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Deloitte CFO Signals Survey Report

Special Edition
July 2020

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Survey on the impact of and responses to COVID-19 for the accounting and financial department, and future agendas

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About Deloitte CFO Signals

Deloitte CFO Signals is a quarterly global survey for investigating the thinking and actions of leading Chief Financial Officers (CFOs). We share the highlights of survey results with analysis from Deloitte Tohmatsu and publish them as the CFO Signals Report.

In Japan, it was conducted for the first time in August 2015, making this the 20th edition. In this special edition of the CFO Signals survey, instead of the regular survey on the economic environment and macroeconomic risk scenarios for the Japanese economy and the world's major economies, we conducted a survey on the impact of and responses to COVID-19 for the accounting and finance department, as well as its future agendas. Despite the urgency of our request, we were able to obtain 72 valid responses from CFOs and executives in the accounting and finance department in a wide range of industries.

Thank you for your cooperation.

Deloitte Tohmatsu Group
The CFO program
July 2020

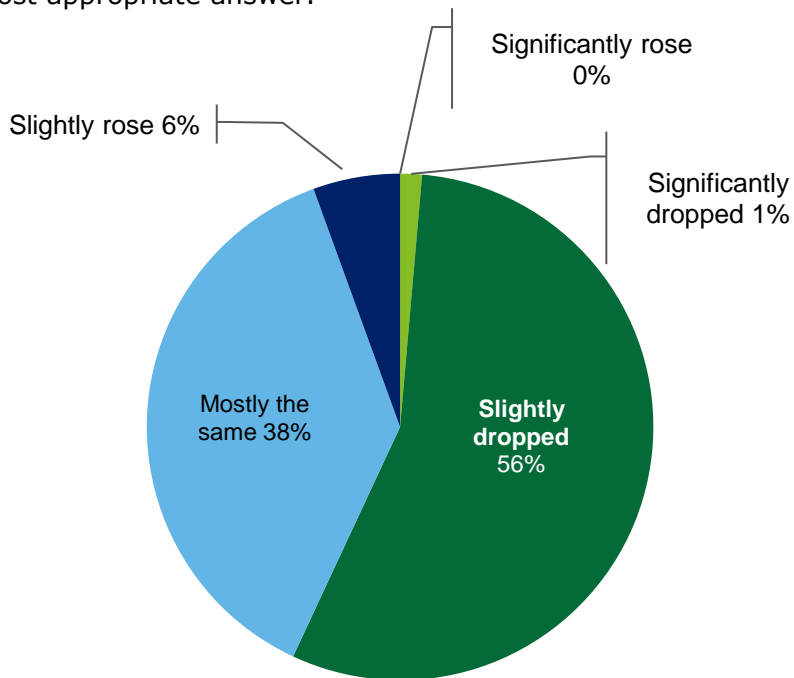
Survey on the impact of and responses to COVID-19 for the accounting and financial department, and future agendas

The impact of COVID-19 on the entire accounting and finance department

Although the sudden shift to working remotely had an impact on the operations of most accounting and finance departments in each country, the BCP worked for many companies. This meant that there was limited impact on overall productivity.

