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FEI REPORT

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CURRENT FINANCIAL REPORTING ISSUES CONFERENCE
NEW YORK CITY, NY

INSIGHTS FROM SIEGFRIED

CORPORATE REPORTING IN AN ERA
OF DISRUPTION

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INSIGHTS FROM FEI CFRI CONFERENCE

Financial Executives International (FEI) held its 36th annual Current Financial Reporting Issues (CFRI) Conference in New York City in late 2017. The theme of this year's was Corporate Reporting in an Era of Disruption.

Representatives from the Financial Accounting Standards Board (FASB) and SEC discussed emerging accounting trends, concerns, and guidance. Panelists and participants included SEC registrants, regulators, public accounting firms, and attorneys.

The following highlights were prepared by one of Siegfried's Professionals and focus on the conference's most compelling sessions.

DAY ONE

The Role of FASB in Accounting Change Disruption

This panel included the following participants:

- **Marc Siegel**, Board Member, FASB
- **Amie Thuemer**, VP and CAO, Alphabet
- **Marsha Hunt**, Board Member, FASB

The discussion challenged the panelists to think about the FASB and whether it is reactive or proactive. While the prevailing view of the FASB is reactive, consideration needs to be given to the reality that in the past, changes can take many years from inception to adoption. There is a more proactive angle to many of the new rules, which are all from the memorandum of understanding executed with ISB in 2008.

As solicited from numerous stakeholder groups, there is an additional focus on simplification, which would mean removing requirements that are not or are no longer useful. In addition, unintended costs and consequences will be reviewed for future change.

These same stakeholders were split regarding the pace and timing of adoption (i.e., all at once versus

staggered) for new standards. Staggered adoption was chosen for ASC 606, 842, CECL (Current Expected Credit Loss in allowance for loan and lease losses) and updates for valuations of financial instruments. These were defined as revolutionary (impacting many companies broadly) or evolutionary (narrow focus with limited impact on number of companies).

The primary decision in the staggering was the availability of resources and bandwidth to handle so many changes in a short period of time.

Robots and Artificial Intelligence (AI) in the Financial Suite

This panel included the following participants:

- **Ron Edmonds**, VP and Controller, Dow Chemical
- **Frank Brod**, Corporate VP Finance & Administration, CAO, Microsoft
- **Alice Jolla**, Assistant Corporate Controller, Microsoft
- **Keith Goodwin**, VP, Finance and Q2C Transformation, IBM
- **Fran Exley**, Partner and Digital Practice Leader, EY

This panel included several demonstrations from the panelist's organizations, including:

- The use of a bot (with machine learning) to replicate reading mass volumes of data, extracting required financial components (in this case, good receipt date, invoice date, PO number, invoice number) with ultimate input into an ERP system.
- The use of blockchain technology to address dispute resolution regarding shipping date. This happened in a pilot across a small set of vendors. Prior to the pilot the average was 44

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days — it reduced to 11 days after the pilot. The next phase will be expanded to include additional vendors and other criteria that cause disputes, such as tax compliance, business partner pricing, and inter-company transactions.

- The internal use of machine learning tools to improve global forecasting by eliminating the multiple manual models in different business units, as well as reducing manual input and human bias in the construction of the respective forecasts.
- Automating account reconciliation for 20,000 accounts in real time. Reconciliations are a key control, but the manual effort required can result in delays and subsequent reporting along with variances in quality. Automation — together with trending reports and analytics — now allows staff to focus their time on the identification and remediation of problems.
- The use of mobile application reporting, allowing both financial and operational users to set reports for their own use that refresh daily. The push towards daily and/or real time data is a significant focus for the finance team.
- An example of a chat bot used to handle Q&A after a global deployment of an expense reporting application. Instead of having multiple individuals serve as a help desk, the chat bot handled Q&A for more than 90,000 requests since go live. Bots are available 24/7 and can handle multiple languages. Initial period requires programmer input to adjust machine learning, and ultimately minor human support from a quality review (finance) and additional adjustments (IT).

EY explained the uses to robotic process automation. Mid-level jobs will increasingly become more important as stewards of automated processes. Off-shore service centers are likely to be severely impacted over the next decade, given the nature of tasks that have been migrated to these centers at this point. The focus is not solely on cost reduction tactics but also speed, availability, and quality of information and improvements to the process.

Fireside Chat with Mark Bertolini, CEO, Aetna

In this captivating presentation, Bertolini brought forward his business and personal perspectives, including sharing stories of health challenges faced by him and his son.

Globally, the USA is 11th when it comes to spending on health care and social programs, with more than 60% of government funds expended in these categories (other OECD countries are generally below 40%). That being said, we rank much lower regarding the quality of care received.

