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CFO Roundtable

2008 NATIONAL DIRECTORS INSTITUTE

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INTRODUCTION

Foley presented the "CFO Roundtable" as part of the seventh annual National Directors Institute, hosted by Foley & Lardner LLP on March 6, 2008, in Chicago. The discussion was led by Christopher Cain and Joseph Tyson Jr. of Foley; Maneesh Arora of Third Wave Technologies; Patrick Condon of Deloitte & Touche LLP; Carl Laurino of The Manitowoc Company, Inc.; Dennis Letham of Anixter International Inc.; and Jason Wortendyke of UBS Securities LLC.

THE CFO'S ROLE IN THE EXECUTIVE COMPENSATION PROCESS

As a result of the change in executive compensation disclosure requirements, the chief financial officer (CFO) must play a greater role within a company's compensation committee. Whereas a company's human resources department used to be primarily responsible for compensation matters, the CFO is now in a position of increasing authority and responsibility with regard to such issues. Increased involvement in and oversight of compensation matters have caused the CFO to become a liaison between a company's compensation and audit committees.

Due to the increased complexity of compensation disclosure requirements, a new type of consulting practice has developed as companies struggle to prepare the Compensation Discussion and Analysis (CD&A) without outside help. The CD&A requirement has served to provide more visibility regarding companies' compensation processes, and this visibility has allowed companies to reshape their compensation processes based on those implemented by other companies. Drawbacks of the increased visibility include the excessive scrutiny of executives and the potential drop in morale among employees.

IMPACT OF THE SUBPRIME CRISIS ON THE ECONOMY

The subprime crisis has affected the economy in several key ways. First, it has created a liquidity problem that has had a global effect. Second, it has adversely affected credit availability to the extent that solid, creditworthy investors are no longer able to secure credit and thus no longer able to pursue worthwhile investments. Third, the subprime crisis has forced companies to reevaluate their investment policies in favor of more conservative investment approaches. Finally, the subprime crisis has placed directors and officers, along with their insurance companies, in unfavorable positions as they face the increasing potential of lawsuits brought by disgruntled shareholders.

With many predicting that values will not bottom out until 2009, the subprime crisis will continue to affect the economy for a significant period of time.

POTENTIAL CORPORATE IMPACT OF THE PRESIDENTIAL ELECTION

The polarizing effects of the 2008 presidential election are debatable; the participants agreed, however, that the candidates have received unprecedented media attention. Several of the participants suggested that the Democratic candidates' policies — their aversion to free trade agreements and their proclivity for placing high tax burdens on U.S. companies that deal abroad — may serve only to drive business out of the United States. A failure to understand the long-term implications of such policies may adversely affect the global economy.

USE OF IFRS VERSUS GAAP

The transition from the use of Generally Accepted Accounting Principles (GAAP) to the use of International Financial Reporting Standards (IFRS) makes sense in light of the fact that other countries use the latter, a principles-based set of rules. The use of IFRS, however, triggers many governance issues because of a lack of knowledge about these standards among industry players. Many companies would have to train their staff and educate their audit committees. The users of financial information also would have to understand IFRS to make educated investments. A lack of understanding of IFRS may in turn create adverse market reactions. Therefore, while IFRS may sound like a good idea in theory, the practical implications of implementing an entirely new reporting standard make the adoption of IFRS a less than favorable option.

RISK MANAGEMENT

The many challenges that companies face include recognizing risks, implementing uniform policies to address those risks, and then following those uniform policies. Recognizing risk and implementing policies should not be roles solely for the audit committee; rather, risk management should involve the entire management of the company. Management should support the audit committee and should be actively involved with audit committee meetings. In addition, an operational group needs to be in place to ensure compliance.

FOR MORE INFORMATION

For more information on this session or the seventh annual National Directors Institute, visit Foley.com/ndi or contact the moderators and panelists directly.

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