



Deloitte CFO Signals Survey Report

Q4 2017

February 14, 2018

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About Deloitte CFO Signals

Deloitte CFO Signals is a survey conducted globally at regular intervals by Deloitte to find out what is on the minds of Chief Financial Officers (CFOs). After every survey, the answers of CFOs are compiled and analyzed by Deloitte's experts and published as "Signals" from CFOs.

The survey consists of a survey on the economic environment, which is used globally every time, and a topical survey, whose content differs by country.

The first survey in Japan was taken in August 2015, and we are now reporting on its 10th edition.

Regarding the survey on the economic environment, we analyze chronological changes in CFOs' thinking as well as their latest forecasts at the time of the survey. In addition to the recurring questions, this time we also asked macro-level questions on the Japanese economy and possible risk scenarios affecting the world's major countries. As for Japan-specific topics, we chose to ask CFOs about issues related to accounting processes, initiatives to improve them, and future prospects.

This edition of the survey was conducted in January 2018 and received responses from the CFOs of 47 companies.

Thank you for your cooperation.

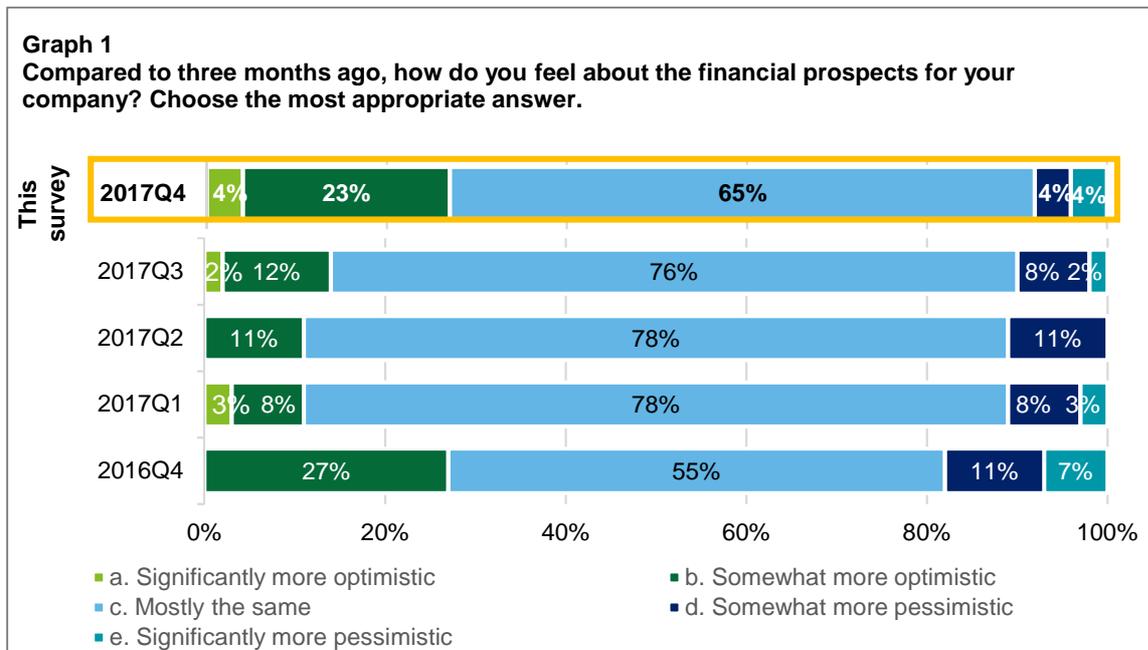
Deloitte Tohmatsu CFO Program
February 14, 2018



Survey on the economic environment

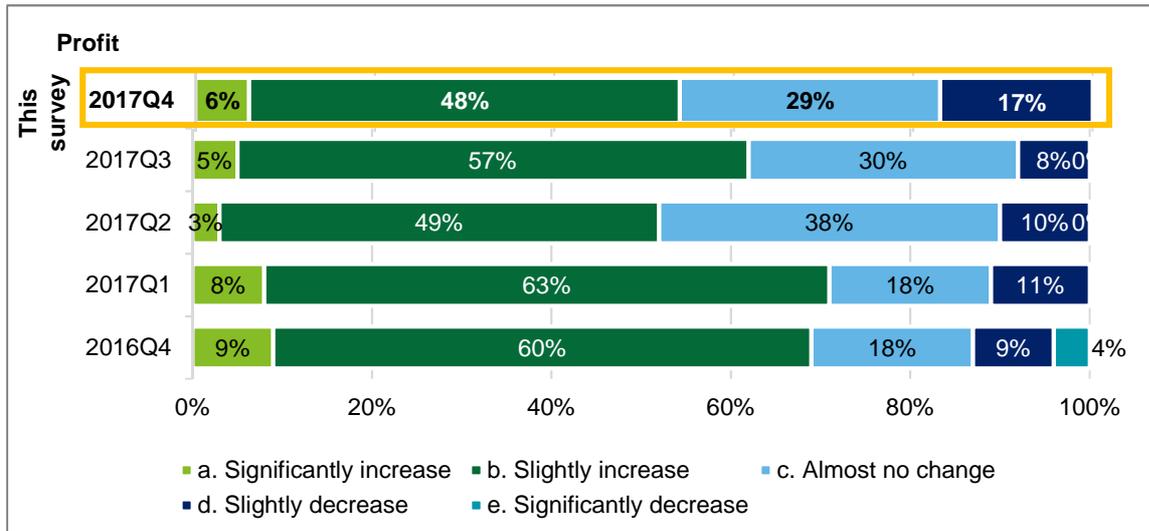
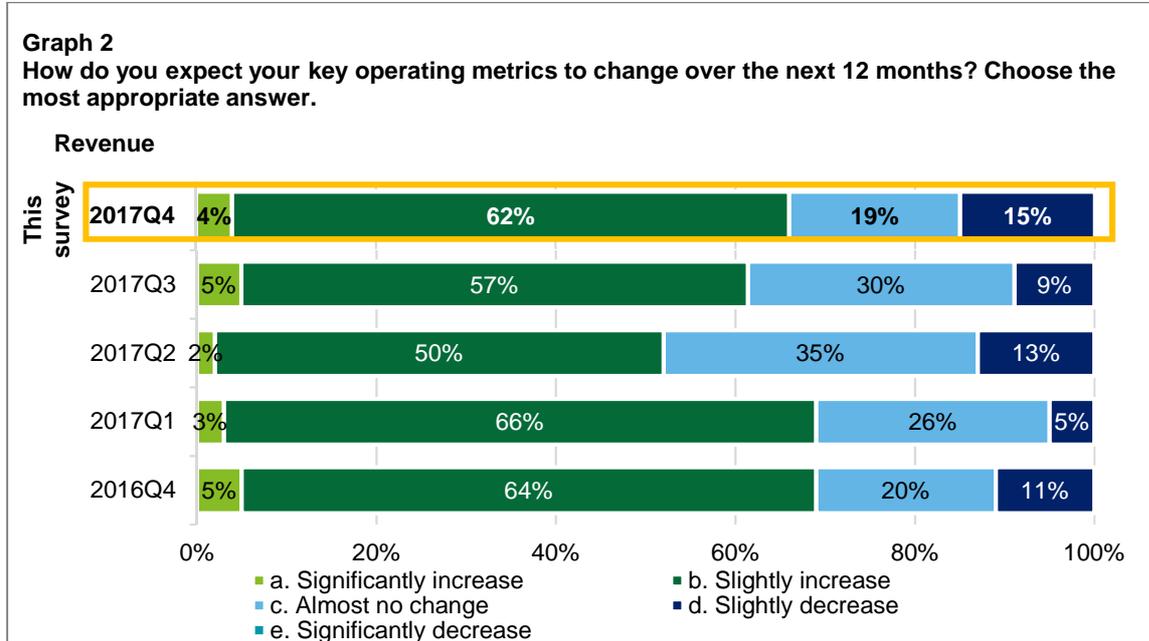
Financial environment prospects

