



Siegfried

FEI-CFRI REPORT

Leading through Crisis to Opportunity

INSIGHTS FROM SIEGFRIED

*39th Annual Financial Executives International
Current Financial Reporting Insights Conference*

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[Financial Executives International](#) (FEI) recently held its 39th annual Current Financial Reporting Insights Conference (CFRI). The theme of the conference was “Leading through Crisis to Opportunity.”

This year’s virtual conference featured discussions and presentations on trending accounting topics, regulatory updates, the evolving and disruptive role of technology in the profession, and leadership lessons. To thoughtfully and succinctly present this important material, 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.

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

DAY ONE

The Next 75 Years...Why Focused Leadership is so Important

Speaker: [Herschel Frierson](#), Chairman of National Association of Black Accountants (NABA)

Herschel, the National Chair of NABA, focused on the accounting industry’s need to make progress toward racial diversity. He explained what drew him to accounting, describing it as “the language of business,” and shared details on how he is driving diversity in the profession. His role’s primary goal is to advance his members in their careers, profession, community, and life.

Herschel shared a few astonishing statistics, including that only 1% of CPAs are black, compared to 13% of the U.S. population, a figure that has remained unchanged since 1995. To make things more inclusive, Herschel believes that we need to first understand what is holding black people back from entering the profession.

He suggested that finance and accounting leaders partner with NABA to provide opportunities to more diverse talent pools. Also, a focus on recruiting, retaining, and advancing a diverse group of professionals will build diversity from the bottom up, and executives should start by discussing these matters with other stakeholders to make diversity a priority.

Key takeaways:

- Equity is the pathway to people being included by providing the same opportunities for all.
- Companies need to start with diversifying the workforce, then create the pathway for inclusion.
- To successfully diversify, companies need to establish equity, not just check a box of diversity programs.

Beyond Thoughts and Prayers: Action-Oriented Diversity and Inclusion

Speakers:

- [Lara Abrash](#), Chairman and Chief Executive Officer, Deloitte & Touche LLP (*Moderator*)
- [Mariana Fagnilli](#), Vice President, Global Office of Diversity & Inclusion, Liberty Mutual Insurance
- [Stephen Rivera](#), Vice President, Global Technical Accounting Advisory Services & Policy, Johnson & Johnson

In this session, Lara discussed challenging employees to be more inclusive. Inclusion, she shared, is not limited to race and gender, but also other unique attributes. People that are different can be marginalized or bullied.

With the increased focus on social injustice and diversity and inclusion, Mariana believes that its most important for executives and management to foster the mindset of being more collaborative and inclusive within their teams. She also promoted the idea of creating self-awareness and offering equitable career

flows, training, and promotional opportunities to all employees to increase diversity.

For Stephen, what's most important is ensuring that new professionals see what is possible when people are empathetic and understanding, noting that how employees treat people outside of the company is just as important as the way they treat their colleagues. He also stated that "inclusivity is more than just ethnicity, and broader inclusion is important."

Key takeaways:

- Diversity and inclusivity need to be authentic to bring out the best in employees.
- Companies cannot simply offer "lip service" to diversity and expect real change.

Business Continuity Becomes Business As Usual

Speakers:

- [David Fabricant](#), Senior Vice President, Global Record to Report Controller, American Express
- [Alice Jolla](#), Chief Accounting Officer and Corporate Vice President, Microsoft
- [Rita Karachun](#), Senior Vice President Finance and Global Controller, Merck

Challenges related to business continuity have changed since the beginning of 2020. Rita didn't envision a long-term business interruption at the beginning of the year, but a robust IT structure at Merck, as a result of a previous cyberattack, ultimately benefited the company. Her team only needed to make minor adjustments to provide the same results they had before the pandemic.

American Express had business continuity plans, shared David, but had not considered a scenario where all locations would close. They quickly designed and tested a remote month-end close process to ensure they could close the books timely and effectively, and echoed the

importance of testing their business process promptly after beginning remote work.

At their U.S. headquarters, Microsoft was facing a year-end close at the start of the pandemic. Alice shared best practices she learned from global offices that had already closed and were remote. Key challenges included acquiring appropriate equipment to work remotely, slower internet speeds at employees' remote locations, coordinating with the external auditors, and performing physical inventory.

Key takeaway: Technology, communication, and social connections create the foundation of effective and efficient execution of "business as usual."

