

## 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

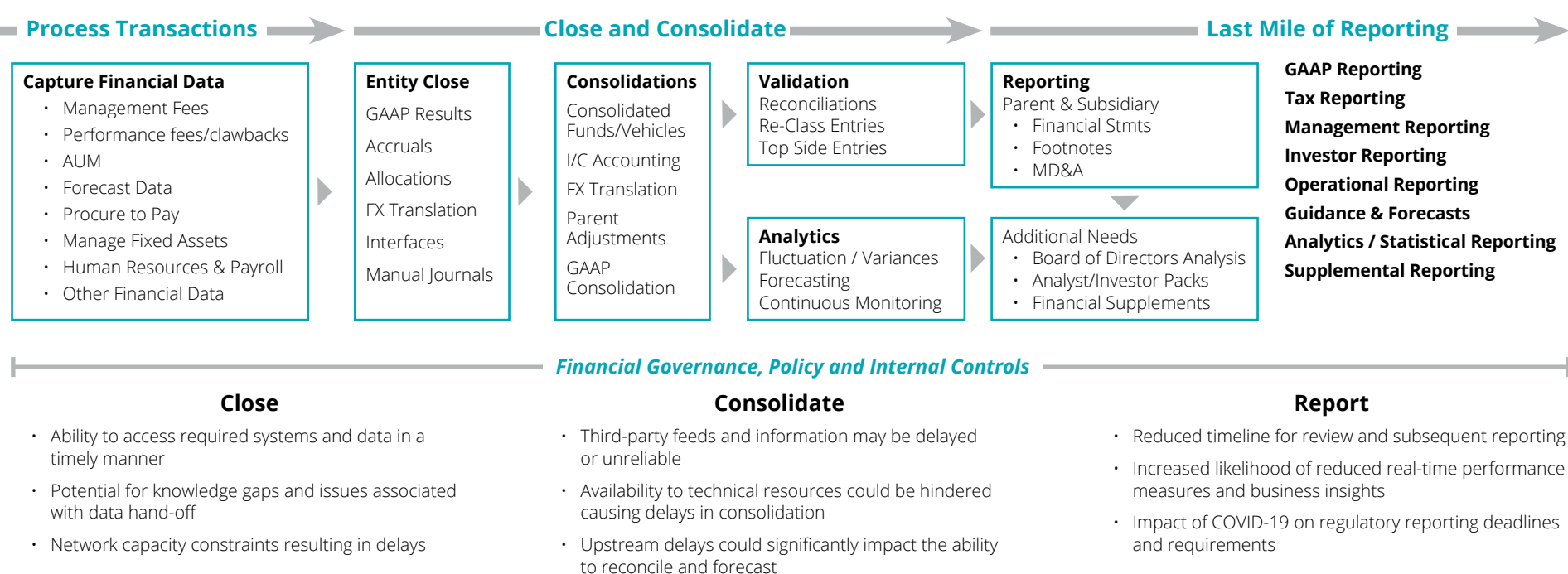


#### Preparation, Planning, and Execution

Today	Tomorrow	Next Week	Next Month
<p><b>Get a handle on how teams are choosing to collaborate virtually</b></p> <ul style="list-style-type: none"> <li>Confirm systems are scaled</li> <li>Ensure threat/risk assessments are completed before technologies are adopted</li> <li>Identify global remote workforce, including data &amp; delivery centers and associated impact of working remotely</li> <li>Verify offshore locations still function effectively</li> </ul> <p><b>Close calendar assessment</b></p> <ul style="list-style-type: none"> <li>Risk rank the existing close calendar focused on activities most likely to encounter delays due to the remote workforce</li> <li>Reprioritize close activities accordingly and assess ability to shorten select activities</li> <li>Evaluate necessity of non-close related meetings to allow core team to focus</li> </ul>	<p><b>Secure remote access</b></p> <ul style="list-style-type: none"> <li>Review VPN governance security protocols (e.g., patching status and scalability), deployment of multifactor authentication, and scope of services to be accessed remotely</li> <li>Evaluate need for scalable video calling/conferencing, e-signature tools, additional monitors, multiple phone/voice options, backup internet, etc.</li> <li>Deploy remote workspace capabilities for employees and ensure secure configuration</li> </ul> <p><b>Distribute close calendar</b></p> <ul style="list-style-type: none"> <li>Share revised close calendar with all departments so all are aware of new timelines and anticipated delivery</li> </ul> <p><b>Set tone for close</b></p> <ul style="list-style-type: none"> <li>Be transparent with employees about the changes and expectations for remote close cycle</li> </ul>	<p><b>Establish daily/twice-daily close meetings</b></p> <ul style="list-style-type: none"> <li>Given the unique situation associated with a remote workforce, daily close meetings can promote fruitful dialogue and confirm all departments are on the same page</li> </ul> <p><b>Review and enhance standardized review procedures</b></p> <ul style="list-style-type: none"> <li>With nearly all management and senior leadership reviews occurring remote, it is important to institute a standard procedure/template to gain alignment and efficiency</li> </ul> <p><b>Initiate pre-close activities</b></p> <ul style="list-style-type: none"> <li>Begin sourcing various financial data which will be leveraged throughout the close cycle</li> </ul> <p><b>Consider where accruals and estimates can be booked leveraging prior month actuals or results to date; prepare and book entries in advance of close</b></p>	<p><b>Monitor and assess close progress</b></p> <ul style="list-style-type: none"> <li>Leveraging the close calendar, monitor progress against daily milestones</li> <li>Assess impact of delays and institute troubleshooting procedures to correct delays and make up for lost time (i.e., adjust activities and/or reprioritize)</li> </ul> <p><b>Review SEC guidance</b></p> <ul style="list-style-type: none"> <li>Stay up to date with changes to the SEC guidance and any associated modifications with filing deadlines and requirements</li> </ul> <p><b>Open channels of communication</b></p> <ul style="list-style-type: none"> <li>Conduct twice weekly, if not more frequent, discussions with CEO, CFO, AC Chair and members of Board to discuss status of close and potential delays</li> </ul>

