



Deloitte CFO Signals Report

2022Q1

June 2022

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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.

The survey consists of two sections: the “Survey on the Economic Environment,” which is assessed globally in every edition, and the “Survey on Hot Topics,” which varies for each country.

In Japan, it was conducted for the first time in August 2015, making this the 28th edition. In the “Survey on the Economic Environment,” we analyze chronological changes in CFOs’ thinking as well as the latest forecast at the time of the survey. In addition to recurring questions, we also inquire about the role and responsibility of CFOs in transformational times.

Surveys for this edition were conducted in May 2022, and we were able to receive responses from 32 CFOs and finance and accounting executives.

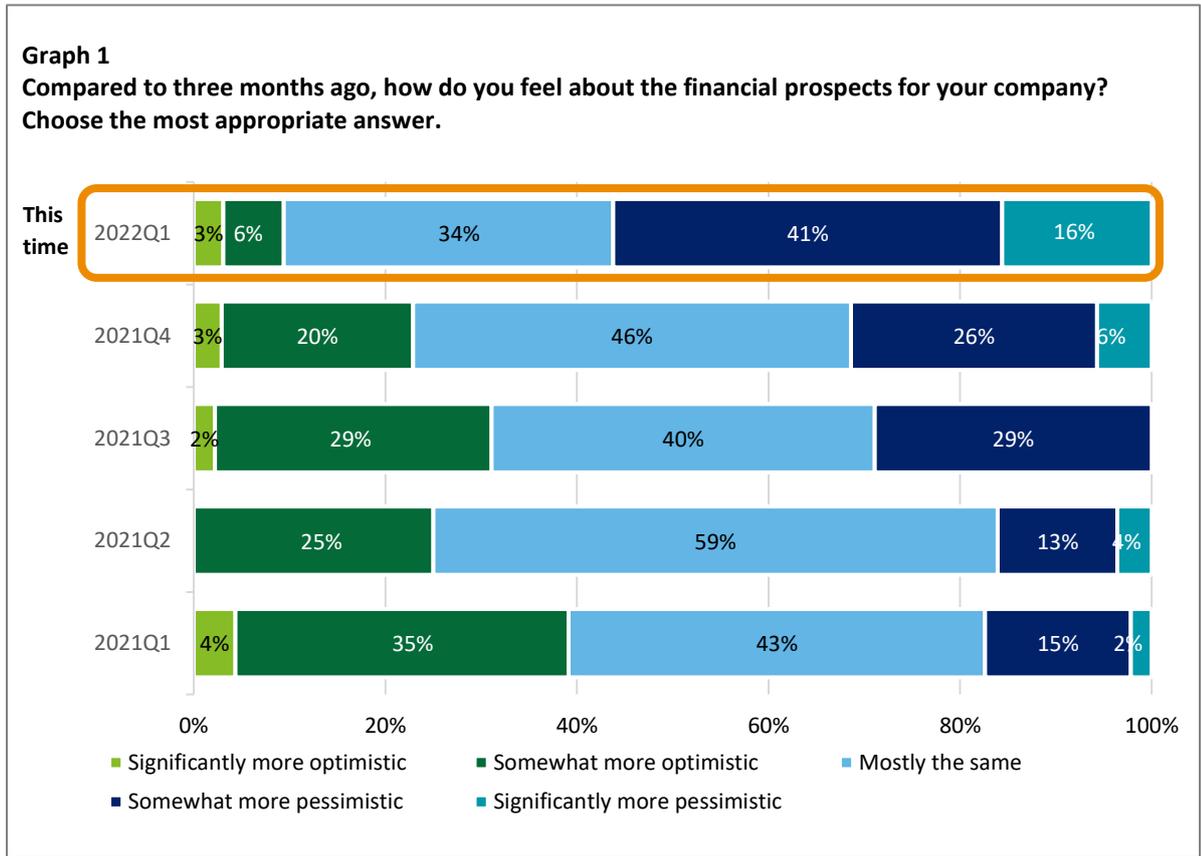
Thank you for your cooperation.

Deloitte Tohmatsu Group
The CFO Program
June 2022

Survey on the Economic Environment

Financial environment prospects

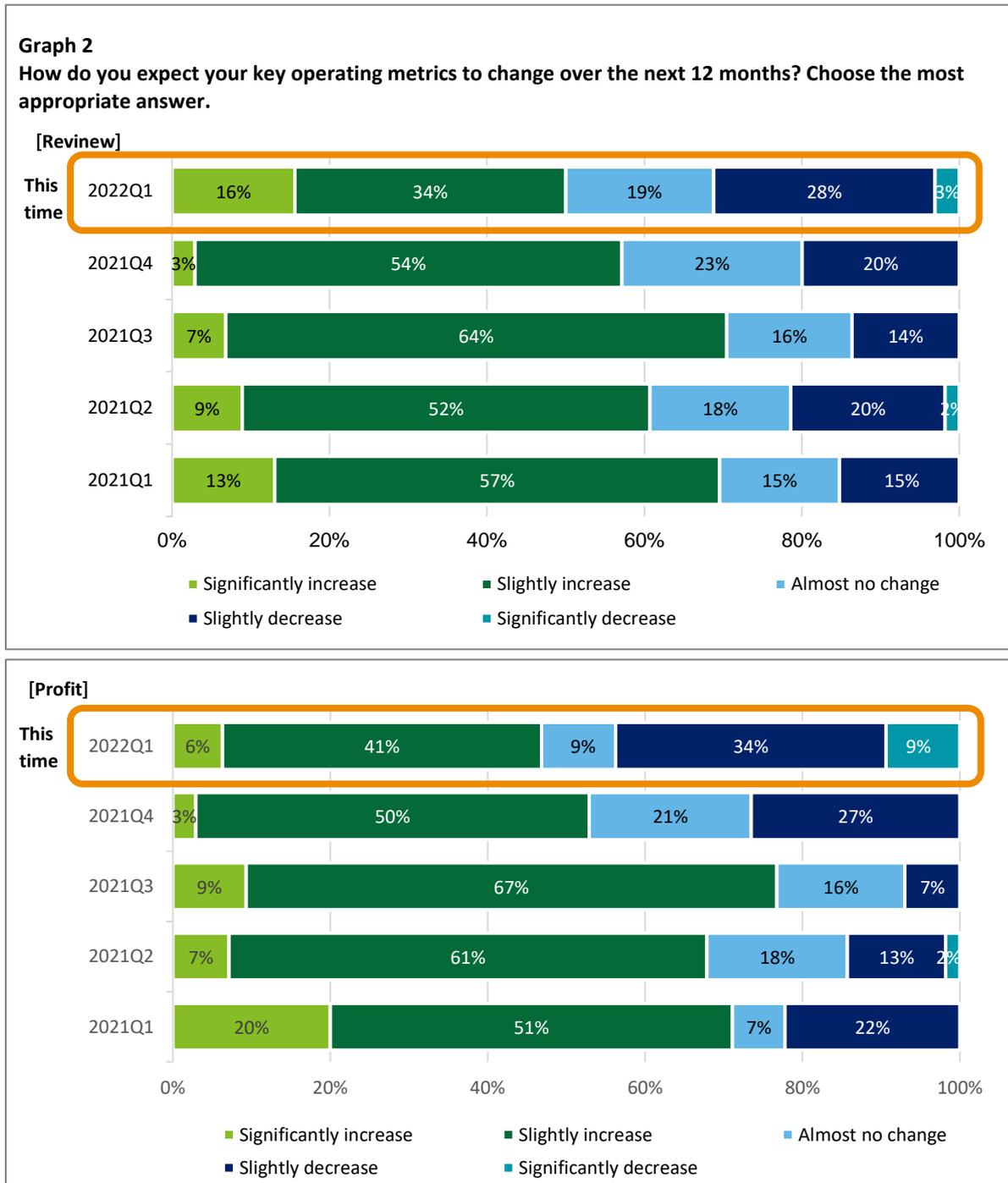
Financial outlook significantly deteriorated due to the Ukraine situation.



