



Insights from the CFO Survey

Automotive Sector

15 April 2022

Automotive Sector
KPMG in Japan



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Survey Responses



Executive Summary

Based on the theme of sustainability transformation (SX), CFOs responded to a total of 29 questions for the CFO Survey 2021.

The results of the survey have now been analyzed and are summarized in this report for 18 participating companies from the automotive sector.

01



Business Strategy

Defining a specific approach to addressing the shift to electrification is an urgent task for the automotive industry

02



Investment Strategy

Wise investment decisions are key in responding to the increasing uncertainties and complexities associated with new technologies

03



Risk Management

Risk management systems linked to SX issues such as decarbonization and environmental responses need to be developed or strengthened

04



Tax

Continuous monitoring of the impacts of relevant tax policies introduced in the future, including carbon border adjustments

05



Comprehensive Reporting Including Non-financial Information

SX initiatives and timely information disclosure are key management issues that affect business continuity

06



Accounting and Finance

DX utilization by accounting and finance departments, and organizational business collaboration, are essential elements for SX promotion



01 Business Strategy



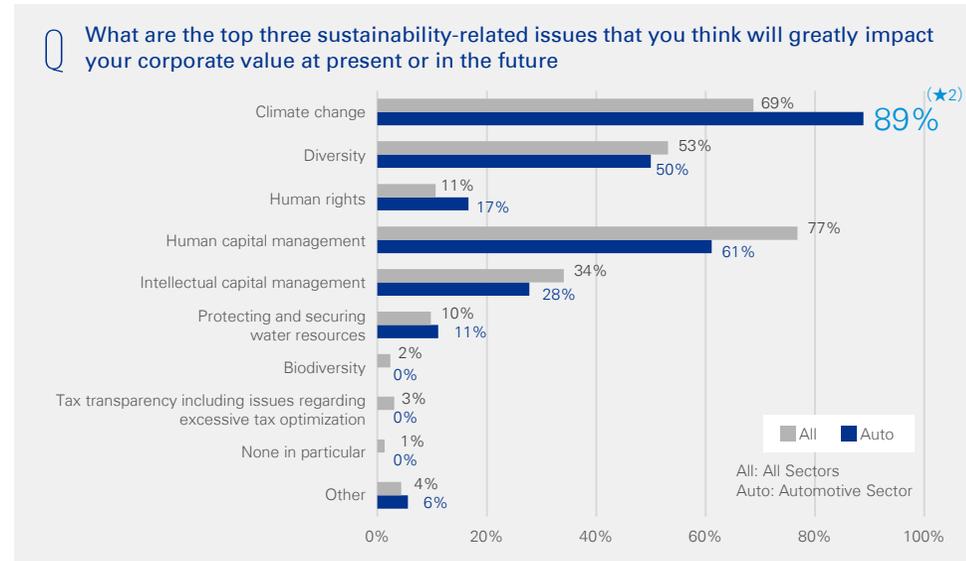
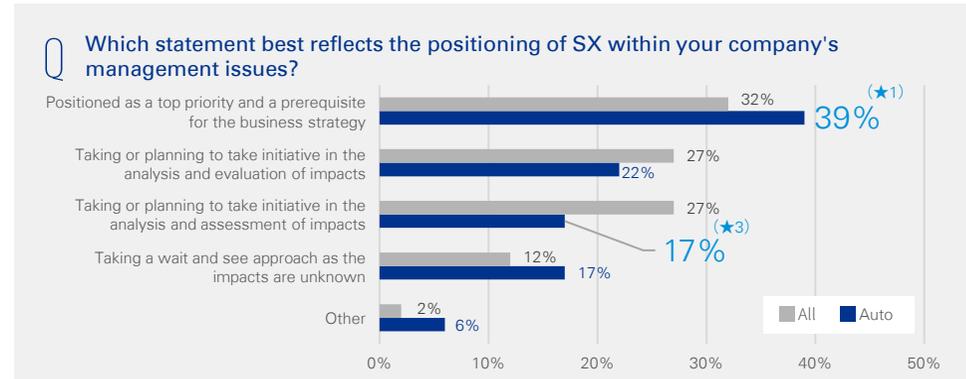
The survey clearly indicates that SX is a top-priority management concern (★1), and that there is a growing awareness of the impacts of climate change and environmental issues on corporate value at present or in the future (★2), in the automotive sector. This trend is consistent with successive recent announcements by automotive manufacturers of their shift to electrification with a focus on EV, in a move toward a decarbonized society.



