, and Cowbell continues its operations in San Francisco today.

Since its launch, the GIA has attracted participants from burgeoning companies from across the U.S., as well as Canada, Mexico, United Kingdom, Ireland, Germany, Serbia, Brazil, and Australia.

Iowa’s Key Business Advantages

- Iowa was ranked first in workforce quality. (Chief Executive, 2018)
- Iowa has the second-lowest cost of doing business. (Business Facilities, 2017)
- Iowa’s insurance industry output as a percent of gross domestic product ranks second among the 50 states. (U.S. Bureau of Economic Analysis, 2017)
- Iowa has a premium tax of 1 percent—one of the lowest rates in the nation.
- Iowa does not assess any additional surtaxes or income taxes on insurance carriers.
- Iowa has the fourth-highest concentration of commercial banking employees of any state.*
- Four Iowa metros are in the top 25 nationally for concentration of financial activities employees,.
- Iowa has the second-highest concentration of insurance workers in the U.S. *

These qualities, combined with a low cost of business and a high quality of life, create a perfect climate in Iowa to cultivate existing aspirations in the insurance and financial services industries.

> For more information, contact opportunities@iowaeda.com or visit www.IowaEDA.com

*Source: Bureau of Labor Statistics, 2018
We may be known for our farms, but we’re renowned for other fields too. In fact, Iowa is one of the nation’s top destinations for finance and insurance, with 6,700 companies and more than 94,000 talented professionals across the state. But make no mistake, there’s plenty of room to grow. And with one of the lowest insurance premium taxes in the country, fast-tracked capital funding, low real estate costs and a pro-business regulatory environment, it’s easy to see why the smart money is on Iowa. Learn more at IowaEDA.com.
The Financial Accounting Standards Board has elevated goodwill accounting to the top of its agenda, after political pressure stemming from high-profile company failures in the U.K., notably Carillion’s, pushed the International Accounting Standards Board to address the topic. In the United States, the significant goodwill write-offs at General Electric and Kraft Heinz have been political fuel for FASB. The standards body was already considering whether to revisit the idea of permitting or requiring public companies to amortize goodwill.

Going a step further, last July FASB issued an Invitation to Comment (ITC) that assumed the high cost of goodwill impairment testing exceeded the benefit to investors, and that change was necessary. The ITC referred to the current private company accounting for goodwill, which allows amortization over 10 years, again and again. It would appear that FASB is leaning in that direction.

We think the debate in the U.K. and the politically appealing nature of applying the private company approach in the U.S. have resulted in FASB undertaking this issue without considering the analytical and economic consequences.

Further, FASB has not justified a change in the definition of goodwill, which carries the presumption that it would be a wasting asset if amortization were adopted. Nor has FASB justified the basis for a change in the prior logic that supported impairment testing.

Zero-Information Approach
Amortization of goodwill presumes that it is a wasting asset and schedules its write-off. If FASB allowed public companies to amortize, investors wouldn’t be able to distinguish between good and bad management as related to their acquisitive activities.

When companies do an impairment, which is the current approach to goodwill accounting, they’re writing off some goodwill because the forward-looking cash flows of the acquired entity don't look good. That goes to the income statement. It says something to an investor or analyst. But with amortization, the income statement would not change.

Further, amortization of goodwill would lead to greater proliferation of non-GAAP profit measures. Companies, professing that investors want it, would eliminate amortization, indicating that earnings without amortization is a more useful tool and simultaneously demon-
Strategizing how amortization has made GAAP reporting less relevant.

Ultimately, there is no relevant information for investors in goodwill amortization. We call it the “zero-information approach.” By contrast, when impairment is taken in a timely manner, it provides investors with insight into whether management’s acquisitive activities were successful.

Impairment testing done properly also provides forward-looking information to both the company and investors and gives recognition to both the finite and indefinite elements of goodwill.

Costs and complexity surrounding impairment testing have surfaced as issues that augur for the amortization of goodwill. This argument rings false. While we recognize that impairment tests can be challenging to perform, especially if acquisitions are substantially integrated with existing businesses, management should be providing their boards with assessments of the performance of the acquisitions undertaken. Accordingly, there should not be substantial additional cost for providing this information to investors.

Investors are unified in their view that what they want from goodwill assessments are measures of the performance of acquisitions. For that reason, we believe requiring new disclosures—something IASB is debating—likely is a better first step than abandoning impairment testing for amortization.

If a zero-information amortization approach were adopted, we would recommend that it be combined with a range of objective, quantified, and company-specific disclosures that permit independent conclusions about acquisitions. Immediate write-off of goodwill is another option that we support over the amortization approach, given that amortization would be a routine non-GAAP adjustment and distort trends.

**A Globally Consistent Solution**

In a world where capital flows freely across borders, investors need globally consistent information on the accounting for goodwill. While companies prepare financial statements as required by their jurisdiction of domicile or listing, investors make investments across borders and should not be left with the job of reconciling different accounting rules for goodwill under U.S. GAAP and International Financial Reporting Standards.

If investors are those for whom accounting standards are prepared, their need for value relevance, consistency, and comparability should have primacy.

**Backward or Forward?**

In a world where intangibles are becoming even more important to the economic value of U.S. public companies, the overlay of a rote amortization process would be taking a step back to the accounting of 20 years ago.

It would reduce the relevance of financial statements as well as the professionals that support their production. For investors, the value of accounting and audit professionals lies in their skill at evaluating estimates and issuing judgments in impairment testing. Such skills and value are likely to lay fallow with rote processes such as amortization that can increasingly be automated.

FASB must step back and evaluate the economic impact of impairment testing relative to its cost. In our view, improved disclosures—and a survey on the cost of impairment testing—would provide investors, who are paying for impairment testing, as well as standard setters with more useful information in evaluating the way forward on this issue.

The magnitude of goodwill balances warrants careful consideration of the impact of a switch to amortization.

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*Sandra Peters is head of the financial reporting policy group at CFA Institute.*

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**S&P 500 Companies With Goodwill Balances Exceeding $20 Billion***

*(in billions)*

<table>
<thead>
<tr>
<th>Company</th>
<th>Value (in billions)</th>
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<tr>
<td>AT&amp;T</td>
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<td>BNSH</td>
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<tr>
<td>CVS Health</td>
<td>78.6</td>
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<tr>
<td>Bank of America</td>
<td>68.9</td>
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<td>Comcast</td>
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<td>UnitedHealth Group</td>
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<td>Pfizer</td>
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<td>United Technologies</td>
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<td>CentryLink</td>
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*End of 2018
Want to Be a CFO? Consider Some Numeric Body Art

The new finance chief of Penn Mutual has had 10 jobs at the company over 19 years, but it was a chance exchange with the CEO that put him on the right path.

By David McCann

There are all kinds of ways to get on an upwardly mobile track that may culminate in a CFO appointment. Just ask Dave Raszeja. He's got one on his right arm that sports the first 100 digits of pi. “Getting the pi tattoo was probably one of my better career moves,” says Raszeja, who began his first CFO role on March 1 at Penn Mutual Life Insurance, a $3.3 billion revenue company that manages some $33 billion in assets.

He'd been at Penn Mutual for four years when, in 2005 at age 30, he donned the tattoo to memorialize his passion for mathematics. A few years earlier he'd been enthusiastically pursuing a graduate degree in theoretical math, studying such knotty topics as algebraic topology. After he got his degree, though, he switched his career focus.

“At some point it became obvious that I was going to have to work much harder or become much smarter, and neither seemed imminent,” Raszeja says. “I had to get a job, so I decided to follow the actuarial career path.”

That's what brought him to Penn Mutual. By 2005, he'd been an actuary-in-training for most of the past four years. One day, while having lunch in the company cafeteria with a colleague, then-company CEO Robert Chappell, who had a habit of randomly sitting with people at lunch, plopped down next to them.

“He asked what we did, and we explained that we were actuaries,” Raszeja recalls. “He said that was interesting, because he'd been thinking the company could do a lot more with mathematics to become more data driven and analytically focused.”

His colleague thereupon said, “Hey, this guy's got pi tattooed on his arm.” Chappell asked to see it, so Raszeja rolled up his sleeve.

The CEO then relayed the story to the head of Penn Mutual's investment function, who contacted Raszeja and asked him to come and interview for an open hedging quantitative analysis position.

He landed the job. “I actually found it a little daunting to go there and talk to those folks,” he says. “It was a whole new area of financial mathematics that I hadn't been exposed to. But they did a fantastic job teaching me about derivatives and quantitative analysis.”

Raszeja was taken with the lively atmosphere in the investment department, compared with the more staid one in actuarial. It was often loud and raucous. There were lively congratulations after good trades were made. He and the other young quants learned about derivatives in part by creating derivative “contracts” between them and betting pennies on stock market results. “It was a fast-paced mindset,” he says.

He already knew he enjoyed the stimulation of taking on different roles. He'd left the actuarial area a couple years earlier to fill in for a recently departed employee in reinsurance administration. It was largely a clerical job, involving the preparation of billing reports, for example.

“It might seem that it was a snoozer, but I found I could help people design slick spreadsheets to get the billing done [more quickly],” Raszeja says. “It was pretty cool to make that sort of impact early in my career.”