Graph 1 shows how the financial prospects of the respondents’ businesses have changed over the last three months. In this 2022Q1 survey, the total of “significantly more pessimistic” and “somewhat more pessimistic” about the financial prospects was 57%, jumped from 31% in the previous survey. On the other hand, only 9% said “significantly more optimistic” or “somewhat more optimistic,” a sharp drop from 23% in the previous survey. This was obviously due to Russia’s invasion of Ukraine, which began at the end of February. The invasion caused increasing uncertainty about international security, the surge in resource and energy prices, and supply chain disruptions. We believe these negative impacts indicate a significant deterioration in CFO perspective for the financial outlook. With no major progress in the situation in Ukraine as of mid-June and expected prolonged conflict, the financial outlook is likely to remain pessimistic for the foreseeable future.

Business performance outlook

Business performance outlook also somewhat deteriorate.

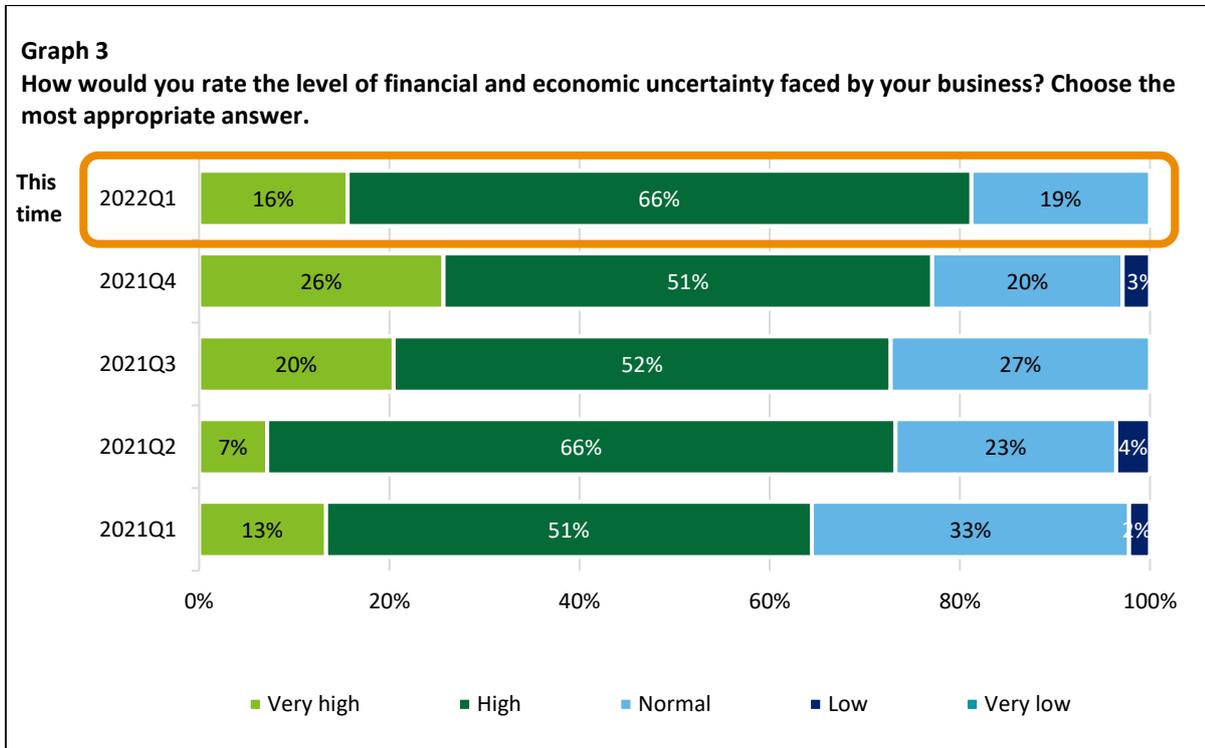


Graph 2 shows the CFOs' prospects for their company's financial performance (revenue and profit) over the coming year. In the current 2022Q1 survey, business performance outlook in both revenue and profit deteriorated over the previous survey. The total percentage of CFOs who answered that they expected revenues to "significantly increase" or "slightly increase" was 50%, slightly down from 57% in the previous survey; the percentage that they expected profit to "significantly increase" and "slightly increase" was 45%, also slightly drop from 53%. Compared to the deterioration in the fiscal environment outlook in Graph 1, it seems that the

deterioration in the earnings outlook is quite mild. It was widely reported that not many Japanese companies are directly involved in Ukraine or Russia, and that some of the higher raw material and labor costs are being reflected in the selling prices of their products. It was believed, however, that production cutbacks in automobile industry are continuing, and that higher production costs have not been fully passed on to prices. With the Ukraine situation and the prolonged sanctions against Russia, the CFO's earnings outlook is likely to become increasingly pessimistic.