CFOs' prospects for the financial environment of their businesses improved.



Graph 1 shows how the financial prospects of the respondents' businesses have changed over the last three months. This survey was the first in four quarters to see an improvement in financial prospects. A total of 27 percent answered either a, "Significantly more optimistic," or b, "Somewhat more optimistic," making for a noteworthy increase from the previous (Q3 2017) survey's 14 percent. This trend is also seen in the decreased ratio of pessimistic answers (either d, "Somewhat more pessimistic," or e, "Significantly more pessimistic"), which declined two points from 10 percent last time to 8 percent in this survey. Several reasons can be given for this improvement in financial prospects. These include the rise in stock prices that continued until the end of 2017, the tax reform bill that passed in the United States at the end of the year and is expected to lead to increases in capital investment and income by significantly lowering taxes, and the optimistic predictions of Japanese economic growth in 2018, released by economists toward the end of 2017 and pointing to growth of more than 1 percent. This result conforms with the direction seen in surveys such as the Bank of Japan's December 2017 "Tankan" (Short-Term Economic Survey of Enterprises in Japan), which saw large manufacturers' business conditions sentiment rise to an 11-year high. Optimism is practically at the same level as it was in Q4 2016 (at the time of President Trump's election). However, although optimism regarding financial prospects has increased, 65 percent of respondents still chose c, "Mostly the same." In general terms, it can therefore be said that CFOs' "cautiously optimistic" take on financial prospects does not appear to have seen major change.

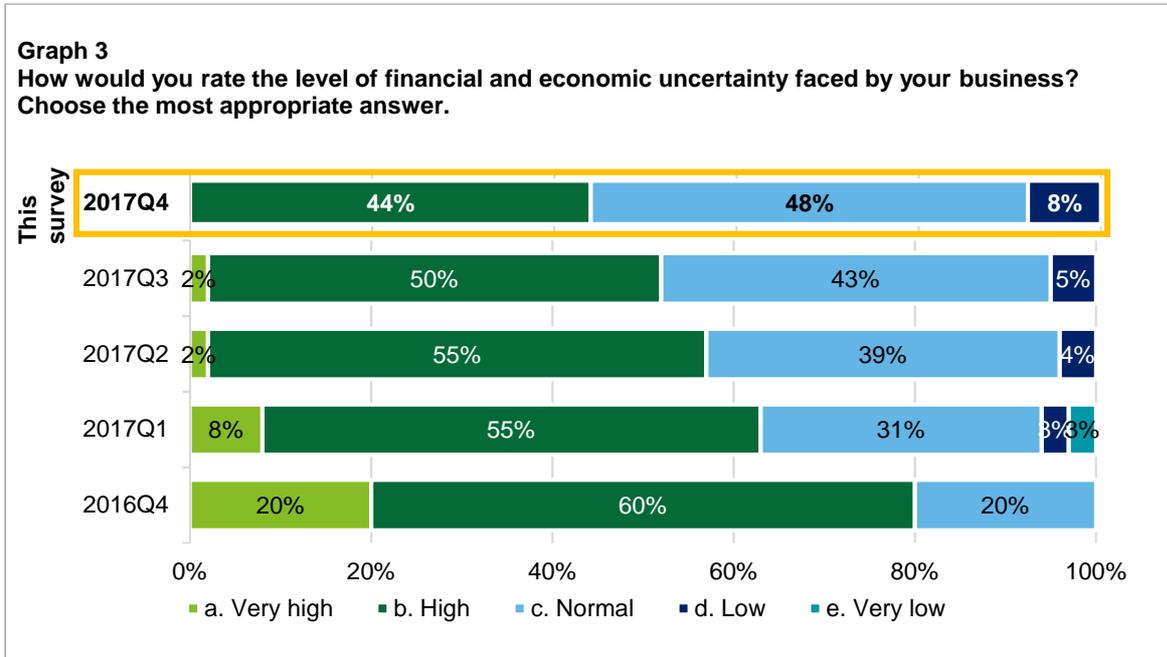
The revenue outlook is optimistic, but costs are on the rise.