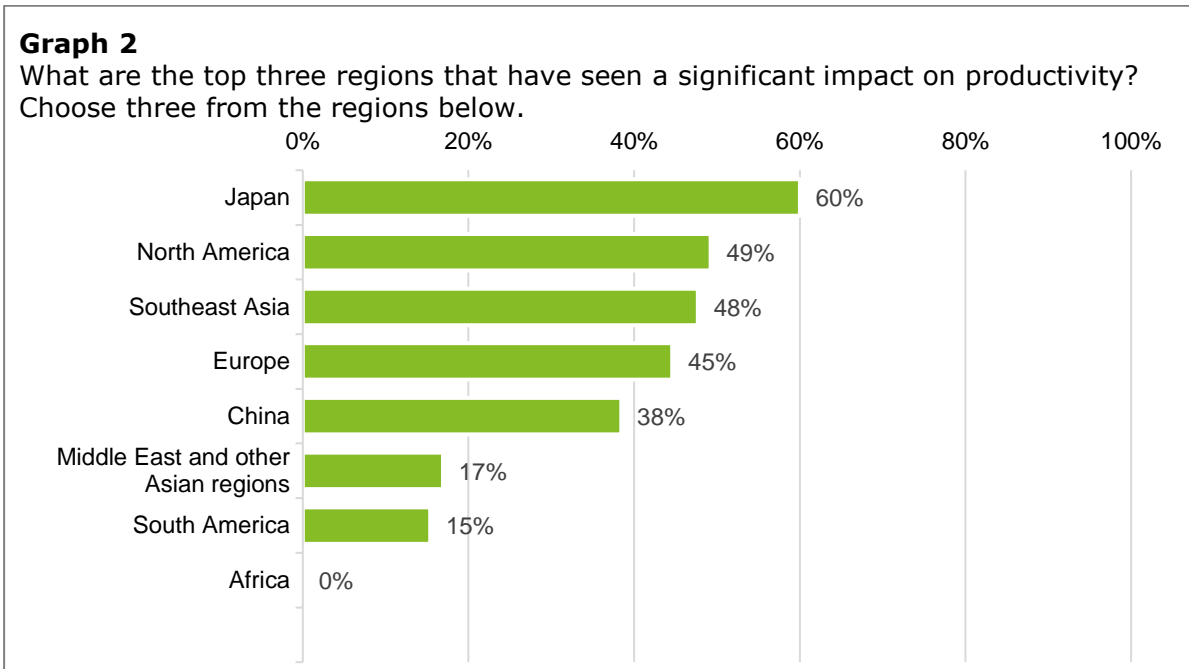
Graph 1

How do you view the impact on accounting and finance department productivity compared to before the global outbreak of the novel coronavirus (COVID-19)? Choose the most appropriate answer.



While about 60% of surveyed companies felt that the productivity of their accounting and finance department "significantly" or "slightly dropped", no company reported that productivity "significantly rose", and less than 10% reported "slightly rose". This suggests that working remote had a negative effect on the productivity of accounting and finance departments.

On the other hand, nearly 40% of surveyed companies felt "mostly the same", suggesting that these companies had been making progress in formulating their BCPs, standardizing their operations, and introducing IT tools beforehand.

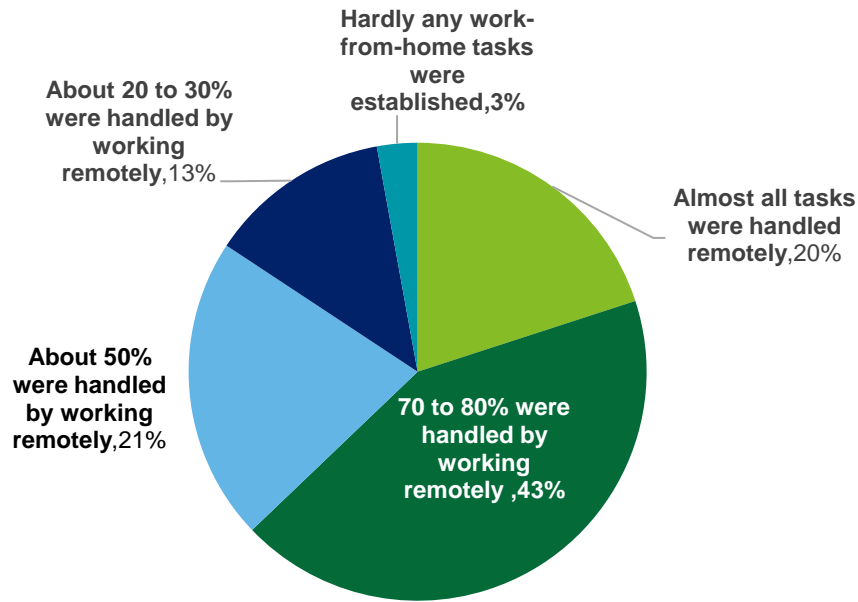


Of the companies surveyed, 60 percent responded that Japan was the most affected region for their accounting and finance departments, as they were Japanese companies or Japanese subsidiaries of foreign companies.

As of June 2020 (when this survey was conducted) North America, Southeast Asia, Europe, and China ranked in below Japan. This suggests that there was an effect on areas where Japanese companies operate and the spread of COVID-19 had become serious. However, the reason why they did not exceed the impact felt in Japan is considered to be because accounting operations are concentrated in Japan, such as the aggregation of overseas subsidiaries' business results and consolidated financial statements.

Graph 3

Please tell us the status of working-from-home in the accounting and finance department. Which of the following best applies to you?



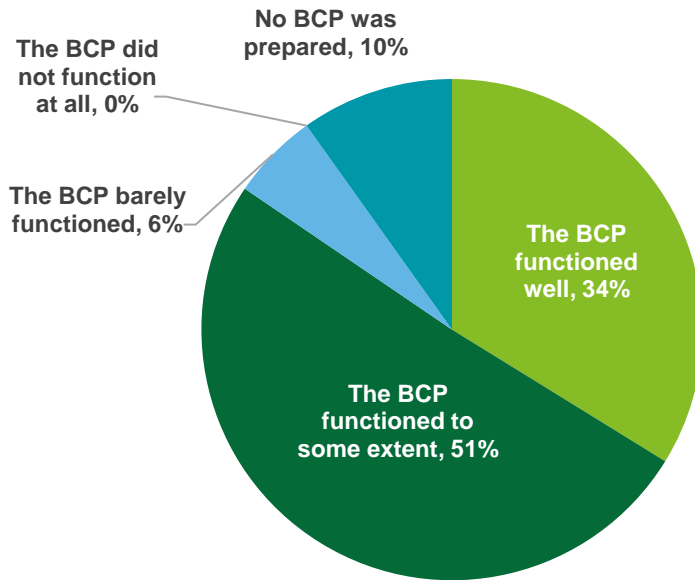
More than 80% of surveyed companies responded that they "fully", "about 70-80%", and "about 50%" implemented a work-from-home system in their accounting and finance departments. This suggests that most of the accounting and finance departments were working remotely to some degree.