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

	Key Close Activity	Virtual Close Consideration	Virtual Close Risks			
			A	B	C	D
Process Transactions	Gather necessary admin systems data via extraction and feeds	Ability to access required systems and data in a timely manner	✓	✓	✓	
	Run AUM and fee models and preliminary allowance results	Network capacity and constraints due to the need for employees to access admin systems, ability to run complex models, and other pertinent financial data remotely	✓	✓	✓	✓
	Obtain and review credit data and performance	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-outs for deals, credit valuation adjustments on derivatives, earnings forecasts)	✓	✓	✓	
	Confirm payroll information and other HR data	Potential delays with the start of the close cycle due to data hand-offs and knowledge gaps	✓	✓		
Close and Consolidate	Pre-close meeting	Meeting focus on hyper communication, use of new collaboration tools (Video conferencing, online file sharing sites, etc.)		✓		
	Conduct initial analytics and meet with Business Unit Finance and Other teams	Delays due to system latency, upstream data availability, and shared service centers coupled with inefficient communication	✓	✓	✓	✓
	Reconcile and close-subledgers	Simplifying assumptions and / or modified reconciliations and review may be needed to facilitate timely close	✓	✓	✓	✓
	Confirm Business Unit sign-off on balances in ledger	Modified sign-off may be needed with additionally documented assumptions and simplifications	✓			✓
	Book recurring journal entries	Confirm entry system accessibility while remote and plan entries may take longer to book remotely due to indirect access	✓	✓		
	Calculate and book Inter / Intra-Company allocations	Aggregation of supporting materials from varying entities may pose additional challenges and delays	✓	✓	✓	
	Post adjusting and eliminating entries	New and modified adjusting entries may be needed as a result of macroeconomic conditions and regulatory body reaction, including impairment of assets and goodwill impairment and adjustments to CECL allowance estimate		✓		
	Post top-side entries	Additional top-side entries may be needed as a result of macroeconomic conditions and regulatory body reaction		✓		
	Close general ledger	General Ledger analytics and final review may be revised to target key risk areas in financials due to time and resource availability	✓	✓		✓
	Perform consolidation	Significant delay due to upstream activity completion, modified final review to incorporate additional simplifications and assumptions and focused risk review	✓	✓	✓	✓
Last Mile of Reporting	Prepare SEC filing (inclusive of footnotes and MD&A)	The impact of COVID-19 on business operations and its effect on the organization's disclosures	✓	✓		✓
	Prepare financial supplements	Ability to access required systems and employees with relevant information to the financial supplements		✓		
	Finalize the analyst and investor packages (i.e., earnings release)	Reporting delays associated with the remote workforce and inability to conduct real-time, face to face meetings	✓	✓		
	Update necessary operational and management reporting metrics	Based on network constraints, increased likelihood of reduced real-time performance measures and business insights for investor discussions	✓	✓	✓	
	Finalize Regulatory, Local, IFRS and Tax reporting, as applicable	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	✓	✓		
	Conduct executive team meetings, audit committee and board of directors' reviews	Reduced timeline for conducting executive team meetings, audit committee and board reviews	✓	✓		

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 breakdown 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 an internal control). If an existing control cannot be performed, management may need to identify alternative appropriately designed controls to compensate for the lack of information.

Entities should also consider management's ability to complete its financial reporting process and prepare its financial statements on a timely basis. Entities will need to ensure that they have properly designed and implemented controls related to the selection and application of GAAP for the accounting and disclosure issues arising from COVID-19.

Deloitte Support

As your organization responds 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
- General accounting (US GAAP, IFRS, Local)
- External financial reporting
- Management reporting
- Regulatory reporting
- Control support and guidance

**Virtual Close Risk Management**

- Virtual close risk assessment
- Real-time monitoring
- Close resource support
- Issue identification, triage and resolution
- Regulatory 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

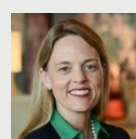
Contacts



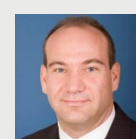
**Mojgan Vakili**  
Partner  
Deloitte & Touche LLP  
mvakili@deloitte.com



**Jade Shopp**  
Partner  
Deloitte & Touche LLP  
jademshopp@deloitte.com



**Crystal Andersen**  
Partner  
Deloitte & Touche LLP  
crandersen@deloitte.com



**David Perlmutter**  
Managing Director  
Deloitte & Touche LLP  
dperlmutter@deloitte.com

This publication contains general information only and Deloitte is not, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor.

About Deloitte

Deloitte shall not be responsible for any loss sustained by any person who relies on this publication. As used in this document, 'Deloitte' means Deloitte & Touche LLP, which provides audit, assurance, and risk and financial advisory services and Deloitte Consulting LLP, which provides strategy, operations, technology, systems, outsourcing and human capital consulting services. These entities are separate subsidiaries of Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of our legal structure. Certain services may not be available to attest clients under the rules and regulations of public accounting.