SF bulletin

By Stephen Barlas, Vance D. Gamble, Christine Murray

GOVERNMENT

Risk Retention Rules May Make Business Loans Harder to Get

By Stephen Barlas

Financing for companies in a wide swath of industries, particularly those that lease equipment, may be harder to find because of the final rule on credit risk retention adopted by six federal agencies at the end of October to fulfill a requirement of the Dodd-Frank Act. The rule requires a "sponsor" of an asset-backed security (ABS) transaction to retain credit risk of the securitized assets—totaling at least 5%—in one of several permitted forms. The sponsor for this purpose is a person who organizes and initiates a securitization transaction by selling or transferring assets, either directly or indirectly, to the issuing vehicle.

The major concern for companies dependent to some extent on receiving loans that are then packaged has been the impact on collateralized loan obligations (CLOs). The requirement to "retain" 5% of the loan package is imposed by the final rule on the CLO "manager," who is the packager standing between the bank that makes the loans and the companies that get the loans.

"CLOs serve as a valuable source of credit and liquidity for lenders to companies of many sizes, in every industry, and in every region of the country," wrote David Graziosi, executive vice president, CFO, and treasurer of Allison Transmission, Inc., in response to publication of the proposed rule in August 2013. Allison is the world's largest manufacturer of fully automatic transmissions for medium- and heavy-duty commercial vehicles and hybrid propulsion systems for city buses. "We are concerned that the re-proposed rules will have adverse consequences on this valuable form of financing," Graziosi said. Melissa L. Sauer, a spokesperson for Allison, declined to comment on the final rule. Graziosi and many others in the business community pleaded with the six agencies to exempt CLOs from the 5% retention requirement.

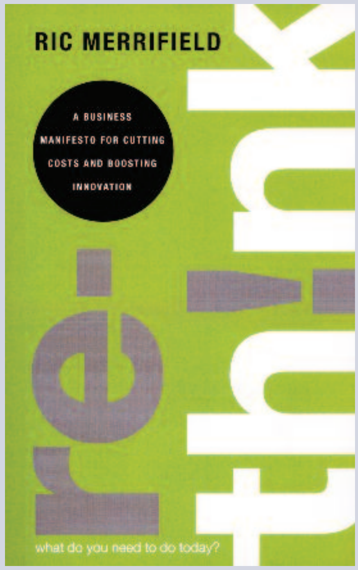
The six U.S. agencies—the Department of the Treasury, Federal Reserve System, Federal Deposit Insurance Corporation, Federal Housing Finance Agency, Securities & Exchange Commission, and the Department of Housing and Urban Development—declined to do so. In the final rule issued at the end of October, they acknowledged the concerns, including some raised by a recently issued paper by the Bank of England and the European Central Bank, which suggests that risk retention rules in Europe that apply to CLO managers have contributed to a reduction in European CLO issuance. But the agencies answered back that in drafting Section 941 of the Dodd-Frank Act, Congress recognized that it would be impractical for many investors to adequately assess and monitor the risks of assets underlying complex securitization products. As a result, Congress sought to encourage monitoring and assessment of such assets by the parties better suited to do so, namely those that organize and initiate the securitizations. Like other securitization sponsors, a CLO manager is the party best positioned to adequately monitor and assess the risk of the securitized assets. So the agencies said that, following that logic, a CLO manager is a "securitizer" and can't be exempt from the 5% requirement.

IRS Previews New MMF Accounting Rule

The U.S. Treasury Department held a hearing on November 19 to get comments on its proposed rule that allows for a simplified method of *continued on page 22*

BOOKS

Focus on What and Why



Ric Merrifield's book, *Rethink: Business Manifesto for Cutting Costs and Boosting Innovation*, instructs business leaders how to think differently about innovation and cost cutting during the non-growth phases of a business's lifecycle.

Merrifield has spent more than 20 years in various consulting roles, helping businesses reimagine their operating models with the goal of escaping the "how" trap—a process that focuses on how they're doing the job. He wrote *Rethink* to help leaders and managers better understand and manage what they're doing—the "whats" of their business ecosystems—and why they're doing it. He lays out a method of escaping the "how" trap by cutting costs and boosting innovation during periods of slow growth. For example, companies can use cloud-based applications instead of manual processes to cut costs and boost innovation.

Ultimately—in the language of "hows" and "whats"—it doesn't matter how you get to the specific outcome as long as you accomplish it. Merrifield posits that businesses are leaving a lot of value on the table by focusing on the "how" processes of doing a specific job rather than focusing on the most important issue of what they're doing and why it's being performed.

