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FEI-CFRI REPORT CONTROLLERSHIP THROUGH CHANGE

37th Annual Financial Executives International
Current Financial Reporting Issues Conference

NEW YORK CITY, NY
INSIGHTS FROM SIEGFRIED

Financial Executives International (FEI) held its 37th annual Current Financial Reporting Issues Conference (CFRI) in New York City in late 2018. The theme of the conference was Controllanship Through Change. The FEI CFRI conference looks at the environment Controllers must navigate today, with a focus on current corporate and capital markets and evolving technologies. Representatives from the Financial Accounting Standards Board (FASB), the U.S. Securities and Exchange Commission (SEC), and the Public Company Auditing Oversight Board (PCAOB) discussed emerging accounting trends, concerns, and guidance regarding the disruptive forces of innovation. Panelists included SEC registrants, regulators, public accounting firms and attorneys.

The following highlights were prepared by The Siegfried Group, LLP and focus on the conference's most compelling sessions.

DAY ONE

THE FASB: STANDARDS THAT WORK

The panel included the following participants:

- **Marsha Hunt**, Board Member, FASB
- **James Kroeker**, Vice Chairman, FASB
- **Andy McMaster**, Chair, FASAC

Panelists were asked what recently issued standards had the biggest impact for financial users. The prevailing view was that the new standards in the past few years have improved the decision usefulness, while still balancing the factor of cost implementation. In addition, the panel discussed the effectiveness of the Transition Resource Groups implemented. A common conviction among the panel was that the Transition Resource Groups:

1. Elevated implementation through practices of increased communication and transparency,
2. Decreased the large volume of standards and amendments,
3. Increased application through involvement of preparer and user feedback,
4. Increased ease of understanding through plain English.

The primary view was that the recent standards have solidly focused on what is material and would assist standard setters in the future. While the FASB does not have any formal joint agendas or meetings scheduled with the International Accounting Standards Board (IASB), the FASB has similar agendas to the IASB and appear to be tackling similar issues in the future.

FIRESIDE CHAT WITH JAY CLAYTON AND WESLEY BRICKER

The panel included the following participants:

- **Wesley Bricker**, Chief Accountant, SEC
- **Jay Clayton**, Chairman, SEC
- **Kevin McBride**, VP of Finance, Prin. Accounting Officer, Corporate Controller, Intel Corporation

In this captivating discussion, Bricker and Clayton discussed focus areas and strategic plans of the SEC, capital market trends, and the ever-increasing quality of reporting.

Overall, the panelists believe that the current capital market contains high quality financial information, quality audits, and regulation. A key trend stressed by Clayton was the importance of data: accumulation, storage, security, and usage. In the current technological market, there is an abundance of data; however, the flow of that information and the story told to investors from the data is an important and critical skill to tackle.

Given the impact of the technological environment and capital market, Clayton emphasized the following few focus areas for the SEC:

1. Cybersecurity over both nodal and network environments,
2. Controls surrounding the collection, storage, and usage of data,
3. Disclosures of the potential and expected impact of Brexit,
4. Revenue recognition disclosures,
5. Lease accounting disclosures.

Bricker and Clayton shared that the SEC has a three-part strategic plan:

1. Focusing on providing for the long-term investor,
2. Effectively utilizing capital (people) and budget to complete part one,
3. Improving the review process through IT.

During the session, Bricker emphasized that the SEC welcomes open discussion.

THE FUTURE OF ICFR

The panel included the following participants:

- **Laura Phillips**, Director, Finance Compliance, Google
- **Craig Schmidt**, Governance and Oversight Leader, Wells Fargo
- **Mike Schor**, Partner, Deloitte
- **Mary Hoeltzel**, VP and Global Chief Accounting Officer, Cigna
- **Josh Jones**, Partner, EY

The FEI's Committee on Corporate Reporting has developed thought leadership surrounding internal controls, specifically surrounding the Current Expected Credit Loss (CECL). The goal of the document was to create guidance for preparers by preparers, provide real life risk and control examples, and to assist the discussion between companies and the auditors.

The panel was challenged on what the future means to each of them given the changing environment due to automation, bots and technology change and disruption - and what types of technological changes they expect.

The overall view was that there are three main technology changes and disruptions that will drive the future:

1. Robotic process/ automation – macros that have the ability to work across many platforms,
2. Cognitive intelligence
 - Natural language generation – structured data converted to unstructured data,
 - Natural language process – large unstructured data converted to structured data,
3. Artificial Intelligence – create human activities and interpret data as humans would.