He didn't specialize in staying in roles for long periods of time. Raszeja has performed 10 different jobs at Penn Mutual. The headquarters build-
ing has six wings, and he’s worked in five of them. “If I could get a job in sales, I’d really round out my résumé,” he jokes.

When the company started an enterprise risk management department, its first leader had been head of fixed income in the investment area. He brought Raszeja along with him, again in a quantitative analysis role.

“It was the first time I looked across the whole company, as well as the broker-dealer affiliates, trying to broadly understand not just finance but also people and strategy and how all of those things worked together,” he says. “I was about eight years into my career, and I don’t think many people get that view of a company the size of Penn Mutual that early.”

His next step was as leader of mortality management. It was a bit “wonky,” he says, but he spent ample time with the company’s lead underwriter, from whom he learned a lot about sales.

There were also some granular but interesting issues to handle. At the time the company Raszeja was debating whether to allow life insurance customers to smoke “celebratory cigars”—as one might do, say, when playing golf once a month—without being charged smokers’ rates. “It was an interesting job on the practical side,” he says.

After a couple years, he found himself back in an actuarial role, but he decided he preferred the broad view of enterprise risk management. The company, though, had recently decentralized ERM, so Raszeja left to take a risk management position in Cigna’s international group. The job gave him global experience, including frequent trips to Asia, and the opportunity to see how a much bigger company differed on an operational basis.

**Ethics and Risk**

After he’d spent 13 months at Cigna, Penn Mutual, which was planning to reverse course and go back to centralized risk management, brought him back as chief risk officer. In 2014, he was asked to take on the additional role of chief ethics officer. “I’m the only person I’ve ever heard of who had both of those roles at the same time,” he says.

The ethics position was important for his career. While the jobs he’d had before were analytical in nature, this was largely a people-focused post. “It really set me up to hone my leadership skills for the future,” he says.

In 2019, while still chief risk officer, Raszeja was named senior vice president of financial management and designated as the successor to CFO Susan Deakins, who was planning to retire in early 2020. “She’s a mentor and I’ve been looking over her shoulder,” he says. “She’s been very generous with her time and has set me up for success, so it should be a smooth transition.”

The first priority in his new post will be to continue moving forward with data architecture upgrades. The financial operations ramifications of having legacy systems is an issue for most of the insurance industry today.

Raszeja says he’s been fortunate to spend his career with Penn Mutual, because moving around the company is highly encouraged. “It’s a good fit for me,” he says. “You hear a lot that you can’t get ahead unless you change jobs, and I agree, but that doesn’t mean you have to leave the company—if you’re in the right company.”

He notes that an interesting aspect of his career has been that in each job he’s had to use “different parts” of himself.

“I’m hearing more lately about people bringing their whole selves to work, and I’m happy that you can do that here,” he says. “And if a tattoo can give you some upward mobility, I think that’s a pretty progressive and inclusive workplace.”

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**Editor’s Choice**

**FEDEX CFO TO RETIRE AFTER 22 YEARS**

FedEx announced that CFO Alan Graf (pictured) will retire at the end of the year and be replaced by treasurer Mike Lenz as the company continues its effort to adapt to the rise of e-commerce. Lenz will move into his new role on Sept. 22, with Graf staying on until Dec. 31 as senior adviser. Graf joined FedEx in 1980 and has served as CFO since 1998.
LEADERSHIP

Crisis Management: The Overlooked Leadership Skill

Here are five ways to rise up to the challenge of leading the troops while things are falling apart. By Gary Burnison

No one thinks much about a certain leadership quality—until the you-know-what hits the fan. The quality I’m referring to is crisis management. Thankfully, true crises are relatively rare occurrences. They are the black swans of leadership. We’ve done nearly 70 million assessments of executives, so we know what makes a great leader—the best-in-class who are among the top 20%. Our research shows that three of the four qualities of a great business leader are largely intuitive: (1) sets vision and strategy; (2) drives growth; and (3) displays financial acumen.

The fourth is effectively managing crises. It’s underappreciated, overlooked, and often not even one of the top requirements—until a crisis hits. This is one of those times. A couple of months ago, when the stock market was making all-time highs, only the rare few could have predicted universities would close, companies would tell employees to work from home en masse, and the NBA season would abruptly be suspended, followed by museums, cathedrals, and Broadway.

While it’s natural in uncertain times for people to turn to the leader for definitive answers, sometimes the authentic answer is “I don’t know right now”—quickly followed by, “And here’s what we are going to do.” In a crisis such as today, leaders need a Plan B—and a Plan C and Plan D as well.

Leaders always deal with ambiguity. It’s timeless and comes with the job. During crises, ambiguity becomes exponential. As fear becomes contagious across organizations, leaders must manage their own responses to ambiguity.

How do they do that? By following our 6 steps of leadership:
1. Anticipate—predicting what lies ahead
2. Navigate—course correcting in real time
3. Communicate—continually
4. Listen—hearing what you don’t want to hear
5. Learn—learning from experience to apply in the future
6. Lead—improving yourself to elevate others

Let me provide some color commentary on what leaders can do to put crisis management in action.

Start at the Bottom of Maslow’s Hierarchy. In a crisis, you first need to meet people where they are. Their most basic needs must be met and they need to feel safe. Naturally, no one is interested in talking about the company’s strategic plan when they’re out buying hand sanitizer and toilet paper. Once their essential needs are addressed, then the focus can shift to alignment, common purpose, elevating others, and even opportunities for growth.

Earthquakes and Aftershocks. In Los Angeles, where our firm is based, we’re accustomed to earthquakes and know that when one occurs, aftershocks are coming. Other crises also demand that you anticipate the consequences of the initial shock. Too often, people don’t consider all the possibilities. Anticipation becomes a Monte Carlo simulation in action.

For example: what if travel bans expand, commerce slows, or a liquidity crisis develops? What is the impact on all aspects of my business? What are the implications for employees, customers, and investors? Strategy is making a bet, and the skill of anticipating improves one’s odds.

Urgent vs. Important. Day to day, leaders face a multitude of issues, both urgent and important. I’ve found that
many leaders have difficulty distinguishing between the two. When a crisis hits, though, everything blurs as events and their implications constantly change. What’s important often becomes urgent, and what’s urgent becomes critical. Leaders must delegate the urgent by empowering others to lead around a common purpose.

**Leave No One Behind.** In a crisis, leaders must connect with, motivate, and inspire others, and show genuine compassion. In the military, for example, leaders put the safety and well-being of others before themselves. I’ve met a number of military leaders who led during periods of conflict and voluntarily told me, “I’ve never lost a soldier.” This reveals a deep mindset of humility and accountability, rather than hubris and bravado.

**Know What to Do When You Don’t Know What to Do.** There’s nothing like a crisis or a complex problem to accelerate learning. This is learning agility to the “Nth” degree—applying past lessons to new and unfamiliar situations. It really is knowing what to do when you don’t know what to do.

Amid uncertainty, leaders need to be hyper-focused on past experiences and synthesize and apply them to real-time, fluid conditions. Clarity comes from finding a close comparison. Is it like the Great Recession? The 1987 stock market crash? The outbreaks of SARS or MERS?

**Good CFO/Bad CFO**

Here are the skills a CFO needs to look at when considering their effectiveness as a leader.

**By Rob Krolik and Jeff Epstein**

- There’s a stark contrast between an effective finance chief and an ineffective one. Here are the major differences.

  - **A good CFO knows how to communicate and manage teams, and knows the details behind the numbers.** A good CFO manages all the areas no one else wants but still needs, including accounting, tax, facilities, insurance, financial planning, and treasury.

  - **A good CFO paints a financial picture** of the company’s next 12 to 24 months to help the senior executives see the future and plan accordingly.

  - **A good CFO is responsible for cash.** He or she understands when the balance will be low and what to do about it (whether to slow down cash burn or raise capital).

  - **A good CFO obtains input from other senior-level executives,** helps them understand the needs of the company versus the executives, and architects a financial plan that balances those needs. A good CFO reads the tea leaves of the sales team and the overall market, then helps course-correct to ensure the company has future viability.

- **A bad CFO gives engineering, product, or marketing advice to the respective executive.** A good CFO provides valuable data, insights when another executive is over or under budget, and unbiased analytics that will help solve problems and respect boundaries.

- **A good CFO speaks visually,** with pictures and analogies, not just analytically. Using short, pointed, nontechnical accounting or financial explanations is key to making a point. A bad CFO wraps himself or herself in jargon and focuses on what people can’t do and is always ready to say, “no.”

- **A good CFO looks for loopholes and manipulates the numbers** to tell whatever story they want. A good CFO has high integrity and factually reports the numbers. He or she is a risk manager and helps manage the lows and highs.

**By running the “unknown” of the current crisis against the “known” of previous ones, leaders gain perspective, identify patterns, connect the dots, and determine appropriate and timely responses. The eventual recovery may be a V or a U or some other alphabet letter, but there will be a new normal—thanks, ultimately, to the scientists, innovators, and dreamers.**

The natural inclination in a crisis may be to go into command-and-control mode. That’s not leadership. Leadership is creating a “bottom-up” culture of world-class observers to accurately perceive today in order to predict tomorrow.

