Understanding the impact of changing geo-politics, regulation and technology for the world of finance.

The CFO Board Retreat, Goa
February 24-26, 2017
Earlier this year, we had a good, memorable outing of the first CFO Board Retreat. I am happy to present to you a booklet capturing some of the memories of the event. I am sure, that you found the retreat not only refreshing, but also invigorating through the informative sessions.

The CFO Board is a platform, formed with a view to sharpen the skills of the Chief Financial Officers. It would, from time to time provide opportunities to interact with experts, policy makers and regulators on themes which are relevant to the CFO community.

The CFO Board will continue to deliberate on topics which have a direct or indirect bearing on our function and will work as a vibrant knowledge sharing forum. I would also like to extend my gratitude to The CFO Board members Mr. Manoj Naik, CFO Cigna TTK; Mr. Giri Giridhar, CFO, MSD; Mr. P.K Ghose, Advisor to Chairman, Tata Group; Mr. Sugata Sircar, CFO Schneider Electric; Ms. Neeta Revankar, Director & CFO, Sasken; Mr. Mohit Bhatia, VP Finance, Mondelez International; Mr. Sidharath Kapur, President & CFO, GMR Airports; Mr. S Mahalingam, Former ED & CFO, TCS & Member, The CFO Board; Mr. Anil Parashar, President & CEO, Interglobe Technology Quotient; for participating in the retreat. I would also like to thank KPMG in India and 9.9 Media for their support to make this retreat a great success.

I look forward to your continued participation and contribution to the forum.
Chief Financial Officers (CFOs) have been the backbone of corporate India for decades. CFOs of Indian corporations have steered the destinies of many companies. When Chief Executive Officers (CEOs) attempted to make the most of emerging opportunities, CFOs helped ensure that funds were ready for expansion. When Boards were exploring global acquisitions, CFOs sought innovative solutions to navigate through the challenges. When policymakers created new models for public partnerships, CFOs again rose to the challenge.

Highly respected, though shy of the limelight, the role and responsibilities of CFOs in India is expanding. India is witnessing changes across the spectrum almost simultaneously. From the Insolvency and Bankruptcy Code 2016 (IBC) to a new tax regime with the implementation of the Goods and Services Tax (GST) on the anvil, the game-changing audit rotation to the rising challenges of funding growth, and from coping with a digitally driven economy to moving towards a completely new idea of a digital financial world, India is looking to move ahead quickly from the realm of intent to that of implementation.

There is little doubt that India’s ability and success in managing this change also lies with its CFOs. With India standing at the cusp of significant change, this is perhaps the most exciting and challenging time to be a CFO and a finance professional.

The CFO Board is a non-profit, knowledge sharing hub for finance professionals. Its members are among the highly accomplished, respected and eminent CFOs in India. While The Board will steer away from lobbying, it will work closely with stakeholders to improve their understanding of the financial ecosystem. The Board is committed to capacity building in corporate India to embrace and build a new financial world.

The CFO Board Retreat 2017 was the first such activity in this direction. We request your support for our initiative, The CFO Board, and in its future endeavours.
1. Delegates, speakers and members
2. Members with The CFO Board Secretariat
3. The CFO Board members
India is witnessing an increased demand for a unified regulator for better regulation and supervision of financial entities. A unified financial regulatory framework for instance in mutual funds and insurance companies is also expected to enhance consumer protection and micro-prudential regulation.

Revival of appetite in private corporate investment is critical for revival of the investment cycle, given the government’s limited fiscal headroom. This session includes the government’s agenda to trigger the investment cycle.

Banking and financial services companies are increasingly adopting automation in many back-end functions which is leading to an economy driven by digital transactions.

<table>
<thead>
<tr>
<th>07 Financial Regulations</th>
<th>09 Reviving the Investment Cycle</th>
<th>11 Digitisation of Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>India is witnessing an increased demand for a unified regulator for better regulation and supervision of financial entities. A unified financial regulatory framework for instance in mutual funds and insurance companies is also expected to enhance consumer protection and micro-prudential regulation.</td>
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<td>Banking and financial services companies are increasingly adopting automation in many back-end functions which is leading to an economy driven by digital transactions.</td>
</tr>
</tbody>
</table>
13 **Evolving policy framework**

A slew of decisions taken by policymakers promises to change the regulatory landscape for CFOs. Prominent among them are the Arbitration and Conciliation (Amendment) Act, 2015 and the IBC.

