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Written by: David H. Grumer, CPA, Partner, Citrin Cooperman

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Accounting for Bad Debts Related to Trade Receivables

Written by: David H. Grumer, CPA, Partner, Citrin Cooperman
Sourced by: Annette Waggoner, Commercial Collection Agencies of America, through Fred Wasserspring, Chief Financial Officer, Lyon Credit Services, Inc.

Current Accounting During 2019

The concept in generally accepted accounting principles (often referred to as "GAAP") is that impairment of receivables shall be recognized when, based on available information, it is probable that a loss has been incurred based on events and conditions existing at the date of the financial statements. In other words, present GAAP requires an "incurred loss" methodology for recognizing bad debts that postpones the recognition of a loss until it is probable that a loss has been incurred but not yet reported.

The incurred loss methodology requires that businesses record an estimate of uncollectible amounts, typically called an allowance for doubtful accounts. The allowance should be supported by data and analyses and applied consistently from period to period. The allowance is recorded as a charge to expense on the income statement and a credit, representing a reduction of receivables, on the balance sheet. When companies write-off a receivable, the loss, once known, is subtracted from the related trade receivable account balance with a corresponding subtraction from the allowance.

Recoveries of trade receivables that were previously written-off are recorded when received. Practices differ between entities as some industries typically credit recoveries directly to earnings, while financial institutions typically credit the allowance for loan losses for recoveries. The combination of this practice and the practice of frequently reviewing the adequacy of the allowance for loan losses results in the same credit to earnings in an indirect manner.

The Need for Change

In 2008, following the global financial crisis, financial statements users expressed concern that current GAAP did not reflect bad debts that are expected by management at the financial statement date, since some of the "expected losses" do not yet meet the "probable" threshold. In 2016, Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") that amends the accounting for credit losses on receivables. The FASB has also issued several subsequent modifications of its original ASU.

What is the Change About?

The ASU eliminates the probable threshold for initial recognition in current GAAP and, instead, calls for an entity to record a current estimate of expected bad debts. To accomplish this objective the ASU broadens the information that an entity must consider in developing its expected allowance for doubtful accounts measured either collectively or individually.

Businesses should use forward-looking information to develop more timely information in the estimate of expected bad debts, which will be more relevant to users of the financial statements. The FASB does not specify a method for measuring the expected bad debts, net of expected recoveries, and allows an entity to use data and apply methods that reasonably reflect its expectations of the bad debt estimate.

A cash recovery of an amount previously written off shall be recorded with a debit to cash and a credit to the allowance for doubtful accounts. At the next close of an accounting period management shall adjust the allowance for bad debts and record a corresponding charge or credit to bad debt expense. Alternatively, management can record a cash recovery as a direct reduction of bad debt expense.

An entity will apply the ASU and its amendments through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach).

When is the Change Effective?

The new accounting should be implemented not later than the dates below:
- Public business entities that meet the definition of an SEC filer, excluding entities eligible to be a "smaller reporting company" as defined by the SEC, for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years; and
- All other entities for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years.

How Can Your Accountant Help You?

Your accountant's advice is important, including but not limited to these areas:
- Assisting in the accounting transition and answering any questions that arise concerning the effective date.
- Developing and recording information to arrive at the allowance.
- Addressing any relevant tax questions.
- Understanding the impact, if any, to loan covenant and other ratios that are key to agreements.

About the Author

Dave Grumer is a partner with more than 30 years of experience providing business consulting, tax, and audit services. A leading member of the firm's Financial Services Industry Practice, he advises clients primarily in the financial services industry, including registered investment advisors, registered brokers and dealers, and various investment companies. Dave's work with clients is grounded in his experience in a wide variety of business activities that requires a deep understanding of each clients' operations and cash flows in order to apply his knowledge of the latest developments in accounting, taxation, and compliance.

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Six Things to Consider Before Doing Business with Cannabis and CBD/Hemp Companies

By: Sam Fensterstock, AG Adjustments

With the legal cannabis and CBD/Hemp markets are expected to generate more than $50 billion in revenue by 2024[1], many mainstream members of corporate America are looking to do business in this emerging market. Many of AGA's clients have told us that they have either been approached or have started do business in this market, and to that extent, I have become actively involved as a member of the National Cannabis Association's Banking & Finance Committee. At the upcoming March Credit Research Foundation Forum I will be moderating a panel discussion to address the operational and legal issues that companies face when selling into this new market, and thought that prior to the Forum I would provide some insight as to what we will be reviewing in March.

Any personal or corporate position on legalization or descheduling should be tabled; there is significant potential revenue in providing your company's goods and services to cannabis or CBD/hemp companies. But before you do, you must determine what your legal exposure is. So, here are six things every company must consider before doing business in the cannabis-related market:

1. Is the Company You're Doing Business with Plant Touching and Do They Have a State Issued License?

If the company you are looking to do business with is plant touching, then they must have a license issued by the state in which they operate in order to be a state legal cannabis business. The black market is huge, so you need to determine if your potential customer is legit. **If they do not have a state issued license, or their license is not in good standing, <u>DO NOT</u> do business with them.**

There are also many different types of plant touching businesses in the cannabis market and it is important to know who you're selling to. Just like in corporate America, there are different segments to the market, and the more you know about your potential customer and what they are going to be using your products and services for, the better decisions you can make to mitigate your company's risk. Here are the main segments of the cannabis market:

a. Cannabis – is a group of 3 plants with psychoactive properties known as Cannabis sativia, Cannabis indica and Cannabis ruderalis.
b. Marijuana – the dried leaves and flowering tops of the Cannabis sativia or indica plant that contain more than .3% THC.
c. Hemp – is a strain of the Cannabis sativa plant that is grown specifically for industrial purposes. Hemp has lower concentrations of THC and higher concentrations of cannabidiol (CBD). Hemp can be used to make textiles, industrial products, clothing, shoes, bioplastics, insulation and much more. In 2018, all hemp with less than .3% THC became legal under The Farm Bill. The Bill allows hemp cultivation broadly, not simply pilot programs for studying market interest in hemp-derived products. It explicitly allows the transfer of hemp-derived products across state lines for commercial or other purposes. It also puts no restrictions on the sale, transport or possession of hemp-derived products, as long as those items are produced in a manner consistent with the law.
d. CBD – or cannabidiol is a naturally occurring compound found in the resinous flower of the cannabis plant. CBD that is derived from a hemp plant with less than .3% THC is legal under federal law. If the CBD is derived from the marijuana plant (a cannabis plant with more than .3% THC) then this version of CBD remains classified as a schedule 1 drug on the CSA.