 **Uncertainty**

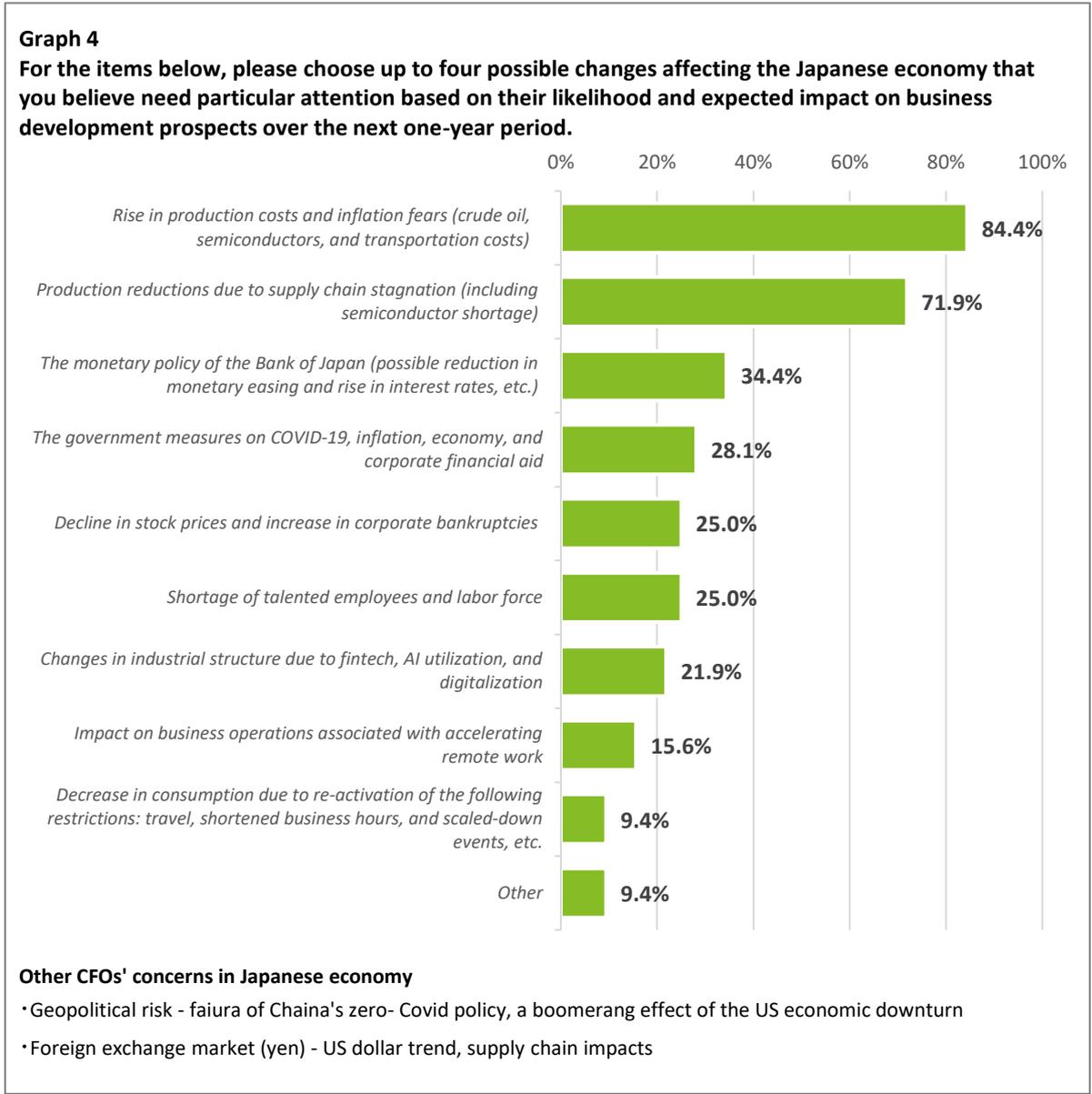
Uncertainty increased further to its highest level after COVID-19 outbreaks.



Graph 3 shows CFOs' perceptions of financial and economic uncertainty. A total of 82% of CFOs rated levels of the uncertainty as “very high” or “high,” up further from 77% in the previous survey. It was the highest level since the 2020Q2 survey just after the beginning of the spread of novel coronavirus infection. We assume factors behind this highest uncertainty are; unclear direction of the Ukraine situation and sanctions against Russia, and still high uncertainty about economic activities in major cities including Shanghai and foreign-trade stagnation due to China's zero-Covid policy. The market has seen yen depreciation rapidly increase along with the U.S. Fed's clear stance of accelerating monetary tightening. We believe that these multiple factors of anxiety are raising CFOs' concerns. It is expected that the situation in Ukraine continues to prolong and China's zero-corona policy remains in place, despite the temporary lifting of curfew restrictions in Shanghai. The Fed announced a significant 0.75% rate hike in June and intends to continue to raise rates at a faster pace going forward. The Japanese government and the BOJ have so far taken no active steps to address the yen's depreciation. The uncertainty in the CFO's perceptions is expected to remain high for the foreseeable future.

Key change factors in the Japanese economy

The top two areas of key concerns remain the same, production costs and supply chain, and emerging interests in the Bank of Japan monetary policy.

