

INSIGHT DURING UNCERTAINTY

CORONAVIRUS WEBCAST SERIES

Week 2-March 25, 2020



ECONOMIC OUTLOOK AND IMPACT OF COVID-19

Presenter



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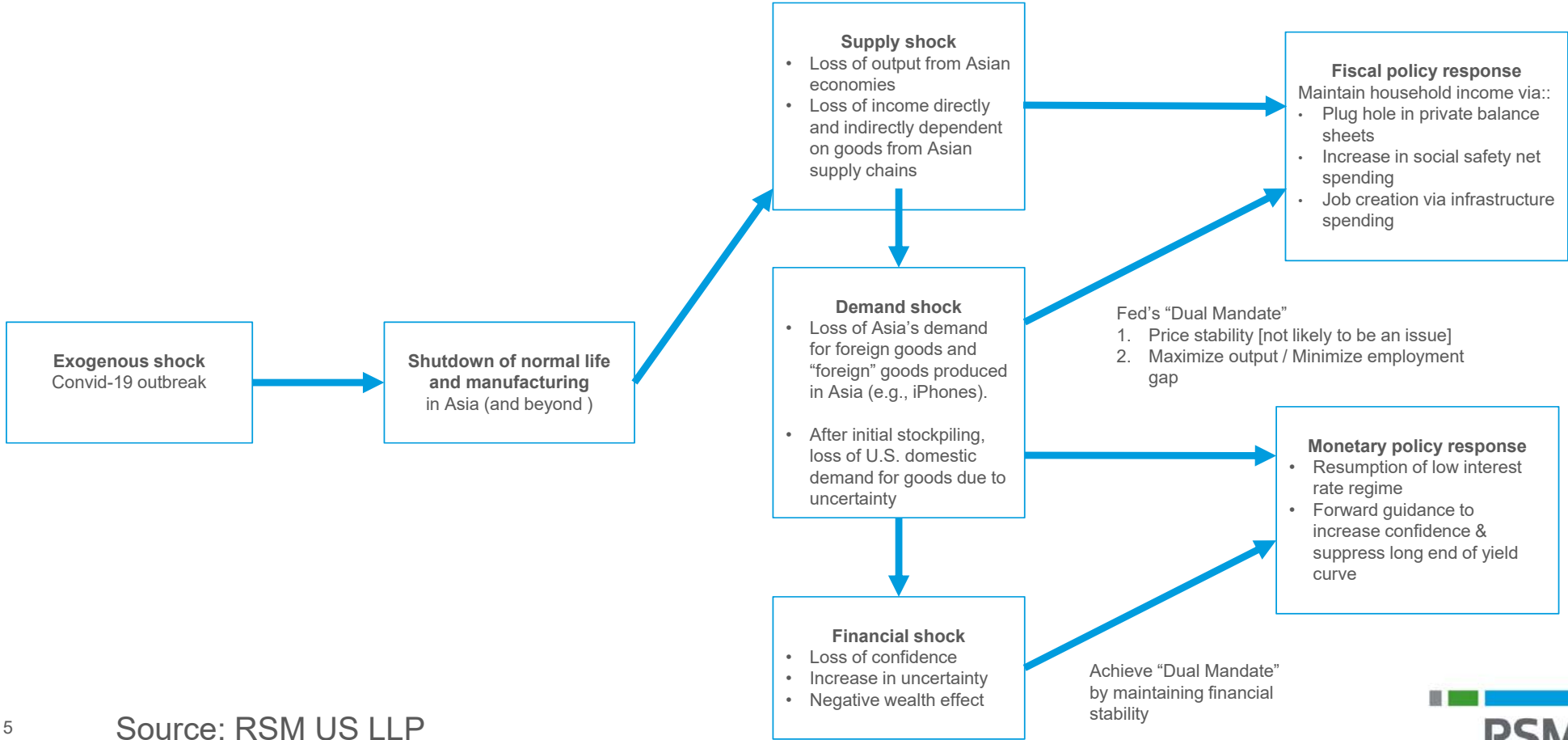
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Initial jobless claims prior to recessions