On the other hand, though less than 20%, there were companies which responded that they had "about 20-30%" or "almost never" implemented such a system.

It could be said that the future challenges for these companies are the development of electronic systems, IT infrastructure and tools, and the development of a corporate culture and HR system that encourages working remotely.

Graph 4

How successful was the current Business Continuity Plan (BCP) for the accounting and finance department? Choose the answer that best applies to you.



More than 80% of surveyed companies responded that their accounting and finance department's BCP was "fully functional" or "functioned to some extent," indicating that the preparations made during ordinary times were effective.

On the other hand, though less than 20%, there were companies which responded that their BCPs were "barely functioning" or "no BCP was prepared," suggesting that reviewing or establishing a new BCP will be an area of improvement for these companies in the future.

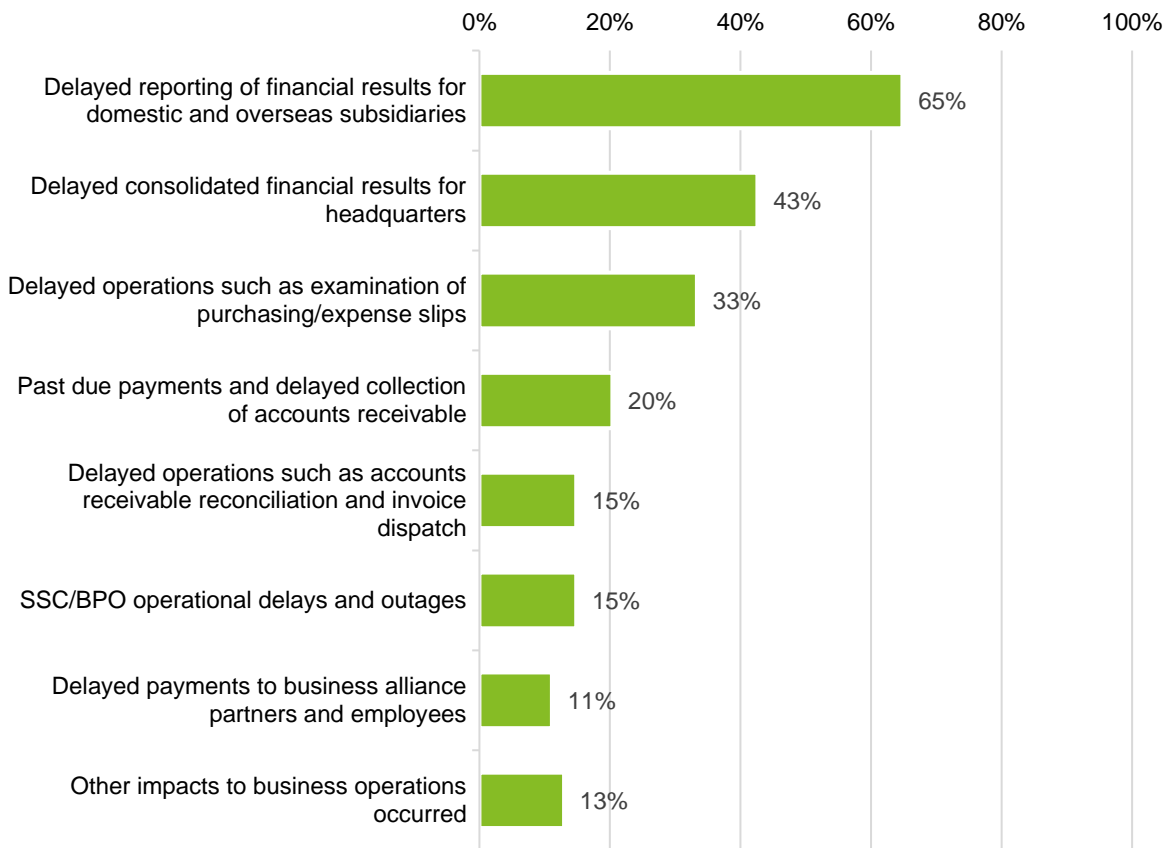


The impact of COVID-19 on each operational function in the accounting and finance department

Most accounting and finance departments were experiencing delays in closing and disclosure operations (e.g., understanding of non-consolidated and consolidated business results, settlement processing, earnings forecasts, earnings briefings, etc.).

Graph 5

Could you tell us about the specific impact on operational finance in your accounting and finance department? Please select all that apply.