DAY TWO

FASB Agenda: Priorities of the Board

Speaker: [Hillary Salo](#), Technical Director, Financial Accounting Standards Board (FASB)

The FASB is prioritizing communication improvements with stakeholders and considers the quality of how its output directly relates to the input received. The ultimate goal is high-quality adoptions of its standards. The FASB's communication takes the form of stakeholder outreach, providing interpretive guidance, assessing recently issued standards, issuing Q&As, and working with AICPA and the SEC. For example, FASB recently issued guidance for COVID-19-specific issues as a Q&A for guidance on lease concessions.

Post-implementation reviews related to revenue recognition, leases, and CECL have been an area of focus in 2020. An initiative such as the creation of focus groups, participation in public meetings, and conducting roundtable discussions have resulted in the issuance of interpretive guidance to improve the quality of standards adoption.

Key takeaway: The FASB is continually striving to work with stakeholders to improve the adoption of new standards, take up new issues, and amend guidance if it no longer meets the needs of the investment and reporting community.

DAY THREE

2021 and Beyond: The Economic Impacts of COVID-19, the Presidential Election, and the Future

Speaker: [Mark Zandi](#), Chief Economist, Moody's Analytics

Although the recession triggered by the COVID-19 pandemic and related economic shut-down was the shortest in history, it was also very severe. The economy has rebounded, but some have fared better than others. Lower-income households have recovered more slowly and smaller businesses are more likely to continue suffering than larger businesses. The divergent paths where different parts of the economy recover at different rates, times, or magnitudes is a "K-shaped recovery," explained by Mark. In his baseline recovery scenario, he expects that full employment will return in late 2023.

He then detailed six distinct risks to this modeling:

1. **Constitutional Crisis** – An extended election dispute could result in a constitutional crisis with a downside impact on economic recovery. As of the presentation date on November 9, 2020, there was no significant civil unrest and the process is playing out in an orderly way.
2. **Pandemic Intensity** – The recovery can be positively or negatively impacted by the severity of virus spread. More widespread infection rates could result in additional lockdowns and other downside impacts on the economy.
3. **Monetary Policy** – The Federal Reserve has acted quickly dropping interest rates to zero, purchasing

treasuries, and providing liquidity to credit markets to support the economy. The recovery will be further impacted by not only U.S. monetary policy, but also global policies.

4. **Fiscal Policy** – The U.S. has provided strong support to its economy, primarily the \$2.2 trillion CARES Act that included payments to individuals and families and enhanced unemployment benefits for those affected by the pandemic. The risk is that the U.S. needs additional support to recover more quickly. If no additional support or if a smaller subsequent stimulus package is passed, higher unemployment and a longer recovery could result.
5. **Biden Administration Agenda** – How the new administration addresses a variety of issues including the pandemic, immigration, trade, climate and energy, healthcare, and more will have positive or negative impacts on the economy.
6. **High Debt and Deficits Compared to GDP** – On a global basis, not just in the U.S., large deficits and debt to support the economy through the pandemic may result in minimal ability to respond to a further economic crisis.

Key Takeaway: The economic recovery from the pandemic is fragile and could be impacted by several political, economic, and financial risks.

Technology and Data Analytics in the Audit

Speakers:

- [Ron Edmonds](#) – Controller and Vice President of Controllers and Tax, Dow (*Moderator*)
- [Duane DesParte](#), Board Member, PCAOB
- [Ian Wildenborg](#), Audit Partner, KPMG

Beginning in 2018, the PCAOB began to implement its five-year strategic plan and is now nearing the half-way completion point. The five areas of focus in the strategic plan include:

1. Drive improvement in the quality of audit services, detection, deterrence, and remediation.
2. Anticipate and respond to the changing environment, including emerging technologies and related risks and opportunities.
3. Enhance transparency and accessibility through proactive stakeholder engagement.
4. Pursue operational excellence through efficient and effective use of our resources, information, and technology.
5. Develop, empower, and reward our people to achieve our shared goals.

This session discussion focused on areas that have evolved since the five-year plan was implemented, as the Board continues to refine its agenda and respond to the pandemic.