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1 Forbes Magazine - https://www.forbes.com/sites/irisdorbian/2019/05/20/cbd-market-could-reach-20-billion-by-2024-says-new-study/#17c3185249d0

https://www.forbes.com/sites/irisdorbian/2019/09/24/new-cannabis-report-predicts-legal-sales-to-reach-nearly-30-billion-by-2025/

e. Direct Marijuana Business – is a business that grows, produces, distributes or sells marijuana products, edibles or derivatives, regardless of the amount of such activity. This applies to both medical and recreational use no matter the laws of the state.
   i. Cultivators – or sometimes called growers, are the companies that are growing cannabis flower.
   ii. Processors & Manufacturers - are responsible for taking the raw cannabis plant and creating entirely new products from it including concentrates, topicals and edibles. In addition to creating these products, processors must also package them in compliance with their state's regulations. Processors can also be referred to as manufacturers, extract technicians, extract artists or edibles chefs depending on the way their states have defined industry roles on their finished products.
   iii. Distributors – are the liaison between a cultivator, processor and their customer – typically a retailer or dispensary. Because cultivators and processors cannot always sell directly to the retailer or be what we call "vertically integrated", distributors connect cannabis brands with dispensaries and delivery services.
   iv. Retailers – these are the businesses that are selling cannabis products directly to consumers and are either store fronts or delivery services.

f. Indirect Marijuana Business – is a business that ANY of its gross revenue from the previous year was from sales to direct marijuana businesses of products or services that could be reasonably determined to aid in the use, growth or enhancement, or other development of marijuana.
   i. Non-Plant Touching Service Providers – any type of company that provides ancillary services to the cannabis market. These are companies such as ag products, packaging, software, legal & financial services, shipping, logistics and staffing.
   ii. Plant Touching Service Providers – these are companion companies that are used in the aid, growth or enhancement of marijuana, such as testing labs or companies that install grow lights or build grow houses.

2. Banking Considerations

If you take in money from a plant touching state legal cannabis business, can you deposit it – no matter if it is cash, check or ACH? Also, does your customer have a banking relationship where they can easily pay you?

Most cannabis related businesses deal in a lot of cash, but many have a banking relationship and can pay you by check or ACH, just as any other normal business would. The Financial Crimes Enforcement Network reported that as of September 30, 2019 there were 563 banks and 160 credit unions servicing cannabis companies. One of the key things to do when you are evaluating a credit relationship with your cannabis customer is to perform due diligence around if and where they have a banking relationship.

If your customer does not have a banking relationship, then you will probably be paid in cash or sometimes by the owner's personal credit cards - there is risk associated with this. If you are going to be paid in cash, if the transaction is more than $10,000, you will need to file a form 8300 with the IRS detailing where the cash came from. Also, if your bank knows that you are receiving funds from a cannabis related business, they could shut down your bank account. To avoid any problems, you should probably have a conversation with your bank before going down this path.

To help bring banking to the cannabis market while cannabis is still illegal under the CSA, the SAFE Banking Act of 2019 was passed by the House in September 2019 and now is in the Senate. The SAFE Banking Act is proposed legislation that is aimed to address the state legal cannabis industry's lack of access to banking and financial services, but probably won't passed until 2021. The Act prevents banking regulators from penalizing banks or their employees for providing financial services to state-legal cannabis businesses. The SAFE Banking Act is a move in the right direction, but it won't open the flood gates for banking services for the cannabis market as many banks will still sit on the sidelines.

3. Will You Be Getting Paid in Cash, Credit Card or Electronically?

- Accepting cash – as 75% of all cannabis transactions are made in cash, it is the most widely used method of payment in the market. However, there are lots of issues with accepting cash, especially if you are accepting more than $10,000 at a time. As we said previously, this requires you to file a form 8300 with the IRS. Once the form is received, the information is cross referenced with the Financial Crimes Enforcement Network to verify that the transaction was not part of any criminal activity.
- Accepting credit card – this is the second most popular way that cannabis companies pay their bills.
- ACH / Wire and paper check – accepting any of these payment types from state legal cannabis companies to pay for your goods and services is the same as accepting these types of payments from your other customers. However, the challenge in the cannabis industry is that your customer may not have a bank account and won't be able to pay you electronically.

Each of these payment forms still has one mitigating factor. The company you are doing business with may still be considered an illegal business by the federal government. Therefore, payments to your company may be scrutinized and should comply with state and federal law, be transparent and properly documented in order to avoid suspicion of money laundering.

4. What are the Legal/Criminal Issue Considerations of Doing Business with Both Plant Touching and Non-Plant Touching Cannabis Related Businesses?

As of 2020, cannabis remains illegal under the federal Controlled Substances Act (CSA). If you provide general business services to a cannabis company, are you breaking the law? If so, which law, state or federal? There are a few different areas to consider.

Are you an accessory to violating the federal CSA if you are doing business with a cannabis company? According to the law, anyone who aids, abets, or conspires to commit a crime is just as guilty as the individual who commits that crime. At least for now, according to the CSA, businesses that cultivate or sell marijuana are performing a criminal act. However, it is very difficult to prove that a goods/service provider to a cannabis company should be found equally liable for aiding and abetting those criminal acts. The one saving grace is the prosecution needs to prove intent - the so-called mental state requirement. To prove criminal liability, it is required that the government prove that the provider of goods/services intended to aid in the commission of a crime. In this situation it can be shown that the third-party service provider does not care what their customer's business is. Even if they know that their activity aids the selling of cannabis-based products, it doesn't mean that they intend it to be so, and in any case, you would have to prove it to a jury - a very difficult task considering the public's general feeling about the current state of cannabis legislation.