15 **The digital world**

Peter Gartenberg, GM, Enterprise & Partner Group, Microsoft, shared his views on the changing digital world through an engaging presentation.

16 **A briefing on Union Budget 2017-18**

Girish Vanvari, Partner and Head Tax, KPMG in India, shared insights on Union Budget 2017.

17 **GST impact on corporate India**

National and State governments are working with big and small businesses to ensure a smooth rollout and effective implementation of GST.

19 **Growing Global Turmoil**

Globalisation today is facing its biggest test in decades, while protectionism is on the rise. The Indian Economic Survey and Union Budget 2017 also outline global turmoil as a key challenge for domestic growth.

21 **The evolving role of a CFO**

A conversation between YM Deosthalee, Chairman, L&T Finance Holdings and S Mahalingam, Former ED & CFO, TCS & Member, The CFO Board on how CFOs must prepare for roles as business leaders.
The opening session offered insights on the need for a common regulator in the financial services sector including equities, commodities and insurance services, while excluding banking services.

On a separate note, members of the audience were keen to know the panel’s view on the Indian financial sector in general, with primary focus on public sector banks and their constant accumulation of non-performing assets (NPAs).

While addressing these questions, the discussion revolved around the primary responsibilities of CFOs to allocate capital and create value for stakeholders without digressing from regulatory compliances, both in domestic and global markets. For CFOs to perform efficiently, it is imperative that regulators are organised to frame facilitative policies, adding that globally, and more so in India, there is a need to have dynamic and forward looking regulations.

The panel also highlighted the decline in profitability of corporates (as a share of world GDP, the net profits of corporates declined from 10 per cent between 1985 to 2007 to 7 per cent since 2013) because of global resistance to the
free movement of capital, depreciating currencies and other macroeconomic conditions. The panellists were of the view that new idea-intensive industries are hampering the growth of existing institutions.

It is very crucial to bring about a major transformational change in regulatory bodies to avoid the risk of operational and structural challenges. They also advocated that regulators should focus on behavioural economics and concentrate more on vulnerable institutions.

The panel suggested two pronged approach to strengthen the regulatory framework. The first entails the global unification of the regulatory framework, by line of business. The second approach emphasises on capacity building of all CFOs to enable efficient functioning of institutions.

Since CFOs are the key to corporate governance, they are not only responsible for the maintenance of accounting standards and keeping track of transactions, but to ensure right disclosures and behaviour styles. This will enable seamless coordination between market participants and the regulators.

The session concluded with the view that though the world is moving from global convergence to regional diversity, the core responsibility of a regulator goes beyond pure regulation to develop the market.

"You can’t shoot a randomly moving target with a static gun position and therefore, in the state of fluidity, you have to have dynamic and forward looking regulations."
The next session titled ‘Revival of Investment Cycle’ threw light on various facets including investment-driven growth, demand conditions, government expenditure, credit off-take for small and medium enterprises (SMEs), fund raising via IPOs, improving the ease of doing business scenario and the impact of protectionist policies of western economies. The panellists were of the view that India is gradually moving towards becoming a formalised and structured economy.

Subdued demand conditions in India are pushing the country towards an investment-driven economy, as investors could make the most of the current low interest rate regime, which is expected to change once inflation rises.

There was a consensus amongst panellists that while investments would pick up pace gradually, there is a need to identify new investors keeping in mind the current stressed balance sheets of Indian corporates and banks.

The government’s efforts to increase spending in its focus areas (transport, telecom and infrastructure) were welcomed by the panellists. They agreed that the slow pace of industrialization can be countered through higher
investments by the government. Furthermore, the affordable housing segment, which is drawing increased attention from the government, has emerged as one of the key sectors to generate employment and address the issue.

Reflecting on the constrained growth of SMEs due to slackening industrial growth and a drop in availability of credit from formal banking channels, the panellists were of the view that interest rate transmission and lower tax rates announced in the Union Budget 2017-18 could emerge as the key factors in driving growth for SMEs.

