COVID-19: Virtual Close Preparedness
Real Estate

The current reality
Given the significant impact of COVID-19 and social distancing on real estate owners, investors, occupiers, and lenders, there is limited precedent into how a global pandemic such as COVID-19 will impact real estate organizations as they prepare to complete their first virtual close. Not unlike other global crises, it will be critically important to be prepared for COVID-19 related volatility and the likely impacts the pandemic will have on successfully preparing and executing the financial close process.

Framing your response

Prepare | Plan and communicate
- Develop virtual close playbook and risk mitigation strategy
- Prepare and communicate virtual close resource plan and RACI
- Conduct systems access and internal control preparedness

Organize | Identify and assess
- Launch virtual close schedule, outlining critical path activities
- Evaluate access, resource requirements, and capacity
- Create virtual command center to oversee and manage close

Prepare | Resourceing, accessibility, and controls
- Baseline critical 3rd party vendor systems (data, services, etc.)
- Solicit work impact for all staff
- Evaluate need for scalable video protocols (e.g., patching status and encryption)
- Determine resource gaps and develop resource requirements and guidelines to enable staff

Virtual close

Today
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 VPH 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 workspace capabilities for employees and ensure secure configuration

Set tone for close
- Be transparent with employees about the changes and expectations for remote close cycle

Next Week
Establish daily/twice-daily close meetings
- Given the unique situation associated with a remote workforce, virtual close meetings can promote fruitful dialogue and confirm all departments are on the same page

Review and enhance standardized review procedures
- With nearly all management and senior leadership reviews occurring remote, it is important to institute a standard procedure/template to gain alignment and efficiency

Initiate pre-close activities
- Begin checking various financial data which will be leveraged throughout the close cycle

Consider where accruals and estimates can be booked leveraging prior month actuals or results to date; prepare and book entries in advance of close

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

Typical Real Estate Close Process and Associated Challenges

Capture Financial Data
- Rental income
- Developmental activity
- Tenant credit profiles
- Long-lived asset impairment
- OTTI for Equity Method Investments
- Foreclosed cash flows
- Other financial data

Entity Close
- GAAP Results
- IFRS Results
- Accruals
- S/L adjustments
- Impairment
- General Reserve
- Manual Journals

Consolidations
- VC Accounting
- IFRS Consolidation
- GAAP Consolidation
- FI Reporting
- Re-Class Entries
- Top-Line Entries

Validation
- Reconciliations
- Analytics
- Forecasting
- Continuous Monitoring

Additional Needs
- Board of Directors Analysis
- Analyst/Investor Packs
- Financial Supplements

GAAP Reporting
- IFRS Reporting
- Local Reporting
- Tax Reporting
- Management Reporting
- Operational Reporting
- Guidance and Forecasts
- Analytics/Statistical Reporting
- Supplemental Reporting
- Investor Reporting

Financial Governance, Policy and Internal Controls
- Ability to access required systems and data in a timely manner
- Potential for knowledge gaps and issues associated with data hand-off
- Network capacity constraints resulting in delays

Consolidate
- Third-party feeds and information may be delayed or unreliable
- Availability to technical resources could be hindered causing delays in consolidation
- Upstream delays could significantly impact the ability to reconcile and forecast

Report
- Reduced timeline for review and subsequent reporting
- Increased likelihood of reduced real-time performance measures and business insights
- Impact of COVID-19 on regulatory reporting deadlines and requirements
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 appropriately designed controls to compensate for the lack of information areas to provide information that is essential to the effective operation of an internal control. If an existing control cannot be performed, 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 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).

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).

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Virtual Close Considerations
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
- General accounting (US GAAP, IFRS, Local)
- External financial reporting
- Management reporting
- Regulatory reporting
- Control support and guidance

### Virtual Close
- Real-time monitoring
- Risk management

### 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 analytics
- FX exposure identification and mitigation

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