There have been several pieces of legislation that helped the cannabis industry grow. The primary one was the Cole Memorandum in August 2013. The Cole Memorandum instructed the federal government to not enforce federal cannabis prohibition in states that have legalized cannabis in some form, and to only prosecute cases that implicate a significant federal interest – primarily when a case involves violence. However, the memorandum was rescinded in January 2018 by then Attorney General Jeff Sessions. The Session Memorandum stated that the CSA was the law and cannabis continues to be illegal, and that cannabis related activities can serve as the basis for the prosecution of other crimes. The Session Memorandum directs federal prosecutors to exercise the discretion when it comes to the enforcement of the CSA.

In response, in June 2018, The STATES Act bill[2] was proposed in Congress and was reintroduced in April 2019. The bill would continue to protect states' rights to enact their own cannabis policies by amending the CSA to exempt cannabis-related activities that comply with state, territory or tribal laws. The legislation would also protect banks that work with cannabis businesses.

2 https://www.congress.gov/bill/116th-congress/house-bill/3754/text?format=txt

5. What is the Difference if the Customer is a CBD/Hemp Company, and How Does This Affect You?

The Agriculture Improvement Act of 2018 ("The Farm Bill") legalized hemp by removing the crop and its derivatives from the definition of cannabis under CSA and by providing a detailed framework for the cultivation of hemp. The Farm Bill gives the US Department of Agriculture (USDA) regulatory authority over hemp cultivation at the federal level. However, states can maintain primary regulatory authority over the crop cultivated within their borders by submitting a plan to the USDA.

However, not all CBD is the same. CBD that is derived from the cannabis plant falls under the CSA and is still considered federally illegal. CBD that is derived from the hemp plant and has less than .3% THC falls under The Farm Bill and is legal in all 50 states. However, the FDA has only approved one cannabis-derived CBD based drug, Epidiolex, and the agency is not going to grant companies the ability to add CBD to food, beverages or dietary supplements. Currently, any company that adds CBD to food, beverages or dietary supplements is in violation of FDA guidelines. So, if you're doing business with a CBD company that is infusing CBD in other food or beverage products, you need to know that as they may be violating FDA guidelines, and this could have negative ramifications on your business. Recently the FDA has cracked down on CBD companies that have made false claims about the uses of CBD for curing or preventing disease. The FDA has been clear that CBD has not yet been declared to be GRAS or generally recognized as safe.

Many states have addressed this situation by passing legislation that allows the commercial production of hemp within their borders. Moreover, many states also regulate the sale of products derived from hemp. As the laws vary from state to state, you need to review the law for each state that you will be doing business in to make sure you avoid any legal problems. Additionally, according to the USDA, for a producer to cultivate hemp, it must either have a license or other authorization from a state, Tribal or USDA hemp program. The USDA will issue licenses to producers who are operating in jurisdictions that have not submitted a plan or in jurisdictions where a plan has not been approved.

If you plan to do business with a CBD/Hemp producer, to protect yourself, make sure that they have a USDA, state or Tribal license that authorizes them to cultivate hemp.

6. Making a Credit Decision on a Cannabis Based Business

So, your new cannabis or CBD/Hemp customer wants credit terms. How do you make a credit decision on a company who might not have any traditional credit related data available on them? As we talked about in #1, the first thing you need to make sure is that your potential customer has a license issued by their state to do whatever they are doing in the market. If a company is a cultivator, extractor, retailer or any other plant touching company, as we stated earlier, if they do not have a license in good standing and registered to operate in their state, you should not do business with them. If you do, you are not only breaking federal law, but state law as well.

If you find that your potential customer is a licensed operator that you would extend credit to like any other customer, we recommend you have them fill out a credit application. The challenge you might face is that not many cannabis related businesses are used to filling out a credit application. The cannabis industry has been mostly cash based for the past 10 years and therefore you might have to do some explaining to your potential customer about why you need a credit application completed. If they won't do it – you may not want to do business with them.

While personal guarantees are commonplace in corporate America, they are not in the cannabis market. Most business owners have never been asked to sign one from a vendor. Once again, just like a credit application, your potential customer may be hesitant about signing one – another thing to consider.

As we have reviewed in previous articles, a credit application is more than just a form for requesting credit.

A credit application is a contract between the seller and the buyer. A good credit application will benefit the seller, a bad one the buyer. Therefore, it is important that your company is certain your credit application contains all the safeguards (provisions for credit applications and personal guarantees) available to reduce customer risk. Securing a credit application does not guarantee payment, but it is one of the more significant documents you can obtain to assist you in making a good credit decision. The credit application is the first step in gathering information about your potential customer. Even if your customers are paying you in cash, ask them to fill out a credit application. Collecting the necessary information will make it easier to determine exactly how much credit to extend.

While there is not much trade data on cannabis related companies that has been reported to the leading credit bureaus, as the market matures, so will the depth of trade data that will be available on cannabis related businesses that can be used in your credit decision process.

Conclusion

We are hearing from many of our clients that there are significant opportunities in the cannabis and CBD/hemp markets as they continue to grow, but there is also significant risk. Cannabis is still federally illegal under the CSA, and while the federal government is not actively enforcing the CSA in states where cannabis is legal, it still is illegal - and the risks of doing business in this market need to be considered.

We have tried to provide some basic information on the perils and pitfalls of doing business with a cannabis or CBD/hemp company. This is an ever-changing topic as the federal government and the states are currently addressing this area, and the legal ramification of doing business with cannabis and CBD/hemp companies is in a constant state of flux. There are currently bills pending in congress that could significantly change the business environment in the future. We will endeavor to help you stay current by publishing information about the state of the business when it changes.

About the Author

Sam Fensterstock is the SVP of Business Development at AG Adjustments (www.agaltd.com). AGA is one of the nation's leading providers of 3rd party commercial collection services. Sam oversees AGA's sales organization as well as corporate partnerships and marketing. He has more than 25 years of experience as a Senior Business Development Executive, Manager and Coach in the commercial credit and collections space. He is passionate about helping companies improve their order to cash process with a specific focus on credit risk and collection management. He has been a founder and played a key role in the dynamic growth of several leading niche commercial credit risk management companies and is considered an expert in the order to cash and credit and collections process. Prior to joining AG Adjustments Sam was the Director of Business Development at PredictiveMetrics, a statistical based credit and collection scoring and modeling company that he helped grow and sell to SunGard (FIS) in 2011. AG Adjustments has been a Platinum Partner of The Credit Research Foundation since 2000. Sam can be reached at samf@agaltd.com or 631-719-8096.

