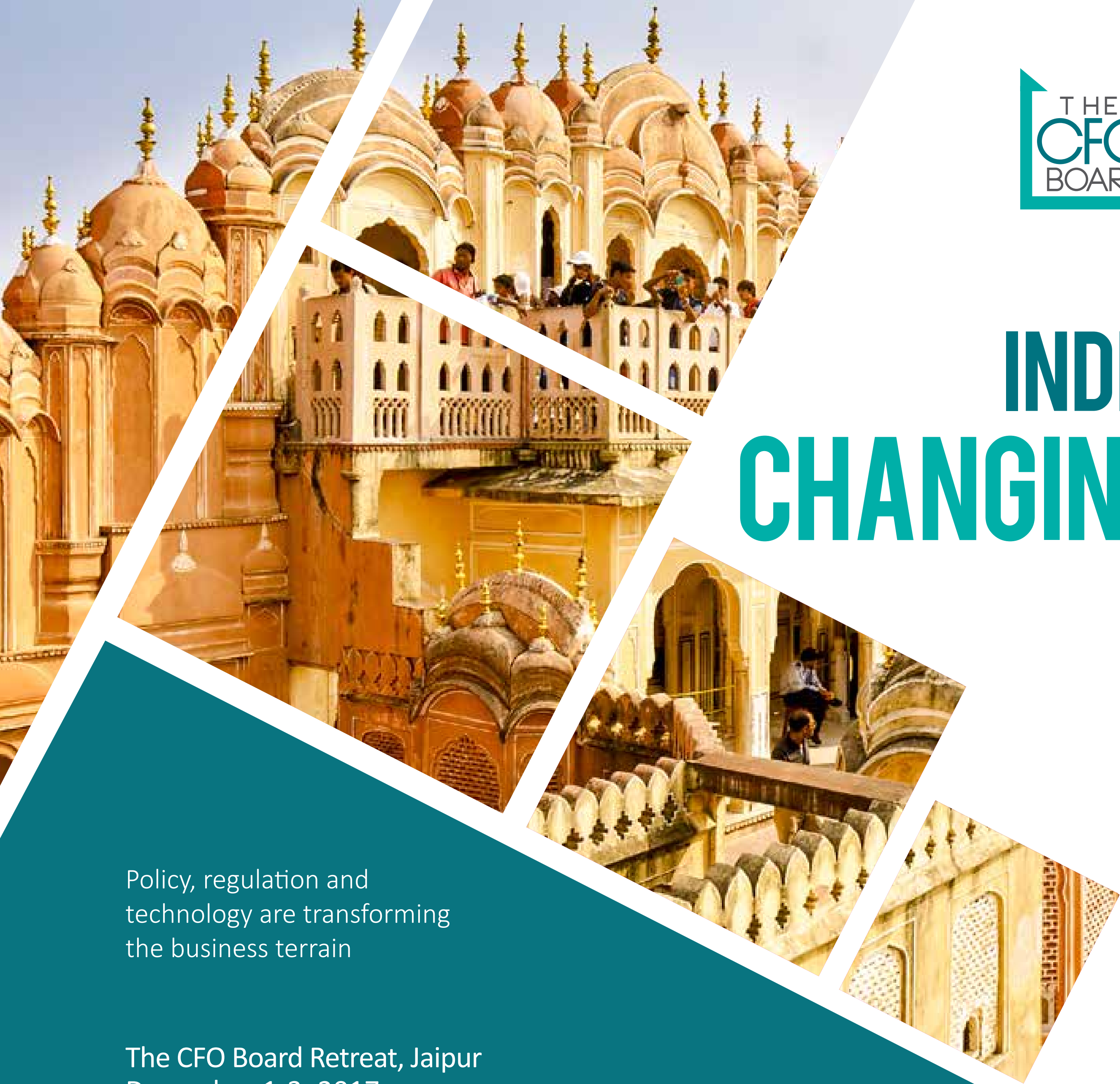
THE CFO BOARD

INDIA CHANGING



Policy, regulation and technology are transforming the business terrain

The CFO Board Retreat, Jaipur
December 1-3, 2017

A REPORT

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1. Delegates, speakers and members
2. The CFO Board members with Sanjeev Sanyal, Principal Economic Advisor, Ministry of Finance

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Keki Mistry
Vice Chairman & CEO, HDFC Ltd.;
Co-Chair, The CFO Board Retreat

S Mahalingam
Former Executive Director and Chief Financial Officer, Tata Consultancy Services;
Co-Chair, The CFO Board Retreat

In recent times, more than any other period in history, the pressure on CFOs and their companies to perform has been mounting. Global economic health, regulatory uncertainty and related risks are some of the top issues facing CFOs today.