Ease of Doing Business is pivotal to all conversations revolving around reviving the investment cycle. The central government’s efforts were lauded in driving economic reform measures such as the GST and IBC.

The speakers discussed the IPO market – a key segment for domestic investments. It is imperative to have a platform for SMEs to raise money via the debt and equity route.

They talked at length about the need to provide aggregated services to SMEs at affordable costs to facilitate greater participation.

The panellists were unanimous in their views on increasing the inflow of Foreign Direct Investment to the outflows from India stating that this phenomenon would not pose a challenge for inflows into India as other countries would continue to look at India as a favorable investment destination.

The Indian economy which was consumer-driven is moving towards being investment-driven.
The session commenced with a discussion on demonetisation which took place in November 2016 and how it has steered India towards becoming a digital economy. There were discussions on the probable measures the government should undertake to accelerate the adoption of digital technologies.

Looking at it from the Indian perspective – ‘three-fourth of the Indian population comprises of active mobile users’. Also ‘India has the second largest internet user base after the U.S.’ An interesting trend which emerged was that most reforms in India have been primarily driven by compulsion.

“Elaborating on the A 7” matrix model, suggested by one of the panellists said that, “the government has pro-actively increased adoption of digital technologies.”

The 7” matrix includes

i. building ‘inspiration’ to curb cash transactions;
ii. building ‘infrastructure’ to enable cost savings and convenience through measures like eKYC;

DIGITISATION OF FINANCE

Banking and financial services companies are increasingly adopting automation in many back-end functions which is gradually leading to an economy driven by digital transactions.
iii. encouraging ‘involvement’ of all stakeholders;
iv. fostering ‘innovation’;
v. providing ‘incentives’ to use digital technology;
vi. building an ‘insurance framework’ to combat cyber-security threats; and
vii. disseminating ‘information’ to create awareness on digital finance.

The speaker said that while some progress has been made, a more concerted effort is required from the government. Given the pace of change and technological advancements, planning for and implementing regulation is the need of the hour, which is creating an environment for innovation in the country.

Answering a query on how the start-up ecosystem is disrupting the traditional banking model, the speaker highlighted the impact of FinTech start-ups in India, examples of that have witnessed success in a short time.

While discussing the selection criteria for BPOs, other speakers highlighted that process expertise, domain expertise, technology and digital expertise are key parameters for assessment. To optimise end-to-end financial solutions, they also discussed at length about the importance of adequately investing. They also highlighted how concept selling will spur the adoption of digital solutions.

The session concluded with the CFO’s perspective on digitisation. Digitisation stands on five pillars: Customer, Cost, Compliance, Challenge and Cybersecurity. They shed light on the importance of a digital strategy for an organisation. The discussion was centred around importance of ‘system of engagement’, encompassing a host of new workflow technologies, reconciliation tools and ‘system of record’ which includes traditional systems such as Oracle that add to the efficiency quotient. ■

“Digital strategy can’t be in isolation and should be addressed at as an integral part, starting with customer and ending with customer, covering every function of the organisation.”
EVOLVING POLICY FRAMEWORK

A slew of decisions taken by policymakers promise to change the regulatory landscape for CFOs. Prominent among them are the Arbitration and Conciliation (Amendment) Act, 2015 and the IBC.

The panel deliberated on the evolving policy framework to improve the ease of doing business (EODB) in India, on the recent amendments in policies towards the ease of exiting a business, availing finance and efficient arbitration.

Welcoming the Insolvency and Bankruptcy Code, 2016 (IBC) they talked at length about the new framework, which allows insolvency professionals to control assets rather than debtors. Under this framework, the creditors’ committee is mandated to approve all actions with regards to the assets.

The panel collectively appreciated the objectivity of the new framework which comprises of checks and balances, for both borrowers and lenders.

The panel discussed the scope of judicial review which is still very narrow, with lawyers and judges still in the learning phase. The dearth of trained insolvency professionals also poses a challenge and more efforts would be required to draw institutional support for banks.