Bertolini challenged the audience's concept and definition of health — saying that it's not just the absence of disease and it should encompass the quality of life after treatment. Currently, our view of the health care system does not embrace this. For example, a person may be released from hospital and considered "cured," but could still endure chronic pain or impaired function which could greatly impact quality of life.

In his session, Bertolini noted social circumstance is a significant determinant of health outcome and that zip codes can be more accurate than genetic markers for estimating health outcomes.

He also postulated that any economic reform that does not include health care reform is likely to fail, nothing the magnitude of government expenditures on programs like Medicare and Medicaid.

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For Bertolini, health care has two components: financing of health care (insurance) and delivery of (e.g., hospitals and doctors). He discussed the need to focus on the financing component **and** the delivery component, as well as any structural deficiencies in the system.

Bertolini shared personal stories of the challenges he and his son have faced and expressed his willingness to challenge the system to achieve solutions and successful outcomes.

Related to narrative of conference (disruption), Bertolini believes that the next successful company will not be looking at what competitors are doing, but searching to find the unmet needs of consumers, whether or not consumers know they want it. For example, no one needed a smartphone until one was introduced.

Bertolini also voiced that successful businesses will manage business fundamentals while investing in their people (their most important asset). Bertolini cited changes Aetna made in minimum wage and other less traditional benefits (e.g., yoga, pet therapy, bonuses related to sleep and meditation), which are intended to reduce stress, create a better quality of life for the employee, and ultimately reduce costs to the employer.

Fireside Chat with Alex Gorsky, CEO, Johnson & Johnson

In his session, Gorsky noted global healthcare companies are sitting at the table with other countries as their health policies are formed, giving them the opportunities to consider modern, revolutionary ideas. He cited demographics and the international growth of the middle class as reasons for increased health care service consumption.

Gorsky suggested preventative care as opposed to treatment will become a focus. The current U.S. system

focuses on reimbursement for specific procedures instead of favorable outcomes.

He also commented on the advances in data analytics. With the enormity of clinical data we have, we may be able to drive breakthroughs on new compounds and treatments.

Alex challenged those attending the conference to take care of themselves; something as simple as an investment of 15-30 minutes a day will have huge dividends later in life.

Disrupting Audit: A Battle for Relevance

This panel included the following participants:

- **Michael Baccala**, Principal, PwC
- **Jon Raphael**, CIO, Deloitte
- **Hermann Sidhu**, Partner, Global Assurance Digital Leader, EY
- **Roger O'Donnell**, Partner, Audit, KPMG
- **Sarah Ovuka**, Professional Accounting Fellow, FEI

This panel focused on emerging technologies that will alter audits in the future, with the expectation of a growing division between large/global firms that are able to advance their technical and technological capabilities and other, smaller firms.

Artificial intelligence holds the potential to improve audit quality, allowing unstructured data to be compared to structured financial sets, better identifying discrepancies for follow-up by (human) auditors.

At this point, blockchain impact is undetermined when it comes to audit performance. In a blockchain with multiple parties that may have different auditors, how does this impact the audit? Since a blockchain is an IT construct, user controls and history of use for illegal or illicit activities and anonymity are all future risks. It is

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possible that a blockchain may require audit services in the future as a separate entity.

Technologies will allow sample sizes to increase to 100% of transactions, including sub-ledger transactions, in less time than significantly smaller sample sizes are currently reviewed today. Human auditors will once again be paired with technology to follow up on computer identified issues.

The Controller's Roundtable

This panel included the following participants:

- **Tom Roos**, SVP and CAO, United Health Group
- **Catherine Hoovel**, VP and CAO, McDonalds
- **Erik Bradbury**, Partner, Financial Advisory Accounting Services, EY
- **Richard Levy**, EVP & Controller, Wells Fargo

The group shared their perspective on the Controller role, noting the broadening sphere of responsibilities in conjunction with the CFO, especially in the arena of operational activities.

They all believed that cultivating the next generation of future leaders and executives would be critical to success; however, the group was not confident that all organizations are doing this effectively.

A theme emerged that everyone must maintain accountability for their own career. The group recognized the value of individuals with diverse skills and capabilities/exposures. As a whole, they noted successful global companies are expanding their recruiting efforts in multiple directions, rather than solely relying on public accounting firms to be the sole source of talent.

Finally, the panelists recognized that controls and governance need to be balanced with speed as they relate to the implementation of new technologies and

that there is value to be gained by soliciting input from operational units outside of Finance.

DAY TWO

On the second day of the conference, there were many discussions and panel sessions designed to share perspectives from the SEC. There was duplicity to themes and comments on the second day, so the below summary captures the highlights of these discussions and panels.

