Enabling your remote financial close

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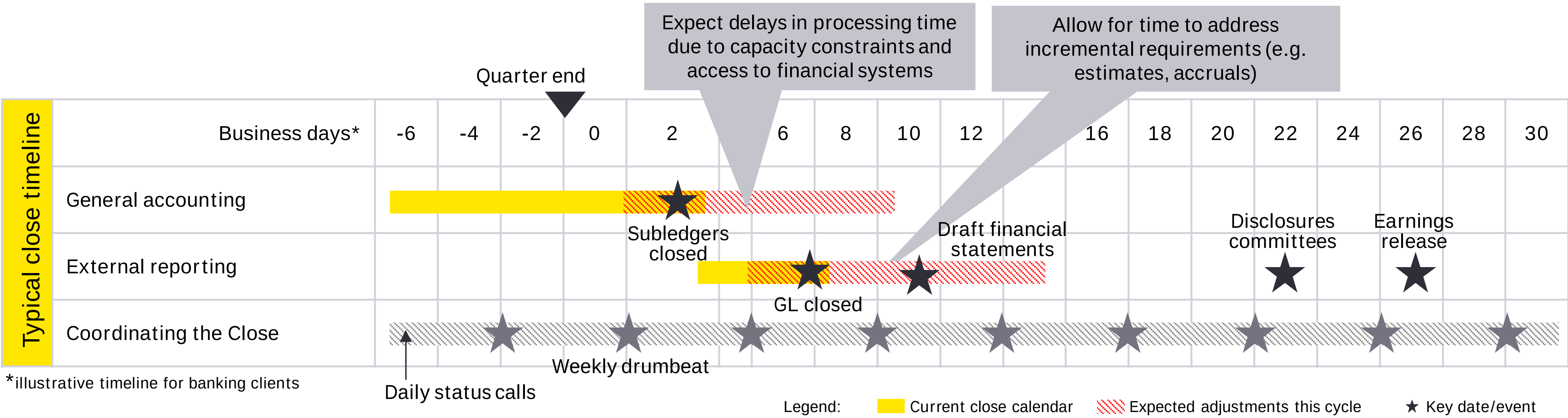
Finance teams will require tighter coordination and need to work closer together to deliver financial close

Multiple complexity drivers are converging on companies as they prepare for upcoming month and/or quarter-end close

- Close activities will likely experience delays due to an all-remote or highly impacted workforce
- Abrupt changes in the economy will drive increased requirements and analyses for close
- Ad hoc requirements on the finance team to reformulate the business model, liquidity analysis & capital allocation strategy may create resource constraints
- The BoE, PRA and other bodies are likely to issue guidance changes for financial reporting. International statutory requirements are likely to be impacted

Finance leaders must act now to safeguard their close process and prevent delays or misstatements in financial reporting

- Establish a virtual close command centre – be prepared to deal with accounting, Tax, IT, investor, board and other cross functional issues in real-time
- Tighter coordination and runbook management will be crucial – set up multiple daily status calls, weekly drumbeat meetings to ensure that all teams involved are aligned to common objectives and issues are escalated in a timely manner
- Re-plan your close procedures – adjust calendar and add in a mock close, consider estimates and materiality changes to expedite where possible
- Anticipate deep dive requirements – identify incremental effort required to validate accounts in the current environment. Be prepared to tell your board and investors what you plan do to about key risk areas. Coordinate with your auditor closely



*illustrative timeline for banking clients

The current business environment will introduce significant risk to companies' month-end close and financial reporting processes

1

Close will take longer with a remote workforce

- Impacted employees will create capacity constraints and potential knowledge gaps
- Availability of third party data (i.e. from vendors and outsource providers) may be reduced or delayed
- Access to critical financial systems and data may be limited (including feeder systems in)
- Increased time for production will likely squeeze timelines for executive and Board review
- Close activities will need to be reviewed and re-sequenced (e.g. closure of key accounts)

2

There will be impacts on business activity and financial reporting

- Customer concessions and relief measures may be necessary
- Operational continuity and resilience will be tested incl. identification of critical resources, technology, facilities and vendors
- There will be implications on IFRS9 and other balance sheet considerations
- Flexibility required on capital, liquidity, and leverage (incl. stress testing) due to evolving regulatory guidelines
- Potential threats to cyber, data and control and risk management
- Increased consideration required for the availability of external data and validating data volatility