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This is Really Funny…On Our Way to The Bankruptcy Court

By: Kenneth A. Rosen, Esq., Lowenstein Sandler LLP

A company commences a Chapter 11 bankruptcy case, obtains "debtor in possession" financing and then asks its vendors for more unsecured credit because (according to the debtor) the debtor just got lots of new financing and the vendor will have an administrative claim in the case – which is on par with professional fees and is entitled to 100% payment off the top. Therefore, giving credit during the bankruptcy is safe. I find these assertions to be very humorous because none of it is true anymore.

Sears, Barneys and Toys R Us are recent examples of administrative insolvency. In other words, debts incurred during Chapter 11 are not able to be paid in full. So, the vendor gets burned twice.

When a debtor says that it has obtained "DIP" financing, it wants you to believe that it has obtained more needed liquidity. However, many times, the debtor continues on a shoe-string and the new financing simply replaces the pre-bankruptcy financing. Not a lot of fresh cash is provided. The question is not how much DIP financing has been obtained - that will be the headline number. The better question is how much additional liquidity the debtor really is getting from the financing.

Is the secured lender increasing or decreasing the advance rates to the debtor? That is a good question to ask. Is the *aggregate* amount owed to the secured lender (the pre-bankruptcy amount outstanding as of the petition date plus the post-petition amount that will become outstanding) greater than what was owed to the lender as of the petition date? If not, then the debtor probably is treading water and has not been given a "jump start."

Preferences. A debtor has the power to recover from creditors money paid to the creditor during the 90 days preceding the date of bankruptcy if the payments were past due when made. Lenders frequently ask that they get a lien on these potential recoveries. By doing so, the vendors subsidize the secured lender's recovery. It also is a double "hit" to the vendor since the vendor gets burned for what is outstanding to it as of the petition date and then potentially has to disgorge what it was previously paid as a result of its diligence as a credit executive. The answer is simple. The vendor should not consider giving post-bankruptcy trade credit until after the Court says that the bank will not have a lien on preference recoveries.

Yes, administrative claims (claims arising during the pendency of the bankruptcy case) are entitled to 100% payment in order to confirm a plan of reorganization. But, fewer and fewer debtors or lenders care about confirming a plan of reorganization. They just want a fast sale of the assets to get the secured lenders out of the case. After that, the Chapter 11 bankruptcy case can be dismissed or else converted to Chapter 7. And, if you believe that vendors' administrative claims get treated equally to the administrative claims of professionals, then I have a bridge in Brooklyn that I would like to sell you. Somehow, vendor claims always are treated as if they are subordinate.

One thing that I like to do if my client feels that selling to the debtor post-petition is necessary for business reasons, is to file a reservation of rights whenever professionals seek compensation. Put the professionals on notice that, if your client does not get paid, you reserve the right to seek a reduction or even disgorgement of their professional fees. This approach does not make lots of friends, but it makes a debtor and its advisors think twice about who the debtor does not pay timely.

Know the milestones in the case! If the secured lender has set dates by which assets must be sold, make sure that you are ratchetting down your claim sufficiently in advance of the sale date. Not every sale yields enough to pay the secured debtor in full and leave enough over for administrative claimants to be fully paid. Once a sale [that has not resulted from spirited bidding] is done, it probably is too late to recover fully on your administrative claim.

Every debtor says that it intends to reorganize and confirm a plan of reorganization. But, when push comes to shove, it frequently does not happen absent special situations where there are remaining assets to liquidate (such as litigation) or where insider releases are sought. Lenders may not see much benefit to themselves from funding a bankruptcy case post-sale and often decline to do so. The statement that a plan of reorganization cannot be confirmed absent paying all administrative claims should not be a basis for extending new credit.

Why did the turtle cross the road? To get to the Shell station.

About the Author

Kenneth A. Rosen, Esq is Partner, Chair, Bankruptcy, Financial Reorganization & Creditors' Rights of Lowenstein Sandler. Mr. Rosen advises on the full spectrum of restructuring solutions, including Chapter 11 reorganizations, out-of-court workouts, financial restructurings, and litigation.

In his spare time, Mr. Rosen serves on several philanthropy and nonprofit boards primarily devoted to health care and education.

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Financial Automation – 5 Trends to Watch for in 2020

By: Brian Shannon, Serrala

Look into the future and evaluate the top technology trends that will impact finance teams and improve business processes over the next decade. Get the details you need to build a process roadmap that will take full advantage of these technologies and maximize the business value of your company's digital transformation. This article will discuss the five biggest technology trends in finance: Intelligent Automation, Cloud and as-a-Service solutions, Real-time Connectivity, Big Data, Predictive Analytics. It will discuss how you can work with IT to ensure these technologies are implemented effectively and adequately support your team's business objectives.

As a new decade begins in 2020, financial leaders should take a moment to consider how technology will potentially impact their teams over the next decade. Certainly, robotic process automation (RPA), which gained significant momentum over the past decade, will continue to transform financial processes. But which technology trends are the ones to watch next? And where can this new technology possibly take us in the next 2, 5, or 10 years?

Understanding these technology trends will help finance leaders identify the best opportunities for improvement that exist within their organization. Opportunities that the IT team alone might not see. It will also help them develop short- and long-term process roadmaps that take full advantage of technology – to support the company's strategic goals and meet the finance team's unique business needs. A process roadmap will ensure your team can optimize processes to maximize the company's return on technology investments and support its continued success in the future.

Here are five technologies finance leaders should consider in 2020 to prepare for the future.

1. Intelligent Automation Investments Drive New Levels of Productivity

Investing in automation never goes out of style. In a recent survey by a leading technology firm[1], 98% indicated that automation was a top priority for their organization. Many companies have been operating with simple, rule-based automation for cash application, invoice matching, or credit management processes for several years already. These organizations are reporting straight through processing (STP) levels of >90% as a result of this automation.