On the other hand, there seems to be a low level of awareness regarding analysis and evaluation of sustainability impacts (★3), despite positioning SX as a top priority. This may be a reflection of the fact that while Japanese automobile manufacturers have plans for a shift to electrification, concrete strategies will only gradually develop.



The automotive industry is built upon a vast vertically integrated supply chain model; a transformation of the business model will disrupt the entire supply chain, and will be an immense undertaking. It is therefore understandable that companies appear to be taking a wait-and-see approach although they have a sense of urgency regarding a shift to electrification. However, a major change of business model such as a horizontal integration one of labor will have an enormous impact on the supply chain, both upstream and downstream. Agreement on the direction for the entire industry is therefore urgent.





02 Investment Strategy



The survey results in response to investment strategy show **a trend of increasing environmental investments in the future (★1)**, indicating a shift to electrification in line with a growing awareness of climate change and environmental issues as sustainability issues in the automotive sector.



We also saw in CFO responses **a characteristic of strengthening future investments in DX and R&D (★2)**. Our analysis is that this result reflects the automotive industry's investment plans for developing new technologies and building digital platforms to effectively promote such technologies, and for the strategic use of data, as the industry faces an urgent need to address the shift to CASE, including electrification.

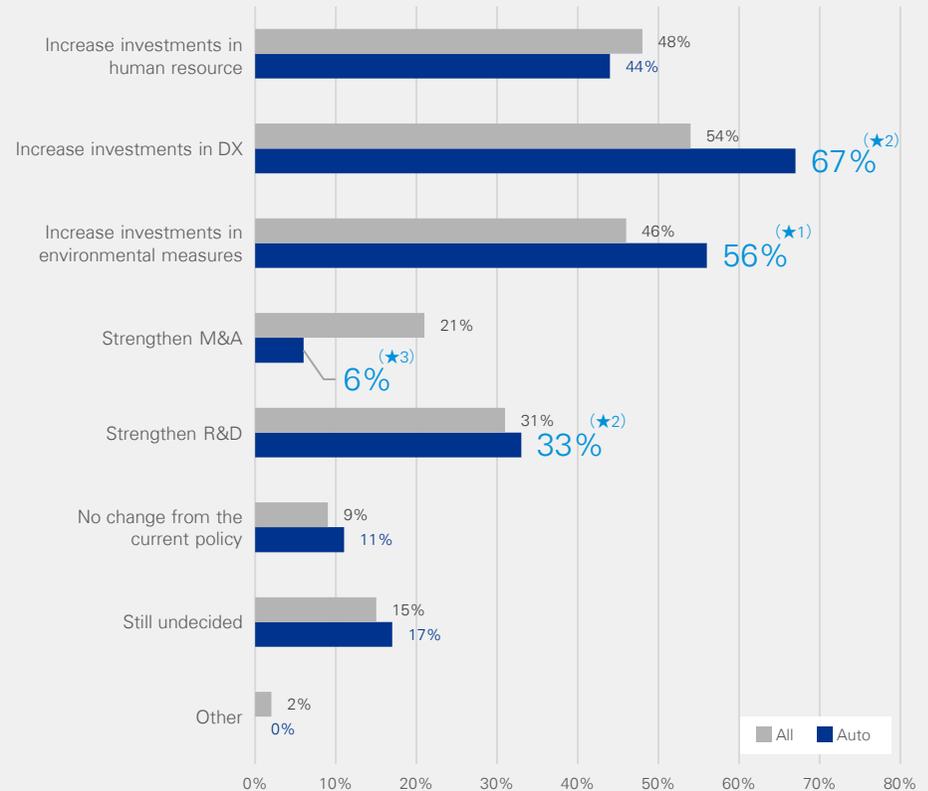


In contrast, we saw **a relative decline in M&A investments (★3)**. While M&A undeniably remains a key strategy for survival in what is said to be a once-in-a-century industry revolution, this result suggests a major turning point, where environmental investments toward achieving decarbonization have become a higher priority.



Investments in R&D on an unprecedented scale are expected to be made throughout the supply chain in the automotive industry. However, not all investments will necessarily be profitable given the high degree of uncertainty and complexity of new technologies. Now more than ever, companies in the automotive sector need to make wise investment decisions based on a careful assessment of their situation.

Q How will you change your investment strategy in promoting SX?
Please select up to three answers.





03 Risk Management



Sustainability-related risks that are of particular concern in relation to operations in the automotive sector include an increase in disasters due to climate change, delays in decarbonization efforts, and environmental pollution, with higher percentages than in other sectors (★1). This is consistent with the results of the above-mentioned analysis, and there is a common understanding that these risks need to be addressed by the entire industry.