Graph 2 shows CFOs’ outlook for their company’s financial performance (revenue and profit) over the coming year. For revenue, 66 percent of respondents chose either a, “Significantly increase” or b, “Slightly increase,” a minor increase from 62 percent in the previous survey. CFOs’ expectations with regard to revenue continue to show a steadily optimistic tone—a finding that is consistent with the positive turn in financial prospects displayed in graph 1. On the other hand, the ratio of respondents expecting their company’s profit to either “Significantly increase” or “Slightly increase” over the coming year came to 54 percent, down from 62 percent in the previous survey. This result can be thought to reflect a predicted rise in operating costs, caused by factors such as soaring material costs and labor shortages driving up wages. In the medium term, it is also possible to see this drop in expected profits as a reflection of partially intensified price competition, caused by a

rise in low-priced finance and services provided by non-Japanese companies in the online sales field and newly emerging players making use of AI. In other words, while it can be said that the business performance outlook is steadily optimistic, the results suggest that costs and competition remain matters of concern for CFOs.

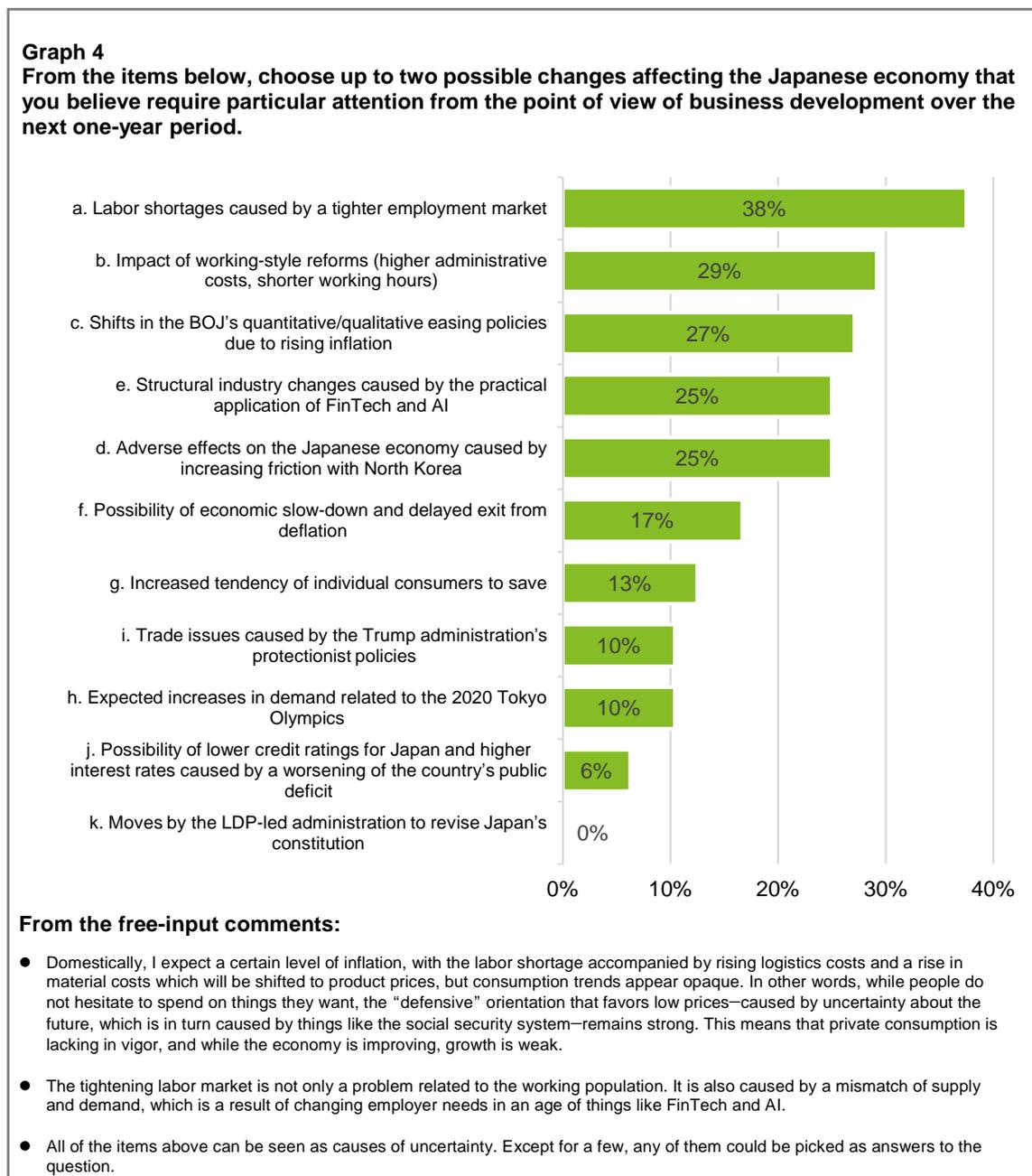
Uncertainty is steadily receding.