Rapid advancements in technology, however, mean that these early investments in automation are quickly being outpaced. In 2020, companies should look for opportunities to implement **intelligent automation**. This uses artificial intelligence (AI) and machine learning (ML) to help companies move beyond simple rule-based RPA and achieve the next-level of automation. Based on self-learning algorithms, the technology explores connections between data to identify patterns and discovers relationships. It is useful for speeding up complex approval and exception handling workflows, such as payment disputes. For example, when a dispute arises, a digital assistant can be used to gather all the information required and route it to the appropriate individual for resolution. Intelligent automation makes it possible to automate as much of the process as possible. On top of that it makes it faster and easier for individuals to take the correct actions.

Intelligent automation options already exist for many of the popular financial processing solutions. The recent ***IT Market Clock for Procurement and Strategic Sourcing Applications 2020*** report by Gartner, lists AI-enabled Accounts Payable (APIA) solutions in the "Choice" category. "Choice" solutions are solutions that companies should look to implement within 2-5 years. Therefore, start plan-

1 Future of Finance Survey, Serrala, June 2018, http://bit.ly/future-of-finance-survey

ning now to ensure your company is comfortable enough to implement this technology in your Accounts Payable and other finance processes.

Is your company interested in using AI/ML technologies? Then make a plan to gradually introduce automation, starting with RPA. Once you've used RPA to automate rule-based and routine tasks, you can gradually introduce the more sophisticated AI/ML technology. Finance teams should work hand-in-hand with IT teams to ensure this technology is configured properly to automate the more complex tasks that weren't able to take advantage of RPA. For example, credit management, which may have already benefited from RPA to automate customer credit checks, can use AI-enabled automation to enable faster credit limit approvals and incorporate predictive credit scorings based on ML-evaluated historic data. By understanding the benefits of automation and the differences between RPA, AI and ML technology, finance teams can play an active role in developing improvements. That will help accelerate cash flow and improve customer and supplier relations to enable greater success.

2. Cloud and Software-as-a-Service Solutions are Flexible Options for New Technology

Cloud and as-a-Service solutions have been around for almost a decade now. Customer-facing areas of the business such as sales or logistics were early adopters of these solutions. This is because these departments needed anytime, anywhere access to information to provide their customers quick and efficient service. Finance, on the other hand, has resisted going to the cloud and remained firmly tied to traditional on-premise systems. In general, this was due to security concerns and a hesitancy about disrupting this critical business process. In 2020, however, companies are much more comfortable with the flexibility and security provided by cloud solutions and should start to move finance processes to the cloud too.

Cloud solutions have many advantages for finance. They can be used to standardize finance processes across multiple locations, business units and enterprise systems. They are highly scalable and provide the processing power and access to large data sets that are required to take full advantage of advanced cognitive technologies such as AI or ML. Most importantly, cloud solutions can also be flexibly combined with on-premise systems using a hybrid approach. This approach enables companies that are not ready to completely move to the cloud a way to extend and enhance their existing finance processes. For example, they can use web-based customer or vendor portals to automatically capture information and handle queries or disputes with key business partners. Using this approach, almost every finance department will be able to have some component that is running in the cloud in 2020.

Common cloud-based "Software-as-a-Service" solutions such as SalesForce, Workday, and SAP Ariba are good examples of solutions that run in the cloud to enable sales, HR and procurement processes respectively. In finance, however, the change to SaaS solutions has been slower. While large enterprise software providers such as SAP and Oracle have had SaaS solutions for many years, many companies continue to use their existing on-premise solutions. In 2020, this is likely to change. This is because new electronic payment formats, payment service providers (PSPs) and regulations are making it difficult for companies to keep up to date with the rapid pace of change in finance. SaaS solutions solve this problem by enabling companies to keep their finance processes aligned with the latest standards and regulations. The solutions are constantly updated so companies can quickly meet new e-Invoicing and payment formatting standards or connect to new information sources such as banks, credit rating agencies or market data providers. Some SaaS solutions offer a "managed automation" option, which enables companies to combine all the benefits of "as-a-Service" software (flexible, scalable, up-to-date) with expert management of the business process. This is particularly useful for finance departments, which need to manage complex banking and B2B payment transactions globally.

Over the next decade, these cloud-based SaaS solutions will make it much easier for finance departments to initiate and receive payments without going through a bank. They will be able to quickly manage bank connections, format payments, and validate payments against international sanctions or embargo lists, preventing compliance risks, fraud and money laundering. They will also be able to choose alternate payment service providers, such as PayPal, Apple Pay or a similar service to make their payments. These changes will help companies reduce payment fees and accelerate payments. Companies that conduct a large number of payments or that want to reduce the cost of payment processing should consider the many SaaS solutions that are now available in the marketplace. Without a doubt, this technology is poised to completely transform the way companies use banking and payments in the near future.

3. Hyper Connectivity is the New Normal

In 2020, the finance department is no longer the isolated, back office team that it once was. Today, finance teams rely on information from across the entire company. They need to ensure there is enough cash on hand to support day-to-day operations, information about strategic initiatives that need funding, and a full audit trail to ensure accurate accounting. They also need easy access to information from external parties. Banks, customers and suppliers all provide valuable information to the finance team that enables them to validate financial transactions and document them according to fiscal and legal requirements.

As we move into the next decade, finance teams need to leave manual, disconnected processes behind and focus on how to be more connected. Hyper connectivity will provide teams with the information they need to make faster, more accurate decisions about the company's finances. Teams should start by breaking down silos of information across their order-to-cash, procure-to-pay and treasury and cash management processes to improve speed, accuracy and transparency. Next, look at ways to enable hyper-connectivity between your company and external parties. For banks, consider how you can use APIs or microservices to achieve near-realtime updates. Intra-day or more frequent bank statements will enable faster cash application so the company can extend more credit to customers and generate more business. Use fast payment API to ensure suppliers receive payments almost instantly, which will ensure stronger supplier relationships and maintain a strong supply chain for the organization.

