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# FEI-CFRI REPORT

*Driving Growth Through Technical and Leadership Excellence*

## INSIGHTS FROM SIEGFRIED

*38th Annual Financial Executives International*
*Current Financial Reporting Issues Conference*
*New York, NY*

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[Financial Executives International](#) (FEI) recently held its 38th annual Current Financial Reporting Issues Conference (CFRI) in New York City. The theme of the conference was "Driving Growth Through Technical and Leadership Excellence." The FEI CFRI conference featured discussions and presentations focused on hot accounting topics, regulatory updates, the evolving and disruptive role of technology in the profession, and lessons in leadership. Representatives from the Financial Accounting Standards Board (FASB), the U.S. Securities and Exchange Commission (SEC), and the Public Company Auditing Oversight Board (PCAOB) joined panelists from SEC registrants, regulators, and public accounting firms to thoughtfully and succinctly present this important material.

The conference touched on diverse and impactful topics, including accounting standard-setting, promoting diversity, and embracing new technology. There were two common threads in all those success stories:

- **The ability to collaborate effectively.** We heard stories of collaboration within an organization leading to a technological success, collaboration leading to breakthroughs in leadership and team strategies for the implementation of a new accounting standard. We also heard stories of collaboration between the standard setters, regulators, preparers, and investors. No success story told over the two days started with "I did…" All the panelists agreed that achievement of goals required strong, diverse, cohesive teams who were ready and willing to collaborate, often with non-accounting professionals.
- **The ability to embrace change effectively.** The panelists drove home that the accounting profession is in the midst of fundamental change. After driving home massive change on revenue recognition and leases (both of which were still hot topics!), the SEC and FASB are not resting on their laurels in the shared goal of making financial reporting better for investors. Beyond the debits and credits, the panelists reminded us that robots and other artificial intelligence tools are not off in the distant future; they are here now. It's up to everyone from the CFO on down to evolve and embrace all types of change and add new value to our organizations.

The Siegfried Group, LLP (Siegfried) prepared the following highlights to share with our stakeholders:

## DAY ONE

**Perspectives: A Dialogue with FASB Chairman Russ Golden**

- *Moderator Alice Jolla (Controller, Microsoft)*
- *Keynote Russ Golden (Chairman, FASB)*

"Does the benefit of the change justify the cost?"

Golden felt this question encapsulated the FASB's approach to shepherding in the meaningful recent change which has occurred in the accounting landscape. Relative to the new rules for revenue and leases specifically, Golden believes the answer to this question is a resounding "yes." He is proud of the enhanced quality, transparency, comparability, and simplicity of financial reports which have implemented these two new standards.

Golden also emphasized the FASB's role as mediator between investors, preparers, and accounting firms. The FASB must balance the desires for more information with the reality of cost and capacity. This role is ongoing as the FASB attempts to continuously improve the standards and its policies and procedures. With that overall goal in mind, Golden has pushed the FASB to become more responsive, collaborative, and transparent than ever, primarily accomplished through the effectiveness of Transition Resource Groups (TRGs) for specific standards. TRGs aren't a new concept, but time and experience taught Golden what makes them effective:

- Soliciting, discussing, and analyzing stakeholder issues arising from implementation of the new guidance;
- Informing the Board about those implementation issues, which will help determine what action, if any, will be needed to address those issues;
- Providing a forum for stakeholders to learn about the new guidance from others involved with implementation;
- Ensuring that the extent to which auditors and preparers interpret standards different is limited.

*Key Takeaway:*

- The FASB wants your feedback, and they want to put that feedback to work by publishing useful documents to help interpret critical elements of new and existing guidance. They want to listen, collaborate, and provide timely solutions.
- Besides participating in Transition Resource Groups targeting specific guidance, Golden reminded the audience that stakeholders could also submit Technical Inquiries to the staff via its web site on any topic.