[Other comments on the impact on business operations]

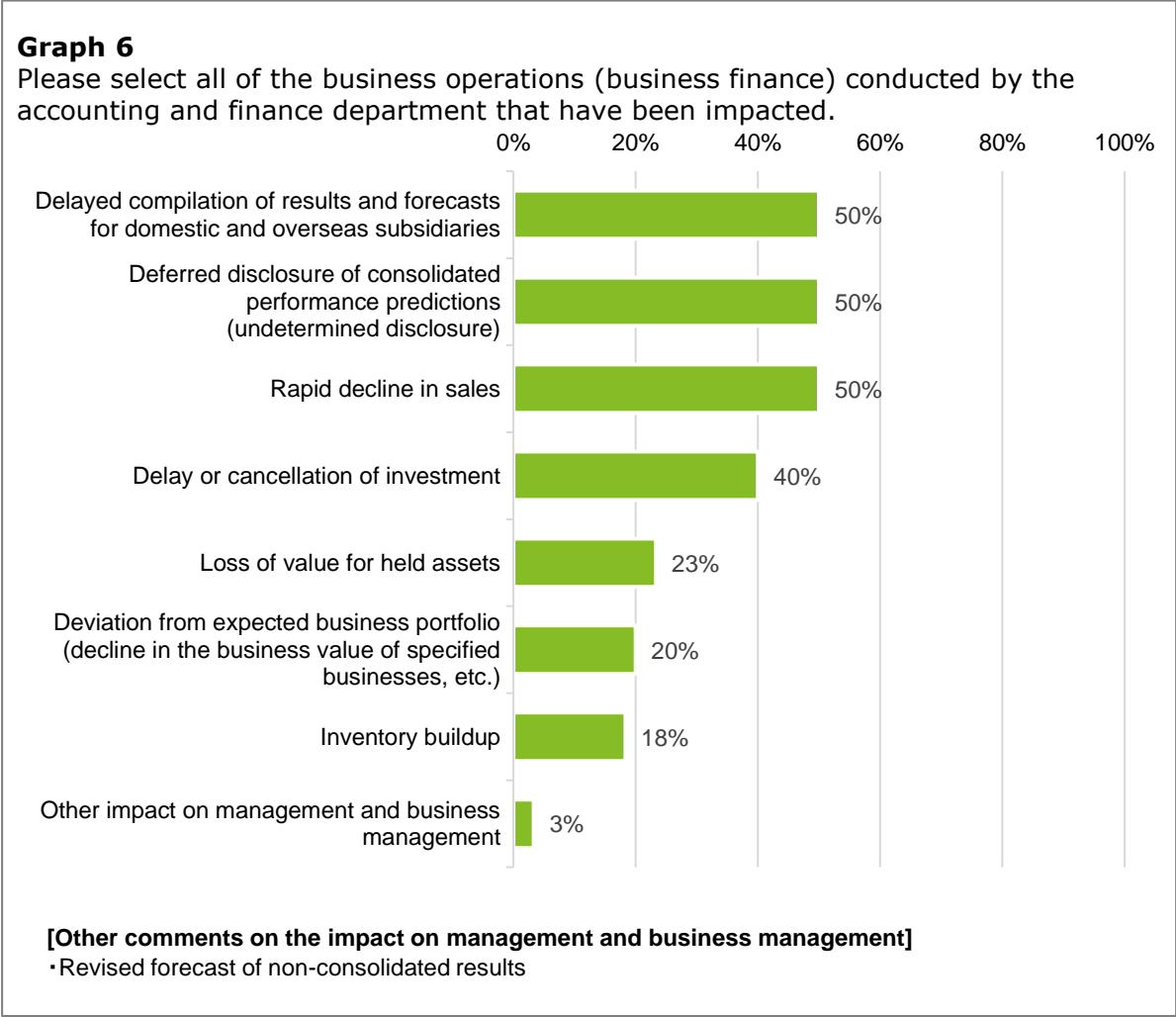
- Delays and postponements of physical inventory checks
- Delays in accounting audits due to lockdowns in certain countries (Malaysia and India)
- Decreased efficiency in accounting audits due to working remotely
- Increase in the number of man-hours required for workers to scan and convert paper documents (such as invoices) into PDFs for those working remotely.
- Concerns about the security and psychological burden associated with cashier duties from a home PC

In terms of the impact on operations, the respondents indicated that there was a significant impact on the non-consolidated and consolidated financial results of subsidiaries located both in and outside Japan. This suggests that the lockdown in cities outside Japan and the state of emergency in Japan during March and April had an impact on both annual and quarterly financial results.

The fact that only about 10-20% of the companies surveyed responded that they were affected by delays or stoppages in their day-to-day operations, even though they were

forced to suddenly change their business practices, can be attributed to the emergency introduction of IT tools and the simplification of their operations.

Meanwhile, the increase in man-hours associated with the conversion of paper documents to PDF, and strengthening security associated with working remotely, are among the issues to be addressed in the future.