4. Manage Data Wisely to Fuel Your Finance Processes

According to a report in The Economist, "data is the new oil". While companies have always collected data about their customers, new data sources such as smart cards and other items that belong to the Internet of Things, enable companies to collect more data today than ever before. Knowing how to manage that data will be a critical competency for businesses in the next decade.

Data privacy regulations such as GDPR and CCCP are already impacting the way companies collect and store data. In 2020, finance teams should familiarize themselves with these regulations and consider how they can adapt their existing processes to support the proper collection and retention of information about customers, suppliers and employees. Certainly, any new process or new project should include data management as a requirement. Companies should also consider using an information management solution to automatically archive and purge data according to the applicable regulations. These will not only ensure that data is managed in compliance with the law, but it will also make it easier for finance teams to extract information quickly to respond to audits or queries such as freedom of information requests.

Finance departments should also continue to push to digitize processes and eliminate paper from their processes. Look for ways to transition to 100% electronic data capture. Typically finance works with many different types of documents that contain potentially sensitive or personal data – invoices, remittance advices, bank statements – all of this information should be received electronically. By digitizing information, companies can apply the same security and retention standards to all incoming finance information, eliminating potential risks posed by improperly handled paper documents. It will also improve and accelerate processes by enabling instant access to information.

5. Predictive Analytics Will Empower the Future of Finance

What is finance without reports and analytics? Teams are used to generating detailed reports on financial results over the past month, period or year. In 2020 and beyond, consider expanding reporting responsibilities to include predictive analytics as well. Predictive analytics builds on the information and connectivity made possible by the other technologies described in this article. Predictive analytics will allow teams to anticipate future financial performance with great accuracy. For example, credit teams can combine information from credit risk agencies, with past payment behavior, to determine the probability that a customer will pay on time. Collections teams can use similar information to predict which approach is likely to generate the best collections results with a specific customer. On the payments side, it can detect potential fraud before it happens or identify suppliers who are more likely to give discounts for on-time or early payments. All of this information can be rolled into planning and forecasting, which will enable the company to make faster, more accurate decisions about how to manage the business.

Now is the Time to Make a Plan for the Future of Finance

Staying on top of the latest technology trends isn't easy for finance people who specialize in dollars and cents, not bits and bytes. As the year unfolds, finance leaders should think about how the following technology trends will impact them in the next 2, 5 or even 10 years: intelligent automation, cloud and as-a-Service solutions, hyper connectivity, data management and predictive analytics. By thinking ahead, you can help your team and company build out a process roadmap that will let you take advantage of this technology so you can stay ahead of the competition and continue to be successful in 2020 and beyond.

About the Author

Brian Shannon is Senior Vice President Strategy and Operations at Serrala. He focuses on improving business processes and financial solutions with technology to maximize return on investment. Brian has held many C-level and leadership positions in the past, including Chief Operating Officer, Chief Strategy Officer, National Credit Manager, International Finance Manager and Financial Strategist. Brian holds a degree in Political Science from the University of Manitoba, and a MBA in International Finance from the University of South Florida.


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The Increased Footprint of Cannabis in the Commercial B2B Credit Space

Credit Research Foundation 2020 - Update

By: Matt Skudera, Vice President Research & Education, Credit Research Foundation

Note: This study was conducted as a result of an increasing number of inquiries from CRF members. CRF does not condone or support the use of cannabis, or related products, either medically or recreationally.

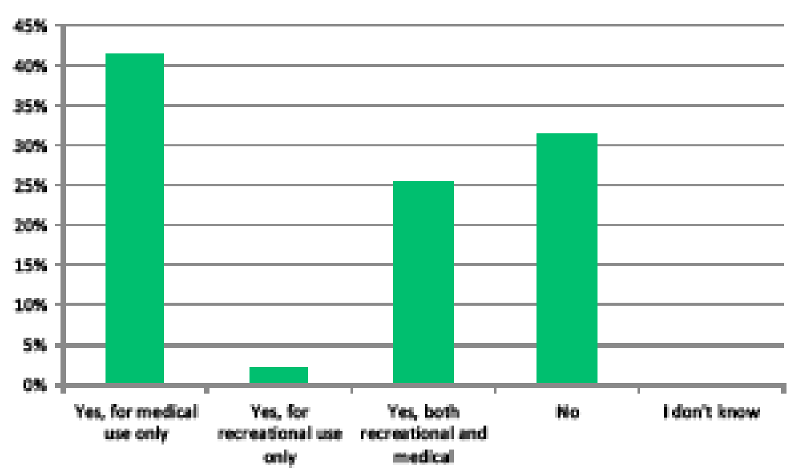
The proliferation of the legal cannabis industry can be categorized in two parts, medical and recreational. This study is a follow-up to our 2019 research effort and is intended to outline the impacts to credit professionals whose companies are currently engaged in providing products that either directly or indirectly support this industry.

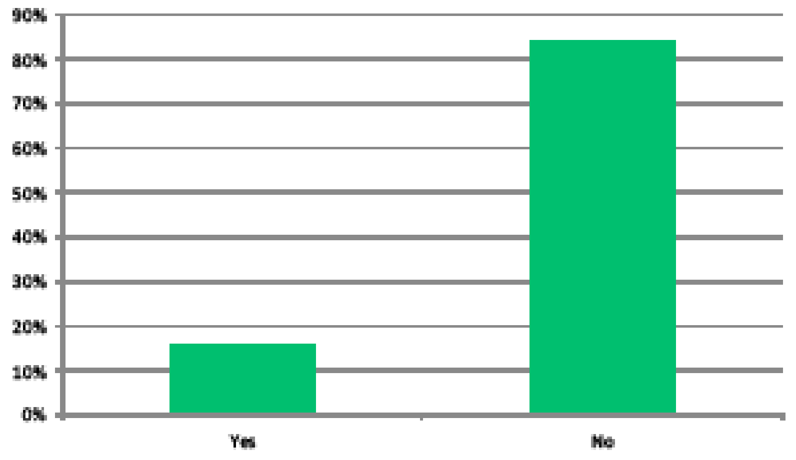
This 2020 survey compares and contrasts the initial results shared in 2019 and is intended to also enable the risk management professional in establishing their business process(es) when selling into the space. As with last year's study, both legal and moral questions remain in play, but members are looking for education/best practices/legal concerns as they are requested to add this business segment into their overall portfolio. There are numerous issues that remain in flux and are associated with this market, not the least of which is its legality at the state level and its being illegal at the federal level.