3

BoE, PRA and other bodies are likely to revise regulatory guidelines and requirements

- Changes to companies' disclosures of material risks to their business and operations may be required
- Transparency on the actual and potential COVID-19 impacts on financial reporting
- Guidance published on delaying regulatory requirements and returns e.g. 2020 EBA Stress Test postponed and, in the UK, s166 skilled person review postponed

Banks shouldn't stop at the tactical response, they should look ahead to planning future close periods

Q1 2020

Adapt and tactically respond

- Review process resilience – which processes need to be maintained including the control environment and which can be adapted through quarter ends
- Assess governance for non-critical P&L items (e.g. decision rights around T&E Accruals) and simplify
- Involve FP&A earlier in the close to help clean up the data and provide estimates sooner (e.g. allocations, revenue sharing)
- Use down-time periods to allow your teams to assess their own processes for smaller improvements, these can add up

Q2 2020

Move to the new strategic – the 'new' normal

- Redeploy capacity from delayed regulatory requirements (e.g. Stress Test) to 'keep BAU safe' - augmenting your team for Q2 with careful planning and preparation prior to the critical period will be key.
- Increased focus on lessons learned – there will be new aspects to consider with a remote workforce

Some common levers that aren't large scale to implement include:

Removing unnecessary processes	Down and upstream processes may have changed and we find a number of processes performed are in fact unnecessary or redundant or duplicated
Reducing the complexity	As the business changes, previously complex methodologies that were required can be re-assessed to determine if the complexity is still warranted
Streamlining processes	A process that involves a number of different steps due to the way it has evolved could be streamlined to remove processing time. By focusing on the output required we are able to define the key components of a process and make it more efficient
Reducing hand-offs between teams	The number of hand-offs between teams slows the process. Whilst looking at process we also consider the organisation around the process and its governance
Embedding additional controls to reduce re-work	More automated controls performed by the production team can help capture errors earlier, reducing time taken re-working results if found later in the process

1 For many remote working isn't new, but does require careful planning over prolonged and critical periods

Immediate priorities

- Regularly review remote access/VPN needs and remote working requirements for your teams. Include a dedicated systems support resource to enable rapid response to connectivity issues
- Tighter coordination and runbook management – set up multiple daily status calls, weekly drumbeat meetings to ensure all teams are aligned to common objectives
- Set up a virtual command centre – make communication between relevant stakeholders seamless and intentional
- Increase your logistical planning – setup key meetings in advance, reduce non-essential work or calls over critical days (training, large conference calls) to avoid impact on system capacity

Employee welfare and impact on the close

- Some employees may be impacted directly or in-directly. Contingency plans need to be reviewed for any key man risk
- Keep open dialogue with your other internal teams or third parties, SLAs may be impacted due to their own teams being impacted
- Whilst some teams may report productivity impacts in the short term whilst they adapt, the opposite can also be true: over-working can be common when remote working and can result in burn out. Maintain flexible working arrangements to get the best from your teams

Review your close activities

Re-sequence your close calendar to take into account likely delays in normal close activities:

- Identify and close certain accounts prior to month-end
- Review and introduce new materiality thresholds
- Re-prioritise disclosures, for example impairments and line of business reporting can be prioritised
- Use estimates for accruals and create templates within or outside the system of record
- Shift non-key accounts into non-quarter end months
- Identify reporting or management packs that can be delayed or reduced e.g. FinRep, in-depth business analytics
- Perform end of day assessments to identify process delays, bottlenecks and assess the control environment

