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Going concern: The board’s role

Amid the economic fallout from COVID-19, companies may have doubts about their ability to continue as a going concern, calling into focus the board’s important role when significant liquidity issues arise. PwC’s COVID-19: The role of the board when the company’s ability to continue as a going concern may be in doubt provides questions and considerations for the board as companies face challenging liquidity issues. Understanding the nuances of the financial accounting definition of a going concern is something the board needs to get their arms around.

Making sure directors are getting the best information and are able to look at things from all angles will be key. Directors will want to consider some of the following questions:

• If management has determined that there is substantial doubt about the company’s ability to continue as a going concern, what are the range of potential impacts on the company?
• What are the conditions causing the conclusion there may be substantial doubt?
• What analysis has been prepared by management so that the board may understand the significance of the conditions?
• How comfortable is the board with the level of conservatism in the analysis of the conditions and events that raised the substantial doubt?
• Has the board heard directly from outside advisors (auditors, bankers, etc.) regarding their insights about the situation?

Make your voice heard! Participate in our annual director survey today

Each year, hundreds of directors at US publicly traded companies respond to our survey to provide their viewpoints on critical boardroom topics. Be part of the conversation! If you serve on a public company board, click here to be part of PwC’s Annual Corporate Directors Survey.
SEC Chair urges COVID-19 disclosures

Public companies should keep investors up to date on their COVID-19 responses, SEC Chairman Jay Clayton said at the SEC’s Investor Advisory Committee meeting on May 4. The information they share should be “timely, accurate and decision-useful.” The pandemic is shifting investors’ focus, and companies can expect tough questions about its impact. According to the statement, those questions could specifically include:

- How long can the business sustain its current operating posture in the absence of additional funding?
- Have supply and distribution chains been temporarily or permanently disrupted?
- How do you plan to manage the health and safety of your employees and customers as you and other market participants seek to increase activity?

Clayton said he expects that corporate boards and executives are talking about these matters, and urged companies to make “all reasonable efforts” to disclose material information of this type. Public disclosures should be shared widely and match what’s being discussed with other stakeholders, such as lenders and regulators.

Executive and director pay cuts add up

About 15% of Russell 3000 companies have reduced executive compensation due to the COVID-19 pandemic, according to data (as of May 8) from The Conference Board. The companies cut CEO base salary by a median 44%. Other named executive officers’ pay was lowered by 25%. The findings are based on research of SEC Form 8-K filings by Russell 3000 companies that have announced executive and director pay reductions.

Consumer discretionary companies have the highest percentage of companies that cut executive pay, accounting for 36% of the 462 companies that have announced reductions. Industrials rank second at 23% and other industries such as retail, hospitality, aerospace and airlines have also made cuts, reflecting the economic impact of the pandemic, The Conference Board points out. Overall, middle-market enterprises are responsible for most of the changes. More than two-thirds of companies cutting pay had annual revenue below $5 billion.

Most CEO pay adjustments came relatively early in the outbreak. Just under 240 Russell 3000 companies announced cuts in late March and early April. The pace has leveled off more recently, with about 50 new companies disclosing compensation changes each week since then.

Boards are also sharing the pain with their CEOs, the data shows. Eighty-three percent (83%) of companies lowering executive compensation also reduced cash retainers paid to directors. And of the companies that reduced director pay, 57% reduced CEO and director pay equally, while 26% reduced director pay more than CEO pay.

Additional recent publications

Helping corporate boards oversee digital transformation

Corporate boards play a critical role in a company’s digital transformation journey. To effectively oversee a major transformation, boards should focus on the strategic plan, risks and opportunities and change management program. They also need to monitor performance to ensure that the investment results in long-term value for the company. Having a defined transformation oversight process can help ensure success. Read the paper.
Digital evolution: what corporate directors and executives think

The message is loud and clear—the future is digital. Many companies are investing time and money into digital transformations. But these shifts require focus from management and the board, as well as alignment between the two. How well do boards understand management’s plans? And are boards and management aligned on these transitions? PwC and Corporate Board Member surveyed more than 200 public company directors on the topic of digital transformation at their companies. We compared their responses to those provided by US executives in PwC’s 2020 Global Digital IQ survey. We found a clear gap between corporate directors and executives. Here’s what we found.

COVID-19: How to think about liquidity concerns

In this episode of PwC’s accounting podcast series, host Heather Horn is joined by PwC’s business recovery service specialist, Steve Fleming, to help think through the cash flow challenges that companies face during times of crisis. Listen to the podcast here.

COVID-19: Restructuring questions, answered

If you’re unsure about how COVID-19 might impact your accounting, you’re not alone. In response to the COVID-19 crisis, this podcast is the next episode in a series that will address questions surrounding the financial impact. Heather Horn is joined by PwC’s partners Pat Durbin and Jay Seliber to help answer some common questions related to restructuring activities and severance actions. Access the podcast.

Events

Directors & Boards - Board Considerations: Returning to the Workplace and Navigating the “New Normal”

Webinar
June 1, 2020

Boards are continuing to address the business challenges due to COVID-19. They have a critical role to play in overseeing management’s decisions on how to keep operations going with changing demands, when to return employees safely to the workplace, and addressing new ways to effectively engage with customers and suppliers—for starters. What issues are top-of-mind for boards as companies move from crisis to recovery? How is the company thinking about the new risks and opportunities in this “new normal”? Join PwC’s Governance Insights Center Leader Paula Loop and others as they discuss the answers to these questions and more. Register here.