THE CFO IS NO LONGER
A BACK OFFICE POSITION

It wasn't that long ago that the CFO was primarily tasked with the responsibility of maintaining the books and records of the Firm and ensuring that the cash receipts and disbursements were managed efficiently. The office of the CFO was frequently viewed by senior management as a silo within the back office suite and often locked out of participating in enterprise wide strategies. The business environment today perceives the CFO function quite differently and this trend appears to be continuing. More businesses are tapping the CFO for business advice up to and including taking over the reins of the company.

Traditional roles of the CFO's office such as safeguarding assets of the firm, maintaining the books and records and reporting the results are taking on a broader spectrum. The control environment is now an enterprise wide concern for today's finance professional. The work flow of transaction based activities, transparency of the controls and associated risks surrounding these processes and the clear quantifiable monitoring of this control environment frequently falls within the purview of the CFO's office. Certainly this is the case for public companies under the auspice of Sarbanes-Oxley. It is the CFO and CEO who sign the annual document certifying that the firm's control environment is functioning properly and that there are no omissions or material misstatements in the financial statements. Even in a private firm or less regulated environment, it is imperative that the CFO's office understands and has the proper tools for monitoring the firm's control environment.

The Steward

The control environment is not the only enterprise wide function that needs to be understood by the CFO's office. The CFO has become the steward of the firm, a beacon of light on the top of the hill. The CFO must philosophically and in a practice serve in a manner that promotes integrity, trust and professionalism. The CFO also must ensure that the stewardship mentality is communicated and embraced by the rest of the firm. This philosophy makes it important that the Risk function be independent from the business, including the direct influence from the CEO. Therefore, the CFO either needs to partner with the Chief Risk Officer or has the Risk function directly report to them. The CFO's office needs to be directly involved in new and existing business initiatives. It no longer satisfies the business model for the CFO activities to be restricted to the review of the capital usage or to render an opinion on the anticipated results and return on investment. The CFO needs to ensure that new business initiatives fit into the culture of the firm and will not cause unanticipated reputational risk. This extended view of the CFO's role, necessitates the financial professional to spend more time partnering with the firm's business professionals. The CFO is now brought into the fold of senior management which reduces the time spent on the core finance function. The CFO needs the proper tools and technologies to minimize the time mining for information and to ensure that the control environment is operating as planned.

Reporting

Reporting financial information has always been the responsibility of the CFO's office. The finance professional largely reported detailed profit and loss information for external or management purposes and regulatory requirements. The balance sheet and by extension off- balance sheet reporting was performed on an as needed basis and usually in the most simplistic manner. Reporting of firm information is becoming more complex in nature while the audience becomes wider and more sophisticated. Today, information is required to be rich, reliable and accessible. The CFO can achieve this by ensuring the firm develops a finely integrated infrastructure from front to back. To achieve this is neither simple nor inexpensive. But to try and keep up with information requests will become a herculean effort without the proper tools and technology. An enterprise wide reliable data repository of information combined with a flexible reporting tool that can organize the information is essential.

Even with state of the art tools, most firms still rely on Microsoft excel to meet deadlines and manipulate the data. Excel is a necessary tool but, but one that opens the firm to unsecured data, looser controls and potentially inconsistent information. It is imperative that the finance professional ensures end user control over unsecured data from an enterprise view.

Investor and regulatory demands

Since the Madoff scandal and the last downturn of the economy, the investor community and regulators are demanding more information from firms. This is especially true for the hedge fund, private equity and alternative asset investment industries. As one example, in 2008 the president's working group on financial markets issued a white paper on *"Principles and Best Practices for Hedge Fund Investors".* This 50 page document is aimed at assisting an investor in choosing and maintaining relationships with quality firms. This means that alpha returns will not be the only benchmark for choosing an investment company. Among the due diligence the investor will ensure that there is transparency of information and that a healthy well controlled infrastructure exists.
In July 2010, congress passed the Dodd-Frank Wall Street reform bill that will change the regulatory landscape for hedge funds, private equity and alternative asset management firms ("Asset Industry"). This is only the beginning of what regulations might befall the Asset Industry. Among other stipulations, the Bill requires all Asset Industry firms with assets over $100 million to register with the SEC. This registration will put the Asset Industry on an equal basis with all other registered investment managers and advisors. The records required to be maintained (and made available for SEC inspection and, possibly, subject to SEC filing requirements to be prescribed) by each private fund advised by an investment adviser would include information on the following:

- ✓ amount of assets under management
- ✓ use of leverage
- ✓ counterparty credit risk exposure
- ✓ trading and investment positions

- ✓ trading practices
- ✓ valuation policies and practices of the fund
- ✓ types of assets held
- ✓ side arrangements or side letters whereby certain investors in a fund obtain more favorable rights or entitlements than other investors (Senate Bill only)

This reporting is onerous and time consuming and this is only the beginning. It should also be mentioned that the SEC now has the authority to audit an Asset Industry firms books at **any** time. The trend of investor and regulatory pressures means that the CFO needs to ensure that its firm employs good governance over business practices and the infrastructure. Further, the firm needs to be able to quantify these controls and benchmark them against their competitors. For the first time, the investor community is organized and equipped to review your firm's control structure and inner culture. This means the CFO and CEO need to ensure the firm is:

- ✓ Protected from increased regulatory demand and risk
- ✓ Cognizant of the new regulations and political pressure of future ones
- ✓ Minimizing the inevitable distractions levied on senior management
- ✓ Aware of the possible disruption of daily operations and key staff to provide investors and regulators with information and assurances that their control environment is in place and operating as intended
- ✓ Cognizant of the possibility of lost business due to low marks from the investor
- ✓ Aware that there is an incremental cost to the organization to be best in breed

Raising capital

Traditional methods of obtaining capital through credit lines or term debt from banks is difficult in this environment. Today's CFO needs to look towards new sources to raise capital. This means more time spent from core responsibilities. The CFO and CEO will spend more time constructing creative products and will be in the field selling these ideas with prospective investors. Finding new capital sources will demand more transparency from the firm into its operations and use of capital. Capital will inevitably be more difficult to come by, take a longer lead time and have more restrictive covenants.