2 The following key areas of focus need to be prevalent on the CFO agenda in terms of finance considerations

A	Customer concessions and relief measures	► Quantification and disclosure of impacts on Expected Credit Loss Allowances, Capital, Risk Weighted Assets and the application of Regulatory definitions ► The form of and operational impact concessions and relief measures, including volume of activity, processing of changes, and ensuring customers are treated fairly ► Maintaining the control environment and heightening credit monitoring activity, whilst increasing customer flexibility
B	Operational continuity and resilience	► Focus on continuity of key reporting processes, which is likely to be under significant pressure, and possible reduction or reprioritisation of reporting, whilst identifying opportunity for deferral of discretionary spend and/or requesting deferral of regulatory change and review programmes ► Identification of critical resources, technology, facilities and vendors impacted, and ensuring remote connectivity and processing is capable of being supported ► Ability for systems to account for stressed events and process to respond to significant volatility
C	IFRS9 and other balance sheet considerations	► Impact on Expected Credit Losses, including staging, scenarios segmentation, modelling, collateral and overlays ► Fair value measurement impacts, including observability, hedge accounting, volatility ► Evolving regulatory guidance and requirements, including reduced or delayed reporting requirements
D	Capital, Liquidity, and Leverage (incl. Stress Testing)	► Monitoring the impacts of changes in accounting asset and liability valuations which will need to be reflected for capital requirements, and stress test to identify long-term impact ► Volatility impact on PVA, Market risk limits, liquidity, leverage, and trigger events for convertible instruments and potential MREL requirements ► The impact of countercyclical buffers on Pillar 2 Capital will need to be taken into account and capital conservation measures may have to be considered ► Currently evolving regulatory guidance and, deferral/ suspension of regulatory activity and new requirement implementation, whilst flexibility may be required when considering traded models and back-testing ability
E	Cyber, Data & Control Risk Management	► Data security risk is a threat as a result of remote working or failing to work in secure environments ► Consideration to be given on the availability of data, specifically if reliant on external vendors e.g. collateral, external ratings Additionally, assessments to be made on validating the potential volatility in data e.g. FV valuations. ► Control execution risk due to remote working or absence of a large portion of staff impacting ability to execute controls ► Higher risk of cyber attacks and bad actors taking advantage of the current situation

3 Regulators and other bodies are likely to revise regulatory guidelines and requirements

- The global regulatory response is to treat the virus as an event external to the financial markets to which existing risk assessments and emergency measures must be applied.
- Companies should continue to review regulatory guidelines and requirements and plan around these. As the European Union and UK react, this will be an evolving picture, however outlined are a number of early regulatory updates*:

Jurisdiction	Body	Description	Date Published
European Union	ECB	ECB has announced several operational and capital relief measures: ► Banks can fully utilise capital and liquidity buffers, including Pillar 2 ► Banks will benefit from relief in the composition of capital of Pillar 2 requirements ► ECB will consider operational flexibility in the implementation of bank-specific supervisory measures	March 12
European Union	EBA	► EBA postponed the EU-wide 2020 stress test. For 2020, the EBA will carry out an additional EU-wide transparency exercise in order to provide updated information n banks' exposures and asset quality to market participants. ► The EBA also asked national supervisors to take a flexible approach to monitoring activities and inspections	March 12
European Union	European Securities and Markets Authority (ESMA)	Several recommendations to financial market participants: ► Business Continuity Planning- all financial market participants, including infrastructures should be ready to apply their contingency plans, including deployment of business continuity measures, to ensure operational continuity in line with regulatory obligations ► Financial Reporting- issues should provide transparency on the actual and potential impacts of COVID-19, to the extent possible based on both qualitative and quantitative assessment on business activities, financial situation and economic performance in their 2019 year-end financial report	March 11

* Guidance as at 26th March 2020

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Jurisdiction	Body	Description	Date Published
UK	Bank of England	► Financial Policy Committee (FPC) reduced the UK countercyclical capital buffer rate to 0% of banks' exposures to UK borrowers with immediate effect. The FPC expects to maintain the 0% rate for at least 12 months, so any subsequent increase would not take effect until March 2022 at the earliest ► PRA sets expectation that UK banks freeze dividends and contributions	March 11

		► IFRS 9, PRA reminds firms that forward looking information will need to incorporate the impact of Covid-19 into ECL estimates. PRA believes there is little such information as yet. In the event that firms believe forecasts can be made:
		  ► Forecasts should take into account the relief measures e.g. repayment holidays
		  ► The extension of mortgage payment holidays should not be a sufficient condition to move borrowers into stage 2
		  ► BoE expect to release further information to firms in coming weeks, with a view of how to apply consistently
		► S166, PRA supervisors noted the delay of onsite visits and deadlines, including delaying the s166 skilled person review that were announced in Oct 19
		► IRB model framework, which includes Definition of Default (DoD) requirements to be delayed one year to 1 Jan 2022
			March 20

		► Dear CEO letter published including guidance on three key areas:
		  ► Consistent and robust IFRS 9 accounting and the regulatory definition of default
		  ► The treatment of borrowers who breach covenants due to COVID-19
		  ► The regulatory capital treatment of IFRS 9
			March 26

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Appendix

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