COVID-19: Virtual Close Preparedness

Investment Management (IM)

The current reality

Given the complexities associated with the business-as-usual close for IM organizations coupled with the challenges of conducting a virtual close, there is limited precedent into how a global pandemic such as COVID-19 will impact IM organizations as they prepare to complete their first virtual close. Not unlike other global crisis, it will be critically important to be prepared for COVID-19 related volatility and the likely impacts it will have on successfully preparing and executing the financial close process.

Framing your response

Preparation, Planning, and Execution

Get a handle on how teams are choosing to collaborate virtually

• Confirm systems are scaled
• Ensure threat/risk assessments are completed before technologies are adopted
• Identify global remote workforce, including data & delivery centers and associated impact of working remotely
• Verify offshore locations still function effectively

Close calendar assessment

• Risk rank the existing close calendar focused on activities most likely to encounter delays due to the remote workforce
• Reprioritize close activities accordingly and assess ability to shorten select activities
• Evaluate necessity of non-close related meetings to allow core team to focus

Secure remote access

• Review VPN governance security protocols (e.g., patching status and scalability), deployment of multifactor authentication, and scope of services to be accessed remotely
• Evaluate need for scalable video calling/conferencing, e-signature tools, additional monitors, multiple phone/voice options, backup internet, etc.
• Deploy remote workplace capabilities for employees and ensure secure configuration

Distribute close calendar

• Share revised close calendar with all departments so all are aware of new timelines and anticipated delivery

Set tone for close

• Be transparent with employees about the changes and expectations for remote close cycle

Elevated threats of today will likely persist and pose sustained risk in your close environment

Typical Investment Management Close Process and Associated Challenges
Simulating a Virtual Close for an IM Entity

<table>
<thead>
<tr>
<th>Key Close Activity</th>
<th>Virtual Close Consideration</th>
<th>Virtual Close Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gather necessary admin systems data via extraction and feeds.</td>
<td>Ability to access required systems and data in a timely manner</td>
<td>✔</td>
</tr>
<tr>
<td>Run AUM and fee models and preliminary allowance results.</td>
<td>Network capacity and constraints due to the need for employees to access admin systems, ability to run complex models, and other pertinent financial data timely.</td>
<td>✔</td>
</tr>
<tr>
<td>Obtain and review credit data and performance.</td>
<td>Data acquisition changes (i.e., the need to adjust the interaction frequency and plan between multiple business groups) for data (e.g. PE valuations, impairments, tax implications, performance fee impact, contingencies/earn-out exits for debt, credit valuation adjustments on derivatives, earnings forecasts).</td>
<td>✔</td>
</tr>
<tr>
<td>Confirm payroll information and other HR data.</td>
<td>Potential delays with the start of the close cycle due to data hand off and knowledge gaps.</td>
<td>✔</td>
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<tr>
<td>Pre-close meeting.</td>
<td>Meeting focus on hyper communication, use of new collaboration tools (video conferencing, online file sharing tools, etc.)</td>
<td>✔</td>
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<tr>
<td>Conduct initial analytics and meet with Business Unit Finance and Other teams.</td>
<td>Delays due to system latency, upstream data availability, and shared service centers coupled with inefficient communication.</td>
<td>✔</td>
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<tr>
<td>Reconcile and close subledgers.</td>
<td>Simplifying assumptions and/or modified reconciliations and review may be needed to facilitate timely close.</td>
<td>✔</td>
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<tr>
<td>Confirm Business Unit sign-off on balances in ledger.</td>
<td>Modified sign-off may be needed with additionally documented assumptions and simplifications.</td>
<td>✔</td>
</tr>
<tr>
<td>Book recurring (journal) entries.</td>
<td>Confirm entry system accessibility while remote and plan entries may take longer to book remotely due to indirect access.</td>
<td>✔</td>
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<tr>
<td>Calculate and book Inter / Intra-Company allocations.</td>
<td>Aggregation of supporting materials from varying entities may pose additional challenges and delays.</td>
<td>✔</td>
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<tr>
<td>Post adjusting, and eliminating entries.</td>
<td>New and modified adjusting entries may be needed as a result of macroeconomic conditions and regulatory body reaction.</td>
<td>✔</td>
</tr>
<tr>
<td>Post top-side entries.</td>
<td>Additional top-side entries may be needed as a result of macroeconomic conditions and regulatory body reaction.</td>
<td>✔</td>
</tr>
<tr>
<td>Close general ledger.</td>
<td>General Ledger analytics and final review may be revised to target key risk areas due to time and resource availability.</td>
<td>✔</td>
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<tr>
<td>Perform consolidation.</td>
<td>Significant delay due to upstream activity completion, modified final review to incorporate additional simplifications and assumptions and focused risk review.</td>
<td>✔</td>
</tr>
<tr>
<td>Prepare SEC filing (including of footnotes and MD&amp;A).</td>
<td>The impact of COVID-19 on business operations and its effect on the organization's disclosures.</td>
<td>✔</td>
</tr>
<tr>
<td>Prepare financial supplements.</td>
<td>Ability to access required systems and employees with relevant information to the financial supplements.</td>
<td>✔</td>
</tr>
<tr>
<td>Finalize the analyst and investor packages (i.e., earnings release).</td>
<td>Reporting delays associated with the remote workforce and inability to conduct real-time, face to face meetings.</td>
<td>✔</td>
</tr>
<tr>
<td>Update necessary operational and management reporting metrics.</td>
<td>Based on network constraints, increased likelihood of reduced real-time performance measures and business insights for investor discussions.</td>
<td>✔</td>
</tr>
<tr>
<td>Finalize Regulatory, Local, IFRS and Tax reporting as applicable.</td>
<td>Given the fluid nature of COVID-19 responses, at a Federal level, potential modifications to SEC and other regulatory reporting timelines and requirements may occur.</td>
<td>✔</td>
</tr>
<tr>
<td>Conduct executive team meetings, audit committee and board of directors’ reviews.</td>
<td>Reduced timeline for conducting executive team meetings, audit committee and board reviews.</td>
<td>✔</td>
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</tbody>
</table>