Graph 3 shows CFOs' perception of financial and economic uncertainty. This time, the total proportion of respondents who answered a, "Very high" or b, "High" was 44 percent, decreasing from 52 percent in the previous survey, marking a lower number for the fourth quarter in a row, and hitting a level under 50 percent. Possible causes for the decline in uncertainty include political developments both in Japan and internationally, such as the end of the Chinese Communist party congress, the passing of the Trump administration's tax reform bill, and the stable long-term prospects of the Abe administration after the 2017 House of Representatives election. The decline in uncertainty can also be seen in the context of generally positive economic prospects. On the other hand, it is also true that several causes of uncertainty remain, including the North Korean situation, international terrorist incidents, the United Kingdom's negotiations to leave the European Union, and the political vacuum in Germany, so it is difficult to conclusively declare that uncertainty will continue to recede. What can be said is that combined with the financial environment and business performance prospects cited above, CFOs' immediate business sentiment is at a better level than it has been over the few preceding quarters.

 **Key change factors in the Japanese economy**

Labor shortages and working-style reforms continued to receive attention.



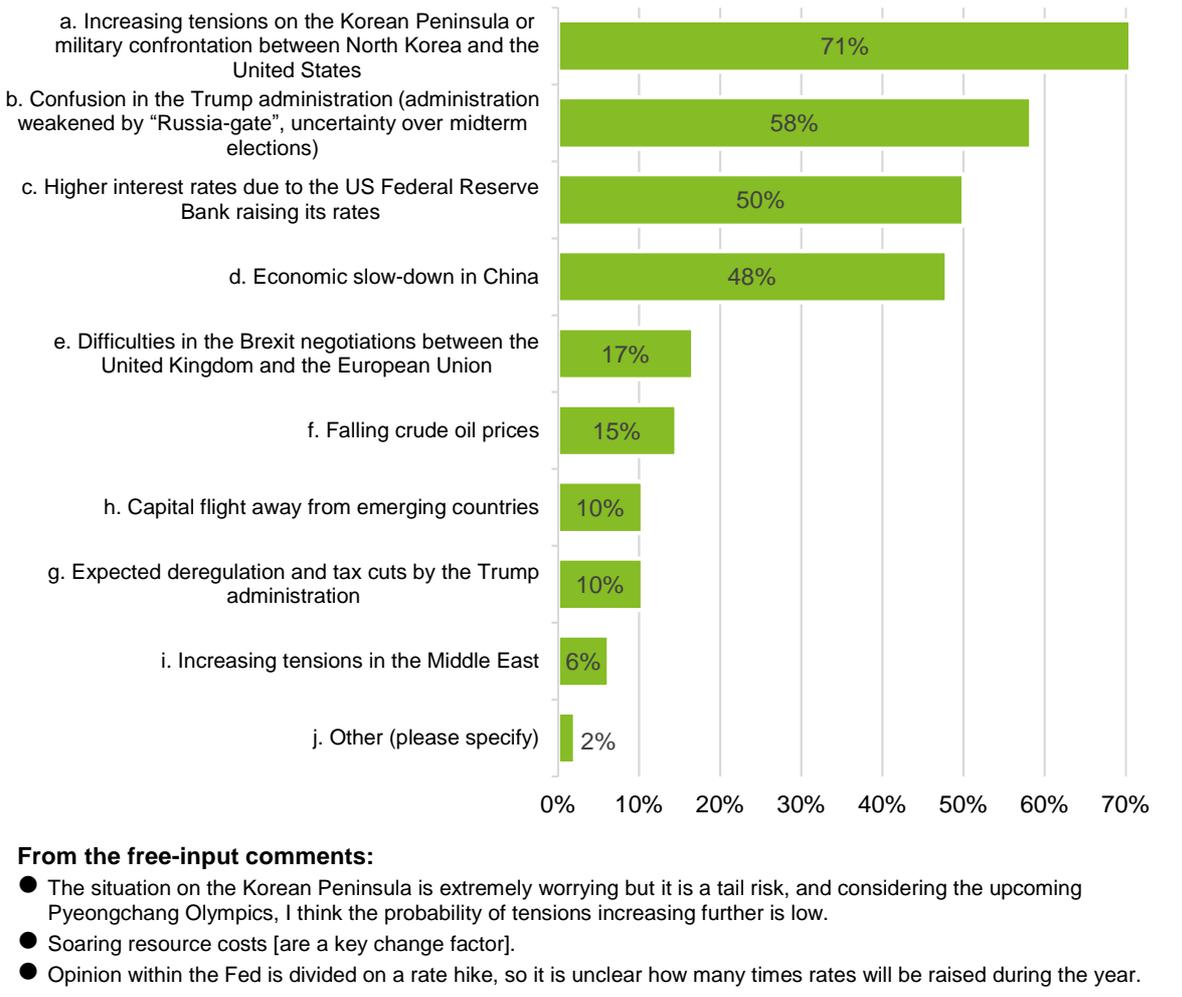
Graph 4 shows what trends in the Japanese economy are most closely watched by CFOs when planning business development over the next one-year period. This time, “increasing friction with North Korea” placed fifth—a significant decline from the previous survey, when this factor was the most popular one among CFOs. Taking the top spot this time was “labor shortages,” while “working-style reforms” came second. Both of these factors have been among the most popular responses in every edition of this survey for a while now, and it is clear that they hang heavily on CFOs’ minds. It should also be noted that “shifts in the

BOJ's policies" rose from fifth place in the previous survey to third in this one. Inflation was rising gradually in Japan leading up to the end of last year, and it can be thought that market chatter regarding the BOJ's search for an exit strategy from quantitative and qualitative easing is a background factor for this increase in interest. Because changes in monetary policy affect the stock and bond markets and impact interest rates, they have a significant effect on business, so CFOs' interest in this topic tends to increase concurrently with a rise in market expectations. Responding to labor shortages and working-style reforms by proposing plans for productivity gains and putting them into practice appears to be a central task for the time being. With interest rates having long hovered around zero, the timing of a rise in rates is another significant matter of concern.

€ Key change factors in the global economy

Risks are still seen on the Korean Peninsula and in relation to the Trump administration.

Graph 5
From the items below, choose up to four events that risk affecting foreign economies and that you believe require particular attention, based on their likelihood and expected impact on business development prospects over the next one-year period.