Source: BLS; Bloomberg; RSM US

Anatomy of a crisis: policy prescriptions for supply shocks, demand shocks and financial shocks



Initial jobless claims prior to recessions



Source: BLS; Bloomberg; RSM US

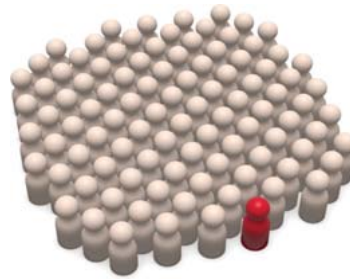
Chances that at least one event attendee is infected with coronavirus, based on total U.S. cases:

(Assumes the infection is evenly spread throughout the United States)



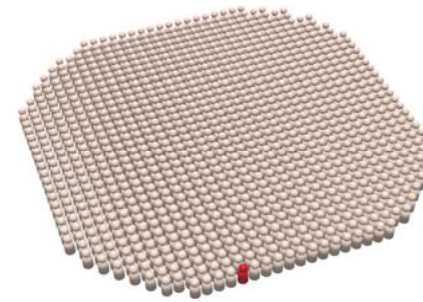
10-person events
Dinner parties, office meetings

| Total U.S. cases | Chance |
|------------------|--------|
| 2,000 | .006% |
| 20,000 | .06% |
| 1,000,000 | .30% |



100-person events
Weddings, press conferences

| Total U.S. cases | Chance |
|------------------|--------|
| 2,000 | .06% |
| 20,000 | .6% |
| 1,000,000 | .26.2% |



1,000-person events
Small concerts, corporate events

| Total U.S. cases | Chance |
|------------------|--------|
| 2,000 | .6% |
| 20,000 | .5.9% |
| 1,000,000 | .95.2% |

Source: Politico Pro

Fiscal policy response: 5% of GDP at a minimum

- **What has been done?**

- Phase 1: \$8.5 billion
 - Medical, scientific, R&D, SBA catastrophe fund
- Phase 2: \$105 billion
 - Unemployment insurance and sick leave

- **What is pending?**

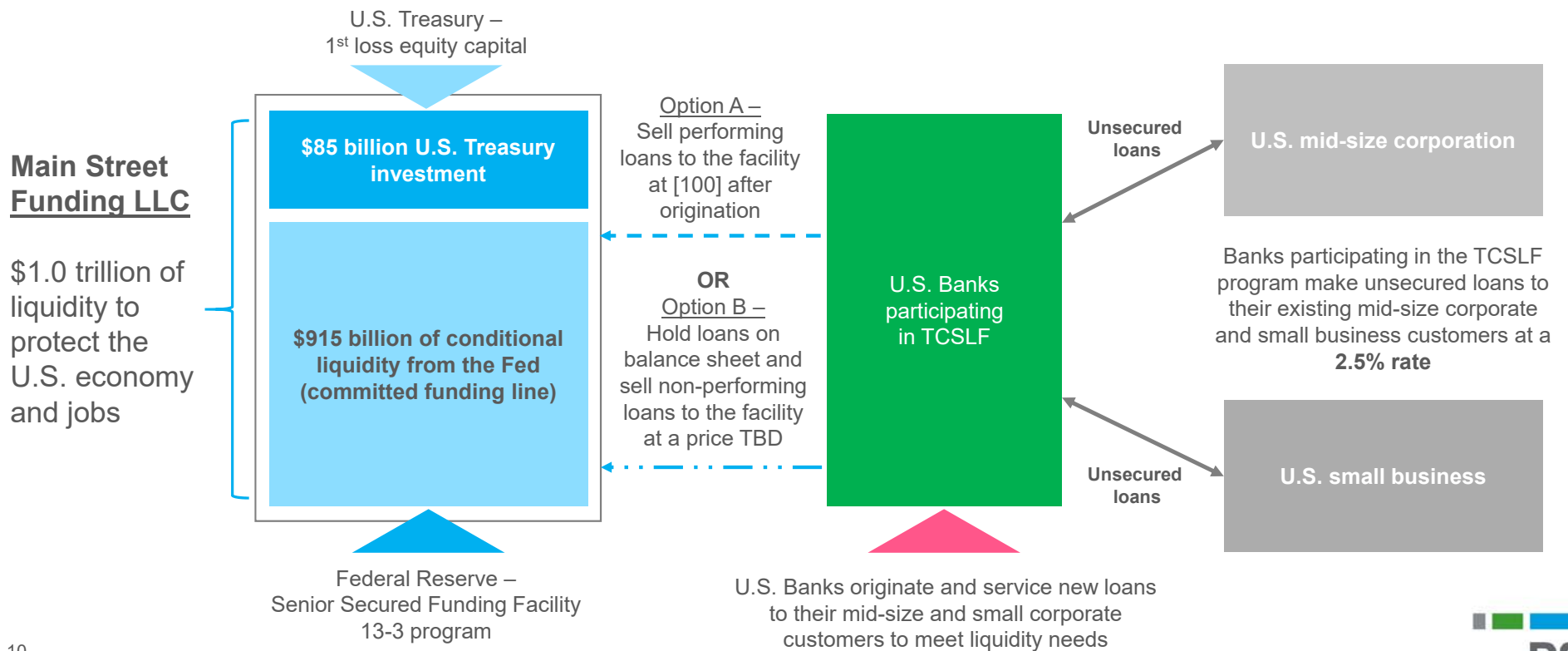
- Phase 3: \$2 Trillion
 - Composition
 - \$500 billion cash payout to individuals
 - \$300 billion in small business loans
 - \$200 billion bailout for industry
 - \$425 billion backstop for the Fed
- Phase 4: \$100 Billion
 - Federal agencies to help households and small businesses