Gary Burnison is the chief executive officer of management consulting and recruiting firm Korn Ferry.

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Top: Courtesy of the author; Bottom: Getty images
Don’t Leave Workforce Analytics Solely to HR

People analytics remove much of the guesswork behind key management and operational issues. By Jack Freker

With access to reams of financial data and the tools to turn the information into insight, CFOs are certainly no strangers to the power of big data. But finance chiefs may be less up to speed on workforce data, covering employee performance, compensation, demographics, career history, benefits, employee behaviors, time utilization, and attrition.

There’s no excuse for less rigor in understanding such data. For a typical company, worker pay and benefits total up to 70% of the cost of doing business. In fact, several studies performed a few years ago told a convincing story:

• EY found a strong link between CFOs’ level of involvement in strategic workforce planning and broader business performance.
• Bersin by Deloitte found that the share prices of companies with “mature” talent analytics exceeded those of their competitors by 30% over a three-year period.
• A survey by CEB (now Gartner) found that organizations could increase gross profit margin by an average of 4%, and save roughly $12 million for every $1 billion in revenue, by taking a leadership position in workforce analytics.

Strategic Insight

Early adopters of workforce analytics aimed their effort at simply managing the total cost of workforce (TCOW). Today, finance chiefs working closely with HR can use market and industry trends to identify workforce patterns and talent risks. They can also forecast productivity, uncover recruitment and retention challenges, project ROI from HR initiatives, and pinpoint leadership opportunities that could otherwise be missed.

CFOs can use talent data to bring strategic insight to talent acquisition and deployment by:

• Identifying ways to lower the cost of hiring, assigning, and engaging a productive workforce
• Ensuring compensation, benefits, and other rewards are aligned with business performance
• Targeting better ways of capturing ROI from HR development and well-being programs
• Determining and addressing signs of faltering performance
• Isolating mismatches in areas like benefits utilization
• Detecting and implementing process improvements across the workforce

Linking Performance

Data analytics also creates new opportunities for insight into the return on HR programs. For example, a company can look at population health and absentee data alongside plan participation and rewards data, and then compare the findings with productivity data to identify compelling corollaries between well-
being and business impact.

Finding out a particular demographic poorly utilizes health care screening allows companies to design responsive and more effective wellness campaigns.

People analytics can identify cost anomalies, especially in multinational operations where jurisdictional regulations vary widely. For example, staffing costs can vary significantly by geography due to variations in salary ranges, benefits costs, and employment laws. Modeling allows decision-makers to analyze these costs and determine the best geographies for specific roles.

Predictive analytics can reveal other management decision-making blind spots. Suppose a company is contemplating a hiring freeze as an answer to declining profit. That’s a common-enough scenario, but by applying predictive analytics it may become clear that a reduced workforce and greater workload would not meet production demands.

Further analysis may reveal that hiring contingent staff, along with paying overtime, could cost more than the savings reaped through a hiring freeze.

The Right Information
Managing unstructured data is a growing challenge as employers try to extract “signals” from diverse data sources, data management packages, and integration and forecasting tools and methodologies.

The question is what specific data and analytics CFOs and CHROs should prioritize to manage financial risk and ensure adequate return on labor costs.

How should companies break down workforce analytics to provide strategic insight? We think there are four main areas to tap into:

Health care analytics. The combination of population health, absentee, plan participation, wellness, and related financial data can help better influence the physical health of a population and help people effectively manage their health.

Financial analytics. Defined benefit plans, defined contribution plans, equity, compensation, and other personal financial data, coupled with business data, helps assess the ROI on reward spend and helps employees better manage their short- and long-term financial goals.

Diversity analytics. Talent management, learning and development, succession planning, and related metrics can help to build work environments and reward structures that meet the needs of a multi-generational workforce and support diversity and inclusion goals. Predictive analytics can also help to improve recruitment and retention strategies.

Engagement analytics. Similar to external marketing efforts, internally focused employee engagement analytics allow organizations to measure and predict how people react to program design, communication outreach, and market forces.

This combination of health, wealth, career, and engagement analytics provides the insight needed to make the most effective investments in people and gives them the tools they need to remain healthy and productive at work and in life.

Without that clear connection between employee performance and the organization’s performance, managers can’t properly evaluate and reward individuals. Employees lose sight of where they fit into the big picture and become less engaged in the work. The company’s overall performance suffers.

Analytics at the Right Time
Leaders should be looking for a single, intuitive, and responsive reporting system that eliminates the task of data validation and gives the CFO the tools to start driving business performance.

One-off reports from disparate talent data sources—accomplished through spreadsheets, manual processes, IT coding, and the like—won’t provide the strategic insights needed to understand, predict, and monitor business risks.

Find a workforce analytics platform that:

• Consolidates both financial and people data
• Doesn’t solely rely on HRIS analytics for the evaluation of people data
• Gathers full people data across performance, talent, population health, engagement, and rewards inputs
• Establishes current-state baseline as a control measure
• Assesses and predicts true “return on people” analysis with total cost of labor along with perceived and actual value derived from that labor, with the ability to segment to any business function
• Benchmarks this data against peers and ideal state
• Allows both HR and finance to model business and people scenarios for informed workforce decisions

Through the Right Lens
Today’s CFOs are not just on point to guide company financial performance. They need to touch everything in the company’s value chain, most definitely including the workforce. Talent analytics must become a strategic priority.

Jack Freker is CEO of Buck, an integrated HR and benefits consulting, technology, and administration services provider.
Coronavirus: Five Rules for Growing Customer Loyalty

The supply disruption from the coronavirus offers historical opportunities for companies to build or destroy customer goodwill. By Jonathan Byrnes and John Wass

Much is being written about how to manage the supply chain threat of coronavirus. The problem is that virtually all of it focuses on disruption threats to inbound supply chains from suppliers. The equally important, longer-lasting challenge is managing customers through the crisis period to maximize their long-term loyalty and profitability.

If you get this right, the upside is enormous. If you get this wrong, you will suffer the consequences for years to come.

Five rules form the cornerstone of an effective customer management program in a time of supply disruption:

1. Prioritize your customers by profitability
2. Incorporate your emerging channel strategies
3. Align sales compensation with your priorities
4. Develop product substitution groups
5. Prevent over-ordering

Together, these rules will ensure that your company will emerge from this difficult period in a much better position than when it commenced. You will hurdle past your scrambling competitors.

Prioritize Customers

The key to customer prioritization is profit segmentation: focusing resources on accelerating relationships with your high-profit customers, while using the shortage of products to re-negotiate your relationships with profit-draining customers.

Today’s supply chain disruptions from tariffs, viruses, and other factors offer an opportunity to lock in long-term gains with the most profitable customers. The disruptions are also leverage to reverse your relationship with your large profit-draining customers. The key is to identify your profit peaks (large, high-profit customers), profit drains (large, money-losing customers), and profit deserts (small, no-profit customers) using profit mapping. (See "Customer Product Mapping," page 28.)

The prioritization below is based on profit segmentation. It is a particularly effective way to maximize your long-term benefits so your company exits this crisis in better shape with respect to both its profitability and its customer loyalty measures.

Profit-peak customers. The single most important initiative a company can make is to give priority to its profit-peak customers. These critical customers warrant working aggressively to make products available, even if it costs more to support them. Also, this may be an opportunity to lock in longer-term contracts.

These customers may only represent 10% to 20% of your customers, but they provide the vast majority of your profits. Moreover, they generally are less price sensitive; loyal; and eager to try innovative products and services.

In all times—especially in difficult times—you should dedicate a set of teams to these profit-peak customers and not serve them through a general sales force. The dedicated team can focus on building extended contracts all-in P&L in every transaction (invoice line), and couple it with powerful data analytics that can combine these transaction P&Ls to show the profitability of every customer, product, and operational process. It is particularly important to avoid relying on common partial measures like gross margin. Gross margin does not align with net profits because factors like order pattern, delivery costs, and other operating costs are so important.

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with supply chain integration and other operating ties that ensure steady, long-term profit growth for both the customers and for you.

**Profit-draining customers.** The second priority is counterintuitive. A supply shortage presents a perfect time to use the disruption to change the nature of your relationship with your large, profit-draining customers by approaching them with proposals to increase the profits they generate for you.

The wrong way to do this is to gouge them with large price increases, generating lasting bad feelings. It is much more effective to increase the profitability of their business by working with them to decrease your (and their) operating costs. In our experience, most profit-draining customers can be turned around through smart, targeted supply chain and category management measures that create joint efficiencies.

Examples would be increasing order size by reducing order frequency and developing proactive substitute product.

This requires clarity of purpose but does not cost much, and has a huge permanent, positive impact on both companies. Doing this requires very capable teams dedicated solely to this customer segment. If a profit-draining customer refuses to work with you, it makes sense to reduce your supply to it.

**Profit-desert customers.** The third priority is to carefully manage your profit-desert customers by understanding their potential and carefully curating their product availability. Importantly, some of these customers are large companies for whom you are a minor supplier. You may be able to award these customers with secure supply access in return for a contract for a bigger share of wallet. The objective is to convert these customers into large, profit-peak customers; digital marketing probes are particularly effective at this.