On the positive side, many CFOs have gained rich experience and have become battle-tested. The increasing familiarity with the unexpected has made CFOs more accustomed to dealing with new challenges.

The responsibility of a CFO has expanded beyond the traditional domain of finance to a more strategic one. CFOs are often now second-in-command to the CEO and perform a pivotal function in strategic decision-making.

A concern for CFOs in India is the availability of capital. Some CFOs are of the view that additional funding requirements should be met by taking on higher debt. However, this path must be tread with caution. Leverage needs to be controlled and it is the CFO's responsibility to determine the optimal amount of leverage. More importantly, CFOs need to be conservative as their job is not to speculate.

The shareholder value should be seen not solely in terms of an organisation's ability to generate short-term profits but in terms of its ability to manage all the factors which have a bearing on its long-term viability. A CFO needs to ensure strong financial health in the long term, which is essential for future growth. Frequently you need to make short term sacrifices for long term stability.

Today, a CFO is a conscience keeper of the organisation. Besides assisting in fulfilling the CEO's vision; he has to comply with the board's directions and above all be a strategic decision maker.

At The CFO Board, we aim to contribute to the growth journey of CFOs through vigorous debates on such matters. ■

WORD

Pranjal Sharma

Director,
The CFO Board

In its new avatar, The CFO Board and its members have been diligently addressing pressing issues that are impacting corporate leadership in India.

The roll-out of GST, the insolvency and bankruptcy code and geo-political shifts have ensured an almost constant cycle of change.

For CFOs, this means ensuring the financial stability, profitability and growth of their organisations at time of new regulatory environment, rising competitive pressures and enhanced business complexities.

To deepen its focus on building capacity, cabability and shining a light on the way ahead, The CFO Board has interpreted change on several subjects with dialogue, research and insight generating reports.

Our reports on GST, corporate governance and insolvency code have been welcomed by the financial community and praised by policy makers. The Board has been able to contribute to policy making by relevant bodies with unbiased and thoughtful inputs.

Board members are meeting almost every month while engaging with domain experts and policy makers to create a steady flow of relevant output. In our last retreat at Jaipur, business leaders and policy makers came together to deliberate in a vibrant atmosphere where difference of opinion led to informed conclusions.

This report captures some of the best ideas expressed and shared at the retreat in Jaipur in December 2017.

The CFO Board aims to continue to work on relevant issues in 2018-19 and inform the ideas of the financial community and relevant stakeholders.

We welcome new ideas and suggestions to collaborate on projects. ■

TRUST AND TRANSPARENCY

The session had a discussion on importance of corporate governance and the need for promoting transparency and accountability in the system. The Indian economy is expected to become the fastest growing major economy in the world in 2018 and this is generating considerable interest among foreign investors. While foreign investors are keen to invest in Indian businesses, standard of corporate governance remains an issue with them.

Some of the key corporate governance issues in India include: formation of the board, performance evaluation of directors, independence of director, removal of independent directors, accountability to stakeholders, executive compensation, risk management and succession planning.

Panelists keenly debated the question of how to ensure alignment with stockholder interests by promoting fairness, transparency, and accountability in business activities amongst all stakeholders- employees, management and the board of directors.

There was a discussion on why 'changing India' is a major agenda for Niti Aayog. With India on the cusp of a major change, greater accountability and transparency have become imperative. There has been a paradigm shift in the functioning of the public sector which is now more accountable and is working towards attaining efficiency and delivery in service standards.

The session reiterated the importance of transparency. It is crucial to understand that while there has been progress on this front, corporate governance faces two major challenges which will need to be addressed at the earliest. One is conflict of interest and the other is lack of relevant and timely information. Once these are taken care of, rest of the things will fall in place.

With India on the cusp of a major change, greater accountability and transparency have become imperative.