Schmidt feels there are two key moments for individuals when considering ICFR and technology. There is the “light bulb moment” where companies and individuals realize the use of technology could definitely be beneficial. Then there is the “risk management moment” which occurs after the light bulb moment where companies begin to analyze the different risks that occurs with technology.

The panelists were excited about the technological disruptors and their ability to increase the efficiency and effectiveness of processes. However, they were cognizant of the implementation challenges. Some key challenges discussed were:

- How to start? While many companies want to get on board, identifying the appropriate tasks to automate can be challenging. The panelists recommended looking at frequent transactions and processes, routine tasks, rules based, and regulatory as good places to start. In addition, do not begin with the most significant or complicated processes. Ease your way in.
- The hardest part can be silencing our inner cynic. However, if you highlight the reason why the change can benefit teams and the potential advantageous outcomes, individuals and teams can begin to see the art of the possible.
- While the automation will create efficiencies, the process documentation is lengthy and difficult. Understanding the process and having good documentation surrounding the process will greatly assist in programming the bots. Investing upfront in the time and quality of the documentation will pay dividends in the end.
- A challenge that many of the panelists faced when implementing automated processes was having too many individuals raising their hands to assist. Picking the right individuals and team is significant and challenging.

The most substantial contributor to the ease and acceptance of the transition is a change in mindset. Having a growth mindset and being an agent of change are critical to the process.

Finally, the panelists mentioned that the process and transition are not ones that companies need to go about on their own. Using a consultant is an option to consider.

Schmidt underscored the discussion by concluding, “Embrace change, but govern that change.”

BUSINESS AS USUAL: THE BIG AHA!

In this energizing and captivating presentation, keynote speaker, **Jack Uldrich**, global futurist, speaker, and author, discussed how the greatest change will be the accelerating rate of change itself. Uldrich firmly believes that a 1,000-fold change will occur in our life time again. We have already lived through a 1,000-fold change of data storage.

Connectivity to the internet has increased 1,400 fold since 1998 when internet connection was delivered through a modem. Being able to adapt and capitalize on those changes will be critical to businesses' survival.

To him the big AHA is Awareness, Humility, and Action. Only through awareness of trends and having the humility to accept that we need to change will we be able to take action. Uldrich sees the following as the biggest current and future trends:

- AI
- Blockchain
- Cryptocurrency
- Cybersecurity
- Big Data
- 3D printing
- Internet of Things

However, even if an individual is able to spot the trends, it takes humility to appreciate that the way we did the job yesterday might not be how we do it today. Taking action can be difficult, but to do so, we need humility to grasp that action is required.

A quintessential trait to have is to give up on answers and stick with questions. No one can have all the answers; instead we should have better, deeper, more meaningful questions. He stressed his point by quoting Pablo Picasso, "Computers are useless. They can only give us answers." With the growth of data and the speed of the data at our finger-tips, having better questions will get better results.

In addition, Uldrich suggested the biggest action you can take is setting aside a week every year to think. This is 2% of your time. Finally, he recommended getting a reverse mentor. Befriend a millennial. He gave an example of this by having individuals ask their neighbor what colors a yield sign is. Half the crowd stated yellow and black and half said red and white. Yield signs have been red and white since 1971. He stated this was a clear example of mindset not seeing the changing trends and hanging on to the old ways. The millennials in the room who had only ever seen the red and white didn't even recognize they were seeing the new trend.

Uldrich voiced that the sharing economy was creating significant risks to industries and that the greatest future challenge will be the convergence to technology. Understanding the disruptive risks of the sharing economy, especially with the issuance of 5G data would be key to industries.

Uldrich concluded by providing the following quote: "Change is the only certainty. Today is the slowest rate of change we will ever experience. And those who are the most adaptive to change stand the greatest chance to survival." - Jonathan Macdonald

FINANCE TRANSFORMATION: BEYOND BELLS AND WHISTLES

The panel included the following participants:

- **DawnDee Hankel**, Global Accounting and Financial Services, Controller, Intel Corporation
- **Loretta Cangialosi**, SVP and Controller, Pfizer Inc.
- **Steven Ehrenhalt**, US & Global Finance Transformation Leader, Deloitte
- **Steve Sell**, Managing Director, Financial Systems and Data Management, Bank of America

The panel discussed their various experiences in driving transformational changes, specifically surrounding implementing BOTs and automations. The common theme was that the journey never ends. Transformation is a living thing that constantly requires care and attention.