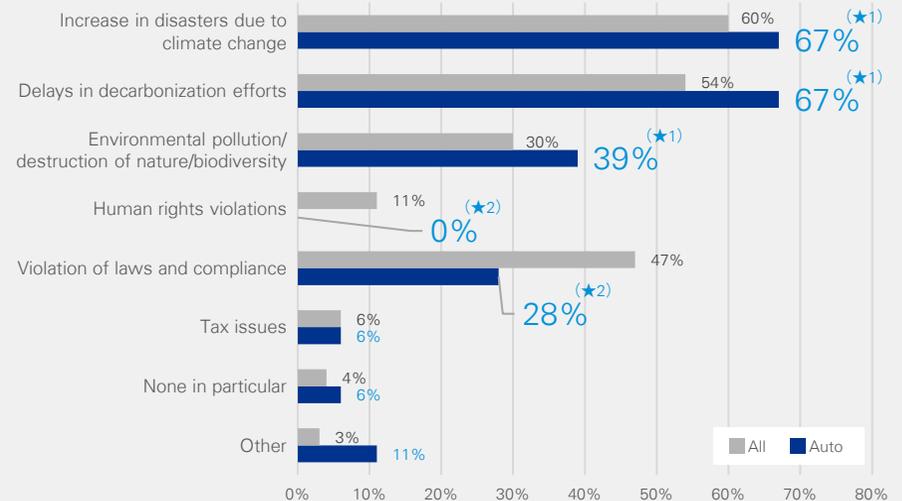


On the other hand, the results for human rights violations and violation of laws and compliance were relatively low compared to other sectors (★2). This does not necessarily mean that these risks have been reduced, but rather that climate change and environmental issues have been recognized as higher priority sustainability-related risks.

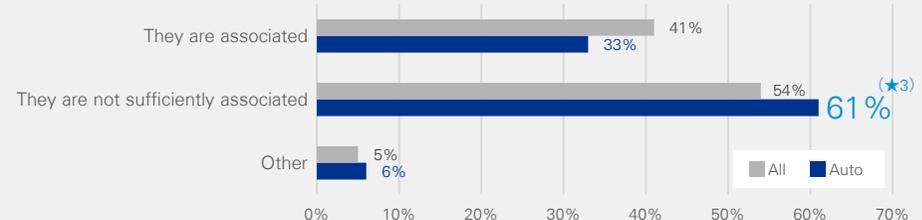


While SX is recognized as a key management issue in the automotive sector, a trend can also be seen in which sustainability is not always sufficiently associated with risk management activities (★3). A contributing factor to this may be that decarbonization and environmental initiatives have progressed at a faster pace than companies expected and can keep up with, and they have yet to clarify the departments responsible for sustainability-related risks, establish a global management system, and integrate their sustainability promotion departments and risk management departments. Establishing or strengthening an internal risk management system with a sense of urgency is crucial given its impact on important investment plans.

Q What are the top three sustainability risks that are of particular concern in relation to your business operations?



Q Are the risk management activities of your company designed and executed in association with material sustainability issues?





04 Tax



When asked about the status of considerations of tax-related measures and impacts in promoting SX, the percentage of CFOs in the automotive sector who responded “no considerations made or expected to be made in particular” was relatively low (★1). This suggests that the industry’s level of interest is high, with some type of consideration already underway.