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1. (L-R): **S Mahalingam**, Co-Chairman, CFO Retreat, Former CFO, TCS; **Dr. Rajiv Kumar**, Vice Chairman, Niti Aayog; **M. Damodaran**, Former Chairman, SEBI; **S Raman**, Former Whole-time member, SEBI

EVALUATING AND BUILDING CONFIDENCE

This session offered insights on the need for new Accounting Standards and Insolvency and Bankruptcy Code (IBC). They discussed Indian Accounting Standards (IndAS), its practical aspects, major impact areas and implementation. The transition from Generally Accepted Accounting Principles (GAAP) to IndAS has been a monumental change in the financial reporting landscape in India. While companies have been afforded significant time to transition to the new accounting systems, the challenges in this regard remain significant.

Changes in the accounting treatment of several line items in the financial statements have impacted profits. Assessment of Minimum Alternate Tax (MAT) liability and accounting for subsidiaries has also been affected.

Appreciating this transition, the speakers felt it was a huge step forward and was done in a transparent way. Though, it aims to overhaul the entire insolvency and bankruptcy framework and is expected to help both the corporates and lenders in achieving speedy resolution to the mounting non-performing asset problem plaguing the Indian economy but, as of now both the bankers and the government are still not very well versed with International Financial Reporting Standards (IFRS).

For large listed companies, the release of their first annual financial results under Indian Accounting Standards (Ind AS) was the culmination of a long transition that began several quarters ago and has had several ups and downs, both in the journey itself and in the numbers reported by companies. The March 2017 annual results were particularly significant since it was the first time that all these companies published their consolidated financial results

There is a need for greater participation in the standard processes related to the new accounting norms, in order to bring further transparency. While, RBI is training people on IFRS, there were discussions on how the CFOs can make a difference by playing a key role in driving IFRS. They may address both the bankers and the government who are not fully prepared to deal with the change.

While addressing these questions, the speakers touched on IBC and how its implementation has brought changes in the Companies Act and SEBI regulations. Nonetheless, there are still some issues which need to be thought through like financial reporting etc. Issues related to sector regulations such as tax issues will also need to be addressed under IBC.

(L-R): **Ramesh Swaminathan**, CFO & Executive Director, Lupin Ltd; **S Santhanakrishnan**, Founder Partner, PKF Sridhar & Santhanam LLP; **S Mahalingam**, Co-Chairman, CFO Retreat, Former CFO, TCS; **Seshagiri Rao M.V.S**, Joint Managing Director & Group CFO, JSW Steel, Member, The CFO Board; **Saurabh Mukherjea**, CFO and Whole-time Director, Ambit Capital; **Sai Venkateshwaran**, Partner, KPMG in India

CFOs in corporate India can make a difference by playing a key role in driving IFRS. ”

Though, regulations have evolved over a period of time and are generally well accepted and understood by all the stakeholders concerned however, the introduction of IBC poses a fresh challenge for the regulators to keep regulations contextual and relevant.

There is no denying that clarity has emerged on how IBC impacts their MAT liability, yet, some issues on MAT would still need to be ironed out. A few companies have also changed their first time adoption choices in the last quarter, as clarity emerged on how it impacts their MAT liability. More clarity will emerge as companies publish their annual reports, wherein many more disclosures will be required, which will give the investors a better understanding of the transition to Ind-AS.

The panelists were unanimous in their view that CFOs will need to thread the business issues thoroughly with accounting and tax aspects in the future. ■

GST AND BUSINESS MODELS

This session discussed the post GST era and how its implementation was impacting and transforming India's tax regime, resulting in the system becoming more transparent and efficient. The GST rollout has undoubtedly renewed the hope of India's fiscal reform program regaining momentum and widening the tax net within the economy as well as improving compliance significantly.

The immediate aftermath of the introduction of GST was to do away with the multiple entry points/ check posts amongst various states which met with a positive impact undoubtedly. The implementation of the e-way bill is expected to further ease the issue of logistics, going forward. There have been issues which need to be clarified to gain a better understanding with regards to what GST for a business typically implies. It would require a complete overhaul in the existing way of doing business – with firms of all sizes having to register on a single portal and adapting to the mechanism of filing regular returns.