Many other profit-desert customers, however, are simply small companies that do not have the ability to grow significantly. These customers typically generate the majority of your operating costs because they issue a large number of very small orders (it generally takes the same time and cost to pick an order line with a small number of items as it takes for an order line with a much larger number of items). This category is where your cost reduction, or aggressive constraints on product availability, should be aimed. This is also the time to enforce limits on free services that have been neglected (e.g., minimum order sizes for free shipping).

It is important, however, to be very transparent and to work with these customers to ease their difficulties as much as possible.

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**Incorporate Channel Strategies**

The current era is characterized by the emergence of critical digital channels and omnichannel management. The digital giants are gaining prodigious market share in industry after industry through their web-based capabilities. Most companies are sprinting to catch up, at the risk of their very survival.

It is critical, therefore, to incorporate your channel strategy into your customer supply prioritization. This will ensure that your crucial new strategic
capabilities will continue to develop and grow. This has to be systematically integrated into your customer management strategy to ensure long-run viability.

**Align Sales Compensation**

There is an old adage that a sales rep might understand your priorities and buy into your priorities, but he or she will (and should) do what you pay him or her to do. Another way to put it is that the fundamental rule of sales is, “work your pay plan.” If the pay plan is wrong, it is not the salesperson’s fault.

This means that sales compensation (e.g., commissions, quotas) has to be adjusted to reflect priorities. The root problem is that all too many companies fail to develop realistic priorities, as explained above. This leads to the counterproductive scramble for product and the first-come first-served processes that are so harmful to short-run profitability and longer-run customer loyalty.

**Develop Substitution Groups**

Substitution groups are sets of products that perform the same function. They are important in the normal course of business both to enable sales reps to move customers to a higher-profit product mix and to ensure high fill-rates when a product stocks out (and the customer has agreed to a specific substitute).

These groups are essential in times of supply disruptions because they can ensure steady supplies, even if the disruptions are intermittent. However, this needs to be agreed to with customers in advance.

**Prevent Over-Ordering**

Over-ordering is a typical difficulty in times of product shortage. It has two main sources: customer hoarding, and unadjusted automated replenishment algorithms.

Inventory hoarding is a natural response to supply shortages. The core logic is that purchasing departments try to grab product whenever it is available as a protection against later shortfalls. This causes extreme problems for suppliers because they cannot forecast actual customer demand. Instead, sales reps scramble to grab tight supplies to meet their customers’ accelerating requests, leading suppliers to short other customers—especially their large profit-peak customers with whom they typically have vendor-managed inventory or other operating ties that ensure the correct order flow.

The second cause of over-ordering is unadjusted replenishment algorithms. If products are allocated to customers, most replenishment systems will simply recognize the shortfall in product availability and endlessly order more. We have seen cases where replenishment systems order the same product multiple times per day. The problem is that the supplier’s systems interpret this as incremental demand and award more scarce stock to the over-ordering customer.

The solution is to develop a set of agreements with customers to allocate products relative to historical demand, unless the customer notifies you that its product demand has actually changed. For example, profit-peak customers could be supplied at their historical demand; profit-drain customers at 75% to 80% of their historical demand; and profit-desert customers at 60% of their historical demand (unless they contract for a larger share of wallet). Many in this grouping, however, are small companies that are expensive to service. This is where your cost reduction efforts or aggressive constraints on product availability should be placed.

**Customer Profit Mapping**

To effectively manage customers in a time of supply disruption, they must be segmented by profitability into three groups.

**Profit-peak customers.** These customers may only represent 10% to 20% of your customer base, but they provide the vast majority of profits. Moreover, they generally are less price sensitive, loyal, and eager to try innovative products and services. Serve them with dedicated teams, not through a general sales force.

**Profit-draining customers.** A supply shortage presents a perfect time to use the disruption as an opportunity to change the nature of your relationship with profit-drainers. Increase the profitability of their business by working with them to decrease your (and their) operating costs.

**Profit-desert customers.** Manage your profit-desert customers by understanding their potential and carefully curating product availability. You may be able to award the large companies in this segment with secure supply access in return for a contract with a bigger share of wallet. Many in this grouping, however, are small companies that are expensive to service. This is where your cost reduction efforts or aggressive constraints on product availability should be placed.

Jonathan Byrnes is a senior lecturer at MIT, and founding chair of Profit Isle. John Wass is CEO of Profit Isle, a profit acceleration SaaS company.
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The lawsuit against the Non-Settling Defendants remains ongoing. This lawsuit (referred to as the “Exchange-Based Plaintiffs’ Action”) has been consolidated within In re LIBOR-Based Financial Instruments Antitrust Litigation, 11 MDL No. 2262 (S.D.N.Y.).


The lawsuit asserts that the Defendant banks listed on the settlement website, www.USDLiborEurodollSettlements.com, artificially manipulated U.S. Dollar LIBOR and Eurodollar Futures during the Settlement Period by misreporting their borrowing costs to the organization that calculated LIBOR. The alleged manipulation of the U.S. Dollar LIBOR rate allegedly caused Eurodollar Futures prices to be suppressed and/or inflated to artificial levels, thereby causing Settlement Class Members to pay artificial prices for Eurodollar Futures during the Settlement Period. Plaintiffs have asserted claims against the Defendant banks that constitute a conspiracy to violate the Commodity Exchange Act and Sherman Antitrust Act and for unjust enrichment. The Court has issued at least eight published opinions addressing various legal matters raised by the parties in this action. The Settling Defendants have entered into these proposed Settlements to resolve the claims asserted against them. The Settling Defendants deny all claims of wrongdoing.

Claims against Non-Settling Defendants have been limited by the Court’s prior rulings. The Court previously dismissed claims against certain defendants for lack of personal jurisdiction and other claims as against SG on statute of limitations grounds. The Court also denied Plaintiffs’ class certification motion. Plaintiffs petitioned the Court of Appeals for the Second Circuit for interlocutory review of the Court’s denial of class certification. The Court of Appeals denied that petition. As a result, your participation in these Settlements may offer the best, and perhaps only, chance for you to receive any monetary recovery from this lawsuit.

Am I included?
The Settlement Classes are defined in the Full Notice and the Settlement Agreements, which are available for review on the settlement website. In general, you are a Settlement Class Member if you transacted in Eurodollar futures contracts and/or options on Eurodollar futures on exchanges, including without limitation, the CME, between January 1, 2003 and May 31, 2011. Included from the Settlement Class are: (i) Defendants, their employees, affiliates, parents, subsidiaries, and alleged co-conspirators; (ii) the Releasees (as defined in the Settlement Agreements described below); and (iii) any Settlement Class Member who files a timely and valid request for exclusion. Notwithstanding these exclusions, and solely for the purposes of the Settlements and the Settlement Class, Investment Vehicles shall not be excluded from the Settlement Class solely on the basis of being deemed to be Defendants or affiliates or subsidiaries of Defendants. However, to the extent that any Defendant or any entity that might be deemed to be an affiliate or subsidiary thereof (i) managed or advised, and (ii) directly or indirectly held a beneficial interest in, said Investment Vehicle during the Class Period, that beneficial interest in the Investment Vehicle is excluded from the Settlement Class.

What do the Settlements provide?
In order to resolve the claims against them, the Settling Defendants have separately agreed to individual settlement amounts totaling $187,000,000 in the aggregate for the benefit of the Settlement Class in exchange for releases of the claims against them, as fully detailed in the Settlement Agreements. Specifically, BOA has agreed to pay $15 million; Barclays has agreed to pay $19.975 million; Citi has agreed to pay $33.4 million; Deutsche Bank has agreed to pay $80 million; HSBC has agreed to pay $18.5 million; JPMorgan has agreed to pay $15 million; and SG has agreed to pay $5,125,000. The Settlement Agreements are available for review on the settlement website referenced below. The Settling Defendants have also agreed to provide certain specified cooperation to the Plaintiffs that can be used in the prosecution of claims against the Non-Settling Defendants.

Continued on next page

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1 The aggregate Settlements, if all receive Final Approval from the Court, will create a $187,000,000 Settlement Fund. Settling Defendants have separately agreed to settlements as follows: BOA has agreed to pay $15 million; Barclays has agreed to pay $19.975 million; Citi has agreed to pay $33.4 million; Deutsche Bank has agreed to pay $80 million; HSBC has agreed to pay $18.5 million; JPMorgan has agreed to pay $15 million; and Société Générale has agreed to pay $5,125,000.
If You Transacted in Eurodollar Futures Contracts and/or Options on Eurodollar Futures on Exchanges, such as the Chicago Mercantile Exchange, between January 1, 2003 and May 31, 2011,

You May Be Eligible to Receive Payment of a Portion of Aggregate Settlement Funds Totaling $187,000,000

How can I get a payment?
If you transacted in U.S. Dollar LIBOR-based Eurodollar futures contracts and/or options on Eurodollar futures on exchanges such as the CME between January 1, 2003 and May 31, 2011 and do not exclude yourself from the Settlement Class, you must file a timely and valid Proof of Claim Form to be potentially eligible for any payment. You may obtain a Proof of Claim Form on the settlement website referenced below and submit it online or by mail. The amount of any payment under the Settlements will be determined by a Plan of Distribution approved by the Court. A copy of the proposed Plan of Distribution is available for review on the settlement website at www.USDLiborEurodollarSettlements.com.