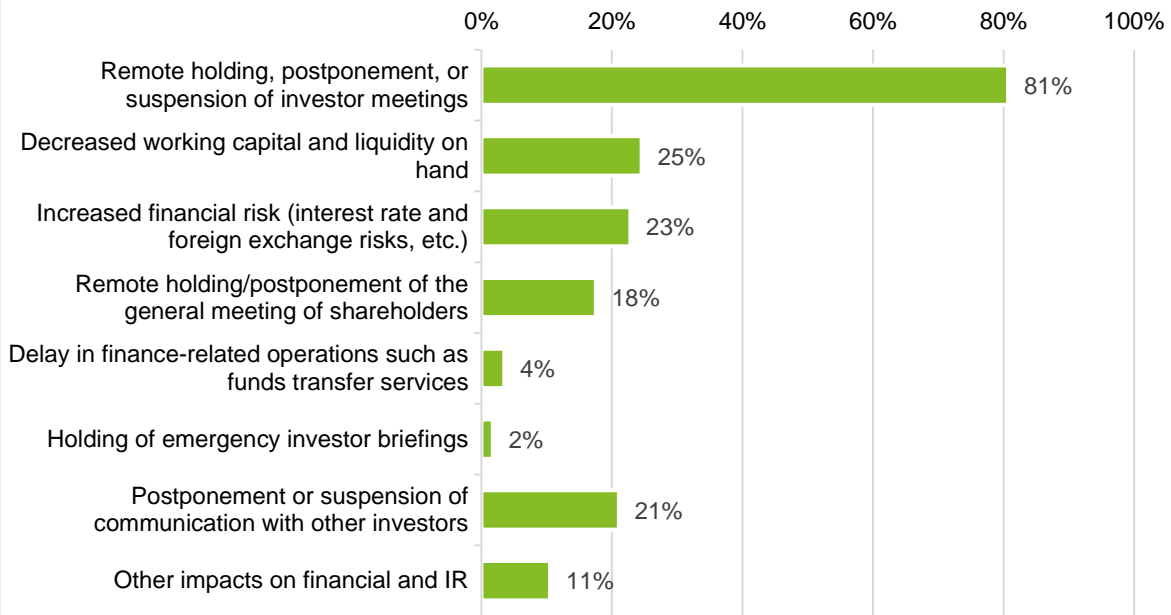


As a result of the impact of COVID-19 on business management, 50% of surveyed companies reported a sharp decline in sales, as well as delays in compiling the business results, reporting forecasts, and disclosing consolidated results forecasts of subsidiaries within and outside Japan. This suggests that business management suffered a large impact from the pandemic in terms of both, delays in understanding business results and future unclarity.

This was followed by responses on the impact on investment delays and cancellations. Given the situation indicated above, respondents seemed to have an inclination toward putting initial investment plans on hold and re-examining their priorities before making any new investment.

Graph 7

This question concerns the impact on Treasury & IR. Please select all affected items



[Other comments on the impact on financials and IR]

- IR activities conducted as webinars
- Timely disclosure of the earnings forecasts
- Delayed payment by suppliers

Approximately 20% of surveyed companies reported a decrease in working capital and liquidity on hand when asked about the impact on their finances. A number of companies engaged in negotiations with financial institutions (details below), which may have dampened the impact.

Regarding IR operations, nearly 80% of companies remotely held, postponed or cancelled their investor meetings. This indicates a significant impact on earnings reports for both annual and quarterly results.

Holding investor meetings remotely is becoming more common at many companies. We believe that this may become an option for these meetings in the new normal after COVID-19.



Future agendas in the accounting and finance departments

In this part, we investigated the efforts of accounting and finance departments in their COVID-19 initiatives.