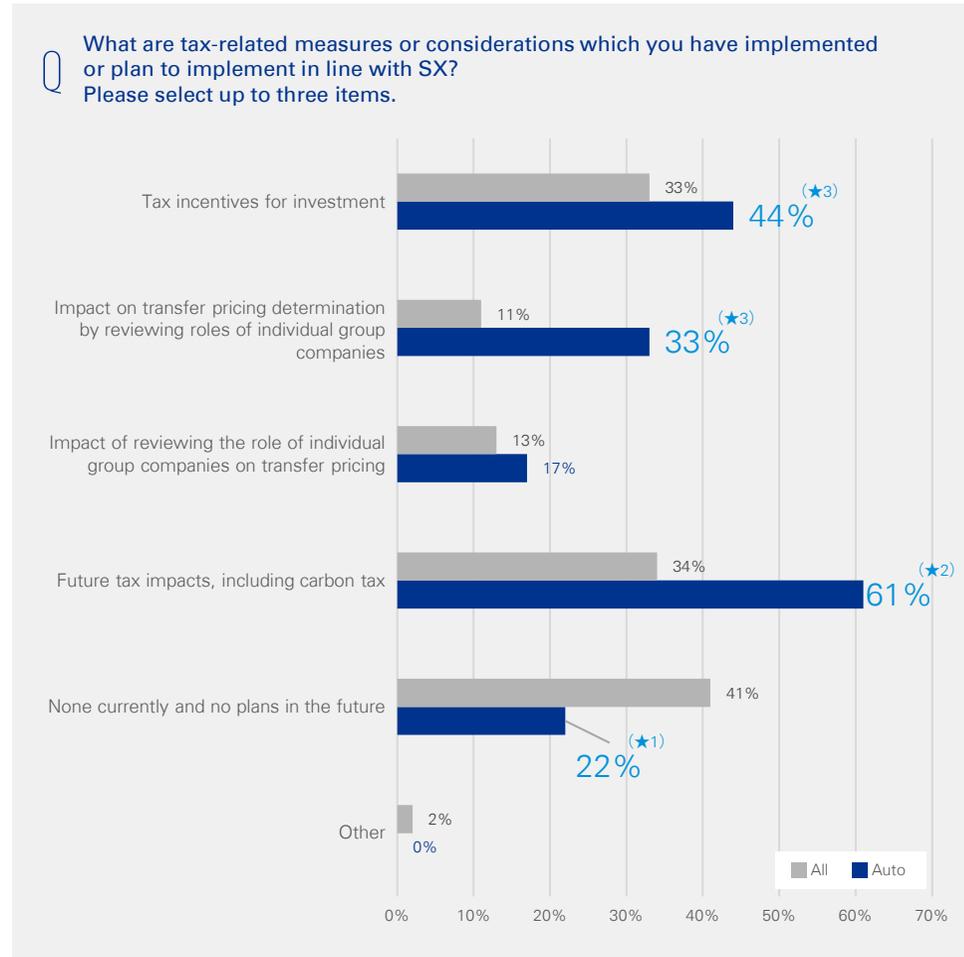
The consideration of future tax impacts, such as carbon tax, indicates a particularly high percentage (★2), which is consistent with an industry-wide move toward the much-discussed decarbonization, and implementation of environmental measures, in recent years. In this regard, one of the issues will be the future implementation of the carbon border adjustment mechanism proposed by the EU.



Measures to provide tax incentives for investment, and the impact of reconsideration of the supply chain from the viewpoint of transfer pricing, custom duty and indirect taxes, also show relatively high percentages (★3). As previously mentioned, given that the industry will need to invest heavily in environmental measures and new technologies in the future, it is natural for companies to consider taking advantage of tax incentives for investment. Since a reconsideration of the supply chain is an important topic in the industry revolution, companies will likely simulate tax impacts arising from this reconsideration.



While the survey results imply that the automotive sector is ahead in terms of tax impact considerations, it remains to be seen how relevant tax systems will be developed in the future.





05

Comprehensive Reporting Including Non-financial Information



Addressing sustainability, including carbon neutrality, is a pressing issue in the automotive sector, and the survey results indicate a growing awareness of related corporate reporting.



The survey results show that there are a number of challenges; companies are lagging behind in **integrating sustainability issues into the strategy and connecting sustainability-related measures with corporate value creation; proactive discussions regarding sustainability issues at the board of director level are lacking (★1);** and while metrics for monitoring have been established, **there are no standards for integrating them into the reporting (★2).**