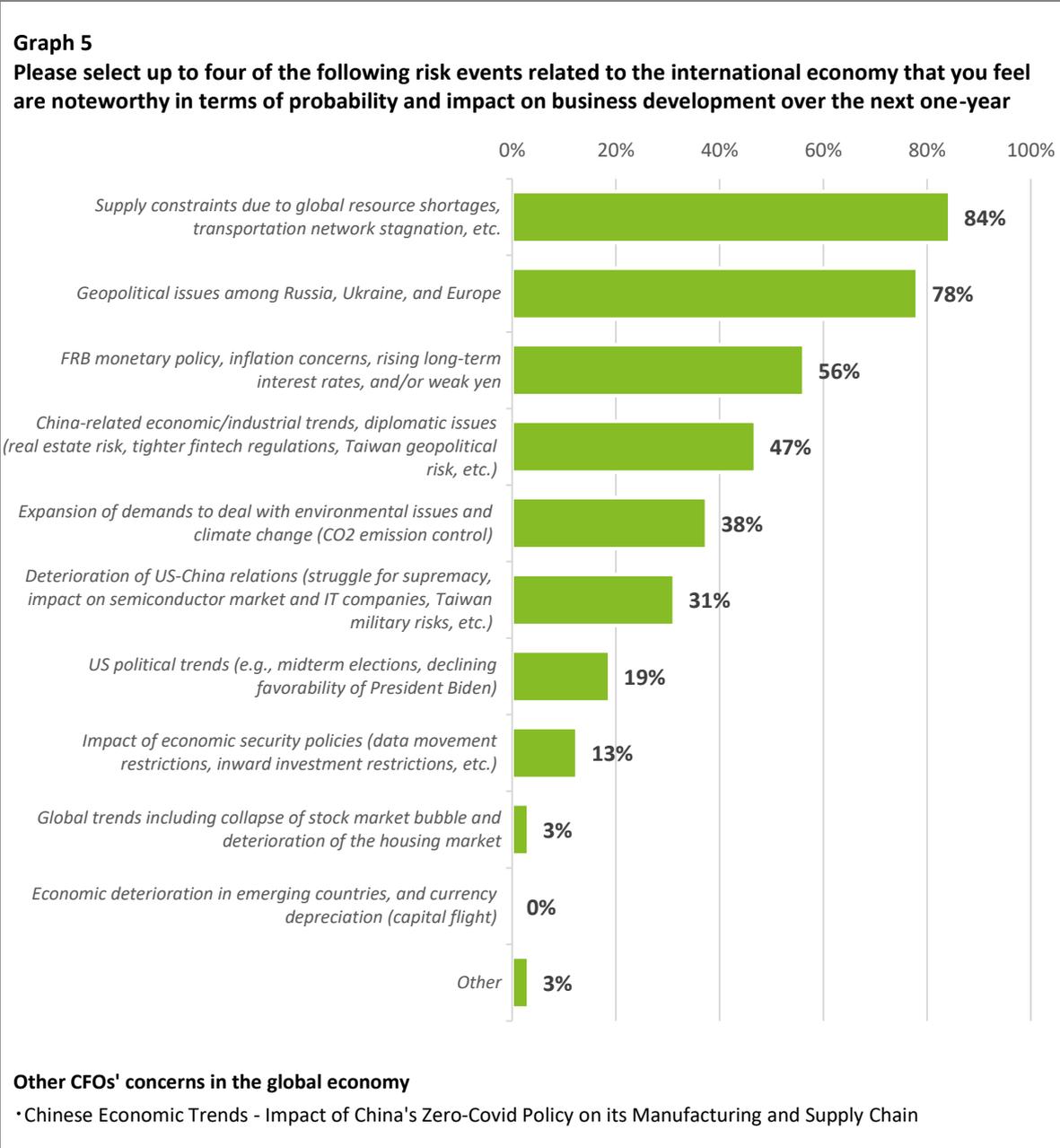


Graph 4 shows the key factors in the Japanese economy that CFOs will most closely watch when preparing business plans over the next year. The top two rankings were exactly the same as in the previous survey, with "rise in production costs and inflation fears" in the first place and "production reductions due to supply chain stagnation" in second place. Ranked third was "Monetary policy of the Bank of Japan," which moved up from fourth place in the previous survey. Even before the Ukraine situation, production costs and supply chains had been a major focus for CFOs, and now domestic monetary policy has been added to the top focus. The increased interest in the BOJ's monetary policy can be seen as one of the possible factors behind the sharp depreciation of the yen due to the US Fed's clearer stance on interest rate hikes. The BOJ then decided to continue its ultraloose monetary policy at its June Monetary Policy Meeting. However, the government's intervention stance on yen depreciation is not clear. There is

another risk of higher import prices caused by further yen depreciation. Exchange rate are likely to remain a focus for CFOs for quite some time, as well as inflation and supply chains due to the protracted Ukraine situation.

€ **Key change factors in the global economy**

Higher attentions in the global economy on supply constraints, Ukraine situation, and the monetary policy.



Graph 5 shows what trends in the global economy CFOs will most closely watch when preparing their business plans over the next year. The top three concerns were "Supply constraints due to global resource shortages, transportation network stagnation," the same as in the previous survey; "Geopolitical issues among Russia, Ukraine," a newly added option; "FRB monetary policy, inflation concerns, rising long-term interest rates, and/or weak yen," up significantly from fifth; and "China-related economic/industrial trends, diplomatic issues," ranked fourth, up from third place in the previous survey. In addition to global supply constraints and the situation in Ukraine being the biggest concerns, monetary policy and exchange markets are getting more attention here as well as the Japanese economy. In June, the Fed decided to raise interest rates

sharply by 0.75% and indicated that it intends to continue raising rates at a faster pace. Meanwhile, in the US, stock prices had fallen sharply from early to mid-June, and the concerns regarding an economic recession are growing. In China, in addition to the economic slowdown caused by the zero-Covid policy, there are still negative factors such as the deterioration of the real estate market, a longstanding factor of concern. This trend is likely to continue for the time being, as there are significant considerations for both the US and Chinese economies, in addition to the impact of the Ukraine issue on the global economy. The ranking of "expansion of demands to deal with environmental issues and climate change" had dropped further from fourth place in the previous survey to fifth place in this survey, indicating that the attention to climate change risk is dynamically declining in contrast to the increased attention to economic events triggered by geopolitical risk.