Financial Reporting Priorities from the Security Exchanges Commission's Corporate Finance

This panel included the following participants:

- **Kyle Moffat**, Associate Director, Disclosure Operations Division of Corporate Finance, SEC
- **Mark Kronfrost**, Chief Accountant, Division of Corporation Finance, SEC
- **Sam Eldessouky**, SVP, Controller & CAO, Valeant Pharmaceuticals International

Focus of the discussion centered on four primary standards: revenue recognition, leases, credit losses, and hedging.

In connection with **revenue recognition** adoption, the discussion centered on the view that many companies have underestimated the time and effort required for revenue disaggregation.

In connection with **leases**, a key challenge is that most companies do not have existing systems focused on leases as they do with revenue and billing. Oftentimes, they are manually handled in environments such as Excel. Additionally, the handling of leases is commonly not centralized in global companies.

Other comments related to new pronouncements and their adoptions included:

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- It's important that audit firms train engagement staff and are proactive with Audit Committees regarding any and all changes
- To identify potential problems and allow ample time to address them, public organizations need to engage external audit firms early in process of new adoptions
- Non-GAAP disclosures will continue to attract SEC scrutiny due to market acceptance of such data.
- The value of reaching out to SEC analysts. The average response time to routine questions over last two months has been within five days.
- Following boilerplate templates could lead to material risk factors that your company may or may not have appropriately considered or addressed.
- Even if a question has been answered historically, ask again! New information might yield a shift in response, especially if the past answer is dated.

Disrupting Accounting Practice: Lessons Learned from the Leases Standard

This panel included the following participants:

- **Daryl Buck**, National Managing Partner, Grant Thornton
- **Gregg Nelson**, VP & CAO, IBM
- **Sandra Melocik**, Senior Accounting Policy Advisor, Exxon Mobil

Key insights from the panel included:

- Having Executive Chair Committee support drives buy-in from senior management. This can eliminate obstacles such as financial/budget/resource support or issues of commitment across functional areas.

- The value of insight, perspectives, and coordination and communication with groups outside of the core finance team. This could include Treasury (who will be instrumental in providing key information such as discount rates), Investor Relations (who will be on the front line of communicating changes to investors), Procurement (approval and execution of leases), and Legal (review of leases agreements).
- As part of project plan, the importance of comprehensive view of what is needed for an organization to effectively analyze new system requirements.
- The need to leverage resources outside of your organization.

Disrupting Careers: The Next Generation Accountant

This panel included the following participants:

- **Michael Fenlon**, Chief People Officer, PwC
- **Stephen Rivera**, VP Global Technical Accounting Advisory Services & Policy, Johnson & Johnson
- **Joel von Ranson**, Partner, Spencer Stuart
- **Jeff Wilks**, PhD, Professor, Brigham Young University
- **Sharon Virag**, VP, Controller & CAO, Aetna

The panel emphasized the importance of sourcing and developing talent for organizations. The panel also noted the importance of being attuned to new trends in the marketplace, such as rotational programs in larger organizations becoming more active options (leading some people to skip or reduce their time in public accounting) from a career development standpoint. While there are heightened technical demands, the panel also emphasized the importance of business

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acumen and emotional intelligence and the need to develop these skills within their teams.

Disrupting Industries: How Organizational Leaders Can Survive

This panel included the following participants:

- **Meredith McCormick**, SVP, Digital Platform & Operations, Bank of America
- **Jim Campbell**, Corporate Controller & Principal Accounting Officer, Alphabet
- **Yasmin Green**, Head of Research & Development, Jigsaw (formerly Google Ideas)
- **Jeff Wilks**, PhD, Professor, Brigham Young University
- **Bruce Haymes**, Managing Director, Nielsen Ventures

Key takeaways related directly to business disruption from the panel included:

- Disrupt your own business before someone else does. Even if this result in short-term challenges, disposals, or cannibalizes.
- When others in your organization defensively question what you are doing in business transformation, this often means you are doing something right.
- Speed to market is increasingly vital.
- Look outside of your industry or sector for unexpected competition as well as practices that could be of value and leveraged.

The Financial Reporting Triad: Effective Communication Among Management, Auditors, and Audit Committees

This panel included the following participants:

- **Joan Amble**, President, JCA Consulting
- **John Rhodes**, Partner, Deloitte

- **Leslie Seidman**, Executive Director, Center for Excellence in Financial Reporting at Pace University
- **Michelle DeBella**, Global Head of Internal Audit, Uber
- **Linda Zukaukas**, EVP & Corporate Controller, American Express

In regards to communication and coordination with Audit Committees, the panel cited the importance of communicating early and often, particularly in complex areas that are new to the organization. In these communications, understand the need for possible repetition given the complex technical nature of issues and the level of technical accounting experience across the Committee. The panel noted the following key issues should be on table: cybersecurity, talent management, and data analytics.