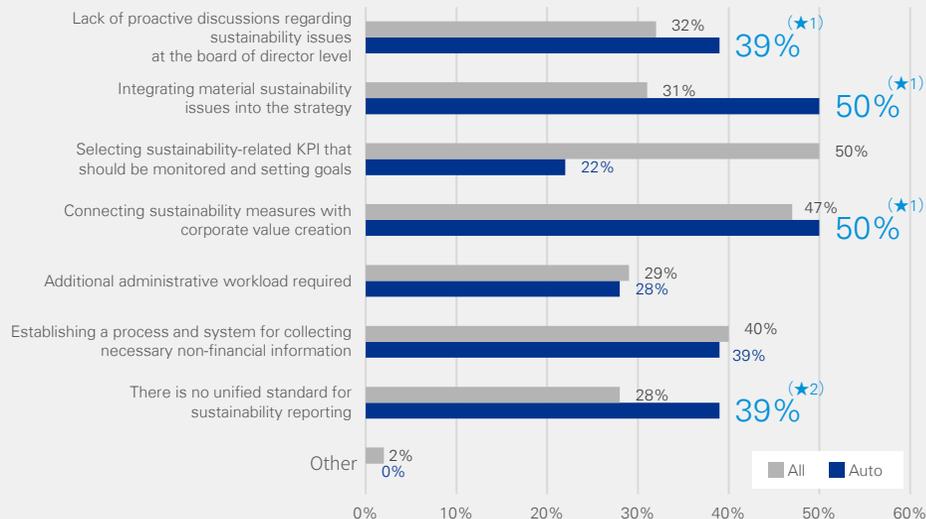


There is also a relatively high awareness of the use of **professional assurance services (★3)** from the viewpoint of improving the reliability of sustainability-related information disclosure. Companies need to place sustainability reporting on the board agenda again, and actively engage in conversations with stakeholders.

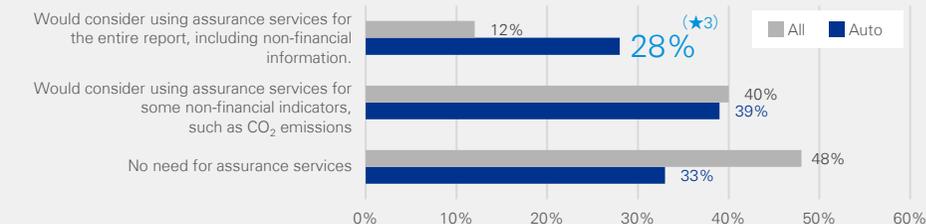


The challenges mentioned above, if not addressed, may affect corporate funding and stock prices, which will have a direct impact on business operations. Companies in the automotive industry need to develop medium-term management plans by backcasting based on a long-term vision, while considering sustainability management initiatives and timely disclosures as major management issues for their business continuity.

Q What are the top three issues in preparing comprehensive reports which interconnect sustainability information with financial information?



Q What are your views on using assurance services from the viewpoint of improving the reliability of sustainability-related information?





06 Accounting and Finance



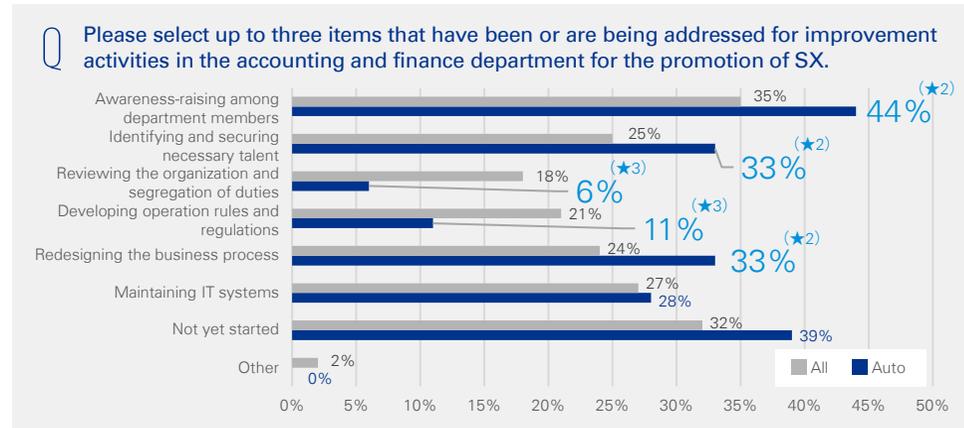
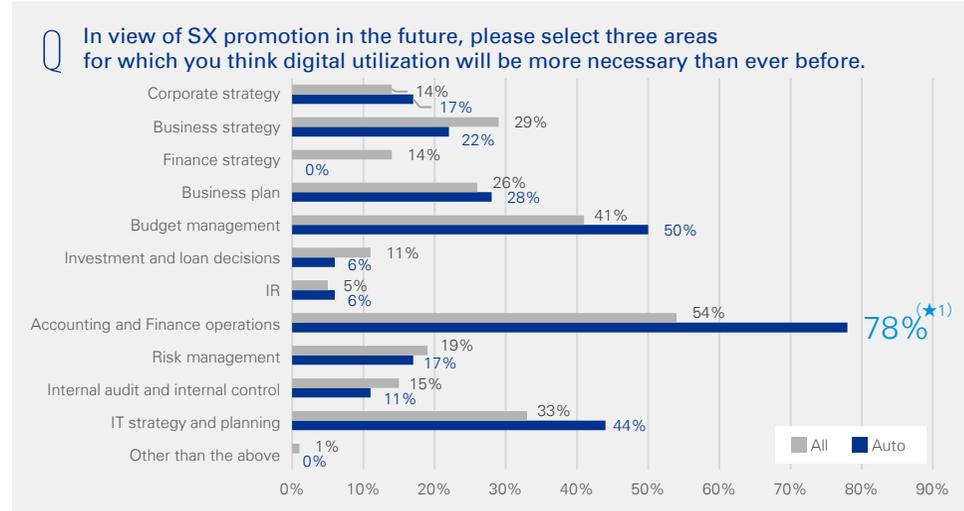
The use of DX is considered to be indispensable in the promotion of sustainability. The survey revealed that in the automotive sector, this was particularly true for accounting and finance operations (★1). This result suggests the need for companies to have the capability to appropriately collect and analyze relevant financial and non-financial data in response to the increasing importance of sustainability disclosures including decarbonization initiatives in the automotive industry.