Firms are no longer constrained by the tax benefits confined to a particular state because of tax benefits available there. The GST system has brought in more clarity and transparency. It has created a uniform market for firms in India by removing state barriers and allows for greater movement of goods and services, without the impediment of differential state tariffs and taxes.

The other change in the GST era is the need for registration across states which is again a nod to the federal structure- the states were very concerned about the revenue implications. After much deliberation between states, the current mechanism allows for a revenue sharing model with equitable distribution of revenue and states being compensated for any potential loss of revenue. It is a change from the pre-GST era, where central excise and service tax had a pan India registration whereas, post GST registration is to be done in the state where the business is being conducted.

There is no denying the fact that the costs of compliance for businesses have increased for now but it is expected that with the passage of time, as the state and the central governments become comfortable with each other and the revenue positions look up coming to the levels which are acceptable to the states, this would need a revisit. The concept of single registration across the country would eventually come into play. The long term intention of the GST is to decrease the burden of compliance both in terms of cost and effort – efforts in this regard are currently underway and the Group of Ministers (GoM) continue to deliberate at regular intervals towards further simplifying the procedure for compliance, particularly for MSMEs

Issues related to real estate, petroleum and electricity were debated. It was discussed that for the time being real estate would be treated like any other service. Any sale of land would be treated as a supply of goods and GST payable on that would be available

down the chain which may not impact the overall cost. The panel was of the view that definite answers would only emerge in the post Implementation phase.

The audience was keen to understand the various challenges with regards to Input tax credit (ITC). Under the GST regime, ITC could be claimed by every registered taxable person on all inputs used or intended to be used (whether goods or services) in the course of doing business. The entire GST was predicated on free flow of credit. In the Pre GST era, the taxes paid on central excise and service tax were not available for offsetting the liabilities under VAT and vice-versa.
So the primary aim was to do away with these.

While discussing the revenue considerations, they suggested that there should be a reduction in complexity and in the scope for litigation because as of now the ITC regulations involves a lot of scope for increased litigations. Some of the avenues for litigation include a complex set of anti-profiteering rules for claiming ITC, which need further clarity in order to avoid an increase in litigation. ■

1. (L-R) **Najib Shah**, Former Chairman, CBEC; **Neeta Revankar**, CFO, Sasken Technologies, Member, The CFO Board; **Sachin Menon**, Partner, KPMG in India; **Anil Parashar**, President and CEO, Interglobe Technology Quotient, Member, The CFO Board

The complex set of anti-profiteering rules need further clarity to avoid litigation.

MANAGING GLOBAL UNCERTAINTIES

This session deliberated on how to manage global uncertainties. Panelists felt that disruptions have become a norm. They discussed geo-political issues across the world which have an impact on India. They were of the view that India cannot be viewed in isolation any more since it's an integrated economy. And, also the fact that India is well positioned to thrive not only in the new global economy but also in the evolving global geo-political order.

The discussions revolved around some of the geo-political risks that companies have to face and how changing political dynamics could impact major business decisions. They discussed the profound transformation taking place in the broader geo-political landscape and how it's fundamentally redrawing the maps of global trade and global financial architecture resulting in much more fragmentation and complexity which is ultimately driving up costs.

Discussing the scope of CFOs in the current evolving global business landscape, they were unanimous in their view that in today's digital age, CFOs will have to look beyond their traditional roles to become a strategist, an innovation and change leader, a proactive decision maker, utilizing technology to understand the larger picture. It is imperative for them to identify areas for growth and operational excellence across all business functions.

CFOs of today need to be dynamic in their leadership so as to not only set the pace, but also lead the race in this era of rapid digital, economic and political disruption.

Since they are an integral cog in the corporate leadership of an enterprise, CFOs must be cognizant of the global cycle of risks and threats which has a significant impact on the functioning of an enterprise and seek to keep their enterprise ahead of the curve, in an increasingly volatile geopolitical environment. ■

1. **Shantanu Ghosh,** SVP & Business leader, Genpact, Member, The CFO Board
2. (L-R): **Alexander Kazan**, Lead emerging Markets Strategist and Head of Research, Eurasia Group; **Rohitesh Dhawan**, Director, KPMG International; **Arun M Kumar**, Chairman & CEO, KPMG in India; **Dr. Ajit Ranade**, Group Executive President & Chief Economist, Aditya Birla Group

CFOs of today not only set the pace, but also lead the race in this era of rapid digital, economic and political disruption.