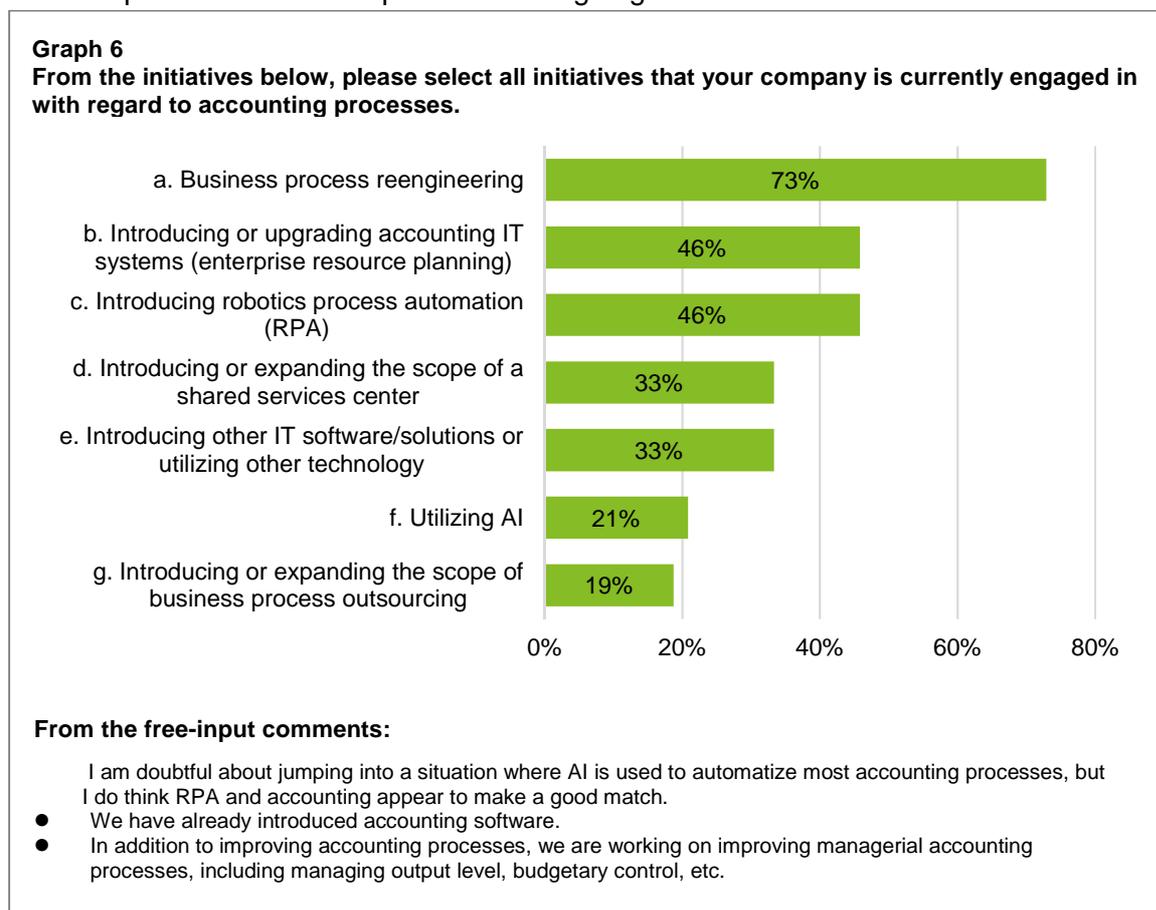


Graph 5 shows what trends in the global economy are most closely watched by CFOs when planning business development over the next one-year period. Just as last time, choices a, “Increasing tensions on the Korean Peninsula or military confrontation between North Korea and the United States,” and b, “Confusion in the Trump administration,” came in first and second place respectively. The threat posed by North Korea’s missiles remains, and President Trump has retained his hard-line stance in response. Meanwhile, the “Russia-gate” issue within the Trump administration looms in the background, as that investigation has now begun to affect the president’s inner circle. “The Federal Reserve raising its rates” came in third, just like last time, while almost the same ratio of respondents chose “Economic slow-down in China,” which was the fourth most popular answer. To summarize, CFOs’ views on key change factors in the global economy have not changed over the past year, and geopolitical risks, rising interest rates, and the Chinese economy are set to remain major areas of interest in 2018.

Issues related to accounting processes

Initiatives to improve accounting processes

In recent years there has been an increase in awareness of the need to standardize operations on a global level and construct compliance frameworks, all in an environment in which digital solutions such as robotics process automation (RPA) and AI are developing at a rapid pace. In this survey, we asked CFOs about initiatives taken to improve the accounting processes of Japanese companies, including the types of initiatives employed, the divisions and departments targeted, the scope and objectives of the initiatives, and which aspects need to be improved further going forward.