Monetary policy response: seven days

- **Policy rate to zero**
 - Temporary yield targeting or capping yields likely in the policy mix
 - Negative rate policy not on table yet
 - \$4 trillion in liquidity commitments
- **Restart quantitative easing: \$700 billion**
 - Large-scale asset purchases to accelerate
- **Loans to banks at 0.25%**
- **Open trillion dollar swap lines**
- **Liquidity & lending facilities**
 - Commercial paper funding facility
 - Primary dealer funding facility
 - Money market funding facility

Temporary Corporate and Small Business Liquidity Facility (TCSLF)

\$1 trillion facility to provide low-cost loans to help small to medium-size enterprises impacted by Covid-19





WORKFORCE ISSUES

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Families First Coronavirus Response Act (FFCRA) paid leave and credit update

Effective date: Per new DOL guidance - April 1, 2020

Who is a covered employer: Two types of Leave – each with its own definition

- **Emergency paid leave** - Any employer with fewer than 500 employees – using Fair Labor Standard Act rules – usually employing employer but common control along with unified operations may make the related companies an “enterprise.”
- **FMLA leave** – Any employer with fewer than 500 employees – using FMLA employer rules – generally the employing employer BUT integrated employer rules apply - common management, interrelation between operations, centralized control of labor, degree of common ownership/financial control. Joint employment may also pull together companies.

DOL has the right to exempt employers with fewer than 50 employees if paying the leave would jeopardize the company as a going concern - *this will not be an application – guidance coming.*

Tax credits: Employer can receive tax credits for 100% of the mandatory paid leave AND for employer cost of qualified health care provided based on the leave.

Credits are taxable income for employer

- Generally provided by holding back payroll taxes to make the employer whole for the amounts paid. Act limits to certain employer payroll taxes, IRS preliminary guidance lists employer and employee FICA and Medicare AND Federal Income Tax withheld. Not just on amounts paid but on all company payroll taxes payable.
- IRS will provide accelerated payments for amounts paid in excess of payroll on which employer can withheld, using a new form (expected this week). Expedited processing.

Independent contractors/self-employer

- Eligible for paid “leave” under same terms as employees (SEI must keep track of hours unable to work/telework).
- Eligible for tax credit against SECA – withheld against amounts otherwise payable – presumably can hold back against estimated payment amounts based on SECA due.

30-day good faith period



Families First Coronavirus Response Act (“FFCRA”) update

Who is an eligible employee?