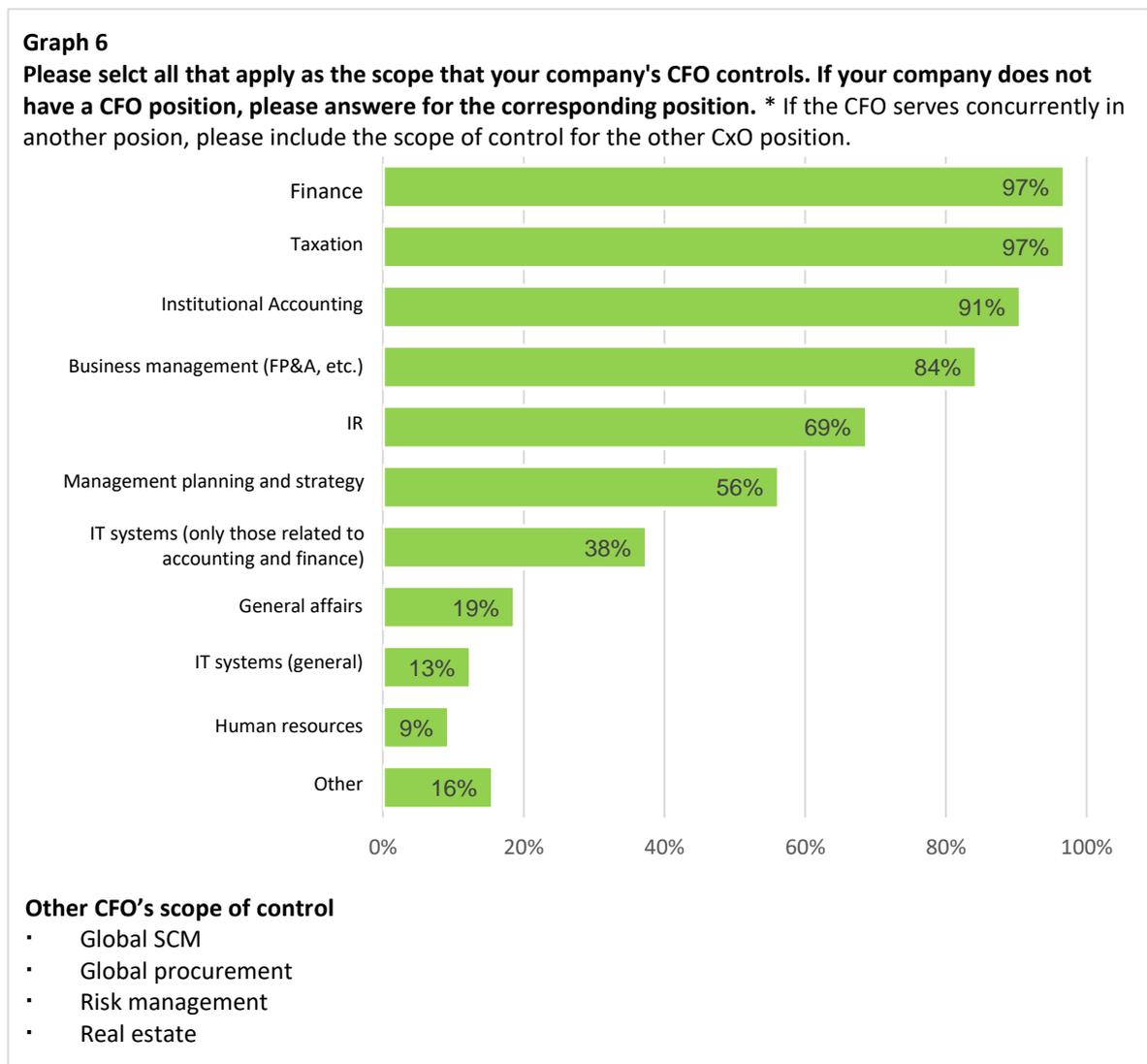
Survey on the Role of CFOs in Transformational Times

As the business environment and values surrounding companies dramatically change, individual responsibilities and expected roles are also changing. In particular, the expectations for CFOs, who are the partners of CEOs, are even higher.

In the second part of the survey, we asked about the role of CFOs in such transformational times.

CFO's scope of control

CFOs are in charge of finance, taxation, and system accounting at almost all companies, and control management planning and strategy at more than half of the companies surveyed.



It can be seen that the CFO is considered an important position in charge of corporate strategy, as 84% of companies indicated that corporate management is within the scope of the CFO's responsibilities, and more than half of the companies indicated that corporate planning and corporate strategy are also within the CFO's scope. However, there is still room to expand further when this figure is compared to the fact CFOs control finance, taxation,

and system accounting at over 90%. In addition, the survey revealed that the CFO also performs other corporate functions such as general affairs, human resources, and IT at a certain number of companies, and we expect that the CFO's scope of control has expanded compared to the past.

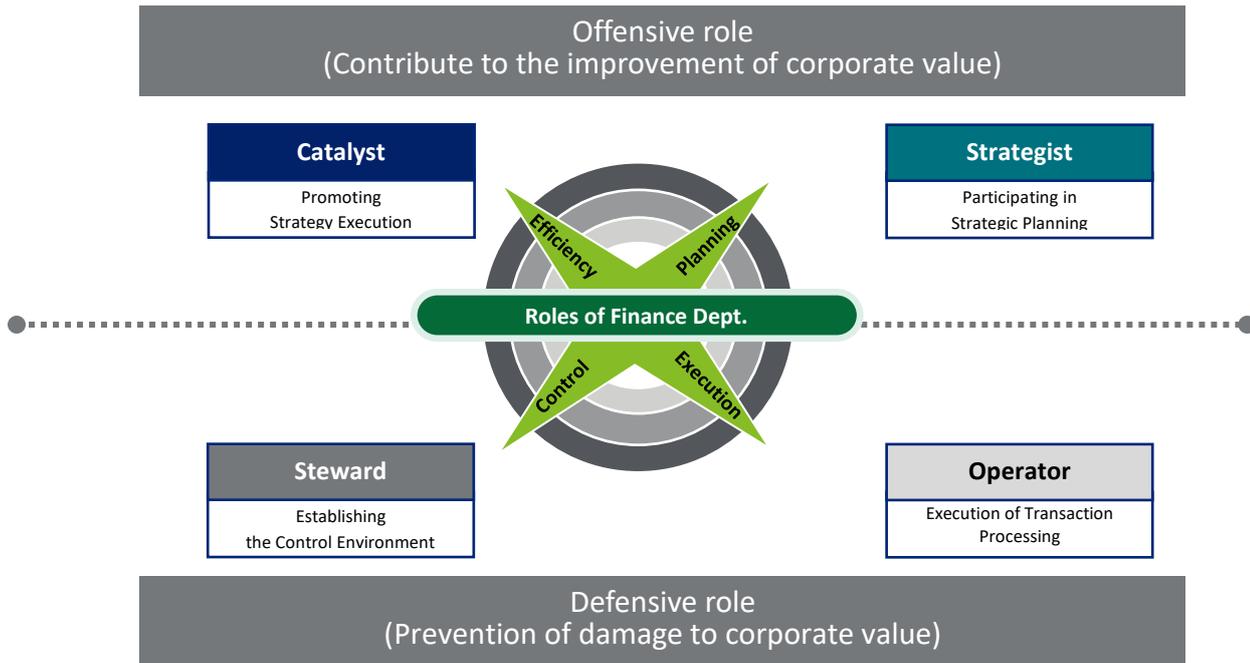


Shifting in the CFO's Role

From this question onward, we will utilize Deloitte's proposed framework of "4 Faces of CFO."