**FASB: Standards that Work**

- *Presenter Shayne Kuhaneck (Technical Director, FASB)*

"We can't fix it if we don't know it's broken." While emphasizing the collaboration message of his colleagues at the FASB, Kuhaneck offered a more detailed view of the current priorities of the Board:

- **Finalizing the effective date deferrals for leasing, CECL, and hedging:** Kuhaneck emphasized that the implementation challenges faced by smaller companies caused the FASB to adopt a new general philosophy on effective dates for significant new standards. They plan to give smaller companies more time and more resources to adopt going forward.
- **Reference rate reform:** London Interbank Offered Rate (LIBOR) is going away, which will have a sweeping impact on almost all companies. Many types of contracts (leases, debt, hedging) reference LIBOR in some way, so the FASB is in the process of preparing draft guidance to help companies deal with the accounting fallout. They expect to have an exposure draft soon.
- **Debt/Equity:** A proposed Accounting Standard Update (ASU) was released this summer with the comment period recently closing, the goal of which was to simplify and reduce the number of available accounting models for convertible debt. More than 200 practitioners weighed in on this topic, which is one of the most significant causes of restatements; so, this is truly a hot topic!


*Key Takeaway:*

- With the appropriate disclaimer, Kuhaneck expressed his personal view that the FASB is likely never to undertake guidance, which will define common non-GAAP measurements like free cash flow, operating income, or EBITDA. It is better sorted out by investors than the standard setters.
  - That said, companies should be mindful that "non-GAAP" measurements must be derived from GAAP measurements and easily reconciled, and as these types of disclosures have become more frequent and voluminous, they will receive additional scrutiny in published documents.

**Optimizing Diversity and Inclusion Initiatives**

- *Moderator Stephen Rivera (VP Global Technical Accounting, Johnson & Johnson)*
- *Panelist Shaun Budnik (Partner, KPMG)*
- *Panelist Barbara Whye (Chief Diversity & Inclusion Officer and VP of Human Resources, Intel)*

"Innovation is dependent on the cultivation of different perspectives." Experiences form perspectives, and the panel was unanimous in its conclusion that drawing input and ideas from different backgrounds are why diverse teams produce the best results.

Rivera described some of the challenges of diversity in the finance and accounting world, such as a lack of mentors. He has heard from many minority professionals who have difficulty envisioning upward mobility in an organization due to a lack of diversity at the top. He recommended companies should prioritize creating targeted opportunities for said individuals to prevent them from falling through a "leaky bucket" retention impact.

Budnik described all the biases we all have:

- **similarity bias** (we prefer to work with people who are like us);
- **expedience bias** (we prefer to act quickly);
- **experience bias** (we believe our experience is the objective truth);
- **distance bias** (prefer what is closer versus far away);
- **safety bias** (we prefer to avoid pain and hardship if there is an easier path).

Checking these biases at the door can be a significant challenge, but it is necessary to form the best teams possible. Organizations can even implement policies and procedures to guard against biases, such as expanding beyond "traditional" colleges and universities when recruiting to tap into new perspectives and experiences. Budnik even plays "personality poker" to ensure her teams are not homogenous in terms of cultures and personality types.

Whye described a former manager who told her that all things equal, he tried to give a minority candidate a chance first. While this is a noble vision, she also cautioned the audience that you can't promote people and create diversity just for diversity's sake. Value creation must be present; people ultimately don't want opportunities just because they are a woman/minority.

*Key Takeaway:*

- If there is someone quiet on your team, engage that person, and allow them to be heard. It's vital that leaders take the initiative to help someone feel valued and that they belong.
- Each panelist reiterated that diversity is a fact, but inclusion is a choice!