- ALL employees who cannot Work or Telework are eligible for the two weeks of expanded leave.
- Employees employed for at least 30 days are eligible for the additional 10 weeks of paid family leave to care for a child under 18 due to school closings or the unavailability of childcare for reasons related to COVID-19.
- Both provide for pro-rated payments to part-time employees based on the number of hours that the employee is normally scheduled to work.

Duration of leave to care for a child under 18 whose school or place of care is closed or childcare provider is unavailable due to COVID-19

- Twelve (12) weeks total
 - Full-time employee: Two weeks paid sick leave AND ten (10) weeks of paid expanded family and medical leave.
 - Part-time employee: Two weeks paid sick leave at average number of hours the employee works over a two week period for paid sick leave and ten (10) weeks of paid family and medical leave for the number of hours the employee is normally scheduled over that period.

Pay calculations:

- For leaves paying at $\frac{2}{3}$, can be $\frac{2}{3}$ of the *regular rate of pay* or applicable minimum wage rate, whichever is higher.
- **All such amounts are capped (some capped at \$200 per day, some at \$511 per day, maximum payable \$2,000 per employee for some types of leave and up to \$10,000 per employee for other types of leave).**
- Applicable minimum wage would include state or local minimum wage rate.

Use of other accrued leave

- Employees cannot be required to use current leave first.
- Employees may elect to substitute any accrued paid leave for the first two weeks of partial paid leave.

Employers' compliance challenges during COVID-19

RSM is here to partner with our clients to provide relative perspective that is centered around **HR compliance** in the midst of the COVID-19 pandemic.



Compliance

- HIPAA and other privacy regulations regarding employee health and information
- FLSA
- WARN Act assistance
- FMLA and integrated employer status
- Americans with Disabilities Act during public health emergency



Emergency paid sick leave act

- Determining payment amounts
- Coordination with existing employer policies
- Notifications, postings and training

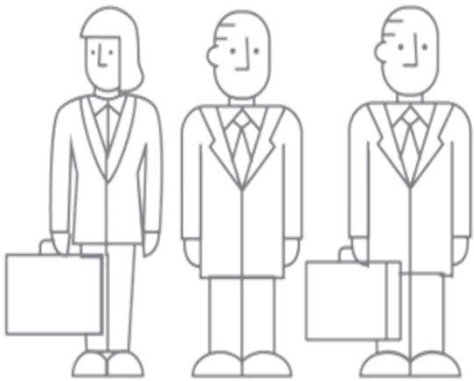


Emergency family medical leave act

- Employer responsibilities
- Coordinating municipal and state requirements with federal regulations

Employers' engagement challenges during COVID-19

RSM is here to partner with our clients to provide relative perspective that is centered around **employee engagement** in midst of the COVID-19 pandemic.



Safety

- Facility remediation and clean up – OSHA compliance during public health emergency
- Workplace safety
- Communication
- Communication planning and deployment



Compensation

- Development of incentive and recognition plans for contributions during crisis
- Creative compensation design for retention
- Up-to-date salary market compensation by geographic location and industry to assure staffing stability



Staffing

- Alternative work arrangements and assignments
- Workforce management to respond to market fluctuations (increased/reduced schedules, cross-training)
- Reduction in hours or employee separations
- Managing employee performance and engagement during period of public health emergency
- Recruiting and retention strategies for “critical” businesses



Payroll

- Processing pay for emergency leaves
- Taking advantage of paid leave credits
- Seeking refunds



COVID-19 CYBER CONCERNS

Adding insult to injury

Presenter



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COVID-19 cyber concerns

- Hackers are usually not considered fine, upstanding people under the best of conditions
- Under the current conditions, many can be viewed as “stains on humanity”
- A variety of hacking crews are using the coronavirus event as the catalyst for a variety of new campaigns
- All of these new rounds of attacks are based off of emergency themes for social engineering, or are targeting newly displaced workforces

COVID-19 cyber concerns

Phishing

- No new techniques
- Pretending to be
- CDC, WHO, FBI
- Pretending to be
- HR announcements
- C-Level: Emergency
- Pretending to be
- Curfews, lock-downs
- Notification of



favorites
g announcements

donations, etc.

e.g. riots)