For sustainability promotion, the results show that the accounting and finance departments have taken a lead in securing necessary talent, raising awareness among department members, and redesigning their business process (★2). Meanwhile, they are lagging behind in the review of their organization and segregation of duties, and maintenance of rules and policies (★3). This may be partly due to the fact that although they have defined the ideal approach to sustainability promotion and reporting, actual operations still rely on skills and capabilities of individual employees.



Amid this once-in-a-century revolution in the automotive industry, accounting and finance departments are expected to make timely and appropriate disclosures of sustainability management initiatives and relevant corporate reports. They will be required to take an organization-wide approach to fulfilling their responsibilities in cooperation with the internal sustainability promotion and risk management departments, while fully utilizing digital tools and data.

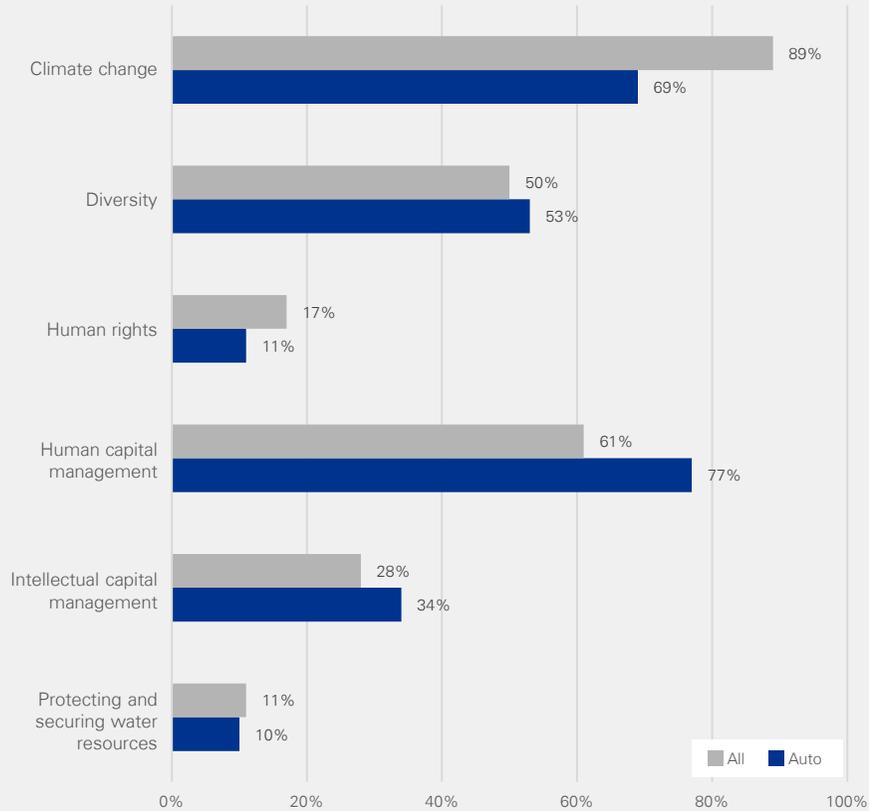




Survey responses

1.Introduction

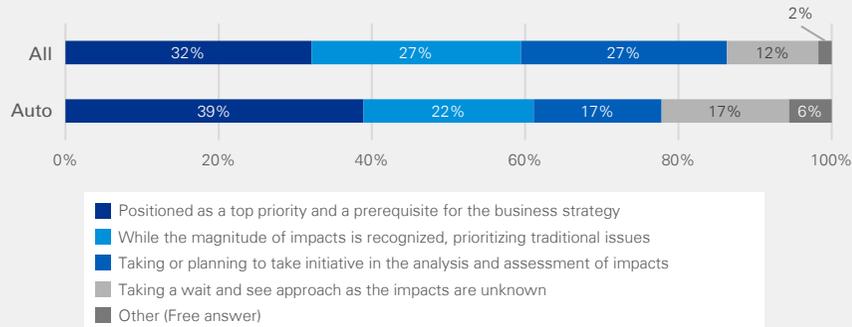
Q What are the top three sustainability-related issues that you think will greatly impact your corporate value at present or in the future?