**Embracing Emerging Technologies**

- *Moderator Scott Szalony (Partner, Deloitte)*
- *Panelist Laura Adams (Controller, Booz Allen)*
- *Panelist Loretta Cangialosi (Controller, Pfizer)*
- *Panelist James Lee (Executive Director, JP Morgan Chase)*

"The very routine work is going away." The companies on this panel have woken up to the benefits that artificial intelligence and machine learning can have on a business and accounting function. At the heart of their investments was a desire to more quickly access and analyze data to give their organizations a competitive advantage. The panelists are using technology to enable predictive analysis, illuminate patterns and trends, and identify and mitigate risks. Cangiolosi is accomplishing these goals with the assistance of 300 robots!

The panelists' investments have been focused on:

- **Robotic process/ automation (RPA):** Using software to automate repetitive business processes which once required manual intervention, improving efficiency, and allowing for the focus on more rewarding and valuable activities.
- **Cognitive intelligence:** Adding artificial intelligence to RPA to allow the robots to make decisions and mimic human interaction, such as reading and extracting information from documents, performing predictive analytics, and helping to identify fraud.

Historically, investments in financial accounting systems were never sold to executive teams with return on investment (ROI) in mind. However, historic investments in technology today can be supported by ROI, and must be so since they will be multi-year, multi-faceted investments for the most part. Adams advised the audience to get the full buy-in upfront, but be prepared to take a cautioned, reasoned approach to integration. There should be a focus on the more mundane, transactional tasks first (take the "small wins") with a focus on integrating existing technology and layering systems together. Lee echoed that sentiment and added companies must be prepared to experience some failure before they see the kinds of gains they want.

*Key Takeaway:*

- These investments must be carefully curated to create the right tech for your specific goals. There will inevitably be hundreds of companies looking to sell the latest and greatest technology. Do your due diligence and know you can't and shouldn't say "yes" to everyone.

**Deep Dive: Leases, LIBOR, and Other Hot Topics**

- *Panelist Amanda Shepherd (Director, Kaplan Financial Education)*
- *Panelist David Fabricant (Deputy Controller, American Express)*

"What can we tell you about leases you haven't heard already?" As it turns out, a little bit! Fabricant expanded on implementation lessons to include those learned from new routine interaction with the new standard. Specifically, he mentioned how the standard had impacted their buy vs. lease decision making, how specific performance metrics had to be adjusted, SOX controls refined and tested, and dealing with system challenges (subsequent modifications). These are all great reminders, even after taking a collective breather after an implementation.

The FASB speakers touched on the new reference rate exposure draft, but this discussion took a little bit of a deeper dive, and they urged the group to begin preparing for this now as it will inevitably involve stakeholders outside of your organization (banks, bondholders, other counterparties). LIBOR truly is embedded in our financial system as a critical benchmark and is going away as soon as 2021, so the clock is ticking. Fabricant pointed companies to the Alternative Reference Rate Committee, which issued a Practical Implementation Checklist for organizations looking to create a new reference rate in their contracts, such as the Secured Overnight Financing Rate. The Checklist contains steps for organizations to consider as they strip LIBOR out of their agreements.

The session expanded on everyone's other historical favorite hot topic: revenue. This time, the focus was on the SEC response to the first wave of disclosures and what their comment letters have focused on:

- How categories of disaggregated revenue were chosen (SEC benchmarked against peer companies for similarities and ensured sales were reported similarly in other published documents like press releases or website)
- How companies decided on gross versus net presentation
- In bundled sales, how the stand-alone selling price was determined

Primarily, the SEC is looking for a "full story" when it comes to disclosures on revenue.

*Key Takeaway:*

- Through the implementation of these major standards is a significant achievement that should be celebrated, the work doesn't end there. Care should be taken post-implementation to improve the quality of your disclosures continuously.