COVID-19 cyber concerns

Process attacks

- Attackers realize that many corporate communications and processes are under rapid alteration to accommodate remote work and lack of communications
- Attacking processes that are already being altered
 - E.g. “So and so is out of pocket because their connectivity is down, please approve this invoice in their stead.”
- Attacking processes that have been forced into manual mode because platforms, people or processes are now unavailable
 - E.g. banks overloaded with phone calls, slow to respond to requests, so attackers pressure employees to bypass controls to directly move payments

COVID-19 cyber concerns

Technical attacks

- Many organizations were not structured for mass remote work
- Attackers realize this, and are rapidly escalating attacks looking for new/misconfigured/overloaded/etc. remote access solutions
- Similar wave of attacks for web-based email, document sharing, and cloud instances
- Be very aware of your remote security infrastructure
- Attackers know that many employees are now working outside of the corporate security bubble, which leaves local AV as the last line of defense
- This is leading to a resurgence of “oldies but goodies” attacks

COVID-19 cyber concerns

Recommendations

- Phishing guidance:
 - Same as banking, don't click on unknown links or attachments
 - Go directly to websites such as CDC
 - Communicate examples of the types of attacks that are occurring, and include them in social engineering training and internal campaigns
 - i.e. "Vaccinate" them against these types of attacks
 - Make it personal, give examples of how attackers target them personally, and let the lessons learned benefit the business
 - Clarify how processes have to change, or not, to reflect the current environment

COVID-19 cyber concerns

Recommendations (cont.)

- Technical guidance:

- Have someone do a security review of remote architecture and solutions
 - Especially if you've rapidly changed them
- Validate if the corporate security "bubble" extends to remote workers or not, if it should, and how you can make it so
 - E.g. Use "always on" VPN solution to route all internet traffic through the corporate network rather than the home network
- Review the internal network to ensure that remote traffic is "fishbowed" as much as possible
 - Assuming an endpoint is compromised, can an attacker start accessing everything in the environment or only a limited set of systems and apps?