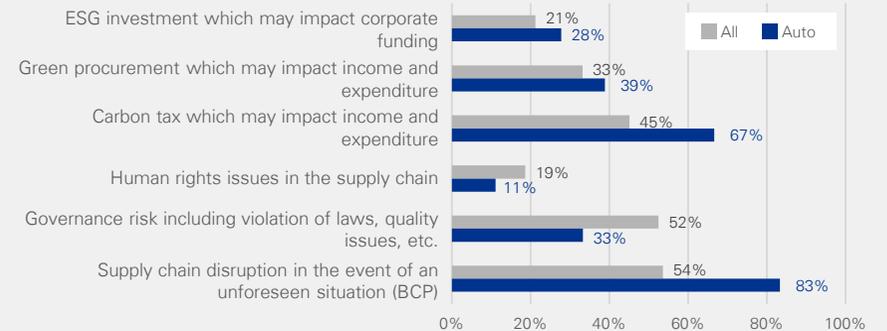
All: All Sectors
Auto: Automotive Sector

2. Business strategy

Which statement best reflects the positioning of SX within your company's management issues?



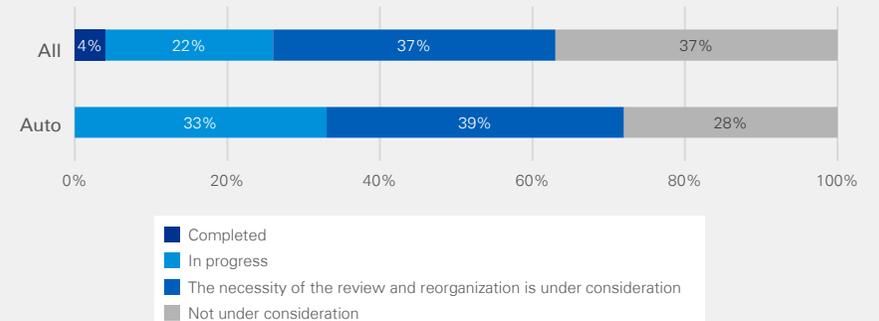
What are the top three concerns which you think will have a major impact on your company's current business strategy?



What is the most critical issue your company faces in promoting SX?

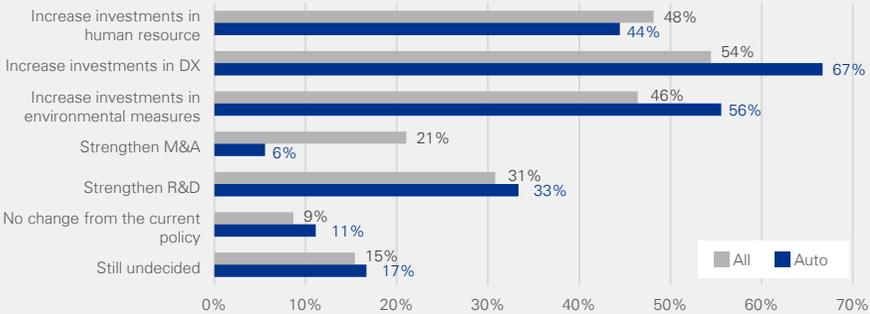


What is the status of the reviewing and reorganizing the business portfolio on the premise of SX?