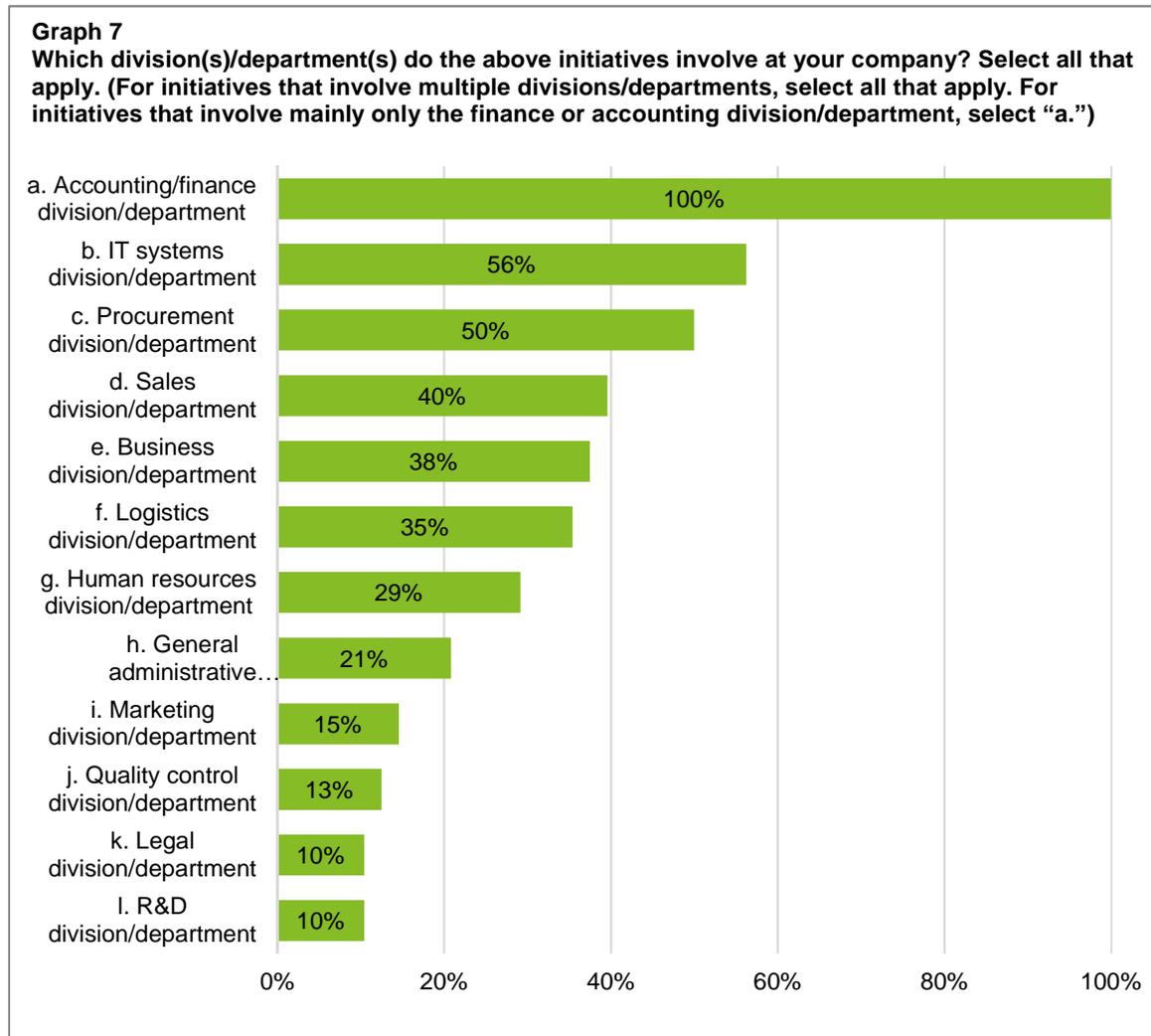


Graph 6 shows what accounting processes-related initiatives the CFOs' companies are currently engaged in. Because "Business process reengineering" was clearly the most popular initiative with 73 percent, we see that daily business improvement, through measures such as standardizing operations, has become widespread among Japanese companies. "Introducing or upgrading accounting IT systems" and "Introducing RPA" sharing second place makes it clear that companies view IT solutions, which have been the focus of both rapid innovation and widespread adoption in recent years, as increasingly important.

Also noteworthy is that 21 percent of CFOs replied that their companies are currently “utilizing AI.” Although one respondent noted that “I am doubtful about jumping into a situation where AI is used to automatize most accounting processes,” the response numbers show that AI utilization—which requires companies to take a step beyond standardization and digitalization—is being actively engaged in by a growing number of companies, and it can be said that a trend is emerging.

 **Target divisions/departments**

In the next question we asked about which divisions are being targeted by the initiatives currently undertaken at the CFOs' companies.



Looking at graph 7, we see that the various initiatives affect not only accounting and finance, but a diverse range of related divisions and departments. It should be emphasized that with regard to “Introducing or upgrading accounting IT systems,” “Introducing RPA,” and “Introducing other IT software/solutions or utilizing other technology,” the IT systems division or department plays an indispensable role. The results also show that “Business process reengineering” is being promoted by going back to the processes underlying those of the sales department or division’s back office and the procurement division or department, both of which have jurisdiction over areas such as arranging orders and requisition. In terms of underlying circumstances, we observe that aspiring for ever more extensive and fundamental improvement has led to increased cooperation among departments and divisions.