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FINANCE 2020: ARE YOU DIGITALLY READY?

The session commenced with interesting insights on digital disruption which has been identified as one of the key trends of the 21st century and how it is disrupting the way we live and work. Artificial intelligence (AI), cloud computing, data analytics (DA) and other such disruptive technologies are transforming the traditional finance functions.

Financial Technology or Fintech has emerged as a key trend. The advances in computing, automation and communication technologies have directly led to technology taking centre stage in payments, trading, clearing, and regulatory compliance. Other emerging concepts such as Blockchain and cryptocurrencies, too could have a significant impact on the way traditional financial functions are carried out by firms.

In a world that is increasingly driven by disruption and technology, the expectation from CFOs has undergone a significant change. They are expected to make proactive and agile decisions leveraging technology to help drive their organisation's growth. In the current business landscape, they are expected to be strategic partners to the CEO helping to make well informed and smart business decisions. CFOs must make critical decisions related to implementation of new age technology concepts within the financial domain, with the long term intention of improving transparency as well as process efficiency across functions.

The discussions revolved around data analytics, AI and cloud computing and how the new age CFOs can use these to make decisions faster, strategically, with more agility and innovation.

AI to accelerate the pace of innovation

A CFO can play a crucial role in contributing to the company's growth by providing his insights on new customer acquisition, retention, customer development and predictive customer behavior models based on AI. The real value of this technology is in enabling CFOs to analyse data in more meaningful ways. The solutions are architected to capture more than traditional accounting transactions. They capture a broad set of financial and non-financial data and present insights via modern real-time dashboards. These dashboards may have KPIs, charts, reports, lists and even social feeds for analyzing the most important metrics for an organisation's success.

Data analytics

The sheer volume of data available is increasing exponentially in today's digital age. The CFOs are expected to derive insights from the data available into something of value. These real-time insights will help in more efficient decision-making and strengthening involvement in strategic investment choices and business partnering. CFOs can become more entrenched with data by relying on analytics to create

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market differentiation and to identify new revenue streams.

Cloud computing

Adopting cloud computing can help clients enhance the efficiency of their work processes and make it possible for clients to respond to and counter issues swiftly, resulting in increased customer satisfaction.

The session concluded with a reflection on how forward-thinking CFOs can transform the role of finance and add more value to their business. The key would be to develop a comprehensive strategy that ensures digital tools deliver the most impact and value. ■

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1. **(L-R): Shantanu Ghosh**, SVP & Business Leader, Genpact, Member, The CFO Board; **Ajay Kumar**, Senior Director, Sales Consulting, Oracle; **Giri Giridhar**, CFO, Indian Hotels Company, Member, The CFO Board; **Mohit Bhatia**, Vice President, Mondelez International, Member, The CFO Board; **Sugata Sircar**, CFO, Schneider Electric, Member, The CFO Board; **Samiron Ghoshal**, Former Partner, KPMG in India
2. **S Mahalingam**, Co-Chairman, CFO Retreat, Former CFO, TCS

In a world that is increasingly driven by disruption and technology, CFOs are expected to make proactive and agile decisions leveraging technology to help drive their organisation's growth. ”

UNLEASHING GROWTH


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This session had the panelists discussing policy changes undertaken by the government and how it is now going beyond 'ease of doing business' to focus on improving 'ease of living' for the common man. Some of the reforms in this domain include those aimed at plugging leakages in welfare schemes, providing services such as broadband to the remotest corners of the country, revamping the healthcare system and aiming to make India Open Defecation Free (ODF) under the Swach Bharat mission.

Welcoming the Insolvency and Bankruptcy code (IBC) which was a part of the churning exercise undertaken by the government to clean up the banks. The forward outlook was appreciated for the changes initiated by the government though things are still work in progress on that front.

The panelists deliberated on the need to formalise labour laws. But, were of the view that the government would need to make structural policies aimed to encourage formalisation rather than discourage informal activity. The government may need to exercise caution while implementing tax on the informal sector as regulating or imposing any additional costs on informal firms could drive them out of business and add to existing poverty and unemployment woes.