The proposed Plan provides for distribution of 75% of the Net Settlement Fund on the basis of pro rata “Recognized Net Loss” and 25% on the basis of pro rata “Recognized Volume,” subject to a guaranteed minimum payment of $20. Only Eligible Claimants may participate in the distribution of the Net Settlement Fund. An Eligible Claimant is a Settlement Class Member whose proof of claim is found to be timely, adequately supported, properly verified and otherwise valid pursuant to the Plan of Distribution all as determined by the Settlement Administrator. At this time, it is unknown how much, if anything, each Eligible Claimant may receive.

To be timely, all Proof of Claim Forms must be postmarked by mail or submitted electronically by December 1, 2020.

What are my rights?
You have the right to remain a member of the Settlement Class or to exclude yourself from the Settlement Class. If you remain a member of the Settlement Class, and if the Settlements are approved, you may be eligible to share pro rata in the Net Settlement Fund by timely submitting a valid Proof of Claim Form. If you participate in the Settlements, you will, however, lose your right to individually sue any of the Settling Defendants or their affiliated persons and entities for the alleged conduct at issue in the lawsuit, and will be bound by the Court’s orders concerning the Settlements. If you stay in the Settlement Class, you may object to one or more of the proposed Settlements, the proposed Plan of Distribution, the requested attorneys’ fees, expense reimbursement, and service awards mentioned below by August 27, 2020. Any objections must be filed with the Court and delivered to the designated representative for Settlement Class Counsel and counsel for the Settling Defendants in accordance with the instructions set forth in the Full Notice. The Settlements will not release your claims against any Non-Settling Defendants, and the lawsuit continues against them.

If you want to keep your right to individually sue the Settling Defendants or their affiliated persons and entities, you must exclude yourself from the Settlement Class for that Settling Defendant(s) by August 27, 2020, in the manner and form explained in the Full Notice. All Settlement Class Members who have not timely and validly requested exclusion from the Settlement Class will be bound by any judgment entered in the lawsuit pursuant to the Settlement Agreements. If you properly and timely exclude yourself from the Settlement Class, you will not be bound by any judgments or orders entered by the Court pursuant to the Settlement Agreements and you will not be eligible to receive any payments from the Net Settlement Fund if the Settlements are approved by the Court.

A fairness hearing will be held on September 17, 2020 at 11:00 a.m. before the Honorable Naomi Reice Buchwald, United States District Court Judge, in Courtroom 21A, at the Daniel Patrick Moynihan United States Courthouse, located at 500 Pearl Street, New York, New York 10007, for the purpose of determining, among other things, whether to approve the proposed Settlements, the proposed Plan of Distribution, Class Counsel’s request for attorneys’ fees of up to one-third of the Settlement Fund, plus reimbursement of litigation expenses, and payment of service awards to the Settlement Class representatives of no more than $25,000 each. You or your own lawyer may appear and speak at the hearing at your own expense.


Settlement Class Members should continue to review the settlement website for important updates about the Settlements and the litigation. You may also contact the Settlement Administrator below (A.B. Data, Ltd.) to obtain additional information.

USD LIBOR EURODOLLAR FUTURES
SETTLEMENT
11 MDL No. 2262 (S.D.N.Y.)
c/o A.B. DATA, LTD.
P.O. BOX 170990
MILWAUKEE, WI 53217
www.USDLiborEurodollarSettlements.com
info@USDLiborEurodollarSettlements.com
1-800-918-8964

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If your company is not in the midst of a “digital transformation,” it’s an outlier. McKinsey estimates that 80% of large companies are, or at least believe themselves to be. Ditto many smaller organizations.

But what exactly is digital transformation? Depending on a company’s circumstances and vision, something as innocuous as a website makeover could be called a digital transformation. But that doesn’t mean it is one.

By David McCann
Dell’s Journey

Among companies in the “Real McCoy” category is Dell Technologies. Dell finance chief Thomas Sweet agrees that there are several definitions of digital transformation, but he points to a common denominator.

“There’s an evolution or transformation happening within companies as they think about the role of technology in enabling their business models,” says Sweet, “whether that’s a change-the-business type of approach, or moving into an adjacency, or a competitive dynamic.”

Like many tech companies, Dell’s transformation encompasses changes to both its internal infrastructure, systems, and solutions, and the products and services it provides to customers that are themselves digitally transforming.

Filling both roles is the Dell Technologies cloud platform, an infrastructure modernization launched in 2019. Developed jointly with VMware, the platform lets users migrate workloads seamlessly between public and private clouds.

The product is a boon for companies that want to create a hybrid cloud environment. For example, a company might move a number of workloads to a public cloud, then later pull them back inside its private cloud as part of a cost-reduction initiative.

With a huge mass of installed hardware and systems at customer sites, Dell also is increasingly digitalizing its services business.

“We’re using real-time tool sets with artificial intelligence algorithms that feed data back from those installations—not customers’ private data, but system performance data,” says Sweet. From that data, Dell can predict which systems show signs of stress and may fail.

Dell is also using AI to optimize how its storage solutions are compressing, cleansing, and organizing data in real-time.

Within Dell’s finance area, AI-driven functionality predicts which customer orders are most likely to be subject to past-due payments. Meanwhile, a machine learning model draws from a number of data sets to establish pricing parameters that factor in, for example, customer size and geographic location.

At Dell, digital transformation also includes upgrading team members’ skill sets and providing them with new collaboration tools and mobile capabilities.

“The journey we’ve been on for the past two or three years has been all about improving the business and the experiences of customers and team members,” says Sweet. “What we’ve done has given us a more productive culture, and we’re seeing real improvements in each of our businesses.”

McKinsey outlines four digital transformation archetypes (the labels are CFO’s):

1. Portfolio Transformation. “It’s too hard to really transform, so we’re just going to buy stuff,” is how McKinsey senior partner Peter Dahlstrom characterizes the mindset that gives rise to this most basic of the archetypes. A company’s business model is threatened, so the company buys other companies that are operating their own technologies “and that’s their digital transformation,” he says. “They don’t transform their core but rather their portfolio of activities.”


3. Functional Digitalization. The company finds broad digital transformation appealing, but rather than take on the difficult task of formulating a plan that encompasses everything IT-related, it starts with a great e-commerce site and instills some digital capabilities into the sales force and supply chain.

4. The Real McCoy. A wholesale revamping of infrastructure, systems, and software along with new intelligent automation and analytics capabilities. Most casual observers perceive this as true digital transformation—yet, acknowledges Dahlstrom, “there aren’t that many great cases.”

Of course, there are some. Because of competitive and market realities, the following three companies have invested a large amount of people and resources to effect digital change.

“What we’ve done has given us a more productive culture ...”
—Tom Sweet, CFO, Dell Technologies

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Flowing With The Customer
At consumer facing firms, digital change is often sparked by innovations in web platforms.
Take Pizza Hut U.K. A few years ago, it had a big problem: a clunky website.
It had outsourced the site’s development and management a few years earlier, but more and more customers—accounting for 45% to 50% of total business—were ordering home delivery online. On busy weekend nights, the site crashed.
“I don’t think we had anticipated how important online would become,” says Neil Manhas, who was CFO of Pizza Hut U.K. at the time and is now general manager of the business as well as finance chief of Pizza Hut Europe.
Site outages were hardly the only problem. “There were long lead times for updates. It wasn’t particularly cost-efficient, it offered a poor user experience that was quite hard to change, and what little data it had was very hard to extract or do anything with,” says Manhas. Franchise owners were not happy.

“You’re really investing more in people that will operate a new platform than you are buying a new IT system.”
—Klemens Hjartar, senior partner, McKinsey & Co.

What It Takes
Which digital technologies, tools, and methods have organizations successful at transformation deployed?

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<tr>
<th>Technology</th>
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Source: McKinsey & Co. survey, October 2018

Digital Disappointment

91% Of executives expected digital transformation efforts to create better customer experiences

71% Of executives said their digital transformation had actually created better customer experiences

55.8 Executives’ average rating of their organization’s digital IQ (scale 1 to 100), 2020 survey

71.8 Executives’ average rating of their organization’s digital IQ (scale 1 to 100), 2018 survey

25% Of executives said digital transformation would “never” be completed

A transformation was sparked in 2016, when the company’s then-IT director by chance met some McKinsey consultants through a friend of a friend. Soon there were formal meetings, which led to a proposal from McKinsey for Pizza Hut to develop and manage a website in-house. The consulting firm provided talent-recruitment, research, and site-testing expertise.

“Those guys really challenged our preconceived notions,” Manhas says. “It became a very customer-led, data-driven process that was highly iterative. They spun up a lot of hypotheses, did the research, and tested elements of the new site in real-time.” By 2018 Pizza Hut U.K. emerged with a site that represented a complete turnaround for customers and franchisees.