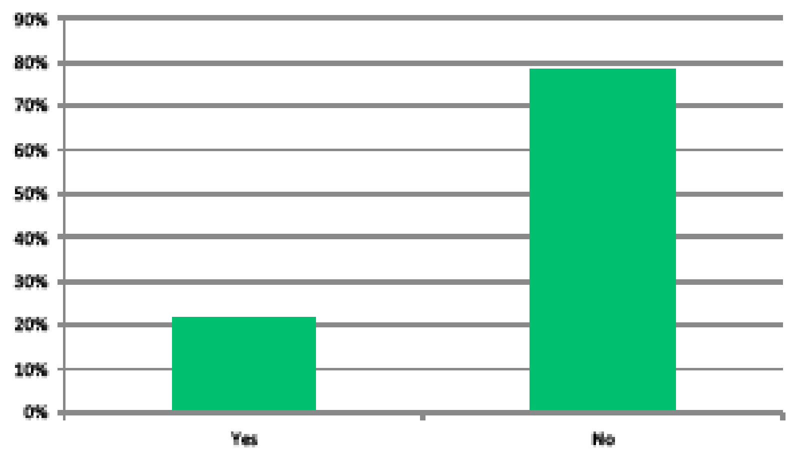
The following are highlights from the study:

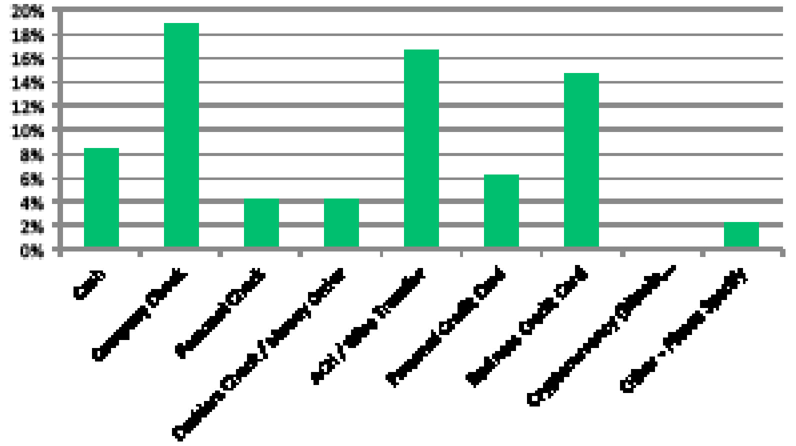
- There is a 16% increase in the states legalizing the sale of medical and/or recreational cannabis. This is a significant increase, indicating a more widespread state legalization as compared to 2019.
- For those businesses selling into the space there was a 5% increase in the use of credit terms as a vehicle in the sales process. This trend was similar for both direct and indirect sales.
- It is interesting that a small but reportable slowdown in payment performance was noted. Four (4) percent of respondents indicated a portion of their receivables was now beyond 30 days past due. This compares to zero last year.
- Defaults also appear to follow the slower payment trend with an 8% default rate being recorded over the past year.

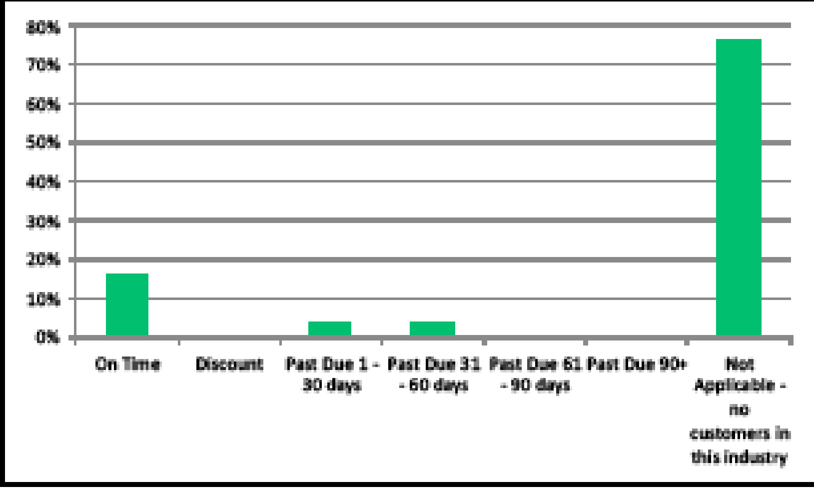
The following is a selection of responses received for several of the questions asked in the survey:

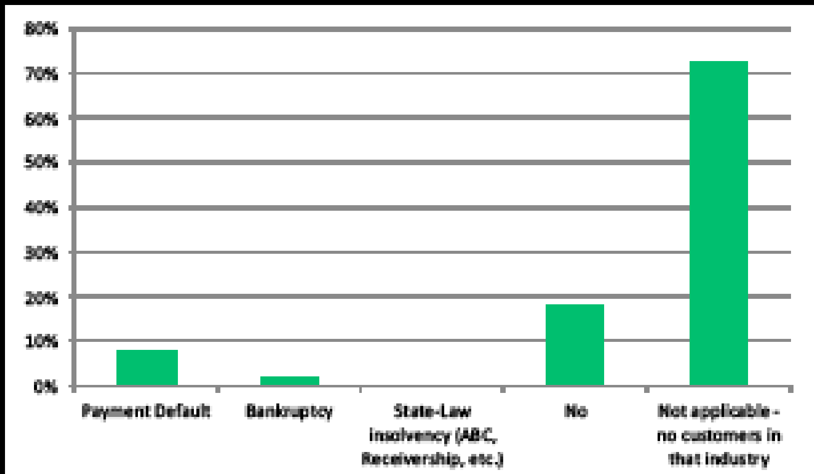
Question	Graphical Presentation	Comments
Are cannabis/marijuana products legal in your company's home state?		**In excess of 40% of respondents are selling into the cannabis market - the majority through the medical category.**

Question	Graphical Presentation	Comments
Do you currently sell on credit to customers directly involved (i.e. growers) in the legal cannabis/marijuana industry (whether or not they're located in your company's home state) (select one)?		Interesting to note that the majority of all sales are on a non-credit basis.