**PCAOB: Two Years In**

- *Moderator Ron Edmonds (Controller, Dow Chemical)*
- *Panelist Duane DesParte (Board of Directors, PCAOB)*
- *Panelist Jim Kaiser (Board of Directors, PCAOB)*

"How can we become more preventative in our approach to oversight?" The Board members laid out some ambitious and intriguing plans to answer this question, and get away from a perceived "Gotcha!"

mentality that was pervasive in the past. The panel discussed the below steps taken or soon to be taken by the PCAOB to accomplish their goals of enhancing audit quality:

- Hiring of new chief auditors, Head of IT and the creation of a new office headed by recent Board appointee Rebekah Goshorn Jurata, whose office will become a unique single point of contact for investors and other stakeholder concerns;
- Redesign of inspection reports to make them more digestible and relevant to a broader base of shareholders;
- A renewed emphasis on the assessment of firm quality control policies and procedures;
- Rolling out new standards for audits beginning this year-end (or next year, for non-accelerated filers), predominantly around critical audit matters (CAMs):
    - Auditors must communicate CAMs in the auditor's report. The determination of CAMs is principles-based and depends on the facts and circumstances of each audit. Disclosure will include how the CAM was identified, why it was determined to be a CAM, how it was addressed and a reference to the related disclosure in the financials;
    - "Dry runs" were executed during 2019 to aid the firms in this new requirement, including required audit committee communication and draft language.
    - Investors are excited about this development, as identification and disclosure of the significant issues have never been present in the past.

*Key Takeaway:*

- Expect to see increased vigor in areas requiring a significant estimation or the work of specialists; extra work or documentation required of auditors may require the assistance of their clients.
- This change is a great reminder to tighten internal documentation in these judgmental areas:
    - Do we have management biases in the development of estimates? Is there a devil's advocate position that makes as much sense?
    - Can we easily validate data used by a specialist?

**Finance Skills of the Future**

- *Moderator Aaron Anderson (CAO, PayPal Holdings)*
- *Panelist Rita Karachun (Controller, Merck)*
- *Panelist Peter Lease (Partner, EY)*
- *Panelist Lori Tansley (Managing Director, Moody's)*

"How can we develop our mindset in addition to our skillset?" In an extension of the earlier discussion on emerging technologies, this panel focused more on the challenges organizations will face to help its people stay relevant while also sharing success stories of technology implementation. The panel believes finance professionals of the future need a baseline of accounting knowledge, but complex problem-solving skills, cognitive flexibility, creativity, self-reliance, and a collaborative mindset will become even more valued. So, can organizations foster the building of these skills, which in many cases will be transformative? The panel says, yes!

- In an extension of the diversity session, finance organizations should adapt their recruiting profile and consider supplementing their teams with backgrounds from computer science, mathematics, even engineering to build teams who can deliver value via technology/data analytics
- Thoughtful workforce planning is essential; companies should partner with human resources to ensure a plan is communicated to impacted workers. Honesty and transparency are vital.
    - Companies should prioritize learning and collaboration if they aren't already, and promote the idea that failure is ok

*Key Takeaway:*

- Learn from your service providers or other vendors (such as auditors) who may be more on the cutting edge in tech than you are currently. Try to glean lessons from them and get access to tools if it makes sense.

## DAY TWO

**SEC Overview**

- *Presenter Sagar Teotia (Chief Accountant, US Securities & Exchange Commission)*

"The most important consideration for any of our changes is the impact to investors." Teotia's remarks focused broadly on the SEC's goal of ensuring that all stakeholders involved in the financial reporting system must contribute towards the collective goal of delivering high-quality information to investors. His Office of the Chief Accountant takes a vital role in the achievement of this critical goal; Teotia spoke about some of the current priorities:

- Proactively engaging with those stakeholders, including management and audit committees of issuers, their auditors, and investors;
- Overseeing the FASB's standard-setting activities and assisting with implementation concerns;
- Overseeing the PCAOB in its role of enhancing the quality of audit services for public companies;
- Addressing very challenging and complex consultations regarding US GAAP and IFRS, and auditor requirements, including independence consultations;
- Participating in the monitoring of the IFRS Foundation's activities and fostering high-quality international accounting and reporting standards; and
- Joining as a Co-Chair in the work of The Monitoring Group, which is a group of international financial institutions and regulatory bodies committed to advancing the public interest in areas related to international audit standard-setting and audit quality.