Manhas says he’s “obsessed” with the new site’s data capabilities. He now knows things like where traffic to the site is coming from, how traffic on a particular day compares with a year ago, how much the company is paying for traffic (by channel), how customers are purchasing online, and the impact of all of that on return on assets.

A particular highlight has been a feature called “DealBot.” Online customers can click on DealBot while placing items in their shopping cart. It gives them access to relevant deals without having to search around the site.

Conversion rates are highest for customers using DealBot. However, for unknown reasons, the
conversion rate for customers that see DealBot but don’t click on it is higher than for those who don’t see it. The feature is quite dynamic; deals can be ramped up and down daily depending on how aggressive or generous the company wants to be.

“I’ve learned to be slightly less rigid in my desire to have a very clear plan, and to sometimes just see where the data takes us,” Manhas says. “We just flow with what the customers seem to be wanting.”

McKinsey’s Dahlstrom suggests that Pizza Hut U.K. has had strong gains in revenue and market cap since the new site was launched. Manhas declines to confirm that, but notes that the share of sales via the site has reached 75%.

Getting funding for the project from Pizza Hut parent Yum! Brands was conditioned on a commitment to take the concept global. Pizza Hut Digital Ventures, a separate business unit formed to design, build, market, and operate digital platforms, is in the process of expanding the U.K. success to Europe, Asia, and beyond.

“We’re an entirely digital business now,” says Manhas.

A new PwC report, “2020 Global Digital IQ: Payback Ahead,” suggests that many companies thought the return on investment they were looking for would have more robustly materialized by now.

The survey asked more than 2,300 executives globally to rate their organizations’ “digital IQ” on a 1 to 100 scale, with 100 being the highest intelligence. The average response was 55.8.

That number could be viewed as a rather shocking result. When PwC asked executives the same question in 2015 and 2018, the average response was 71.8 and 65.6, respectively.

You’d think companies that have been engaged in “digital transformation” for years would be getting better at it, wouldn’t you?

“Companies expected a certain return in a certain time, but digital is bigger and broader than companies imagined, and the level of confidence in mastering it is slipping,” says David Clarke, global chief experience officer at PricewaterhouseCoopers.

91% of executives surveyed expected that implementing digital initiatives would “create better customer experiences.” Only 71% said that expectation had been realized.

Not that there hasn’t been any payback; just not nearly as much as had been expected.

A vast majority (91%) of executives surveyed expected that implementing digital initiatives would “create better customer experiences.” As it turns out, though, only 71% said that expectation has been realized.

In fact, the disappointment in the effectiveness of digitalization applied across the board—for improved decision-making (90% expected that result; 66% say it has happened), increased profits (80% vs. 45%), and improved talent retention and recruitment (75% vs. 49%).

Another alarming survey result was that only 25% of respondents said they believed digital transformation would “never” be completed. In other words, the other 75% either believed digital transformation had an endpoint or they weren’t sure.

Digital transformational efforts aim to maximize technology’s capability to raise up the business and set it on a new, more productive course. But technology development isn’t going to come to a halt at any point. That any executive would expect the transformation imperative to cease in the future is puzzling.

“The 25% [figure] is a bit shocking, because we’re at a point where there’s no real end anymore to how we’ll have to change,” Clarke says. “The question really is, ‘How aggressively are we willing to change? How fast are we willing to change our operating models or how we engage customers?’” —D.M.
Citizens Bank is in the “early innings” of a digital transformation, says CFO John Woods. He intends to be careful about what things get transformed, though.

“Our objective is to be more innovative and agile in responding to rapidly changing customer needs,” says Woods. “Digitalization is one of the tools we use, and a big one, but I hasten to add that if a highly manual process is not well-optimized and not delighting customers, merely digitalizing that process won’t magically begin to delight them.”

A centerpiece of Citizens’ transformation so far is Citizens Access, an online platform launched in 2018. Through it, the nominally regional bank can take deposits nationwide. The platform also provides savings products and certificates of deposit. By early 2021 the platform will offer checking accounts and loans. At some later point it may provide fee-based services, such as mortgage originations and sales and wealth advisory.

“Front and Back
Banking is an industry in which becoming a digital business is paramount. The race is on to digitalize both the front end and the back end.

Citizens Bank is in the “early innings” of a digital transformation, says CFO John Woods. He intends to be careful about what things get transformed, though.

“In terms of activities we’re now a national bank, and you have to be in a digital world,” Woods says.

Citizens has earmarked $50 million over the next two years to migrate its data, applications, and back office infrastructure to a cloud environment. Part of that large investment is to deploy AI in the digitalization of end-to-end, previously manual processes. Anticipated benefits of the cloud migration include long-term cost savings and more efficient data processing and risk mitigation.

The AI-driven process digitalization has already begun. For example, in the commercial loan underwriting process, the traditional use of long narrative analysis and spreadsheets has given way to more concise digital analysis.

The use of more tools that organize, aggregate, and leverage available data throughout the loan origination process provides a broader set of data to decision-makers earlier.

Combining automated and standardized data visualizations with discrete and consumable narrative analysis enhances the speed and accuracy of underwriting decisions, Woods says.

Courage Required
It’s safer to perpetuate a mediocre company than bet everything on a new business model.

Craig Callé is a self-described digital transformation warrior. About a decade ago, as finance chief of Amazon’s digital media and books businesses, he was at the center of one of the largest transformations ever.

Amazon’s Kindle was changing the way people read, upending centuries of publishing industry conventions. At the same time, the company was in the early stages of transitioning consumers from DVDs and CDs to streaming services.

Today, through Source Callé, his own consulting firm, Callé pursues clients that want to make a similar (if perhaps smaller) dent in the universe. But not every CEO is as bold and transformative as Jeff Bezos.

“It takes immense courage to reinvent a corporation,” says Callé. “Most succumb to inertia—it’s safer to perpetuate a mediocre company than bet everything on a new business model. But here’s what happens if businesses don’t disrupt themselves: they create space for an emergent disruptor.”

Asked to describe their digital transformation, some CFOs would probably cite their company’s most recent ERP implementation, Callé laments. “ERP implementations can be expensive, absorb a lot of management time, and drive productivity when configured properly, but they’re not really transformative,” he says.

Still, Callé adds, a steady increase in the number of companies with positions like “chief digital officer” and “chief data officer” is a welcome trend that promises to ramp up the pace of “true” digital transformations for years to come. | D.M.
libraries staffed by bots continue to “learn” as they index, organize, and maintain millions of electronic records with speed and accuracy.

Citizens Bank is also using advanced analytics and machine learning to personalize offers to customers. In platform marketing, a customer browsing a home furnishings website might receive a digital home equity loan offer from Citizens.

The approach has led to significant increases in market share for some products that have “outpaced some of the banks’ other channels by multiple times,” Woods says.

Machine learning and analytics also are reducing costs by automating the loan-approval process for the majority of loans that don’t require escalation to elevated screening. Meanwhile, the defect rate—referring to underwriting mistakes a human might make—is decreasing.

“**In terms of activities we’re now a national bank, and you have to be in a digital world.**”

—John Woods, CFO, Citizens Bank

Applications of the same principle for fraud management, money-laundering prevention, and delinquent account collections (identifying borrowers who are likely to self-correct their delinquency) are expected to be implemented later in 2020.

Citizens has told investors that these moves are going to generate $200 million to $300 million of run-rate savings by the end of 2021.

Citizens is also reaping big benefits from having switched product development coding to Amazon Web Services and Microsoft Azure. Previously, it would have taken months for the bank to procure and receive from IBM the physical servers needed to create such a production environment.

Now developers can start innovating “in a matter of minutes,” Woods says. Transitioning to the cloud environment enabled Citizens to also create a library of genericized application programming interfaces that can be reused over and over as the team develops new software applications.

“If a developer wants to pull interest-rate information from our databases into a production environment, they don’t have to type out queries and develop code to do that,” explains Woods.

**People Power**

Where do people fit in these large-scale digital initiatives at Dell, Pizza Hut, Citizens Bank, and other companies? Front and center, according to Klemens Hjartar, a McKinsey senior partner. However, he adds, finance chiefs may not fully understand the crucial role that people play in a successful transformation.

“CFOs understand the strategic context,” Hjartar says. “A retail CFO, for example, understands that consumers are going to different channels and the economic consequences of that. Where they lack sometimes is in saying, ‘OK, we have to invest in new solutions and systems.’”

“For most companies,” he continues, “the big question is not about buying new technology. It’s building an organization that can continuously use the new technology to pursue the company’s strategy and become more productive. You’re really investing more in people that will operate a new platform than you are buying a new IT system.”

One slight problem in some organizations, he adds, is that the CFO has been trained in a management system that requires strict business cases and rigorous request-for-proposal processes for large-scale procurements.

Not that those are bad things. But for digital transformation, “the most brilliant thing you can do is attract the people with the right skills or train people, and allow them to work in the right way,” Hjartar says.

**The CFO’s Opportunity**

Four roles a finance chief can play in enterprise digital transformation.

1. **Digital Business Model Evaluator**
   Determining which business models may be economically viable for the organization.

2. **Cross-Functional Digital Innovation Promoter**
   Showing the potential financial returns from cross-functional data sharing and digital process reengineering.