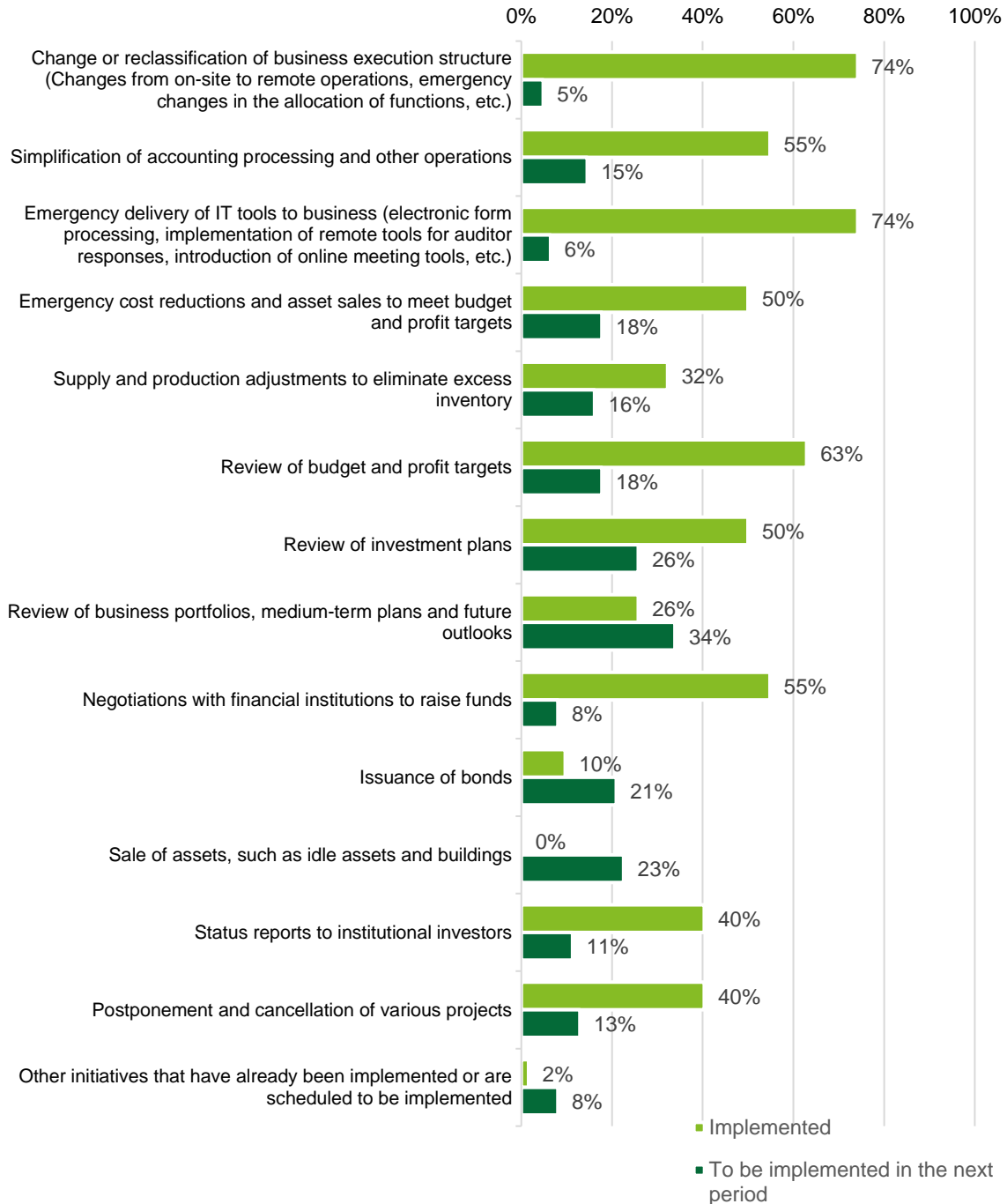
Respondents provided a wide range of answers indicating that their accounting and finance departments had already taken action in response to the COVID-19 outbreak. The following measures were mentioned as examples: development of procedures and IT to continue operations, re-examination of budgets/targets and investments based on the pandemic's impact on business performance, and capital procurement. Regarding the initiatives to be implemented, many respondents said they would review their business portfolio and investment plans from a more medium-term perspective.

Many responses also noted that the most common challenges faced when promoting recent initiatives was to recognize the need for reforms to systems/rules, operations, and IT infrastructure to take into account working remotely. This is in anticipation of working remotely becoming a major option for working in the new normal after COVID-19.

Another consequence of COVID-19 is that accounting and finance departments are looking to take action on BPR and computerization of business operations with a view to establishing a remote working system. This response ranked first. Other responses included the need for accounting and finance departments to demonstrate their value, such as: restructuring the business management system, visualizing business management information, strengthening risk management and visualizing financial information, reforming the organizational culture, and strengthening human resource capabilities. The global crisis has triggered a renewed reassessment of the accounting and finance organization's value, resulting in the intent to promote reforms.

Graph 8

Please select all of the initiatives that have already been implemented or are planned to be implemented which correspond to COVID-19.