Virtual Close Risks Legend
- A | Access / Availability to Data
- B | Increased Activity Time to Completion
- C | Third Party / Offshore Operations Disruption
- D | Modified / Interim / Circumvented Controls

Internal Control Considerations
COVID-19 may cause entities to implement new internal controls or modify existing ones. Entities will need to consider the operating effectiveness of controls, including assessing any breakdowns in review-type controls or the inability of individuals to perform control duties because of absences (e.g., due to employee illness or the closure of affected offices).

Entities should also consider how a lack of information may affect management’s ability to effectively operate controls (e.g., personnel may not be available in offices in China or other affected areas to provide information that is essential to the effective operation of a control). If an existing control cannot be performed, management may need to identify alternative appropriately designed controls to compensate for the lack of information.

Deloitte Support
As your organization stands to the impacts stemming from COVID-19, Deloitte stands ready to help you tackle your most complex strategic, financial and operational issues. A sample of areas we stand ready to assist include:

Accounting, Finance Reporting BAU Support
- Program Management and Communications
- GAAP accounting (i.e., GAAP, IFRS, Local)
- External financial reporting
- Management reporting
- Regulatory reporting
- Control support and guidance

Virtual Close Risk Management
- Virtual close risk assessment
- Real-time posting capacity
- Close issue identification, triage and resolution
- Regulator affairs monitoring and response
- Data security and infrastructure

Hedging, Volatility, and Risk Management Assessments
- Risk management strategy development
- Scenario building and assessing impact of changing counterparty behavior
- Hedge accounting and effectiveness assessment frameworks
- Analytics and analysis
- FX exposure identification and mitigation
- Valuation

Deloitte Insight

Accounting, Disclosure, and Internal Control Considerations Related to Coronavirus Disease 2019

COVID-19 and the Investment Management Industry

The heart of resilient leadership: Responding to COVID-19
A guide for senior executives

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