3. **IT Operating Model Adviser**
   Helping CIOs make a rigorous economic case for keeping or shifting computing applications, IT-enabled business processes, IT infrastructure, and more.

4. **Finance Automater and Analyzer**
   Determining which manual and knowledge work in the finance department could be automated using artificial intelligence and other technologies.

Source: Krishnan Ramanujam, president of business and technology services, Tata Consultancy Services

David McCann is deputy editor of CFO.
Staying Healthy

Keeping accounting in order, closely monitoring cash, and maintaining productivity are essential to riding out the coronavirus pandemic.

Will the COVID-19 outbreak and the social isolation and quarantines it has required shove the world’s economies into a recession (or even a depression)? How long will any economic downturn last? Will the U.S. government’s aggressive actions allow businesses to recover more quickly? How quickly?

It’s not smart to try to predict any precise outcomes when faced with great uncertainty, according to Nassim Nicholas Taleb, author of “The Black Swan: The Impact of the Highly Improbable.” What CFOs can do, though, is consider the consequences of an event. “We can have a clear idea of the consequences of an event, even if we don’t know how likely it is to occur,” writes Taleb. And if you know the consequences, you can mitigate them.

Managing for the consequences of the coronavirus pandemic has had CFOs looking at their companies from all angles the past two months. In the following collection of stories, three experts tackle some of the most important issues that need attention, whether the economic effects of COVID-19 last just a few months or considerably longer.

Breathing Room

- On March 25, the Securities and Exchange Commission extended deadlines for certain public company filings.
- Among other measures, the SEC is giving public companies an additional 45 days to file certain disclosure reports that would have been due between March 1 and July 1, 2020. “At the same time, the commission requires a registrant taking advantage of this relief to disclose the reason for the delay, the estimated date by which the delayed report is expected to be filed, and company-specific risk factors explaining any material impact of COVID-19 on its business,” points out Marc Leaf, a partner at law firm Faeger Drinker.

Closing the Books

BY ANNE-LISE DORRY

Corporations are not just concerned with public health, but the very real financial volatility that could linger long after the virus’s spread comes to a halt. That leaves tax and finance professionals grappling with some important questions they need to answer when closing the books. The following are some important considerations.

Does the organization have assets that have to be impaired? While we can hope that the coronavirus won’t affect things long term, there may still be some impairment required, especially if some suppliers or customers go out of business or experience significant financial difficulties. Bad debt may increase, and finance may have to test goodwill for impairment, along with investments and inventory.

Will market volatility affect the company’s hedging strategy and pensions or other retirement funds? The financial markets are volatile and so are foreign currencies. That volatility could leave businesses exposed to a level of risk that is outside their accepted guidelines and could trigger unexpected gains or losses, realized or not.

“Bad debt may increase, and finance may have to test goodwill for impairment, along with investments and inventory.”

Hedging strategies may have to be revisited. Volatility may also affect the measurement of certain pension and other post-retirement plans.
Is finance evaluating subsequent events the right way? Some events occurring after the end of a reporting period may trigger additional disclosures, but others may require an adjustment to the financial statements. Conditions that existed before the end of the reporting period but that come to light between the financial statement date and when the financial statements are made available must be reported within the reporting period.

Is your organization disclosing the effects of the coronavirus on its business? Securities and Exchange Commission Chair Jay Clayton has expressed several times that the SEC will watch company disclosures closely. In particular, the commission will be looking at disclosures as they relate to an issuer’s financial exposure to the virus as well as how the issuer plans for uncertainty and reacts to events as they occur.

Anne-Lise Dorry is senior director of editorial in the tax and accounting business of Thomson Reuters.

Increase DPO, If You Can

BY PERRY D. WIGGINS

A couple of months ago, few people could have fully anticipated the scenario in which we now collectively find ourselves: Businesses and borders shuttered throughout the world, economic uncertainty for many workers, and a global economy edging toward or in recession. Many organizations are understandably concerned about liquidity and cash flow, as they evaluate how they can continue to pay their operating expenses.

This month, AQPC’s metric of the month examines days payable outstanding (DPO), a measure that reflects the average number of days that it takes an organization to pay its creditors. DPO is a metric directly linked to cash management and liquidity.

Data from APQC’s Open Standards Benchmarking® database shows that organizations falling within the 75th percentile for this metric have an average DPO of 53 days, while the median have a DPO of 40 days. (See chart below. These readings were taken before the onset of the coronavirus outbreak.) The fastest-paying organizations are those in the 25th percentile, with an average DPO of 30 days. These numbers have risen across the board since 2017.

Had we found ourselves in a typical April, my advice would have been that a good DPO is, all else being equal, somewhere in the range of the median. This April is no ordinary one, however. To preserve the ability to keep paying employees and better manage operating expenses, companies may need to consider extending DPO as long as reasonably possible to ensure optimal cash flow.

Lengthening a company’s DPO requires a delicate balancing act. While there are good reasons for extending DPO, waiting too long to pay suppliers could potentially damage relationships or lead suppliers to put in place credit restrictions.

COVID-19 is not the first major disruption to global business and it certainly won’t be the last. In times of disruption and uncertainty, relationships with suppliers can make or break a company’s ability to continue selling to customers.

As a finance chief considers adjustments to DPO, he or she should coordinate with suppliers—especially those with whom they have strategic and mutually-beneficial relationships. Having transparent conversations with suppliers about the current revenue stream is the best play; suppliers will appreciate being party to the organization’s major business decisions.

As a company increases its DPO in coordination with suppliers, it will want to couple this move with a decrease in days sales outstanding (DSO) to bring cash in more quickly. If a business can extend DPO while decreasing DSO, its liquidity and cash reserves will improve. But it is also no easy feat, especially with large sectors of the economy virtually shut down.

Perry D. Wiggins, CPA, is CFO, secretary, and treasurer for APQC, a nonprofit benchmarking and best practices research organization based in Houston.

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“Waiting too long to pay suppliers could potentially damage relationships or lead suppliers to put in place credit restrictions.”
Managing the Remote Digital Workplace

BY KAUMIL DALAL

CFOs had little time to make investments and decisions as workplace and travel restrictions were imposed. Now that many workforces have been homebound for a few weeks, CFOs should ensure they continue to be productive. A key part is checking that the information technology teams have addressed the following five questions.

Do employees have the hardware they need to be successful? Once the workforce is equipped with the right computers and peripherals, broadband connections become important. Do employees have the right internet speed while working from home for the kind of work that's expected? Conduct an inventory of employees' broadband connections and pay attention to their downloading and uploading speeds to ensure there is adequate capacity for telephony, video, and screen sharing.

For some employees it may be necessary for the company to invest in mobile hotspots and related data plans to establish adequate internet access at home. Work with employees to get at least a minimum-viable capacity in place. And if the company relies on a virtual private network and all employees are working on it simultaneously, current hardware may not be able to handle the load.

Virtual collaboration, part 1: Are the right tools and technology in place? Does the company have tools such as Microsoft Teams, Slack, WebEx Teams, or Zoom that allow the ability to chat, co-author documents, access important files, and host meetings with video? Are there intelligent workplace tools such as Beezy (social business software) to help people stay connected and productive?

There is a good chance this is the first-time employees are using such tools as intended. Are there documentation and best practices that can easily be shared as employees navigate these platforms?

Virtual collaboration, part 2: Does the company have the culture to support remote working? Using video helps employees stay connected, regardless of distance. If the company didn't have a remote working culture before the coronavirus pandemic, it will be even harder to change and teach employees how to use digital workplace collaboration tools while remote.

Traditional ways of working will also change. Teams will need to be flexible with a potential shift in working hours.

Managers will also have added pressure to ensure their teams can perform well while remote. They will need to make sure their teams have an adequate understanding of tools. They must encourage collaboration, foster open communication, and measure productivity. Microsoft's usage analytics is a good built-in tool to see how people are working. Third-party tools, like Brainstorm's QuickHelp, can also help with monitoring and shaping effective usage through learning, support materials, communication campaigns, and analytics.

While this data is helpful information, managers still have the task of clearly crafting and communicating expectations for how their teams should interact and collaborate—for instance, being available and online during normal work hours.

Can the company's support desk handle a higher volume of requests? When the workforce is remote and trying to figure out new processes and tools on their own, support desk requests surge. Are there self-service resources and knowledge bases to provide support before requests occur? Are there enough IT resources to cover increased demand? Evaluate—today—the company's ability to troubleshoot remotely (if you haven't already).

IT may have to get creative if it can't meet and diagnose technical issues in-person. Consider increasing self-service capabilities by using a tool like ScreenSteps to easily create and publish guides that help avoid many of the issues that go to support. It's even possible to create workflow articles that mimic the troubleshooting process that people would get from a first-tier agent.

"Managers will also have added pressure to ensure their teams can perform well while remote."

Kaumil Dalal is lead digital workplace director at West Monroe, a national management and technology consulting firm. Frank Lesniak, Rick Sabatino, Alex Foucre-Stimes, and Ryan Milton contributed to this article.
Fixing Some Holes
Reforms to insider trading law could provide clarity, but they could also lead to more aggressive prosecutions. By Bob Violino

Within a couple of weeks of the COVID-19 outbreak in the United States, the Securities and Exchange Commission issued a warning to corporate executives and the wider public about trading on insider information.