Audit Quality

Ian discussed KPMG's focus on audit quality amidst the pandemic, with teams conducting audits remotely with the use of technology. Their teams are spending more time looking at the impacts of COVID-19 on their clients' accounting processes and internal control environments as well as increased attention on impairment and going concern analysis, which rely on the judgment of management and the auditors, especially estimates that use forward-looking data.

Cybersecurity

Duane expressed that cybersecurity has become a significant area of focus for audit firms and their clients, all of which are focusing more time and money on addressing and mitigating risks. The PCAOB pays particular attention to how auditors have responded to cybersecurity breaches as part of their inspections.

Sources of Audit Evidence Due to Technology

Audit evidence is increasingly moving to digitized records instead of paper, to the point of electronic data only. Duane stated that the electronic audit evidence

project was added to the PCAOB agenda, but the underlying expectations of relevance and reliability of audit evidence in every form have not changed. He also noted that the standards may be updated to provide better examples using technology. Ian discussed the evolution of testing where electronic records are subject to a robust set of controls for creation, maintenance, and retention, and that audit teams may leverage the use of technology to evaluate electronic audit evidence differently.

Key Takeaway: As companies and firms leverage technology more as a result of innovation and as a reaction to the impacts of the pandemic, the focus on audit quality has become even more important.

Leveraging Automation and Technology to Increase Productivity

Speaker: [Michelle Chang](#), General Manager and CFO of Modern Workplace and Security Finance, Microsoft

Digital transformation for all businesses, and for Microsoft in particular as Michelle discussed, was accelerated by the COVID-19 pandemic. Employees are learning how to do everything virtually, both personally and professionally.

Along the journey, digital transformation is being driven by a [citizen developer](#) with ordinary people using tech to solve problems and drive efficiencies. Citizen developers do not have to be the most tech-savvy, but could be a curious person looking to solve a problem. In the past, citizen developers were identified and trained up on tech skills. Now there is more collaboration across departments with varying degrees of tech skills.

Key Takeaway: Leveraging citizen developers and providing them the tools to create their solutions is becoming an increasingly important means to innovate.

DAY FOUR

The SEC: Office of the Chief Accountant Update

Speakers:

- [Kevin MacKay](#), Vice President, Global Technical Accounting Advisory Services & Policy, Pfizer (*Moderator*)
- [Diana Stoltzfus](#), Deputy Chief Accountant of the Professional Practice Group, U.S. Securities and Exchange Commission
- [John Vanosdall](#), Deputy Chief Accountant of the Accounting Group, U.S. Securities and Exchange Commission

The SEC's Office of the Chief Accountant (OCA) contains various groups: Accounting Group (AG), Professional Practice Group (PPG), International Group, and Office of Chief Counsel and Enforcement Liaison (OCCEL).

John discussed how the AG has focused on COVID-19 impacts, including engagement with the FASB, and assists with their efforts to address pandemic-related accounting issues. The AG worked with the Treasury Department to provide accounting guidance on government aid. More recently, the AG has consulted with stakeholders to address normal course questions and concerns, including new GAAP standards such as revenue, CECL, and leases.

As enhancing audit quality continues, Diana discussed how the PPG routinely coordinates with PCAOB on their strategic plan and provides guidance and feedback. The PCAOB website is a great resource for access to information.

Key Takeaway: The OCA welcomes feedback from companies on specific standards as well as standard-setting process.

The SEC: Division of Corporation Finance Update

Speakers:

- [Kevin MacKay](#), Vice President, Global Technical Accounting Advisory Services, Pfizer (*Moderator*)
- [Patrick Gilmore](#), Deputy Chief Accountant, Division of Corporation Finance, U.S. Securities and Exchange Commission
- [Lindsay McCord](#), Chief Accountant, Division of Corporation Finance, U.S. Securities and Exchange Commission

2020 has been a year of change in the Division of Corporate Finance at the SEC. They are looking at disclosures that could be impacted by the pandemic, given economic challenges such as goodwill. Disclosures regarding impairment charges are important, but equally important are the warning disclosures. Companies need to be consistent between all company communications and the Division may be looking at industry outliers.

Non-GAAP disclosure requirements haven't changed and any COVID-19 non-GAAP disclosures need to meet these requirements. Companies should be considering the long-term effects of the pandemic, not just the short-term. Non-GAAP measures unrelated to COVID-19 continue to be an area of focus for all and the Division noted Increasing non-GAAP measures described as "revenue." While these may be valid metrics, they should not be called revenue in disclosures.