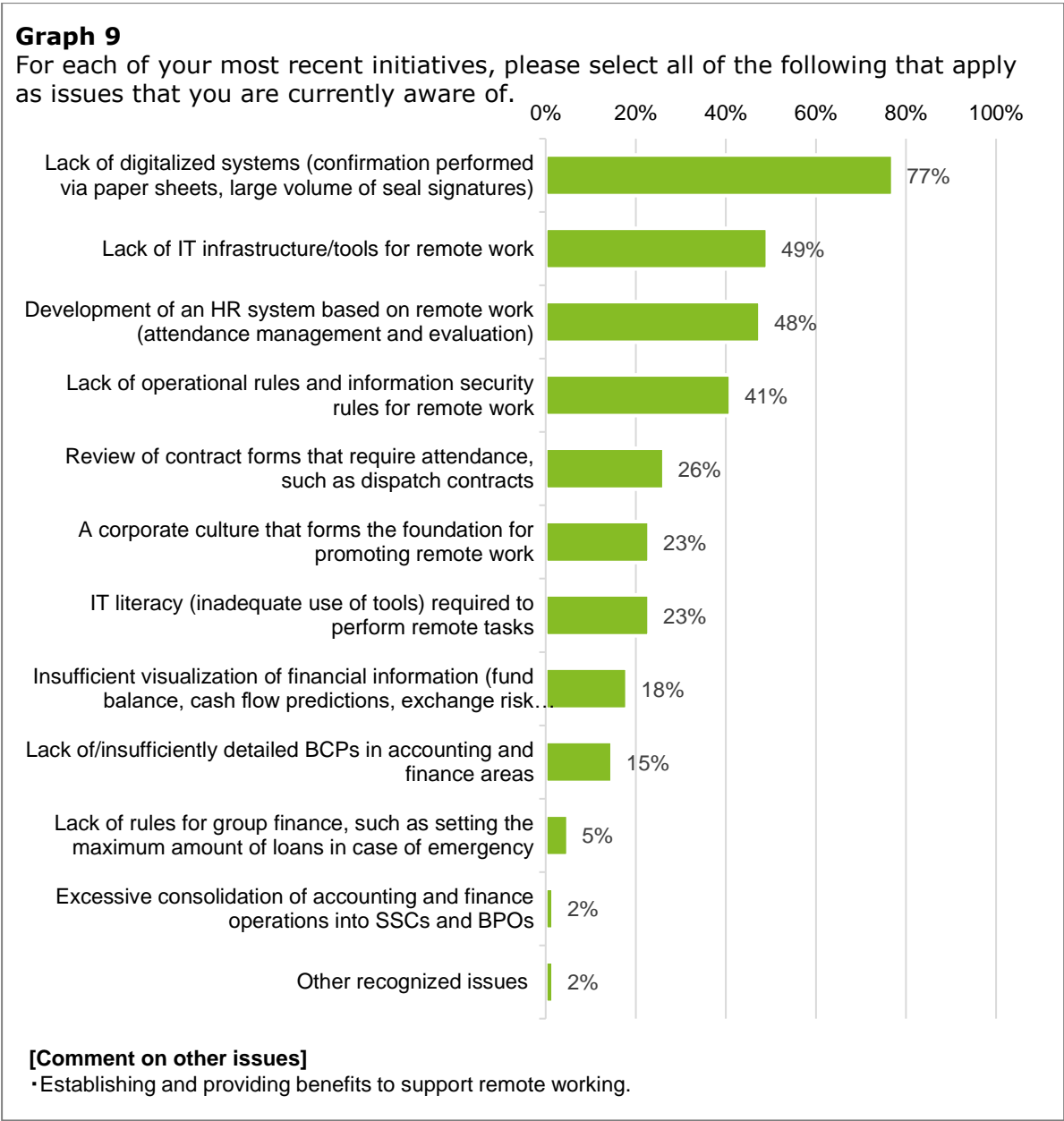


[Comments on other initiatives]

• [Implemented] Accumulate cash on hand and secure additional funding lines

A wide range of initiatives have already been implemented, including development of procedures and IT systems for working remotely, re-examining budgets/targets and investments in light of the pandemic’s impact on business performance, and capital procurement. As for the initiatives to be implemented in the near future, many respondents

said they would review their business portfolio and investment plan from a more medium-term perspective.