To this end it would be fruitful to implement policies with an aim to ensure workers welfare, provide them with job opportunities, reduce unhealthy competition between formal and informal sector arising from tax or regulatory arbitrage and expand tax revenues that can support social safety nets.

There were discussions regarding the problem of bad debt which has for long plagued the Indian banking system. The issue of bad loans and stressed assets has made potential overseas investors wary about investing in India. The government may need to tackle due diligence undertaken by banks to avoid repeat defaulters getting access to new loans.

The government has earmarked 40 per cent of all loans for priority sectors such as agriculture, manufacturing and small businesses, but this is not the case on ground. Talking about the future of Micro, Small & Medium Enterprises (MSMEs), they were of the view that it would be imperative to adopt infrastructure and risk mitigating techniques which would ensure that lending to MSMEs bears the right results.

Credit lending to MSMEs has been hampered in the recent past owing to the growing menace of NPA's in public sector banks of India. The rising NPA's have curtailed the ability of the banking sector to provide a free flow of credit. This is particularly prominent for MSMEs as their ability to furnish adequate collateral is limited.

If India is to sustain its onward march of 7-8 per cent of annual economic growth, the 50 million strong SME sector will need greater support.

Better credit availability for MSMEs would promote growth and job creation for which an efficient banking system needs to be in place.

If India is to sustain its onward march of 7-8 per cent of annual economic growth, the 50 million strong SME sector will have a crucial role to play. However, in their quest for growth, SMEs find timely access to capital a constraint which would need to be addressed to drive India's growth story.

The need to find a fix for greater capital flows for the SME segment was appreciated by the audience. RBI intervention will be needed to enhance the capital inflows which today is a national policy imperative. ■

1. (L-R) **Manish Aggarwal**, Partner, KPMG in India; **Nitin Atroley**, Partner, KPMG in India; **Sanjeev Sanyal**, Principal Economic Advisor, Ministry of Finance; **Amit Chandra**, Managing Director, Bain Capital Advisors; **BV Krishnan**, CEO, KKR
2. **Dr. Ajit Ranade**, Group Executive President & Chief Economist, Aditya Birla Group

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LEADING IN TIMES OF CHANGE

This session had a discussion on the evolving business landscape. Disruption, digital transformation and demographic shifts are some of the factors that are altering the landscape in which most CFOs operate today. Business leaders shared their views on the evolving role of a CFO and how their role which was at one time restricted to managing accounting, capital expenditure and cost control has changed.

The role of a CFO has evolved significantly over the past decade. While previously their role was limited to managing accounting, working capital, inventory, capital expenditure and cost control, however they are now being called upon to act as strategic partners to Chief Executive Officers (CEOs) and work towards sustainable financial growth.

There is no denying the fact that CFOs are the custodians of best business practices and controls. But, in the current business landscape they need to troubleshoot and manage the risks inherent in corporate strategies which means they now need to discuss business models and not just financial statements, and support their views with specific value indicators. This involves adopting a more pro-active stance towards future strategy, technology adoption as well as tackling challenges arising from domestic and global slowdown.

CFOs have been the backbone of corporate India but to navigate in the current business landscape they will have to serve as effective business partners and strong strategic thinkers. So, the next question is, 'how will they perform this role efficiently?'


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In the current business landscape, CFOs will have to serve as effective business partners and strong strategic thinkers.

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To become better strategic partners in business, they are now spending less time on processing transactions and more time on analysing and advising business function heads. They are creating smarter work patterns with insights that drive performance and help achieve better results while building strong relationships with investors and thought leaders internally and externally.

The new age CFOs are agents of change – they are expected to deliver business results by driving strategy, growth, and operational excellence in their organization. ■

1. **Akhil Bansal,** Deputy CEO, KPMG in India
2. (L-R) **Amit Chandra**, Managing Director, Bain Capital Advisors; **PK Ghose**, Former Advisor to Chairman, Tata Group, Member, The CFO Board; **Seshagiri Rao M.V.S**, Joint Managing Director & Group CFO, JSW Steel, Member, The CFO Board

GLIMPSES OF THE RETREAT


INDIA

THE CFO BOARD

For Feedback and queries, write to The CFO Board at secretariat@cfoboard.com