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CFO Perspectives

CFO Speaks

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1. **What is your overall view on changes in the environment and more specifically how does it impact the banking industry and especially foreign banks?**

   There have been a lot of supportive changes in the environment, including policy and regulatory implementations, the ‘Make in India’ initiative and the government’s commitment to improve the ease of doing business. In addition, the various infrastructure investments and the targeted 3.5% fiscal deficit announced earlier this year in the Budget and the subsequent rate cut by the central bank demonstrates the combined resolve of the government and the regulator to support a growth-oriented economy, while maintaining fiscal discipline. The thrust on driving efficiency in the system through various policy measures will not only support higher growth rates but is a welcome step to enable corporate India to become more competitive globally. Overall, the government is focused on execution and in steering the economy amid these challenging global economic conditions.

For the banking sector in particular, the current re-capitalization of Rs. 25,000 crores is step in the right direction, while banks continue to aggressively address issues surrounding non-performing assets. One cannot argue that the long term implications of this ‘cleaning-up’ exercise will be positive for our industry and the country. 100% Foreign Direct Investments in setting up Asset Reconstruction Companies (ARCs) is another positive move and will help in creating additional credit capacity. The government overall looks focused on execution and in steering the economy amid challenging global economic conditions.

2. **What are the strategies that you as a CFO is looking at to grow in the current environment?**

   We constantly look at opportunities to bring the full suite of our global banking proposition to our clients. Our universal banking proposition supports growth ambitions of both our institutional and retail clients. At the same time, we will stay focused on asset quality, which we believe is key to sustainable growth and delivering high quality earnings in any economic environment. In summary, providing value to our customers with an eye on asset quality will remain the most important strategy for us in the coming years.

3. **There is increasing competition from payment banks and new banking licenses being granted. As a CFO, what are the challenges you foresee for the banking industry in India and especially for foreign banks like yours?**

   The banking industry has always been very competitive but given India’s growth potential and the regulatory steps to expand the market, we believe the market is at a very exciting phase of development. In addition, technology today is a clear enabler to provide access to finance across the wealth spectrum. As an institution that has been locally imbedded in India for over 100 years, we see the entry of payment banks and granting of new licenses as an evolution of the market that will only lead to the growth of the overall pie, presenting more opportunities to all market participants.

4. **The CFO is expected to play the role of both strategist and business lead. Given the environment, how do you balance growth expectations and stability of business?**

The finance function plays a critical role in shaping responsible and sustainable business growth. In these competitive times, the role of a CFO is to think about robustness of the business model to support long term value creation, while helping business functions smartly allocate the limited resources to maximize returns. It is therefore important that the CFO understands the changing regulatory and competitive landscape, availability of resources and then looks beyond capital needs to enable the adoption of a strong and differentiated business model that stands out in the competitive business environment.

5. **Regulatory compliance has become a greater challenge. How do you ensure that regulatory compliances are effectively managed?**

The regulatory compliance framework in the country is evolving rapidly and it is incumbent for market participants such as us to adapt to these changes quickly. In our experience, the regulators are extremely responsive to concerns raised by the industry and have been accommodative in their interactions. In this environment, it is important to nurture a strong culture of ethics and execution, led by constant training and dialogue with various internal stakeholders. We practice a philosophy of responsible banking with a strong emphasis on ethical behaviour that helps us collectively and effectively manage the regulatory environment.

6. **What are the key challenges faced by a CFO in the current environment?**

In my view, talent, managing change and striking a balance between tactical and strategic priorities are the three key challenges on a CFO's mind. Managing talent entails recruitment, training and retention of the right people, because the growth and success of your people lead to the growth of the organization. Business models, technologies, customer behaviours, etc. are constantly evolving and a CFO's role is to find solutions amidst all these changes, so one needs to be agile. Finally, managing tactical and strategic issues is a **"balancing act"**. A CFO has to distance himself from the tactical issues sometimes and focus on strategic issues to bring in balance.

Expert Views

New Language of the Board room and Audit committee – Indian Accounting Standards (Ind AS)

Indian corporates are gearing up to understand and implement the new accounting framework – Indian Accounting Standards (Ind AS). Ind AS is similar to International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB) which is followed by more than 100 countries across the globe.

As notified by Ministry of Corporate Affairs, Government of India on February 16, 2015, Ind AS has replaced the current accounting standards followed by companies in India and recommended its application in a phase wise manner from April 1, 2016. The companies, whether listed, public or private, whose net worth is equal to or exceed INR 500 crores as at March 31, 2014 would be the first lot to qualify for new reporting standards. Effectively, the quarterly results for June 30, 2016 would be the first such reporting period for listed companies above the threshold.

