Priorities and Risks – For Private Equity, Lingering Effects of COVID-19 Create a Mix of Opportunities and Risks (February 2021)

Concern about the impact of government policies and regulations in response to COVID-19 is the No. 1 risk identified by directors and business executives across many industries. This insight is from our most recent top risk survey. Another survey we conducted last year, focused on technology risks, shows a deepening concern over cybersecurity and privacy issues, as well as regulatory compliance among executives. We have also gathered insights on priorities that finance leaders are focusing on this year and beyond as they look to stabilize their businesses and build resilience.

Amid the range of issues created by the pandemic, there's a plethora of opportunity. The prevalence of SPACs, for instance, has created multiple advantages for private equity firms, though regulators are keeping a close watch. M&A activity is expected to increase, as sellers look to avoid the prospect of higher capital gains taxes. Also, environmental, social and governance investing is opening new doors for organizations to build trust with customers and attract talent. We have published a number of insights on these critical areas of opportunities and risks. Here are some highlights, with links to content providing deeper details.

Survey: COVID Dominates Broad Range of Risks Facing Executives

Protiviti and NC State University's ERM Initiative have issued an annual report focused on the top risks currently on the minds of global boards of directors and executives. The 2021 Top Risks Survey Report covers a broad range of risk drivers, including the continuing global challenges posed by the ongoing COVID-19 pandemic, political divisiveness and polarization, and social and economic unrest. Respondents provided their perspectives on the potential impact in 2021, and also in 2030, of 36 specific risks across three dimensions:

- Macroeconomic risks likely to affect their organization's growth opportunities
- Strategic risks the organization faces that may affect the validity of its strategy for pursuing growth opportunities
- Operational risks that might affect key operations of the organization in executing its strategy

For 2021, risks related to government policies and regulations on COVID-19 are at the top of respondents' concerns, followed by economic conditions triggered by the pandemic and its impact on customer demand, as well as concern about digital technology adoption's effect on reskilling and/or upskilling existing employees.

Read the survey's revealing insights [here](#).

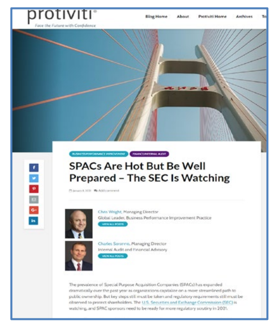
SPACs Are Hot, But Tread Cautiously

Private equity firms have had a lot to do with making special-purpose acquisition companies (SPACs) the hottest investment vehicles on Wall Street. Over the past year, the prevalence of SPACs has expanded dramatically as organizations capitalize on a more streamlined path to public ownership.

Last year, a record number of PE-backed SPACs were launched as more PE firms recognized the multiple advantages these vehicles hold over traditional acquisition and investment holding structures. But like most things that heat up on Wall Street, great caution is required. Regulators are watching closely, and going forward, it's important that SPAC sponsors take key steps and observe regulatory requirements to protect shareholders.

SEC staff recently issued [guidance](#) on ways SPAC sponsors can mitigate potential liability related to public offerings and subsequent acquisitions by clearly disclosing the potential for conflicts of interest and adverse shareholder outcomes in a manner similar to those long required of other nonstandard public investment vehicles. The guidance, published on December 22 by the SEC's Division of Corporation Finance, is not a rule, regulation or policy statement by the SEC, which has neither approved nor disapproved of the content. While the guidance does not carry the force of law, it is the strongest indicator, to date, that SPACs are on the commission's radar and that SPAC sponsors need to be serious and well prepared with their reported disclosures.

The SEC guidance is discussed in detail in this recent blog. You can read it [here](#).

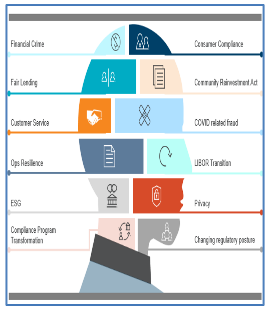


Top-of-Mind Compliance Issues for 2021

Compliance with complex regulations is more than a legal burden for private equity investors. Building a sound compliance practice is essential to success in today's environment.

Early signs portend a more challenging environment. From the recently passed Anti-Money Laundering Act of 2020 to leadership changes at the Consumer Financial Protection Bureau to the expected phasing-out of LIBOR this year, there are plenty of regulatory matters that should be top of mind for management and compliance professionals in 2021.

We have identified 12 issues (they do not apply equally to all types of financial institutions and limiting the list to 12 wasn't easy) that will likely shape the compliance agenda in 2021. While many of these issues are relevant outside of the U.S. borders, this list is focused primarily on issues facing U.S. private equity firms and other financial services providers.