LIQUIDITY CONSIDERATIONS

Presenters



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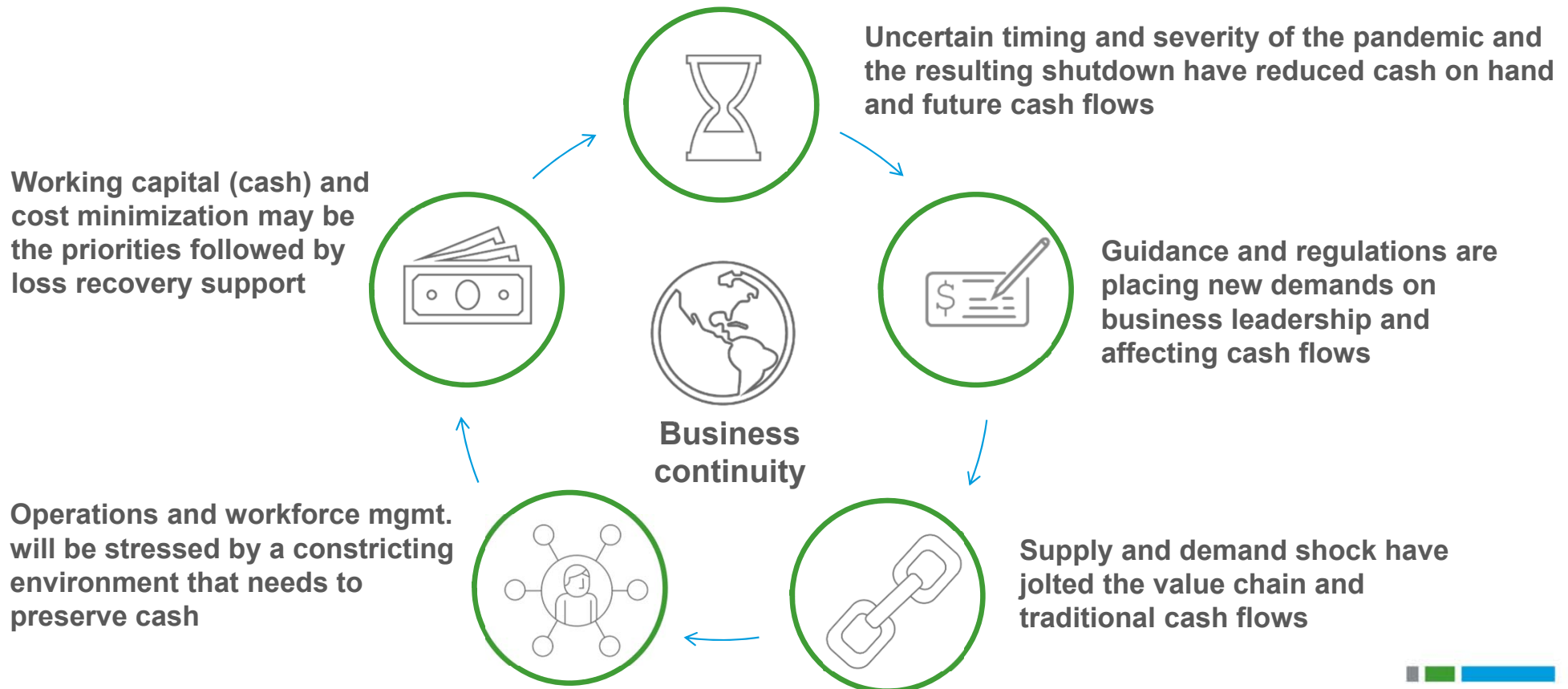
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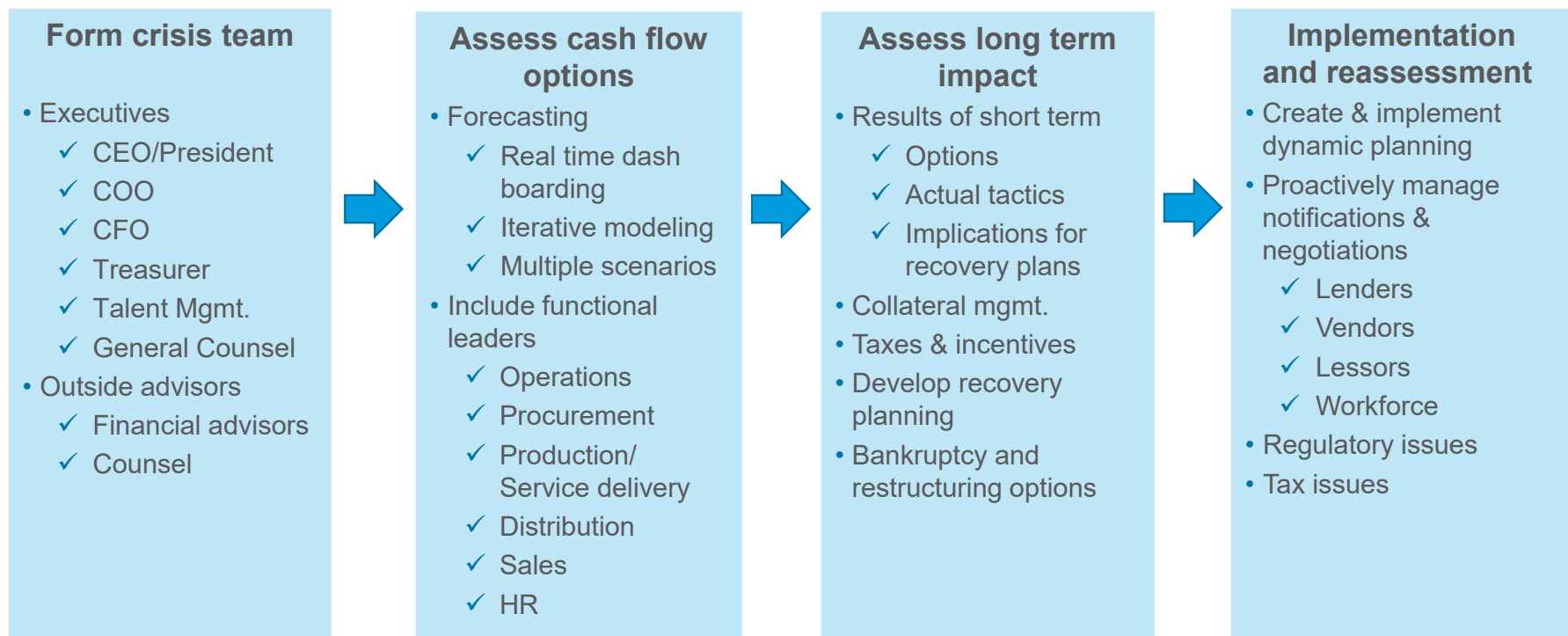
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COVID-19 has made cash the priority – a sense of urgency