Question	Graphical Presentation	Comments
Do you currently sell on credit to customers indirectly involved (i.e. distributors) in the cannabis/marijuana industry (whether or not they're located in your company's home state) (select one)?		The majority of sales are on a non-credit basis for customers indirectly assocated with the industry.

Question	Graphical Presentation	Comments
What payment methods do your customers directly involved in the legal cannabis/marijuana industry use (select all that apply)?		Payment methods upper to be evenly distributed with the exception of cash payments. This aligns with the majority of sales not being credit sales.

Question	Graphical Presentation	Comments
What has been your typical payment experience with customers in the legal cannabis/marijuana industry (select one)?		For sales other than cash-in-advance, payment performance appears to be on-time.

Question	Graphical Presentation	Comments
Have you experienced default by a customer in the legal cannabis/marijuana industry (select all that apply)?		A small percentage of respondents, selling on open terms, have experienced default.

Final Thoughts

As stated in the opening and obvious from the charts above, the results represent the trends and changes from 2019 to 2020. Along with the numerical changes there are also modifications in the related discipline practices, which should be noted. While the study highlights several points of interest around the increasing impact of the industry segment, one of the most significant is the application of traditional credit management practices.

CRF will continue to monitor community member interest and respond with detail and education on legalization, banking, process and practices as it is merited.

About the Author

Matt Skudera is Vice President of Research & Education and an Officer of the Foundation. Prior to CRF, Matt spent the past 25 years in positions of increasing responsibility in Credit and Financial Shared Services.

2020 CRF March Forum - Charleston, SC

Agenda Topics

Trends in SSCs – Latest Trends in Shared Services/Procure-to-Pay (Moderated Practitioner Panel)

Cannabis Panel – Legal, Banking & Operational Issues & Concerns

Invisible Banks – Working Capital Opportunities

Nexgen/Employee Engagement

Web Portals – How to Best Work with Them

What's in Your Toolbox?

Federal Reserve Economic Update

PLUS:

Pre-Forum User Group Sessions

Special Session: Mediation/Negotiations

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Platinum Partner Updates

Commercial Collection Agencies of America recently announced that through its initiative, ***Commercial Collection Agencies of America Gives Back***, a portion of the proceeds of its annual meeting in Delray Beach, Florida has been given to the American Foundation for Suicide Prevention. The Association's Board endorsed the support immediately after learning that the Foundation's mission is to save lives and bring hope to those affected by suicide, as well as to be the leading private funder of suicide research.

Alvarez & Marsal (A&M) recently announced it had surpassed the 1,000 employee mark in Europe, further demonstrating the market's growing appreciation of A&M's integrated offering and ability to maximize value. A&M states it has bolstered its European practice and added teams and staff across a range of services, particularly restructuring, private equity services and corporate transformation as well as transaction advisory, disputes and investigations and tax services. Founded in New York in 1983, A&M opened its first office in Europe in 2001 and has grown strongly since.

After debuting its new website in September 2019, **Billtrust** has won "Best Financial Services Mobile Website" as part of the Web Marketing Association's 2019 MobileWebAwards competition. Designed by Billtrust's Digital Marketing team, the new Billtrust.com website is mobile-optimized and focuses on engaging customers and prospects longer with simplified navigation and compelling new content and resources.

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Billtrust announced that it was included on Built In Colorado's 2020 list of Best Places to Work. Billtrust also received Best Paying Companies and Best Benefits designations. Companies are selected based on data submitted by both firms and their employees. Billtrust has office locations in Denver and Boulder, CO.

Dun & Bradstreet announced the acquisition of Orb Intelligence, a prominent digital business identity and firmographic data provider. The acquisition, in combination with the July 2019 acquisition of Lattice Engines, furthers the commitment and investment Dun & Bradstreet has made to provide its clients with the best-in-industry data, analytical applications and technology.

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A Cannae Holdings portfolio company confidentially filed for a proposed initial public offering of **Dun & Bradstreet**, almost a year after the firm was taken private by a group of investors including Cannae. The number of shares of common stock to be sold and the price range for the proposed offering haven't yet been determined.

Platinum Partner Updates

Fortune and Great Place to Work have recognized **Experian North America** as one of the Best Workplaces for Diversity. Additionally, for the second year, Experian was awarded a perfect score in the Human Rights Campaign Foundation's 2020 Corporate Equality Index.

Nacha has been named one of the Best Places to Work in Virginia for a second consecutive year. The annual list was created by Virginia Business Magazine and Best Companies Group. This statewide survey and awards program is designed to identify, recognize and honor the best places of employment in Virginia, benefiting the state's economy, workforce and businesses. The 2020 Best Places to Work in Virginia list is made up of 100 companies.

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Nacha is partnering with seven members of The Center for Payments to expand the reach of Nacha Certified, a voluntary certification program for Third-Party Senders that enhances the quality of the ACH Network. Under a new cooperative agreement, seven Center for Payments member payments associations are able to conduct Nacha Certified reviews. These participants have been trained by Nacha and use Nacha's materials to assess whether a Third-Party Sender applicant meets all Nacha Certified criteria. Final approval of all reviews will come from Nacha.

VersaPay Corporation announced a definitive arrangement agreement to be acquired by Great Hill Partners, a Boston based private equity firm. Under the terms of the Arrangement Agreement, each VersaPay shareholder (the "VersaPay Shareholders") will receive cash consideration of C$2.70 for each VersaPay Share held, valuing VersaPay's total equity at approximately C$126 million on a fully diluted basis.

2020 Platinum Partners

The Credit Research Foundation is very fortunate
to receive support from our Platinum Partners.
Their contributions and collaborative efforts help the Foundation maintain activities at the level at which our members have become accustomed.

While these firms and the services they provide are very familiar to our members, you can learn more about them by clicking HERE.

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This group of attorney firms, in addition to their intellectual contributions, has stepped forward to offer financial support to the Foundation, for which CRF and its members are very grateful.

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