Read about the top compliance issues [here](#).

Finding Equilibrium in Uncertain Times

Private equity firms and their portfolio companies showed resilience in 2020 despite the unprecedented upheavals. Now, following a year of restructurings and consolidations, the industry is looking to deploy its investment funds and compete for quality acquisition opportunities in 2021.

Many companies will need to find equilibrium in this transitional phase from the pandemic – meaning, work to achieve the organization's full potential and leverage its core strengths to be resilient. Protiviti's recent two-part series of *the Bulletin* discusses what organizations of all types can do in the aftermath of the pandemic to find equilibrium amid the seismic changes in several key areas.

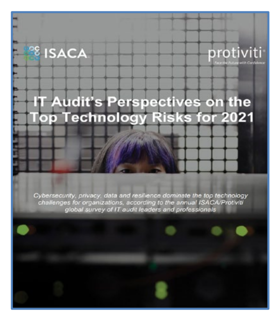
Click [here](#) to read the Bulletin.

Top Technology Risks for 2021

Digital transformation is often one of the key priorities for private equity owners seeking to improve the products and services of portfolio companies and, ultimately, their revenues. And, because time usually is of the essence, executing such structural transformations in a rush comes with added risks.

These significant technology risks are discussed in a new report based on a global survey of more than 7,400 IT audit leaders and professionals. ISACA and Protiviti conducted the survey in September/October 2020. In the report, digital leaders share their perspectives on the top technology risks their organizations will face in 2021 and the impact of the COVID-19 global pandemic on ongoing digital transformation efforts.

The results are enlightening, with cybersecurity and privacy issues, regulatory compliance, data, disaster recovery, and other pandemic-driven concerns ranking among the top technology risks for organizations globally.



The insights will give private equity firms and their portfolio companies some pause as they work with their IT audit departments to identify various risks and their potential impact on their businesses.

Learn more about the survey results [here](#).

MBS Strategy Can Help Firms Address Operational Challenges

The lingering pandemic has upended the finance operations of businesses of all types, including threatening the timely execution of vital and time-sensitive business-as-usual activities. According to Protiviti's recent survey of finance professionals across different sectors, the pandemic's impact on firms' ability to continue preparing financial reporting and statements under required timelines is a major priority this year.

Many companies are struggling to develop and produce quality financial reports with staff members distributed and/or disconnected due to health and safety considerations. Others are experiencing difficulty transitioning to a virtual workplace in an agile manner in order to perform their work and meet critical deadlines.

Some forward-thinking businesses have leaned on a managed business services (MBS) arrangement to help them through these challenges. The MBS approach blends highly skilled operational resources with consultants and the company's own staff to deliver productivity gains with embedded quality control across all of these efforts.

Protiviti's experts have written extensively about the MBS approach. For more of these insights and how they might benefit your portfolio companies, read these posts:

Skills and Scale – The New Finance Labor Model Proves Its Real-World Value

Keep Accounts Receivable Turning

A Finance Labor Model Tailor-Made for Navigating Crises

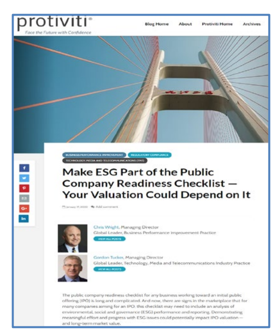
Focus on ESG to Intensify Following Year of Upheaval

Environmental, social and governance (ESG) investing is poised to have a breakout year as more investors recognize the asset class as a value driver. Dealmakers also are increasingly factoring ESG into strategic decision-making and due diligence, and more regulators are making ESG reporting a priority.

Last year, we observed strong signs in the marketplace that for many companies aiming for an IPO, the checklist may need to include an analysis of ESG performance and reporting. Demonstrating meaningful effort and progress with ESG issues could potentially impact IPO valuation — and long-term market value for companies.

After a year of dramatical social upheaval, we expect PE firms and portfolio companies to use ESG reporting in 2021 as a means to inform the marketplace about the good things their business is doing for the environment and society. In addition to helping companies attract and retain much-needed talent and enhance their brand image and reputation, ESG reporting will become a must-have for meeting the expectations of regulators, shareholders and other key stakeholders.

Click here to read about how ESG can become part of your firm or portfolio company's IPO readiness checklist.



We Are Here to Help

These are just a few areas of expertise in which Protiviti professionals excel. Private equity firms that need additional assistance or insight should not hesitate to seek guidance in these unprecedented and challenging times.

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