*Key Takeaway:*

- From his strong international partnerships, Teotia has observed that the SEC is a global leader in ensuring efficient, transparent, and effective markets. The Commission should be a source of pride for America and its financial markets.

**SEC Office of the Chief Accountant (OCA) Update**

- *Moderator Brent Woodford (Executive VP, Controllership, Financial Planning at The Walt Disney Company)*
- *Panelist Marc Panucci (Deputy Chief Accountant, SEC)*
- *Panelist Kevin Vaughn (Senior Associate Chief Accountant, SEC)*

"Our phones are open." While expanding on Teotia's statements on the priorities of their Office, Panucci and Vaughn discussed how the OCA is also prioritizing collaborating with stakeholders and the successes of doing so, as well as ICFR matters.

The OCA specializes in consulting on unusual, complex, or judgmental accounting and transactions for which authoritative guidance is limited. Vaughn described the successes of OCA consultations on revenue and leases and the extent of current consultation on CECL, where their work with preparers and industry groups have helped identify issues. Their strong partnership with FASB and PCAOB ensures these issues can be resolved efficiently.

*Key Takeaway:*

- The strength of their relationship with the PCAOB and FASB will ensure the OCA is as well equipped to address stakeholder concerns on future standards for debt/equity, goodwill amortization, and hedging as they are on revenue and leases.

**SEC Division of Corporate Finance Update**

- *Moderator Brent Woodford (Executive VP, Controllership, Financial Planning at The Walt Disney Company)*
- *Panelist Kyle Moffatt (Chief Accountant, Divison of Corporation Finance, SEC)*
- *Panelist Lindsay McCord (Deputy Chief Accountant, Division of Corporation Finance, SEC)*
- *Panelist Patrick Gilmore (Deputy Chief Accountant, Division of Corporation Finance, SEC)*

"We're putting ourselves in the shoes of the customer." The SEC department, which doles out comment letters, is making significant improvements to enhance the filing review process. Companies will continue to assign companies and filings to review offices by their principal industry focus using SIC codes; however, there are now only seven industry offices instead of 11, with all the new industry office leads reporting to a single head. This change should allow for some fresh perspectives from staff reshuffling while also promoting uniformity in reviews and comments.

Moffatt went on to discuss some key focuses on recent SEC comment letters:

- **Non-GAAP disclosures**: The term "individually tailoring accounting principles" was used to describe a growing trend. A lot of companies are merely changing recognition patterns (revenue less the impact of "x") versus a term like contribution margin derived from GAAP amounts).

- **Segment reporting**: The staff has expanded their assessment of reportable segments to include reviewing company web sites, press releases, and peer disclosures to ensure segments make sense.

Finally, they discussed a couple of future reporting possibilities in the infant stages of assessment:

- **Interim reporting**: A possibility of returning to semi-annual reporting has been considered, with the concern that quarterly reporting has fostered too short-term thinking and onerous reporting responsibilities for public companies.
- **Improvement to disclosures on business acquisitions/disclosures:** Thoughts include reducing the number of acquisitions which qualify for disclosure, reducing the number of periods those acquisitions appear in the notes to the financial statements and then simplifying pro forma disclosures/adjustments.

*Key Takeaway:*

- All of the changes and improvements to the Division of Corporate Finance are designed to make the rules clearer to all stakeholders, information easier to locate, and, ultimately, financial reporting more effective for investors.

**Deep Dive: Current Expected Credit Losses (CECL) and Hedging**

- *Panelist Mark Northan (Partner, KPMG LLP)*
- *Panelist Michael Cleary (VP Accounting & Financial Reporting, The Boeing Company)*

"CECL applies more broadly than you might think." The impact of the new credit impairment standard on financial institutions and banks is well established, but this session focused on non-financial services companies. Many non-financial services companies have long-term receivables, held-to-maturity debt securities, and contract assets, let alone trade receivables.