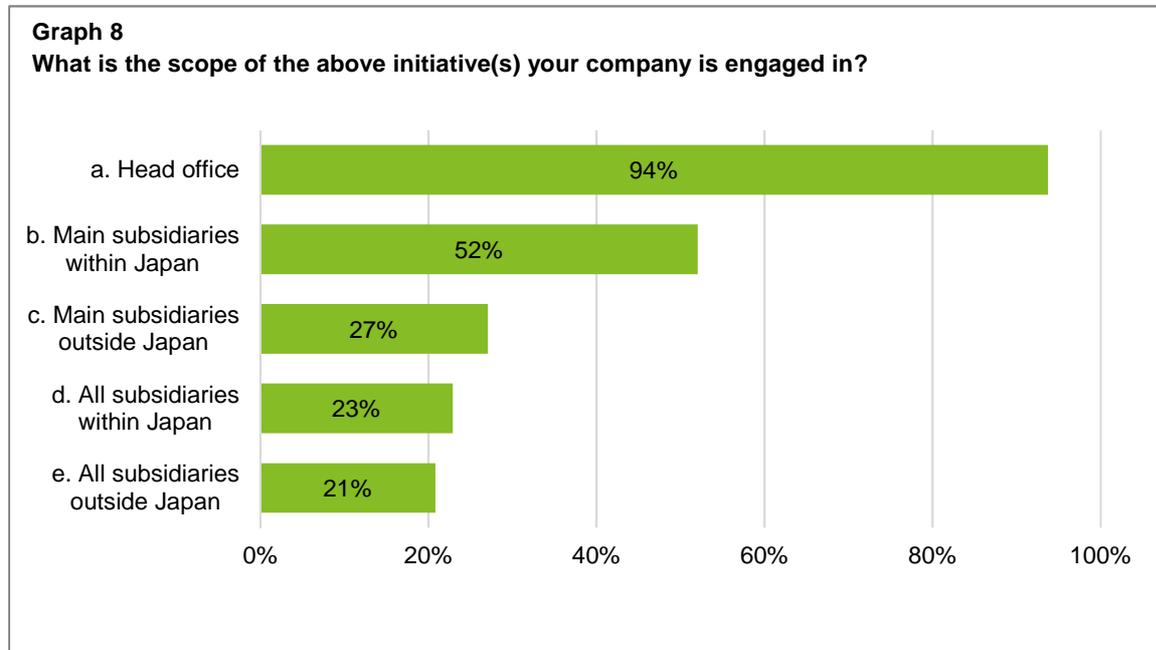
We also note that the tendency to introduce digital solutions is behind the encouragement of cross-departmental cooperation. Under conditions of digitalization and standardization of process patterns shared by back office departments, it can be said that the introduction of

solutions not restricted to any single department or division forms the fundamental infrastructure of cross-departmental collaboration. In fact, RPA introduction projects supported by Deloitte Tohmatsu are usually not restricted to a single department or division, instead focusing on company-wide adoption based on procedure optimization across departments or divisions.



Scope of the initiatives

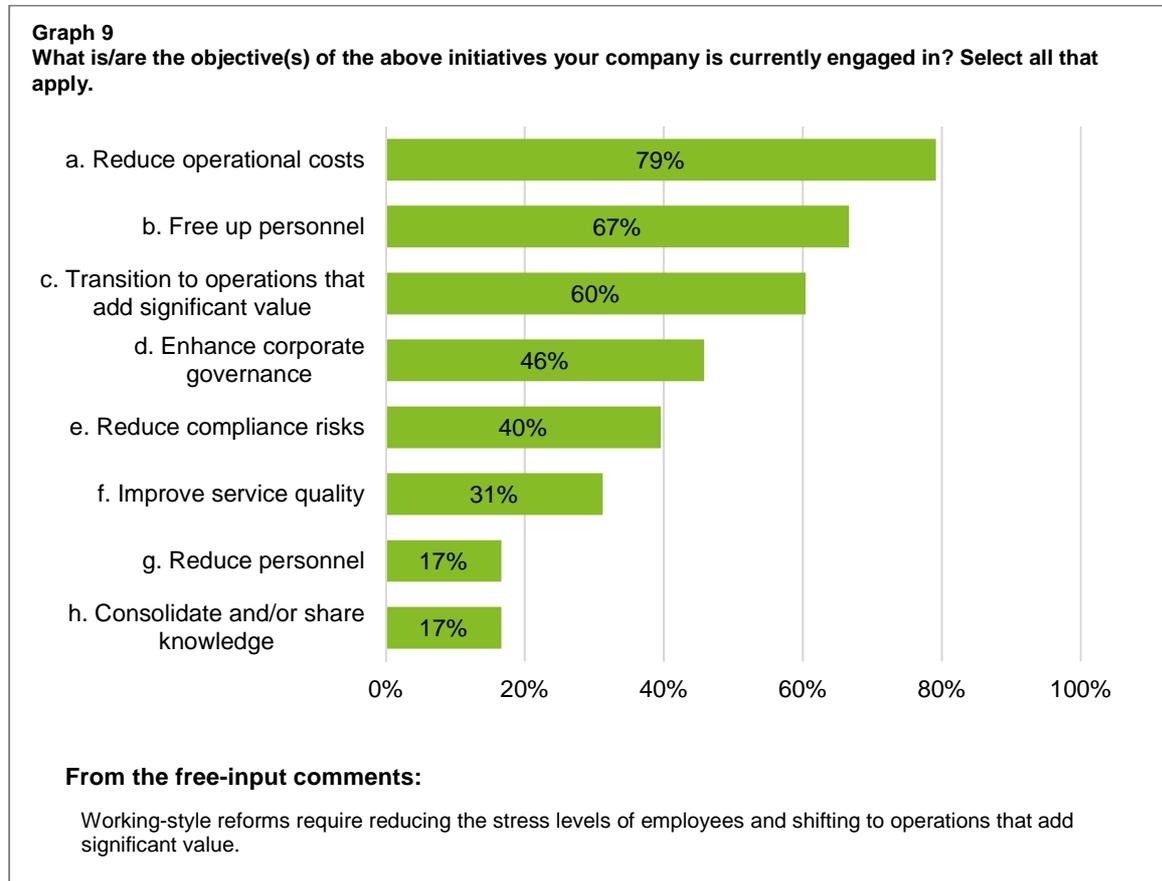
Next, we asked about the scope of the initiatives currently being undertaken.



Graph 8 shows the results of the question on the scope of initiatives undertaken to improve accounting processes. While many companies are targeting their head offices and main subsidiaries within Japan, less than 30 percent of respondents' companies are extending their efforts to subsidiaries outside of Japan. It is possible that insufficient post-merger integration (PMI) and other issues related to after-the-fact handling are preventing the full-scale extension of improvement initiatives to non-Japanese subsidiaries. With regard to the promotion of digital solutions, the need for extending such initiatives to foreign subsidiaries is expected to grow, but as long as the issues mentioned above remain unsolved, smooth improvement of business processes across multinational corporate groups may be delayed.

 Objectives of the initiatives

The following question touched on the objectives of the initiatives being undertaken.