However, the panelists agreed that some of the fundamental contributors to a successful implementation are:

1. Cross functional teams utilized
2. Commitment to standardization
3. Leadership alignment
4. Company culture and commitment to a new way (change mindset)

DIVERSITY AND PEOPLE IN THE FINANCE SUITE

The panel included the following participants:

- **Alice Jolla**, Corporate Controller, Microsoft Corporation
- **Ann Sarnoff**, BBC Worldwide Americas
- **Barbara Wankoff**, Executive Director of Inclusion and Diversity, KPMG

In this session, the panelists held an open and honest discussion about diversity and inclusion in the workplace. While the panelists noted that diversity has been a hot topic for companies in recent years, the focus on inclusion is a newer topic. Without inclusion, no matter how diverse your organization, people won't stay.

A common blind spot to overcome in many organizations and in individuals is unconscious bias. Potential solutions to help mitigate this include training, solving problems as a team, giving a language to call out these biases, and putting policies and procedures against bias in place. By having diverse teams problem solve, different views and ideas are exchanged. The biggest concern and fear for Sarnoff is when team members finish each other's sentences. When this happens, she asserts, there are not enough differences in the room. Sarnoff conveyed the importance of not shying away from uncomfortable situations. She believes that discomfort can be from where new ideas emerge.

Diversity is about individuals and their backgrounds and perspective. Inclusion is about the environment. "People come where they are asked to come but stay because they feel welcome." – Wankoff

THE PCAOB: RETHINKING STRATEGY FROM TOP DOWN

The panel included the following participants:

- **Cindy Fornelli**, Executive Director, Center for Audit Quality
- **James Kaiser**, Board Member, PCAOB
- **Duane DesParte**, Board Member, PCAOB

In 2018, the PCAOB welcomed an entirely new Board and many new members. During this session, the Board members discussed priorities, goals, and strategic plans for the upcoming years.

The PCAOB is currently re-evaluating what they do and how to improve on their current tasks in regards to standards setting, inspections, and pursuing enforcements.

To assist in this re-evaluation, earlier in the year, the PCAOB focused on an outreach to preparers. The results of the outreach showed a wide spread acknowledgement that audit quality has improved but more can be done to drive continuous improvement. Due to responses, the PCAOB intends to focus on improving communication with investors, preparers, and audit committees.

During the session, the panelists discussed a main focus area for the PCAOB pertaining to the audit reporting model. Preparers should be focused on phase II of the audit reporting model and begin preparing dry runs with the auditors. The panelists recommend the [Staff Audit Practice Alert No. 15](#) to assist with current focus areas on standards being implemented.

Finally, the panelists broached that, in their personal beliefs, the forward agenda focus areas are intended to be the following:

1. Quality control standards
2. Other information outside of the financial statements
3. Noncompliance with laws and regulations
4. Audit quality indicators

DAY
TWOWHEN GREAT TECHNOLOGY MEETS
GREAT FINANCE PROFESSIONS

The panel included the following participants:

- **Myles Corson**, Americas Markets Leader, Financial Accounting Advisory Services, EY
- **David Fabricant**, Senior Vice President, Head – Global Record to Report, American Express
- **Dan Werries**, Global Director, Analytics Finance & Purchasing Systems, Dow Chemical

During the session, the panelists provided examples of technologies that each have implemented in their own companies. The big question that companies should be asking is what and where the technologies should be implemented. It's easy to get distracted by shiny objects but taking a step back and evaluating how certain technology, including blockchain and bots, would benefit the company is crucial. In addition, it's important to listen to the people in the business to create the correct tools that bring value.

The main focus for Fabricant was how to save time at the bottom and provide more insight at the top. "Let machines work and the people think." However, automation will not fix broken processes. Companies need to address the processes and ensure the process is appropriate and working before automation.

In addition, the panelists stated that companies should not forget to focus on the soft skills during the implementation. The tendency is to solely focus on the technical; however, not focusing on the soft skills associated with the implementation and integration can cause setbacks. A few of the soft skills recommended were building collaboration between departments and across business partnerships, providing insights, and demanding creativity among the teams.

THE SEC: DIVISION OF
CORPORATE FINANCE UPDATE

The panel included the following participants:

- **Frank Brod**, Corporate Vice President, Finance and Administration and Chief Accounting Officer, Microsoft Corporation
- **Kyle Moffatt**, Chief Accountant in Division of Corporation Finance, SEC
- **Patrick Gilmore**, Deputy Chief Accountant, Division of Corporation Finance, SEC
- **Lindsay McCord**, Deputy Chief Accountant, Division of Corporation Finance, SEC

The panelists discussed, in their opinion, the purpose of comment letters and some best practices concerning comment letters, current focus areas during inspections, and current rules under consideration.