On the need for alternate financing, the speakers stressed that mid-market companies have limited access to

1. Ramesh Subramanyam, CFO, Tata Power (in foreground)
2. (L-R) HR Khan, Former Deputy Governor RBI; L Viswanathan, Senior Partner, Cyril Amarchand Mangaldas; B V Krishnan, Partner, KKR; Giri Giridhar, CFO, MSD & Member, The CFO Board
organised credit sources. According to a survey by International Finance Corporation (IFC), there is a gap of over INR2.93 lakh crore in excess to debt and about INR64,000 crore in excess to equity for micro, small and medium enterprises (MSMEs). The panel suggested that mid-market companies could move towards alternate sources of financing rather than relying on the availability of credit from banks. This would help them manage the asset-liability mismatch and support their businesses better. To this end, it was suggested that regulations should be strengthened to push alternate credit sources, such as peer-to-peer (P2P) lending.

The session concluded with a discussion on favourable changes made to the arbitration process in India, which is likely to reduce the process time & requirements of intervention where parties are otherwise committed to settle on arbitration. They suggested that it was imperative to create better infrastructure and a separate arbitration bar with full-time arbitrators to improve the arbitration process in India.

According to a survey, there is a gap of over INR2.93 lakh crores in excess to debt and about INR64,000 crore in excess to equity for MSMEs.
Peter Gartenberg shared his thoughts on the next industrial revolution fueled by digital drivers that are transforming a wide range of industries along with the expectations of customers and other stakeholders.

New technologies such as Cloud Computing, Big Data, Internet of Things (IoT), Machine Learning, Artificial Intelligence (AI), etc. are all disruptive tools impacting businesses.

They need to be introduced for innovating and redesigning throughout the organisation—empowering employees, engaging customers, optimising operations and transforming products.

It does away with human intervention and facilitates reading, reviewing and analysing vast amounts of different data, providing insights into how customers feel about a company’s products or services, and why they feel it that way.

Advancements in information and digital technologies have disrupted retail banking and have altered the customer-dealing activities for banks. A wide portfolio of systems for transactions, such as kiosks, online banking and mobile wallets are being introduced across the Indian banking sector and have been well accepted by customers.
There were three conflicts with the budget: Demonetization, What will happen in elections and Fiscal deficit. Yearly in all our businesses, we see 4 risks: The US policies, the GST calibration and demonetization took the growth back by half a percent, Oil prices, and monsoons. With these risks, if you see the maintenance of the fiscal deficit of 3.2%, then the budget looks very balanced. All companies with global operations have to be POEM compliant. GAAR is not deferred and has been launched on 1st April 2017. Tax treaty, Mauritius Treaty, Cyprus Treaty and Singapore Treaty have got amended. People are re-calibrating their investment to see which treaty to give them maximum investment and we are also overserving what will happen to the overall treaty framework vis-a-vis GAAR. Also indirect transfer valuation has been notified, constitutional amendment enabling GST has been passed, and a lot of clarifications have come through CBDT in budget.

Major flagship programmes of budget are financial inclusion, smart cities, skill india, start-up India, Digital India and Make in India. In the budget, there were many big picture reforms like Abolition of FIPB, further liberalization of FDI, Digigaon Initiative and others. The biggest hurdle in the budget is change in section 10 (38) as per which there is a menace of black money where people look at stock markets to convert their black money to white money in order to curb this, government changed the 10(38) section as per which you have to purchase the share in stock market.

In the overall scenario, if demonitisation is completed now and if GST comes in, Indian economy will move towards white economy and if all calibrations are done, the growth will go up by 2% and the economy will be all white by 2018-19. The overall budget was a fine balancing act.
The panel unanimously welcomed the introduction of the GST, highlighting the role that it is expected to play in breaking down the barriers of multiple taxation and creating a direct contact between manufacturers and the retailers.

They proposed that tax exemption status should be given to SMEs, given its export oriented status and, also because the GST would result in reasonable pricing and additional business opportunities for the sector.

They discussed the self-policing mechanism from electronic reconciliation, which would account for all transactions. This will facilitate in tracking of input and output credit, thus ensuring compliance tracking of input and output credit.

