

Financial impacts and disclosures for investment management (IM)

The current landscape

There is limited precedent into how COVID-19 will impact the financial markets. Drawing on experience with past major events, including the credit crisis, it is important to be prepared for related financial results, volatility, and associated messaging to stakeholders as well as the impact of emergency regulatory action and related disclosures.

Impacts will likely be felt across the reporting landscape

 Financials	 Disclosures	 MD&A	 Controls
<p>Market volatility and loss emergence will drive both risk and financial statement impacts that IM organizations should plan for and analyze</p>	<p>Financial statement users will expect IM organizations to provide additional insight into COVID-19 impacts on their business and investment portfolios</p>	<p>Analysts will look for interest rate and credit risk sensitivity insights, both short- and medium-term outlooks for capital position, and clarity around significant estimates, scenarios, and assumptions</p>	<p>Virtual environments pose complications for the performance of SOX controls; new or compensating controls or process adjustments may be needed</p>

COVID-19 financial impacts and IM areas of focus

Focus area/ challenge	F/S Risk	P&L Impact	B/S Impact	Considerations and response	Legend: ● Low ● Moderate ● High
Revenue	●	●	●	<ul style="list-style-type: none"> Capture any new fee waivers granted, assess fee impacts from assets under management (AUM) fluctuations, and portfolio company valuations 	
Valuation	●	●	●	<ul style="list-style-type: none"> Revisit valuation/pricing processes, considering market volatility, and loss emergence driving complexities in impairment and valuation considerations Oversight of net asset value (NAV) strike due to market volatility, which is driving significant increases in price verification activities Review Level II and Level III valuations for significant inputs, to update disclosure, and potential changes in level classification as of the balance sheet date 	
Goodwill impairment	●	●	●	<ul style="list-style-type: none"> Evaluate whether the potential economic downturn (both in market and macroeconomic terms) constitutes a “triggering event” requiring a detailed assessment Considerations in performing Step 0 qualitative or Step 1 quantitative impairment tests given uncertainty of situation but significant impact on market capitalization 	
CECL	●	●	●	<ul style="list-style-type: none"> Refresh economic scenarios for current market conditions and potential prolonged economic recession; consider if use of extreme economic scenarios would yield reasonable results (in light of interest rate impact masking credit concerns) Evaluate troubled debt restructuring (TDR) or purchased credit impaired (PCI) implications of new fixed income acquisitions 	
VIEs and equity method investments	●	●	●	<ul style="list-style-type: none"> Reconsider existing variable interest entity (VIE) conclusions for any control/power implications in response to counterparties becoming insolvent or having liquidity constraints Expect delays in receiving third-party financial information in reporting exposure to loss for non-consolidated VIEs, especially those of smaller funds Reassess ability to exercise significant influence over existing equity method investees given uncertainty and risk of financial distress 	
Hedging	●	●	●	<ul style="list-style-type: none"> Revisit accounting hedging relationships that were previously concluded to be “perfectly effective” given interest rate volatility (including impact on choose-your-rate debt), level of liquidity in the market, and impact on issuance of forecasted debt Anticipate counterparty downgrades in hedge effectiveness reassessments (e.g., credit spreads, ratings, financial health, recent downgrades, liquidity) 	
Service provider oversight	●	●	●	<ul style="list-style-type: none"> Reinvigorate oversight of critical service providers (e.g., administrators, brokers, custodians, transfer agents), understand service provider impact from COVID-19 	
Liquidity	●	●	●	<ul style="list-style-type: none"> Analyze liquidity classifications for form N-PORT given market volatility Perform firm liquidity projections, stress analysis, and scenario planning Analyze debt covenants and compliance; develop mitigation and communication plan 	

SEC filing deadline relief and other relief



On March 17, 2020, the SEC emphasized that **Question VI.9** of the [SEC Staff FAQs on the Custody Rule](#) provides relief for **advisers of pooled investment vehicles** that rely on SEC Rule 206(4)-2(b)(4) (Custody Rule) **and fail to distribute the pool's audited financial statements within the 120-day** deadline under certain unforeseeable circumstances.