The CECL model requires an entity to estimate credit losses expected over the life of an exposure based on current information, historical information, reasonable and reportable forecasts. The CECL model does not prescribe a specific methodology for developing a reasonable and supportable forecast, nor the duration. Cleary described some challenges Boeing encountered while implementing the guidance:

- determining historical losses on trade receivables by bucket;
- determining historical losses on unbilled receivables;
- assessing whether those historical losses are representative of future loss rates;
- how to measure amounts recovered from write-offs over time;
- dealing with the longer duration receivables from specific contracts (up to 15 years in the case of Boeing).

*Key Takeaway:*

- There was a consensus that the longer duration the financial asset, the more significant the impact from CECL. However, non-financial services companies will likely not need to implement complex modeling systems or processes.

**Keynote Presentation: Intentional Leadership**

- *Presenter Carla Harris (Vice Chairman, Managing Director and Senior Client Advisor, Morgan Stanley)*

"The more you empower others, the more powerful you become." In her 30+ year career at Morgan Stanley and as a best-selling author, Carla Harris has dispensed a lot of "pearls of wisdom." On this day, these pearls focused on intentional leadership, and she outlined eight deliberate actions that will provide purpose and meaning for your business, and will ultimately contribute to the development of great teams.

1. **Intentional about authenticity:** Never betray who you are. If you behave in an unauthentic way, that means you're diverting capital better spent elsewhere to adjust your natural self.
2. **Intentional about building trust:** You cannot maximize your success alone. How do you build trust? You deliver over and over again**.**
3. **Intentional about creating other leaders:** She described a CEO she once worked with who said that "I only concern myself with things only a CEO can do." Give people the power to create and lead and watch them flourish.
4. **Intentional about creating clarity**: Teams can't succeed if they don't know what success looks like. It is so important that teams define success to have a focused team and prevent a lack of productivity chasing the wrong goal.
5. **Intentional about diversity:** Diversity does not just happen. Ideas come from perspectives, which come from experiences, which come from people. Diversity is required to generate the ideas needed to compete and innovate.
6. **Intentional about innovation:** The courage of risk-taking should always be commended and encouraged regardless of the result. Teach your team to fail and learn from it to create change.
7. **Intentional about inclusivity:** Diverse ideas can't come to the forefront if members aren't comfortable sharing them. Calling people out by name is sometimes required to coax those ideas out. Shy or not, everyone values being heard. Make it a priority.
8. **Intentional about using your voice:** Part of delivering over and over again is having the courage to call a spade a spade; trust is gained from having a consistent, honest, and strong voice.

*Key Takeaway:*

- Never let someone else write your narrative. Giving away your narrative is akin to giving away your power, and ultimately your stature as a leader.

**Controllers Roundtable**

- *Moderator Laura Shiffman (Professional Accounting Fellow, FEI)*
- *Panelist Aaron Anderson (Chief Accounting Officer, PayPal Holdings, Inc.)*
- *Panelist Marie Gallagher (Senior Vice President and Controller, PepsiCo Inc)*
- *Panelist Stephen Rivera (VP Global Technical Accounting, Johnson & Johnson)*

"'How can I evolve?' vs. 'Will I be left behind?'" Panelists debriefed their key takeaways from the conference as it relates to the changing role of the Controller: cultivating diversity, shepherding transformational change, and creating diverse and outstanding teams. The panel agreed that a role less focused on gathering numbers and more focused on analysis, employee development, and experimentation is an exciting proposition.

*Key takeaway:*

- You will often find "diamonds in the rough" in transformation – when you expose people to new growth opportunities, some will shine (evolve) and become a key pillar of your transformed organization. Controllers should take pride and find joy in creating these opportunities for others.

We encourage you to share this recap with anyone who may find it relevant and interesting. Don't forget to sign up for our email list to receive the latest information from us!