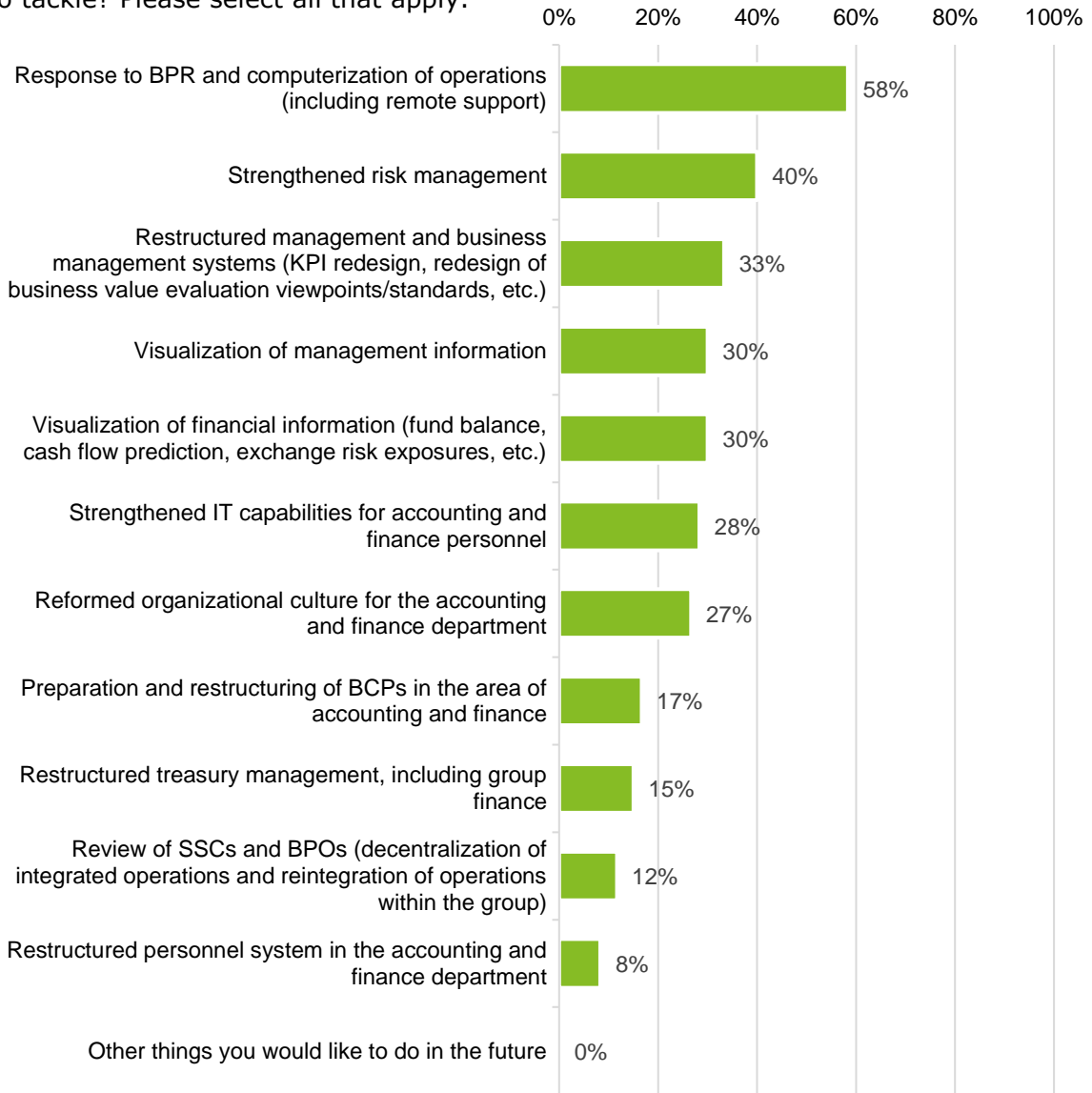


Due to COVID-19, the greatest challenges related to working remotely were identified to be caused by its urgent implementation.

IT-related issues, such as digitization of forms and seals, and maintenance of IT infrastructure and tools necessary for conducting business, were the top issues. In addition, the need for overall reform was recognized. This included building a personnel policies based on employees working remotely, solving issues related to company policies and rules such as information security and how to carry out operations, creating an organizational culture that allows for diverse styles of working such as working remotely, and strengthening IT literacy in order for employees to make full use of IT resources.

Graph 10

With the recent global spread of the novel coronavirus (COVID-19) infection, as an accounting and finance organization, what are the objectives your organization hopes to tackle? Please select all that apply.



The top priority for accounting and finance departments in their COVID-19 initiatives was BPR and digitization of business operations with an eye to establish a system for working remotely. This indicates that companies recognize remote working as a high-priority option for the new normal of how one can work.

Following the top priority were a number of initiatives required to demonstrate the value of an accounting and financial organizations, such as stronger risk management, restructuring of business management systems, visualization of management information, and visualization of financial information. The global crisis was a trigger for re-examining the value of the accounting and finance organizations, and the responses to our survey showed the respondents' will to promote reform.

In addition, around 30% of surveyed companies feel the need to strengthen the capabilities of their human resources and reform their organizational culture, which are prerequisites for their accounting and finance organizations to deliver their value. This suggests that many companies believe that their accounting and finance organizations can demonstrate their value if they promote organizational and human resource reform in parallel with strengthening individual functions.



Summary

This edition of the CFO Signals Report specifically addressed the impact of COVID-19 on accounting and finance departments.

The spread of COVID-19 has led to lockdowns and stay-home sentiments, disrupting the flow of people and goods on a global scale. It is said that the overall impact of COVID-19 on the economy is greater than that of the Lehman Brothers bankruptcy.

In order for accounting and finance departments to respond to the social demand in minimizing opportunities for people to come into contact with each other, many companies carried out operations by having their employees work remotely. The timing of this change coincided with the timing for preparing fiscal earnings reports by most Japanese companies, so it is inferred that these departments managed to somehow fulfil their roles while going through trial and error.

Looking at the initiatives that accounting and finance departments are hoping to take in the near future using COVID-19 as a turning point, BPR and digitization of operations to further promote working remotely are the most common, followed by enhancement of risk management and restructuring of business management systems, along with visualization of management and financial information to support them. Looking at these themes from a broad perspective, we can conclude that the initiatives to be taken by accounting and finance organizations even without impact from COVID-19 dominate the to-do list.

COVID-19 has had a large impact on business activities, and the management and finance departments that support these activities are inevitably forced to make changes. However, some companies regard this pandemic as an opportunity to change how they provide value in accounting and finance, strengthen the provided value itself, and promote reform activities. When looking back on COVID-19, there will be a big difference in the value of organizations between an organization that focused only on immediate responses, and an organization that saw the crisis as an opportunity for change.

What is the CFO Program?

The CFO Program is a comprehensive effort by the Deloitte Tohmatsu Group to revitalize the Japanese economy by supporting the CFOs of companies that it rests on and contributing to improving the capabilities of CFO organizations. As a trusted advisor (The Trusted Advisor), we bring together professionals from all walks of life to help CFOs solve challenges. In addition, we aim to improve the competitiveness of Japanese companies by providing the latest information, including global trends, and CFO-networking beyond corporate and industry boundaries.



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