On March 20, 2020, the Commodity Futures Trading Commission (CFTC) [announced](#) that the Division of Swap Dealer and Intermediary Oversight (DSIO) is providing **relief from enforcement action against Commodity Pool Operators** regulated by the CFTC for failure to comply with certain reporting requirements and deadlines for reports due on or before April 30, 2020.

On March 25, 2020, [the SEC issued an order](#) that gives public companies an **additional 45 days to file certain disclosure reports that would otherwise have been due between March 1 and July 1, 2020**, if specified conditions are met.

To use the relief allowed by the order, a registrant must file a current report on Form 8-K (or Form 6-K, as applicable) that discusses, among other things, (1) Why the issuer is “unable to meet a filing deadline due to circumstances related to COVID-19,” (2) the estimated date by which the related filing will be made, and (3) if appropriate and material, a risk factor describing the impact of COVID-19 on the registrant's business.

On March 25, 2020, the SEC announced **regulatory relief** to certain [investment companies](#) and [investment advisors](#) whose operations may be affected by COVID-19, with **additional time to meet certain filing and delivery requirements**. In general, filings covered by the relief include those with original due dates on or after March 13, 2020, but on or before June 30, 2020. Entities must notify SEC staff and/or investors of the intent to rely on the reliefs offered above.

On April 8, 2020, the SEC [announced conditional temporary relief for business development companies](#) (BDCs) to issue/sell senior securities and to participate in certain joint arrangements in order for BDCs to provide **additional capital support to portfolio companies**.

Deloitte will continue to monitor any further announcements by regulatory bodies and update our publications accordingly.

Thinking through disclosures and messaging



COVID-19-specific disclosures



Investor guidance



Financial instruments



MD&A and risk factors

COVID-19-specific disclosures

- Communicate with Investor Relations and industry groups to identify most pertinent information for disclosure. Portfolio composition, AUM, changes in net assets, investor redemption activity, and financing agreements/debt covenants are candidates for enhanced disclosure
- Assess need to update these disclosures in subsequent event footnote based on investor behavior and market events
- Impact on overall capital and liquidity position and outlook

Financial instruments

- Consider providing additional insight into asset valuation, portfolio strategy, and impact from pricing volatility
- Assumptions about risk inherent in inputs or valuation techniques (unobservable inputs) from private companies
- Some typical Level II assets may now require significant Level III inputs resulting from lack of observable inputs from decreased market activity

Investor guidance

- Consider potential impacts on forecasts/guidance and provide updates to investors as needed to manage expectations
- For analyst calls, perform sensitivity analysis around economic factors (interest rates, portfolio returns, etc.) and be prepared to clearly communicate potential exposure
- Communicate strategy to refresh investment decision processes timely in response to rapid market movement

MD&A and risk factors

- Assess whether economic and market conditions or potential pricing exposure is such that a risk factor needs to be added concerning COVID-19
- Assess a fund's ability to continue as a going concern (e.g., highly leveraged funds whose portfolios become highly illiquid and/or unable to meet its obligations)
- Consider debt covenant triggers, ability to meet obligations, and other liquidity or capital requirements
- Consider tailoring MD&A to discuss trends or uncertainties that may have an impact on indicators of financial health



Internal control considerations

With the potential for additional disclosures, there may be new or adjusted quantitative calculations and data required to support those disclosures. 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. As such, companies should be proactive in assessing controls that will need to be designed and implemented over any newly key end-user controls (EUCs), key reports, or business processes. Further, **as risk assessments are being performed and reviewed, the impact of COVID-19 should be considered as a factor** when determining internal controls over financial reporting (ICFR) risk in financial statement lines and business processes where the market and macroeconomic impacts are most felt.

Issuers are reminded that any changes in internal controls that have materially affected, or are reasonably likely to materially affect, entities' ICFR must be disclosed in Item 4 of Form 10-Q (or the equivalent).

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 in which we can assist include:



Accounting, finance reporting BAU support

- Program management and communications
- General accounting (US GAAP, IFRS, local)
- External financial reporting
- Management reporting
- Regulatory reporting
- Valuation



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



Governance, risk, and control

- Risk assessments, including emerging cyber and fraud risks
- Emerging risks control review
- Audit readiness support
- Refresh policies, procedures, and controls to reflect evolving environment

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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