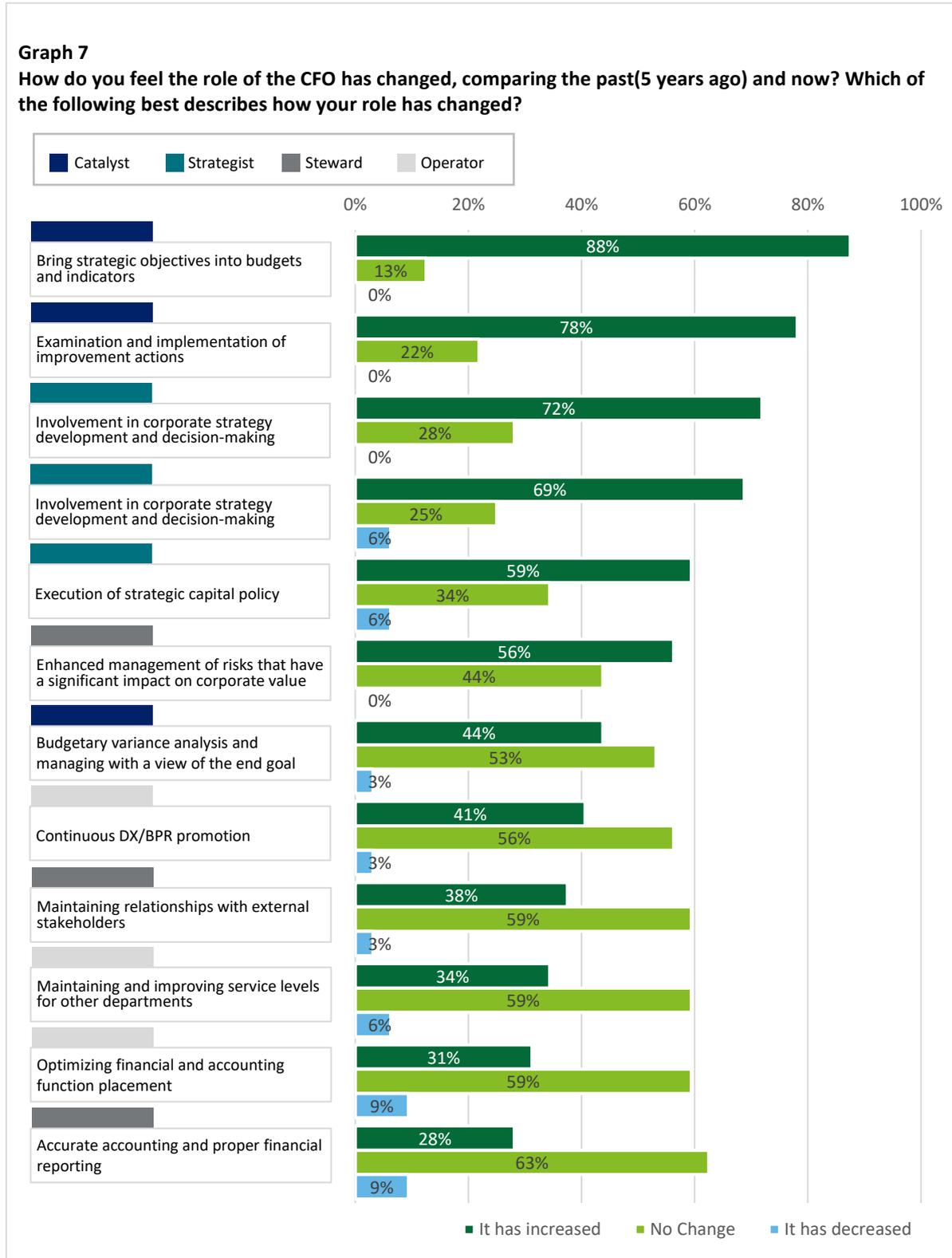
4 Faces of CFO – 4 roles expected of the Finance & Accounting Department

The Finance and Accounting Department must play not only a "defensive role" to prevent damage to corporate value, but also an "offensive role" to improve corporate value.



Promoting Strategy Execution Catalyst	Activities to achieve strategic objectives <ul style="list-style-type: none"> ➤ Deployment of budget and materials into strategic activities ➤ Performance monitoring/analysis ➤ Investigate improvement actions/take initiative
Participating in Strategic Planning Strategist	Activities to support the development of corporate strategies <ul style="list-style-type: none"> ➤ Examination of strategies from the finance perspective ➤ Formulate and execute financial strategies such as procurement of funds necessary for strategy execution ➤ Proper allocation of resources
Establishing the Control Environment Steward	Activities to protect and maintain tangible and intangible assets <ul style="list-style-type: none"> ➤ Establishing accounting rules ➤ Implementation of timely and accurate financial reporting ➤ Maintaining relationships with external stakeholders, such as IR
Execution of Transaction Processing Operator	Activities to perform accurate and efficient accounting <ul style="list-style-type: none"> ➤ Efforts to improve the efficiency of the BPR ➤ Continuous execution and monitoring, such as maintaining and improving service levels for other departments

The results showed an increased role in strategy execution.



The top items in which respondents indicated that the roles have relatively increased compared to five years ago are all offensive roles. Among them, the roles of promoting strategy execution, "Catalyst", have increased. There were few items in which the role of the CFO was relatively shrinking, indicating that the role of the CFO is expanding. To enable CFOs to fulfill their broad

range of roles, it is desirable to strengthen the system and structure of the accounting and finance organization as a whole.