Priorities focus on scenario modeling and cash management

A phased approach to organizational response: Tactical development



A COVID-19 environment demands liquidity management

Liquidity issues are paramount:

Cash forecasting

Develop dashboarding for current information and use multiple scenarios with short- and long-term time horizons (length will depend on economy, industry sector, company)

Debt and obligations

Manage lenders versus financial institutions versus trade creditors – e.g., A/P prioritization, lines of credit modifications, interest, payment obligations, covenants, adjustments

Workforce management

Staff planning, optimization, furloughs, notification requirements for salary versus wage employees, as well as impact on payroll, benefits, retirement, etc.

Sales demand and mix

Analyze fluctuations/changes to customer, product and channel mix and strategies

Supply chain

Manage supply of core goods, fluctuations in material/supply costs, and updated strategy

Receivables

Evaluate/model current DSO, understand customer mix and COVID-19 impacts, update credit strategy, assess promotion and discount initiatives

Inventory management

Analyze SKU level adjustments, update supplier strategy and management

Economic and tax incentives

Monitor closely economic relief opportunities, tax and other incentives

Recovery issues in a COVID-19 environment

Loss claims recovery will become a priority, but timing is uncertain



- **Insurance policy/government program coverage** - Analyze coverages (profits, earnings, business income) for a claim and relevant definitions of insured events, exclusions, loss measures, etc.
- **Measuring losses** – Determine appropriate basis for measuring losses, e.g. ‘Actual Loss Sustained’ or ‘Stated Amount.’
- **Ongoing/continuing losses** - Analyze continuing versus non-continuing expenses and saved expenses.
- **Expense analysis** - Determine the definitions and appropriate measures of gross profit by analyzing fixed, semi-variable and variable expenses.
- **Additional operating expenses** - Analyze the increase in cost of operations that would not have occurred during normal operations and identify additional expenses that may be covered.
- **Compiling historical financial and accounting data** - Review historical financial performance, current business plans and forecasts to determine what projected sales of the business would have been absent the incident.
- **Mitigation** - Identify and quantify any mitigation of the losses.

Time is of the essence

Issues are focused on cash

TIMING AND COMMUNICATION ARE CRITICAL

Triage may be necessary

Creditor issues

- Runway (time) analysis
- Scenario analysis
- Dashboarding
- Lender analysis & negotiations
- Creditor analysis & negotiations
- Leaseholder negotiations
- Recovery planning

Operations

- Cash controls
- Production management
- Accounting management
- WARN Act
- Employee benefits
- Staffing resources
- Security
- Customer notices
- Vendor notices

Asset strategies


- Furlough/wind-down planning
- Temporary closures
- Leases
- Asset sales
- Regulatory issues (SEC/FCC/States)
- Staff reductions
- Inventory options

Other issues

- Collateral mgmt.
- Asset sales
- Union issues & notices
- Taxes
- Compliance reporting

Thank you!

- Please join us for future webcasts in this series taking place at 1pm EDT on
 - April 1
 - April 8
- Other upcoming COVID-19 webcasts
 - On March 26 at 1pm EDT, RSM will be hosting a webcast discussing insights on key technology issues that business should examine amid the COVID-19 pandemic. Register [here](#) and learn more.
 - On March 27 at 11:30am EDT, RSM will be hosting a webcast discussing tax relief in response to coronavirus disruptions. More details to come.
- For additional information on these topics and more, visit our [Coronavirus Resource Center](#), updated daily.



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