The framework for *Rethink* really begins in Chapter 3 when Merrifield provides a method for identifying the "whats" of a business and their relationship to one another and concludes in Chapter 7 with analyzing the importance of having system controls in place and auditing them for compliance. Subsequent chapters deploy case studies to illustrate the ideas presented in Chapters 3-7. One of the most compelling examples is that of ING Direct. The company was able to eliminate branches of the bank, turn its back on some customers, and get rid of handwritten checks. It accomplished this by focusing on two key factors of its business. First, it got specific about the customers it didn't value. Second, management asked "Why can't we?" instead of "Can we?" For example, when deciding to eliminate handwritten checks, management asked, "Why can't we force customers to do away with handwritten checks?" After all, they wanted to attract customers who don't write checks. By refocusing on a specific type of customer, ING was able to reduce administrative costs by eliminating the department that handled bad checks.

To be clear, Merrifield wants business owners to understand that cutting costs across the board isn't an effective strategy. Leaders must pinpoint what really matters to the business and act on that. Such precision requires a real understanding of the business model.

He also explains that waste and redundancy are a part of the human condition. In business, waste and redundancy happen during growth phases and lead to a loss of perspective about your organization's real core values and goals. Those blind spots are revealed during slow growth.

When you read *Rethink*, I suggest starting with the final chapter, which provides you with a solid and easy-to-digest framework of what Merrifield explains in greater detail throughout. Then go back to the beginning. The techniques for cost savings presented in the book have some immediate applicability for managers and department leaders within an organization. Yet it's a good idea to test them in a small business unit of your organization before applying them more broadly across the entire organization. This will reveal potential pitfalls or opportunities that may have been missed in the initial planning process.

—Vance D. Gamble

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accounting for companies reporting gains and losses from sales of floating net asset value (NAV) money market funds (MMFs). The proposal from the Treasury's Internal Revenue Service (IRS) is necessary because of changes made by the Securities & Exchange Commission (SEC) in June 2014 to the way some MMFs report their net asset values and, consequently, the way investors and companies report gains and losses from those MMFs.

The new SEC rules require a floating NAV for institutional prime MMFs, which allow the daily share prices of these funds to fluctuate along with changes in the market-based value of fund assets and provide non-government money market fund boards new tools—liquidity fees and redemption gates—to address runs. Many companies use MMFs for sweep accounts. The allowance of floating NAV MMFs forced the IRS to propose a simplified method of accounting for gains and losses on floating NAV MMF shares. Under this method, a gain or loss is based on the change in the aggregate value of the shares in the floating NAV MMF during a computation period. The proposed regulations apply to taxable years ending on or after the date they are adopted as final and for taxable years ending on or after July 28, 2014, if the rules haven't been finalized prior to that date. Losses in floating NAV MMFs will be exempt from "wash sale" rules.

Sharing Your IMA Life

Most IMA® members share a strong spirit of camaraderie. What have your experiences as a member of IMA been like? Do you have a story about them you'd like to share? If so, please consider writing an IMA Life column that will be published in *Strategic Finance*. You can be a student member, a young professional, in the midst of your career, or retired. If you would like to write an IMA Life article, please e-mail Kathy Williams at kwilliams@imanet.org.

NEWS

IMA and Pace University Host Forum for Woman in Accounting

By Christine Murray

A renewed call to action for women's empowerment and leadership is gathering momentum around the world. Sheryl Sandberg's *Lean In* and the hashtags #likeagirl and #askformore are only some of the recent campaigns receiving attention from mainstream media. On October 15, IMA® and Pace University showed their support of this movement by hosting the first-ever Women's Accounting Leadership Series (WALS) event in New York City. The event provided an interactive forum for female accounting and finance leaders to discuss the trends and topics important to the profession and the barriers and issues facing women in corporate America.

The idea for WALS came to Leslie Seidman, executive director of the Center for Excellence in Financial Reporting at Pace University's Lubin School of Business and former chairman of the Financial Accounting Standards Board (FASB), after a reporter asked her, "Why aren't more women on corporate boards?" Only 5% of the current *Fortune* 500 chief executives are women, and Seidman said she felt she could be doing more to help women advance through the accounting and finance ranks. An IMA member, she approached IMA President and CEO Jeff Thomson and Sandra Richtermeyer, professor of accountancy and associate dean at Xavier University's Williams College of Business, former IMA Chair, and a key leader in the accounting profession, with her idea, and WALS was launched.