The Big Deal

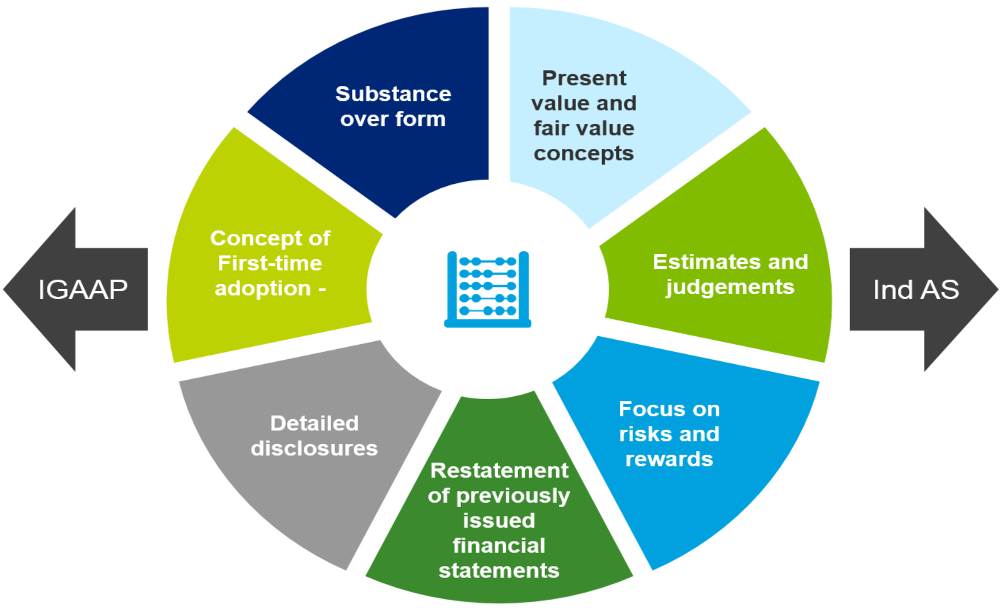
This accounting change in one sense is similar to the "retrospective tax" regime, which means that when you change from one framework to another, the underlying expectation is that the same accounting policies are adopted to the all the balances as at opening balance sheet date, which in this case is April 1, 2015.

However, accounting standard Ind AS 101 – First time adoption, is introduced to make this transition practical. It provides options for more than 20 situations and it is upon each company to make their choice. In fact in some situations, it provides companies an opportunity to restructure their balance sheet, which in one way is an incentive for adoption of these new standards. The standard setters recognize that use of options may not make the financial statements comparable between peers in the year of transition, but over a period of time it will enhance comparability and consistency of reporting.

Five Big Conceptual Changes

Many concepts are new but some of the key items that has the potential to change the sheer size of financial statements or the profit are:

1. **Definition of "Control"**. It looks beyond shareholding and board nominations. It looks at business, relevant activities and the power over it to decide if a company is controlled or is jointly controlled. Incidentally, this definition is very similar to the one used in the Companies Act, 2013.
2. **'Time value of money'** will now be reflected in the financial statements. So any off-market transaction with employees, suppliers, customers, subsidiaries, associates, etc. would impact financial statements.
3. **Definition of "debt" and "equity".** If there is any obligation on the issuer of financial instruments to repay the money then it becomes a debt. Thus, certain instruments like redeemable preference shares will become debt rather than equity and the dividend thereon will be interest, rather than an appropriation. Substance will over-ride the legal form.
4. **Revenue recognition** moves to the perspective of "the customer". Thus, when a customer is offered inducements and all built into one selling price, the split is made asking the question, "what is the customer getting?" which then drives the accounting.
5. **"Has the risk and reward in substance transferred?"** This evaluation will find precedence when one evaluates asset light structures such as, bill discounting, leasing arrangements, securitization, etc.



Needless to say, the impact of any fundamental change to an accounting framework has a much wider ramification on the company. Any transaction, from a routine sales to a corporate restructuring, needs to be narrated in an accounting language. Thus, when that changes, impact is pervasive and some of these examples would include:

Globally, companies which transitioned to IFRS realized that the communication, both internally and externally with the stakeholders, was very crucial to clear any anxiety arising from this change. Many companies will try and share more on this ahead of the statutory reporting deadlines.

Ind AS will definitely figure as an agenda of the board room and audit committee in FY 17!

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The CFO Program brings together a multidisciplinary team of Deloitte leaders and subject matter specialists to help CFOs stay ahead in the face of growing challenges and demands. The Program harnesses our organization’s broad capabilities to deliver forward thinking and fresh insights for every stage of a CFO’s career – helping CFOs manage the complexities of their roles, tackle their company’s most compelling challenges, and adapt to strategic shifts in the market.

For more information feedback or suggestions, please write to us at: incfo@deloitte.com