The audience was keen to understand the various challenges expected in the implementation of GST, the impact on costs and the plausible legal hurdles. While the panel was of the view that definite answers to these queries would be dependent on further clarity from the government on the GST, they
shared their views based on the current understanding about its ramifications on businesses.

The challenges that GST is likely to present for the logistics and services sector were highlighted during the discussion. These challenges are expected to arise because earlier the companies were required to file multiple returns separately for every state, prompting a change in current logistics, accounting and tax systems and a shift in entire business strategy. Hence, additional efforts would be required to ensure vendor compliance, which could lead to higher costs for customers in their sectors.

On the legal front, the panellists suggested two primary areas to focus on — better structuring of contracts and systematic due diligence on the anti-profiteering clause. These, along with IT and Enterprise Resource Planning (ERP) changes across functions, would be required for a smooth transition to the GST system.

The discussion concluded with a reference to the varying levels of preparedness for all sectors, which are likely to be tested during the final rollout of the GST, latest by September 2017, if not on 1 July 2017.

"On the legal front, there will be two areas of focus - structuring contracts better and systematic due diligence on the anti-profiteering clause."
This session focused on the global turmoil which was the outcome of several events, such as Brexit and the recent elections in the United States. The speakers were of the view that these events have led to a heightened sense of nationalism and protectionism across the globe.

These signs of anti-incumbency, anti-globalisation and reinforcing of trade barriers are expected to raise anxiety levels for businesses, with direct and indirect exposure, globally. While discussing the challenges in the infrastructure sector, they shed light on the initiative that corporates are planning towards investment in global assets while taking into account the global political landscape, regulatory issues and government policies, mandating a thorough impact analysis.

There was complete unanimity with regards to the trend of globalisation and integration witnessed in the past decade, which cannot be reversed. The established supply chain networks, technologies and e-commerce systems are expected to keep the world integrated. The panel was of the view that there has been a materialistic increase in the trend of globalisation, undeterred by several ups and downs.
over the last 100 years. The panel highlighted the fact that India and China — being significant beneficiaries of globalisation — are standing at the forefront typified by the rise in the number of bilateral agreements signed by these two countries.

Talking about the future of globalisation, the panel concluded that the trend of globalisation cannot be reversed easily, since supply chains in businesses have been integrated globally. Various economic, political and cultural factors along with technological advancements would drive the long-term move towards globalisation.  

“After more than a decade of globalisation and integration, we are seeing signs of anti-incumbency, anti-globalisation, putting up trade barriers.”
THE EVOLVING ROLE OF A CFO

YM Deosthalee in a candid discussion with S Mahalingam on how CFOs must prepare for roles as future business leaders.

The session began with observations on the evolving role of a CFO in the current business landscape. A CFO’s role goes beyond the realms of traditional finance related matters of the company. The decisions a CFO takes, as part of the leadership team to guide the organisation, equips them with greater responsibilities going forward.

While discussing the importance of an organisation in a professional’s career, it was suggested that the hallmark of a professional organisation is merit based recognition. The panel also noted that in some organisations, culture limits a CFO’s involvement in decision-making, which in turn impacts the company’s performance.

1. L G Moorthy, Senior Vice President-Finance at Olam International Ltd
2. P K Ghose, Advisor to Chairman, Tata Group & Member, The CFO Board
3. (L-R) S Mahalingam, Former ED & CFO, TCS & Member, The CFO Board; YM Deosthalee, Chairman CFO Retreat & Chairman L&T Finance Holdings
First and foremost, he should proactively seize opportunities to develop business relationships both inside and outside the organisation leveraging his sharp business acumen, and also for him to grow professionally, it is imperative to develop a thorough understanding of the businesses by handling different functions, as superficial knowledge alone would not suffice to be successful at the next level.

The session concluded with a reflection on the core qualities a CFO must possess. He must understand that people are integral to any organization and handling their role with maturity prepares CFOs for their next role as CEOs.

The role of a CFO has diversified into an architect of business value. As a CFO, you have to move towards driving business growth and managing complexities while controlling costs.
GLIMPSES OF THE RETREAT
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For Feedback and queries, write to The CFO Board at secretariat@cfoboard.com

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