“Corporate insiders are regularly learning new material nonpublic information that may hold an even greater value than under normal circumstances,” the commission said. “Given these unique circumstances, a greater number of people may have access to material nonpublic information than in less challenging times.”

In the SEC’s view, more material insider information plus stocks bouncing around like a super pinky ball equaled temptation. (Several Congressional representatives were already being investigated for allegedly ditching stocks after getting classified briefings on the threat of COVID-19.) It was also somewhat surprising, since in fiscal year 2019, the SEC brought 21 fewer insider trading cases than the year before (see chart, page 47).

The SEC’s warning was one that most finance chiefs took seriously: CFOs often manage or help manage the corporate trading window and approve or reject proposed trades when employees possess material nonpublic information (MNPI). But there’s another reason for CFOs to be hyper-cautious: Some legal experts and attorneys are pushing for a reform of insider trading law, and some of the proposed revisions could make it easier for prosecutors to bring cases and convict violators.

There’s been much discussion over the need for reform since the Bharara Task Force on Insider Trading published a report in January 2020 recommending ways to improve and clarify existing statutes and case law.

“Our nation’s insider trading laws have for too long lacked clarity, generated confusion, and failed to keep up with the times,” Preet Bharara, chair of the task force and former U.S. attorney for the Southern District of New York (SDNY), said at the time. “This lack of clarity and certainty, in this important area of law and our securities markets, has benefited no one.”

Specifically, the task force concluded that a legislative solution, in the form of a new statute expressly setting out the elements of an insider trading offense, would be the best vehicle for change. But not everyone sees the necessity for an overhaul.

Sticky Points
Insider trading is illegal trading of a company’s stocks or other securities by individuals with access to confidential or nonpublic information about the company, according to the Legal Information Institute at Cornell Law School. Taking advantage of this privileged access to information is considered a breach of an officer’s or director’s fiduciary duty. Illegal insider trading includes tipping off others to MNPI so they can trade on it, a common occurrence in famous insider trading cases.

The primary criticism leveled at U.S. insider trading law is that it is premised on decades of judicial decisions predicated upon the general antifraud provisions of the Securities Exchange Act of 1934, rather than a precise statutory framework, says John Sylvia, co-chair of the securities litigation practice at Mintz.

“This approach has resulted in inconsistent standards within the circuit [courts],” says Sylvia, particularly with respect to liability for insiders who tip others and for those who...
receive the tips. That inconsistency has made it more difficult to pursue these “downstream actors” who trade on shared material nonpublic information (MNPI), he adds.

For example, in 2017, professional golfer Phil Mickelson avoided being charged with insider trading after receiving second-hand information about Dean Foods. Prosecutors could not charge him with a crime because they could not find any evidence that Mickelson knew his tipper had inside information or knew that the tipper benefited in any way from passing that information along to Mickelson—a quirk in existing insider trading law.

Other aspects of insider trading law need clarity also. For example, courts have gone back and forth on whether the law requires that the tipper receive a personal benefit in exchange for disclosing MNPI to someone else. They have also differed on what precisely constitutes a personal benefit, says Greg Baker, a partner in white collar defense at Lowenstein Sandler.

Indeed, the Bharara Task Force recommended that the “personal benefit” requirement of existing law should be eliminated. It also recommended changes to the “knowledge requirement” that was key in Mickelson’s case.

**New Bill**

While it is unlikely, given the coronavirus pandemic, that Congress will make headway on insider trading law in 2020, there is legislation in the pipeline. H.R. 2534 (the Insider Trading Prohibition Act) passed the U.S. House of Representatives in December 2019 and was then referred to the U.S. Senate Committee on Banking, Housing, and Urban Affairs.

The bill addresses some of the nagging problems in insider trading law. For purposes of establishing a violation, for example, it says “that it is not necessary for [a person who receives a tip] to know specifically how MNPI was obtained or whether a personal benefit was paid or promised”—the issue in the Mickelson case. The standard would be whether the person who received the tip was “aware, consciously avoided being aware, or recklessly disregarded that such information was wrongfully obtained.”

The bill also addresses questions that have arisen in the digital era, such as if a cyberthief who steals corporate data and then trades on that information violates insider trading laws. Instead of a strict breach of duty or “intent to defraud” standard, H.R. 2534 uses a “wrongfully obtained” standard. “Wrongfully obtained” is defined to include MNPI obtained by: (i) theft, bribery, misrepresentation, or espionage (or other electronic means); (ii) a violation of any Federal law protecting computer data or the intellectual property or privacy of computer users; (iii) conversion, misappropriation, or unauthorized and deceptive taking of such information; or (iv) a breach of any fiduciary duty, a breach of a confidentiality agreement, a breach of contract, or a breach of any other personal or other relationship of trust and confidence.

Some experts and attorneys think H.R. 2534 is dangerous and unnec-
“The broader scope of the ‘wrongfully obtained’ and ‘recklessness’ standards, if approved, presumably would result in a greater number of insider trading prosecutions.”

—Greg Baker, partner, white collar defense, Lowenstein Sandler

Essary. “Merely because the SEC becomes displeased with the direction of judicial interpretation of the law does not mean that Congress must provide a legislative bailout,” says Jacob Frenkel, securities enforcement attorney at law firm Dickinson Wright. While the bill on its face appears to provide clarity, “greater confusion and more aggressive prosecutions are the likeliest results,” Frenkel says.

He says “the zones of uncertainty” in the bill outweigh what is currently a relatively understandable prohibition under the antifraud provisions of the securities laws. For example, says Frenkel, “establishing express liability for trading derived from cyber intrusions easily could be a valuable amendment to existing cybercrime statutes.”

Other attorneys disagree on whether the reforms would result in more cases or convictions. Says Baker: “The broader scope of the ‘wrongfully obtained’ and ‘recklessness’ standards, if approved, presumably would result in a greater number of insider trading prosecutions ... This is particularly true insofar as the statute envisions liability for information obtained by theft or espionage.”

Mintz’s Sylvia sees a more complex outcome: a well-defined standard would lead to more informed prosecutorial charging decisions regarding tippers and tippees, he says, and likely would lead to more convictions. (Prosecutors and the SEC presumably would not charge cases that did not fit squarely within the statutory framework.)

“But the overall number of cases charged under current standards presumably would decline, as questionable cases would be rejected or charged as civil—and not criminal—violations,” says Sylvia.

Being Vigilant

Any changes in insider trading law, obviously, could potentially affect finance chiefs and other corporate executives. “H.R. 2534 would potentially make it easier to prosecute corporate executives who communicate MNPI in breach of a duty, because the proposed bill expands upon the types of duties [a breach of a confidentiality agreement, a breach of contract, or a breach of any other personal or other relationship of trust and confidence] ... that ultimately give rise to liability,” Baker says.

Certainly, H.R. 2534 could make current law clearer. But it also may make things harder for CFOs and corporate attorneys monitoring employees’ compliance.

A CFO at almost all times is in possession of some material nonpublic information, Frenkel says. “The issue is, how ‘material’ is that information? By eliminating the requirements that the person trading acted with an intent to defraud or had a duty not to use the information for personal benefit, any public company CFO trading stock could potentially be in the SEC’s or [Department of Justice’s] cross-hairs.”

With the SEC watching closely the next few quarters, the best advice is to say informed.

Bob Violino is a freelance writer based in Massapequa Park, N.Y.
Food, Glorious Food

It would seem painfully obvious that if a pandemic were going to force people to isolate at home, grocery stores would become essential businesses. Clearly, however, it wasn’t. As a tribute to the cashiers, stock clerks, food preparers, and order-takers keeping shopping carts filled and the nation’s pantries stocked during a global pandemic, we present a quiz on the grocery industry.

1. Which is NOT one of the top four largest grocery store chains in the United States?
   A. Kroger
   B. Albertsons Companies
   C. Wegmans Food Markets
   D. Publix Super Markets

2. In what year did German grocery giant Aldi open its first U.S. store, which was in southeastern Iowa?
   A. 1982
   B. 1991
   C. 1965
   D. 1976

3. What was the original name of the Safeway grocery store chain?
   A. Food Lion
   B. Food Town
   C. Sam Seelig Grocers
   D. Ralph’s

4. Which grocery chain was NOT on Food & Wine’s 2019 list of the 10 best supermarkets in the United States?
   A. Sam’s Club
   B. Whole Foods
   C. Trader Joe’s
   D. Lidl

5. Which company is generally considered the first online grocery store in the U.S.?
   A. Peapod
   B. Webvan
   C. Homegrocer.com
   D. Fresh Direct

6. What is the average hourly wage for a grocery store cashier?
   A. $10
   B. $20
   C. $18
   D. $15

7. What was the original name of the Trader Joe’s chain of stores?
   A. Central Market
   B. Pronto Market
   C. Von’s
   D. Food Bazaar

8. About how many supermarket stores are there in the U.S.?
   A. 38,000
   B. 14,000
   C. 25,000
   D. 19,000

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