It is the panelists' belief that the purpose of comment letters is not to independently verify information, but to ensure that investors have applicable and appropriate information to make decisions. The SEC does not solely review filings. A combination of information gathering is done through social media, company's websites, filings, and press releases.

The panelists stressed that companies can ask for clarification on any comment letter. A good and open dialog was greatly encouraged, especially concerning materiality. The most common comment letter typically pertains to materiality.

During the session, the panelists discussed the following items as current focus areas for inspection:

- Cyber security disclosures
- Board risk oversight especially concerning cyber security
- Brexit related disclosures
- Legacy financial instrument disclosures (phase out LIBOR), risk to investors, and potential impact

Finally, the panelists discussed a few current rules the SEC is considering:

- Continued focus on disclosure updates and simplification
- Interim disclosure requirements
- FAST ACT
- Update to Industry Guide 3
- Scale disclosure requirements
- Rule 305, Article II – potential change to article II which would impact the effect of an acquired business

THE SEC: OFFICE OF THE CHIEF ACCOUNTANT UPDATE

The panel included the following participants:

- **Marc Panucci**, Deputy Chief Accountant, Office of the Chief Accountant, SEC
- **Sagar Teotia**, Deputy Chief Accountant, Office of the Chief Accountant, SEC
- **Brent Woodford**, Executive Vice President, Controllershship, Financial Planning and Tax, The Walk Disney Company

During the session, the discussion ranged from current focus areas to rules currently out for comment. It is the panelists' belief that the SEC will continue to closely monitor the dry runs on the audit reporting model. The SEC's goal is to speak with one voice with the PCAOB to preparers concerning said dry runs. The panelists' guidance was that no Critical Audit Matter should be new or original information (i.e., not previously discussed or disclosed). In addition, CECL is more likely than not a focus area.

The panelists highlighted an investigative report that has recently come out under Section 21A of the Exchange Act about internal controls and potential gaps in the controls. Finally, they stressed that they do not expect an extension of SAB 118.

DO SHARED SERVICE CENTERS REALLY DELIVER?

The panel included the following participants:

- **David Fabricant**, Senior Vice President, Head – Global Record to Report, American Express
- **Ron Kapusta**, Corporate Controller and Chief Accounting Officer, Johnson & Johnson

- **Angela Stephens**, SVP and Controller, Keurig Dr Pepper
- **Alex Buckthorp**, Finance Director, European Financial and Accounting Shared Services, Procter and Gamble

Procter & Gamble and American Express were both early adopters of the shared services environment approach. The session explored the pros and best practices when using shared services or "centers of excellence."

A few of the pros that were mentioned pertain to connectivity. Shared services can connect the front of the company with the back end. In addition, augmenting design with digital capabilities can be highly cost effective. However, they stressed that companies shouldn't solely base their decisions based on cost.

Companies should continually re-evaluate where the best place to position the center is. It is highly probable that processes and locations will need to move over time. For instance, Keurig Dr Pepper moved their center of excellence back to the U.S. due to the capability of U.S. personnel and automation creating lower costs. In addition, other avenues of opportunity for centers of excellence could be any of the following:

- Budgeting
- Forecasting
- Critical one-time transaction assistance such as acquisitions, mergers, and divestitures

Common themes among the panelists concerning best practices were open communication and dialog, and having the right people, ones who are open to change, on board.

The panelists were also asked about what their companies are doing to continue to move the needle in shared services. Many of the panelists shared they are moving from transactional to value add. Some of the considerations to add value were consumer insights and pricing, expanding use of e-bidding, and utilizing for tax receipts and transfers.

Overall, the opinion was that shared services or centers of excellence can definitely add value, increase efficiency, and decrease costs. However, companies must be prudent in choosing the right object to optimize. While cost is an easy metric of success, user experience is an important measure as well, although a much harder metric.

CONTROLLER'S ROUNDTABLE

The panel included the following participants:

- **Aaron Anderson**, CAO, Paypal Holdings, Inc.
- **Heather Dixon**, VP, Controller and Chief Accounting Officer, Aetna Inc.
- **Alice Jolla**, Corporate Controller, Microsoft Corporation
- **Kevin McBride**, VP of Finance, Principal Accounting Officer, Corporate Controller, Intel Corporation
- **Sarah Ovuka**, Professional Accounting Fellow, FEI

Panelists debriefed their key takeaways from the conference. They discussed the role of culture in the transformation process, and chatted about having a growth mindset to improve processes and undertake big data issues and technological advances. McBride underscored this point with a quote from Peter Drucker: "Culture eats strategy for breakfast."