The Division issued new formal guidance related to MD&A metrics, giving companies new rules to follow, including a definition of how the metric is calculated, why the metric is meaningful, and how management uses it. Although not required, it's best practice to disclose these metrics similarly in earnings releases.

Rule 310 provides guidance on condensed consolidating financial statements to ease the detail provided by requiring disclosure for guarantors only. Also, the new

guidance provides optionality of the location of disclosure allowing the disclosure to be unaudited, reduce cost, and further incentivize companies to register debt.

Key Takeaways:

- The Division is focused on a principle-based approach in releasing guidance giving companies more leeway to tailor their disclosures to provide investors more relevant information.
- They are cognizant of the time burden involved in preparing disclosures and are seeking to balance the costs and benefits of disclosure requirements.

DAY FIVE

Leading a New Generation

Speakers:

- [Becky Burke](#), Americas Assurance Talent Leader, Ernst & Young, LLP (*Moderator*)
- [Diego Baca](#), Senior Manager, Assurance Practice, Ernst & Young, LLP
- [Sundeep Reddy](#), Senior Vice President, Controller and Chief Accounting Office, McKesson
- [Mary-Lee Stillwell](#), Vice President, Accounting & External Reporting, Verizon

This panel discussed how to lead the next generation of young accounting professionals in this constantly shifting environment, including the challenges for them assimilating into a company's culture while working remotely. Many new employees have never been in the office, says Mary-Lee, who recently joined Verizon, and it makes it harder to meet and engage with other team members. Sundeep talked about how remote work does not allow for ad hoc improvised discussions and that scheduled virtual meetings with a regular cadence are a reasonable replacement. Diego felt that effective managers will customize their approach.

Key Takeaway: A critical factor for success in the current environment is keeping employees engaged and connected to their organization's culture. Effective managers will customize their approach to communication to engage team members personally.

DAY SIX

The Role of Finance in ESG and Non-Financial Reporting

Speakers:

- [John DeRose](#), Managing Director, Climate Change and Sustainability Services, Ernst & Young, LLP (*Moderator*)
- [Keith Bell](#), Senior Vice President, Corporate Finance, The Travelers Companies, Inc.
- [Merilee Buckley](#), Chief Accounting Officer, Etsy
- [Marc Siegel](#), Partner, Financial Accounting Advisory Services, Ernst & Young, LLP

This panel talked about how environmental, social, and corporate governance (ESG) disclosures have become more prevalent and investors want more detailed and relevant nonfinancial disclosures. Standard setters are seeing a diversity of practice and want to encourage voluntary compliance with a uniform set of rules. Scoring and rating agencies provide information to investors on how companies compare to similar companies and against best-practice standards, making it difficult to determine what direction to take. Some organizations are seeking a global standard. The SEC's recent requirement for human capital disclosures makes consistency in disclosure even more urgent.

Key Takeaway: The finance function has a significant role to play in ESG disclosures, including data collection, and processing will be an obvious opportunity. Finance teams will need to use the same rigor when reporting these non-financial disclosures as they use for financial disclosures.

Controllership Roundtable

Speakers:

- [Laura Shiffman](#), Professional Accounting Fellow, Financial Executives International (*Moderator*)
- [Jeff Karbowski](#), Chief Accounting Officer, PayPal Holdings, Inc.
- [Sue Taylor](#), Chief Accounting Officer, Facebook
- [Alison Yara](#), Vice President & Chief Accountant, IBM Corporation

The session centered on the question of how controllers are impacted by the current environment and their reactions. The panel discussed staying in touch with current and pending guidance and actively participating in FASB outreach and responding to requests for comment and exposure drafts and recommend that all companies participate in the standard-setting process. The group also recommended companies participate with organizations, such as FEI, to provide feedback and respond to comment letters. Active participation could help shape guidance. Additionally, there is an opportunity to learn more about the standard by participating in the process.

The recent issuance of human-capital guidance was a focus of the roundtable as they discussed how the principle-based guidance could be applied to the companies. The group felt it was important to keep listening to the guidance coming out and learn from what other companies are doing as the standards, as well as who is responsible, are still fluid.

Key Takeaway: In this ever-changing environment, controllers need to adapt and evolve to continue to succeed. The challenges of the pandemic are an opportunity to embrace change.