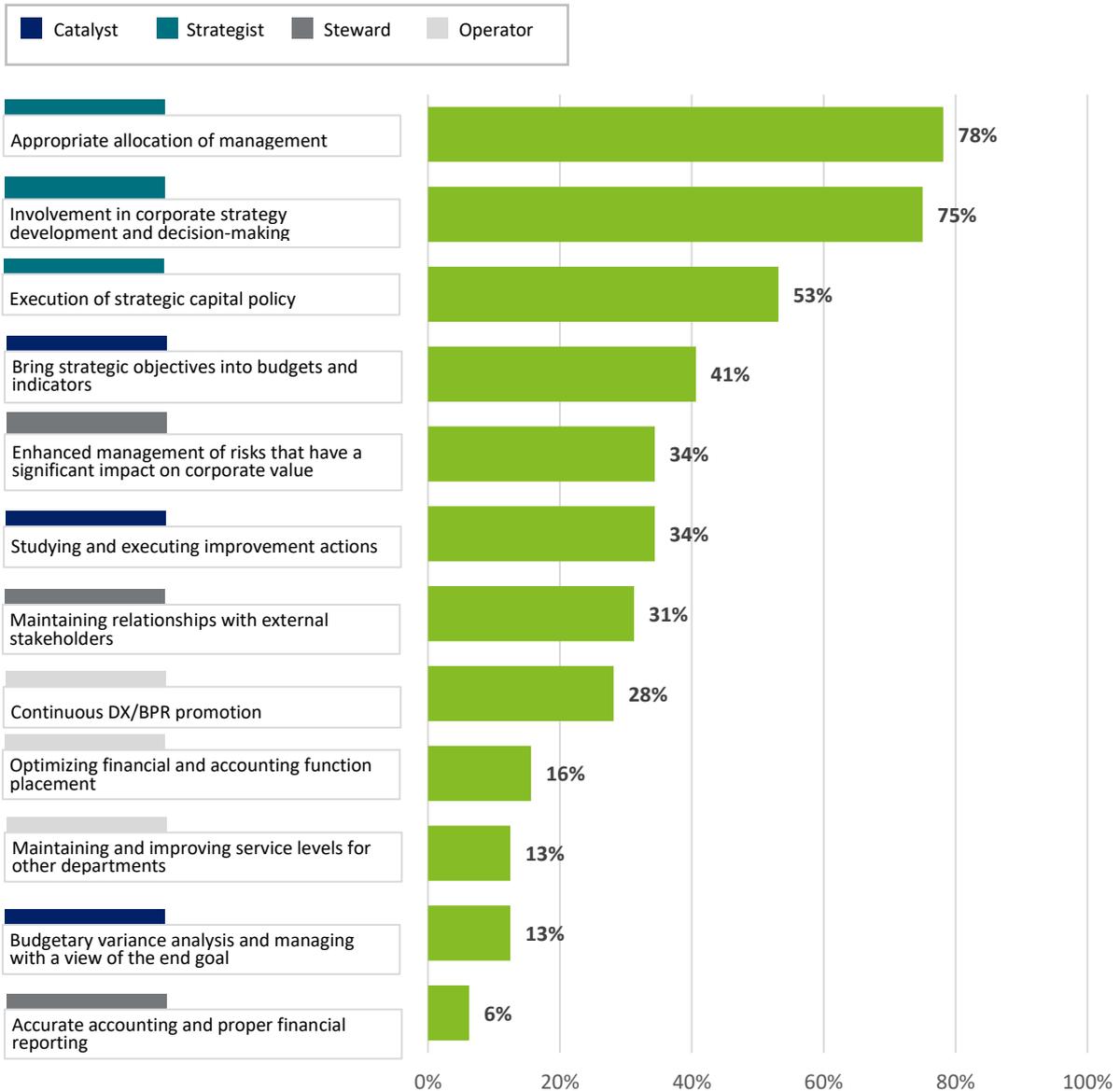


The CFO roles that you would like to strengthen in the future

CFOs hope to strengthen their participation in strategic planning in the future.

Graph 8

Please select up to five of the CFO roles described below that you would like to strengthen in the future.

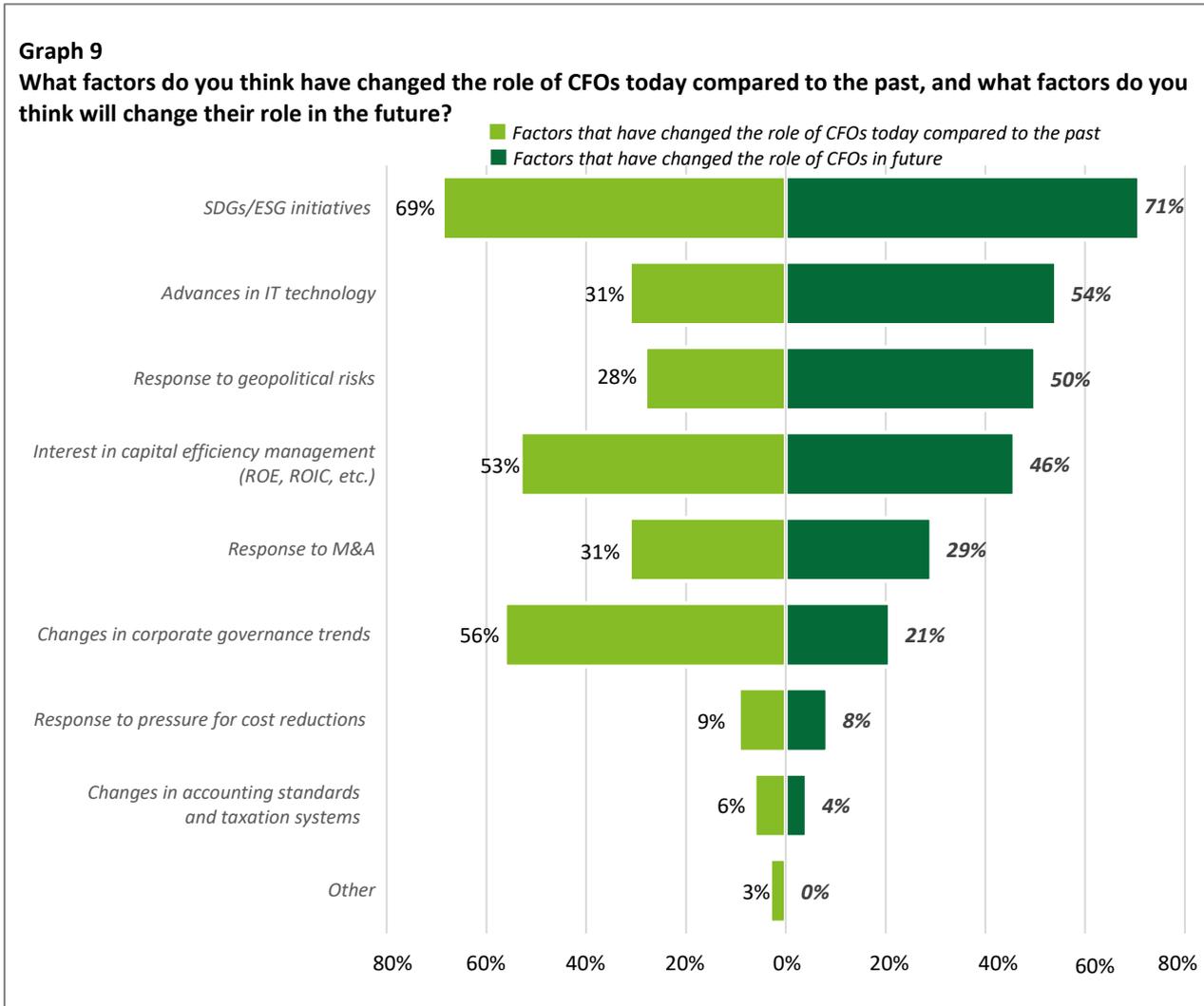


As in the previous question, items related to the role of offensive were ranked highest. While not all companies currently had the CFOs' role in business management, corporate planning and strategy under their control as seen in Graph 6, CFOs intend to shift to a more offensive role in the future. The top three roles that CFOs would like to strengthen in the future were all "strategist," which involves participation in strategic planning. In comparison with the results of Graph 7, CFOs had strengthened their role in strategy execution and promotion in the past, while in the future they intend to further expand their role and become actively involved from the planning stage for corporate strategy.



Factors that have impacted the shifting role of the CFO

SDGs/ESG initiatives have had a significant impact on the role of CFOs.