IMA members and Pace University alumnae, professors, and students attended the event. The mix of accomplished female leaders and aspiring and mid-career accounting professionals brought different perspectives to the challenges and potential solutions that were shared that day. Sessions on leadership, accounting and

From left to right: Sandy Richtermeyer, Kristin Bauer, and Leslie Seidman welcome attendees to the first Women's Accounting Leadership Series.

really had a high level of engagement among the attendees. Providing a forum for successful financial women to share their experiences and speak openly about their current challenges was helpful for all to learn how to become better managers and leaders and achieve their professional goals. Helping women through the challenges of managing a demanding career and achieving balance in their lives is critical in seeing improvements in the numbers of women rising to top leadership positions in corporate America."

"Providing a forum for successful financial women to share their experiences and speak openly about their current challenges was helpful for all…to achieve their professional goals."

auditing updates, roundtable discussions, and networking among the attendees highlighted the event.

Richtermeyer's session, "Building Leadership Capacity," helped shed light on gender issues in the workplace. She said that no matter where the women are in their career path or what industry they're in, they face many of the same career/business issues, including a pay gap, outdated views of women in the workplace, being the "token" woman on a board, lack of support from other women, and the struggle of having a work/life balance. Through the use of a strengths-based leadership assessment, Richtermeyer demonstrated how attendees could use their strengths, variety of experience, and perspective to better understand themselves and their purpose, deepen their mutual respect by understanding the strengths in others, and use different strengths to accomplish the same goal.

After her session, she offered her perspective on the day. "This innovative, inspiring, and informative event

In other sessions, Kristin Bauer, partner at Deloitte LLP and former FASB Fellow, dived into the new revenue recognition standards and the impact they could have on the way attendees' companies report their top line. Seidman, who is a member of two audit committees, discussed recent auditing developments and how they could affect attendees' companies, their audit committees, and their relationship with auditors.

Attendees said they enjoyed the balance of soft skills development with professional/technical development, hearing about the different challenges women are having, and the inspiration it gave them to find such a custom-tailored self-development opportunity. "[The technical information] was given in a manner in which I feel comfortable taking back to our finance team," one participant noted.

What's Next?

In summing up the day's activities and purpose, Richtermeyer and Seidman offered some additional insight. "In today's world of meetings and busy lives, you can't wait for open time to further your self-development—you need to build in time for networking and professional development. There were attendees at the Women's

Accounting Leadership Series who had seen each other before at conferences and events but really got to know each other in this more intimate environment. This event was a great way to broaden our perspective and discuss how we need to support each other in unified advancement and use our strengths to evaluate our professional and personal evolution as we continuously grow as leaders," Richtermeyer emphasized.

Seidman added, "In a 2013 Accounting MOVE Project report, 'Engage or Exit?' 69% of women interviewed identified work/life balance issues as the top barrier to advancement, and 48% said that women still lack female role models. Women coming up the ranks in industry want role models to show them how to navigate the challenges along the way. We provided a forum for that knowledge transfer to occur and a mechanism for the dialogue to continue. I'm looking forward to hosting more events to help women advance in accounting and finance positions."

IMA and Pace University plan to continue the Women's Accounting Leadership Series and are in the beginning stages of organizing other joint events to empower women to achieve their professional goals.

For further information, please contact Lisa Beaudoin, IMA's director of educational partnerships, at lbeaudoin@imanet.org.

IMA NEWS

2014 Student Leadership Conference

Students Put the Pedal to the Metal in Indy

The IMA® 15th Annual Student Leadership Conference was held November 6-8, 2014, at the Indianapolis Marriott Downtown in Indianapolis, Ind. More than 570 students from more than 100 schools and 35 states were in attendance. Students had many opportunities to mingle with peers, create valuable contacts, and learn about relevant accounting topics from leaders in the industry. They also were able to tour Eli Lilly and Company, Lucas Oil Stadium (home of the NFL's Indianapolis Colts), and Bankers Life Fieldhouse (home of the NBA's Indiana Pacers). Attendees also visited Dallara IndyCar Factory for an evening of fun.

See you next year:
November 12 – 14, 2015 • Disney's Coronado Springs Resort • Lake Buena Vista, Fla.

Race car driver and CEO Sarah Fischer talks about work/life balance in her session at IMA's SLC.