Graph 9 shows that highly universal managerial aims such as “Reduce operational costs,” “Free up personnel,” and “Transition to operations that add significant value” were the most popular answers to the question of objectives. It is noteworthy that one CFO who chose “Reduce operational costs” also added that “working-style reforms require reducing the stress levels of employees and shifting to operations that add significant value.” We note that while business objectives largely stay the same, the demands of the day have made increasing the value added by specific operations an even more central objective in the eyes of managers.

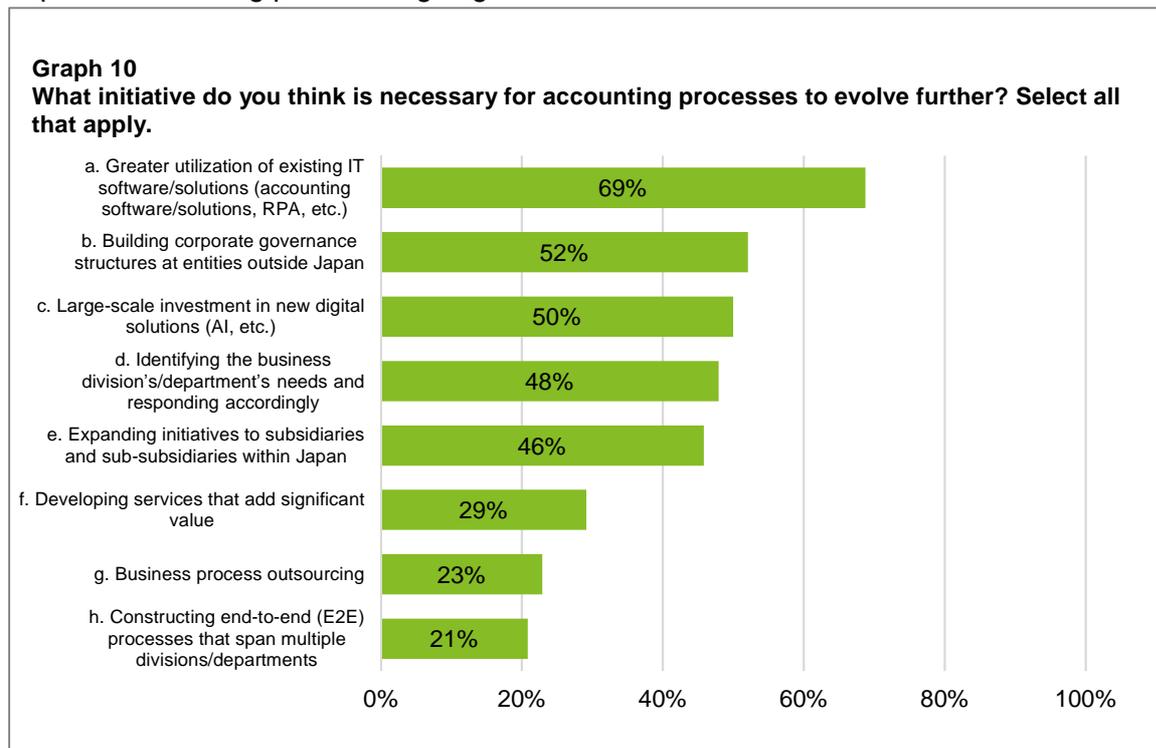
On the other hand, when it comes to strengthening governance and reducing compliance-related risks, considering both these results and those displayed in graph 8, it can be said that while such initiatives are being undertaken within Japan, whether Japanese companies are targeting their foreign subsidiaries in a sufficient manner remains open to question.



On initiatives to improve accounting processes going forward

Considering the results of the previous four questions, two important key words emerge in relation to the accounting and finance department or division going forward with initiatives to improve accounting processes. These key concepts are “cross-departmental” and “cross-regional.” The former is essential for fundamental improvement of processes across departments and divisions, going beyond accounting and finance to involve sales back office and procurement, and for the optimal utilization of digital solutions when such utilization is not dependent on the expertise of the accounting and finance department or division. The latter is essential for business process reengineering and other forms of standardization of accounting systems on a global level, for the introduction of digital solutions, and for the strengthening of governance and the reduction of compliance-related risks.

The last question asked CFOs what initiative they think is necessary in order to further improve accounting processes going forward.



With “Greater utilization of existing IT software/solutions (accounting software/solutions, RPA, etc.)” the most popular answer and “Large-scale investment in new digital solutions (AI, etc.)” coming in third, we see that companies’ emphasis on utilizing IT solutions is set to continue. It is also interesting that “Building corporate governance structures at entities outside Japan” was the second most popular answer. As displayed in graph 9 above, “Enhance corporate governance” and “Reduce compliance risks” came in fourth and fifth place respectively when the CFOs were asked about the objectives of the initiatives their companies are currently engaged in. While this means that companies already express a certain amount of interest in these themes, the results in graph 10 suggest that governance- and compliance-related initiatives may well be accelerated going forward.

Nowadays, in order to effectively and efficiently promote digitalization initiatives, an increasing number of Japanese companies are running project teams spearheading cross-departmental initiatives, and giving direct command authority over foreign subsidiaries to back office departments or divisions such as accounting and finance. Going forward, we observe that Japanese companies are moving in a direction of established cross-departmental and cross-regional organizational management, which should see initiatives involving accounting and finance promoted increasingly rapidly and effectively.

What is the CFO program?

The CFO Program is a comprehensive initiative by Deloitte Tohmatsu Group, aiming to provide support to the CFOs of companies that underpin the Japanese economy, add to the capabilities of those CFOs' organizations, and thus revitalize the Japanese economy itself. Professionals with different specializations work together as trusted advisors to help CFOs solve the problems they face. We also endeavor to improve the competitiveness of Japanese businesses by providing CFOs with the latest information, including global trends, as well as networking opportunities across different companies and industries.

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