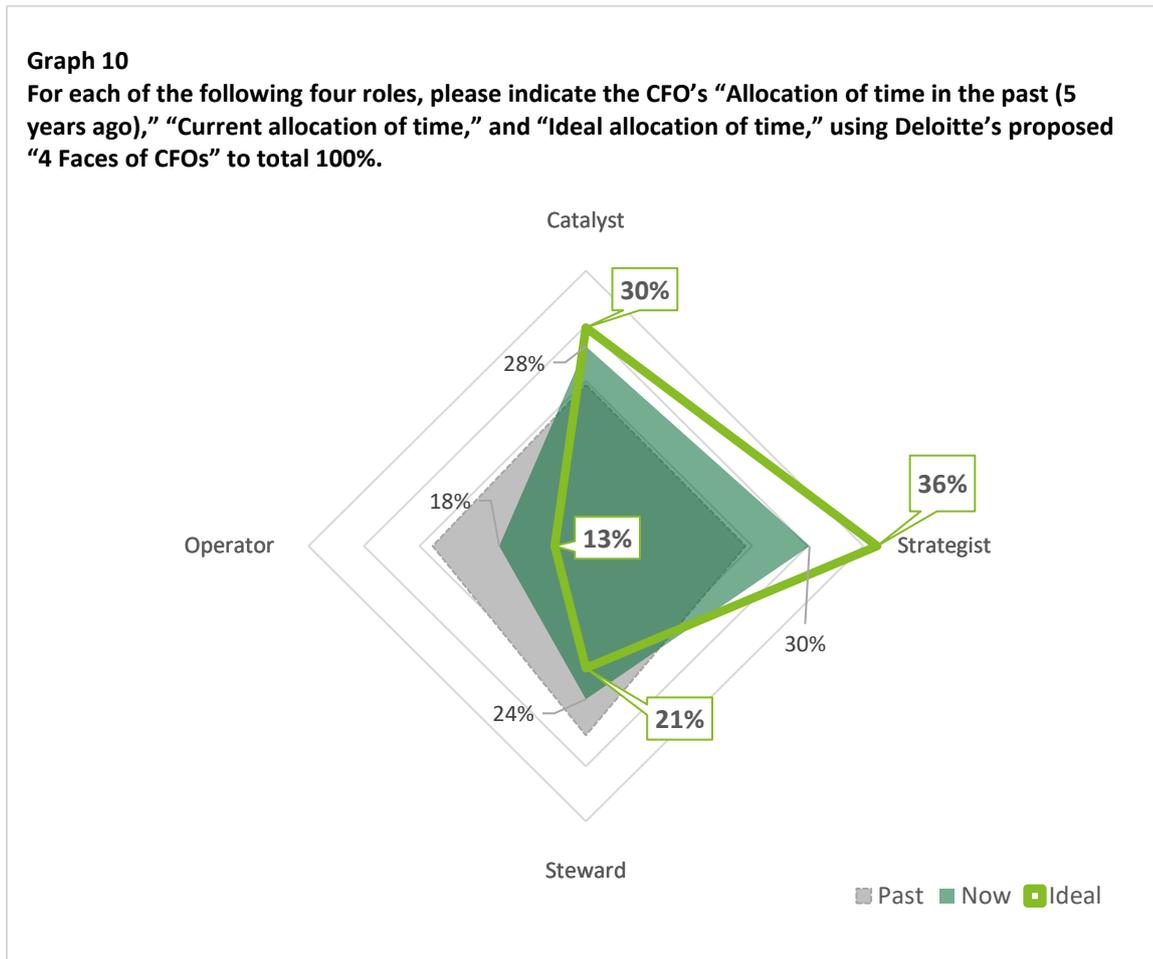


The highest ranked factor was that SDG/ESG initiatives have influenced the shifting role of CFOs, both in the past to present and in the present to future. There are many challenges that CFOs must address in SDG/ESG initiatives, such as how to disclose to the public and how to incorporate non-financial information into decision-making.

The factors for the second and lower were different from those in the past to present and in the present to future. From the past to the present, interest in capital efficiency management and changes trends in corporate governance were ranked at higher rankings, and this can be considered due to the influence of national policies and guidelines. This is one of the main reasons for the increase in "Catalyst" and "Steward" roles in Graph 7. These two items, on the other hand, are on a declining trend from now to the future, which indicates that the companies have reached to a certain level of their efforts to address these issues. The CFOs expressed a desire to focus more on SDG/ESG initiatives, advances in information technology, and responses to geopolitical risks. These are also linked to the strengthening of the "strategist" in Graph 8.

Time allocation as CFO into the 4 roles

CFOs want to allocate more time to an offensive role in the future.



We found a greater weighting of the offensive role- Catalyst and Strategist- as the transition from past, present, and ideal. As shown in the previous questions, CFOs want to further strengthen their role of Strategists as a right-hand person of the CEO, such as participating in strategic planning and promoting its implementation. This is a turning point for further shifts in the CFOs' role. Given that the role of the CFO is tending to expand, as discussed in Graph 7, it is desirable not only to shift the weight to each role, but also to improve the structure to reduce the actual time spent as the roles of Operators and Stewards.



Closing remarks

In this latter part of 2022Q1 CFO Signals survey, we asked about the role of CFOs in such transformational times.

Although fewer CFOs are currently in charge of business management, corporate planning and strategy than in the areas of finance, taxation, and institutional accounting, the findings indicate that most CFOs are willing to expand their role of Strategists, as the right-hand person to the CEO. As the business environment and values surrounding companies change rapidly, expectations for CFOs are even higher, and the CFO position is recognized as being one with more responsibility than ever before.

The key challenge for all companies is how to optimize the actual time invested in defensive roles and shift them to offensive roles. In addition, CFOs will be required to be involved from the planning and development stage, not just in the execution and promotion of strategy, even in an offensive role.

There are a wide range of topics that CFOs should be aware of, such as SDGs/ESG initiative, advances in IT technology, and geopolitical risks. Precisely because we are living in transformational times, CFOs and accounting & finance organizations must now make changes to improve systems and structures to strengthen the expansion of new roles in the future.

In the next and following CFO Signals surveys, we will plan to dig deeper by focusing on the capability required of CFOs with such diverse responsibilities and the development of next-generation CFOs.

What is CFO Program?

The Deloitte Tohmatsu Group's CFO Program is a comprehensive program 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, 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.

Deloitte Tohmatsu Group

The CFO Program

Marunouchi Nijubashi Building, 3-2-3 Marunouchi Chiyoda-ku, Tokyo, 100-0005

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