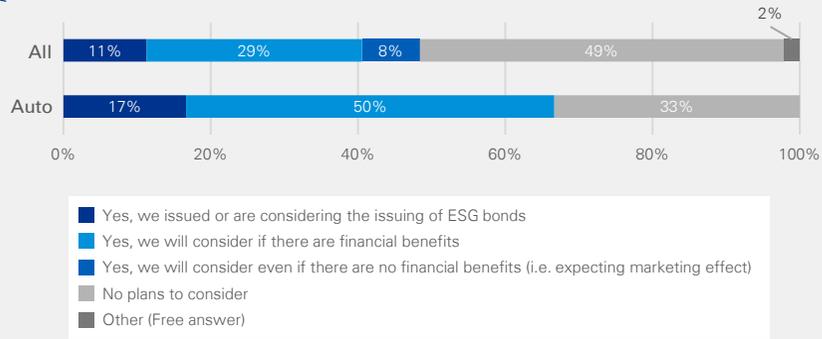


3.Capital policy and corporate funding

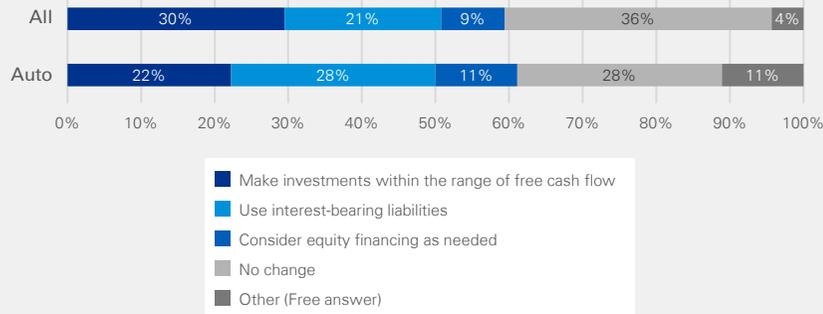
How will you change your investment strategy in promoting SX?
Please select up to three answers.



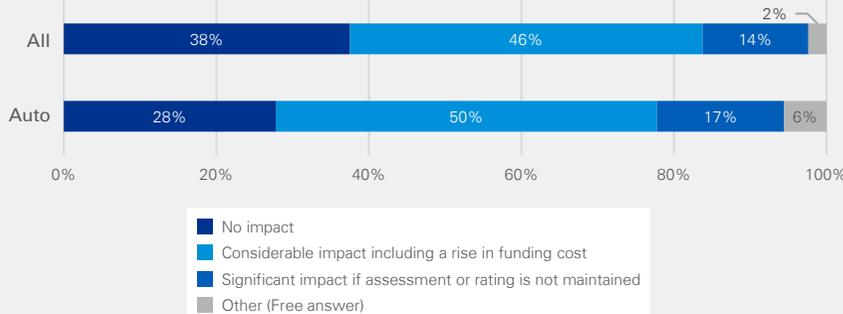
Will you utilize ESG bonds in line with SX?



How will you change your means of corporate funding in line with SX?

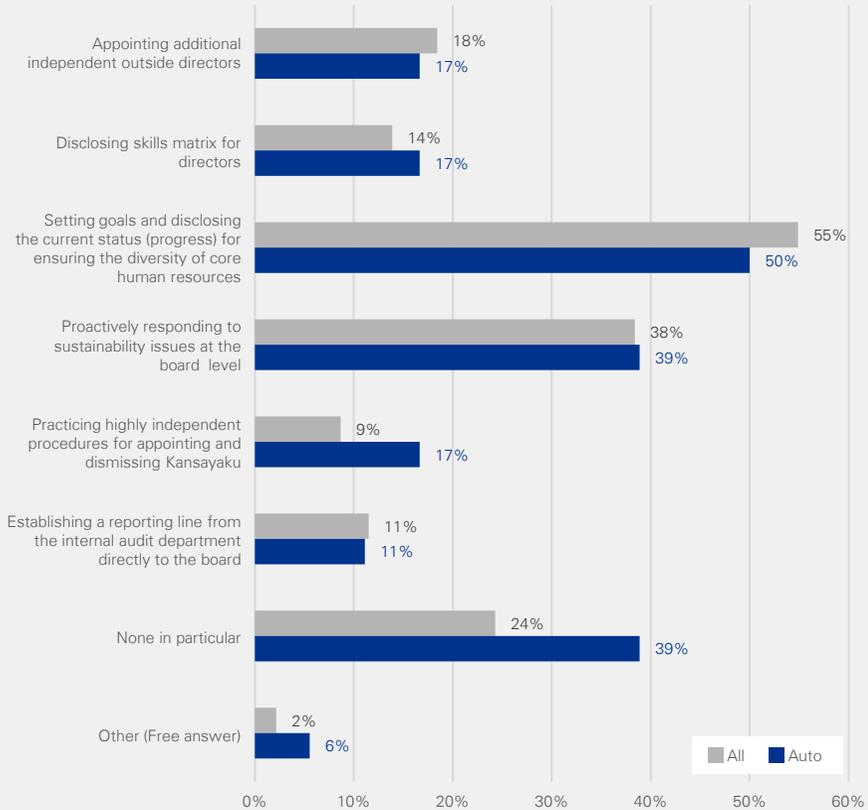


To what extent do you think ESG assessments and ratings will affect corporate funding excluding ESG bonds in the future?

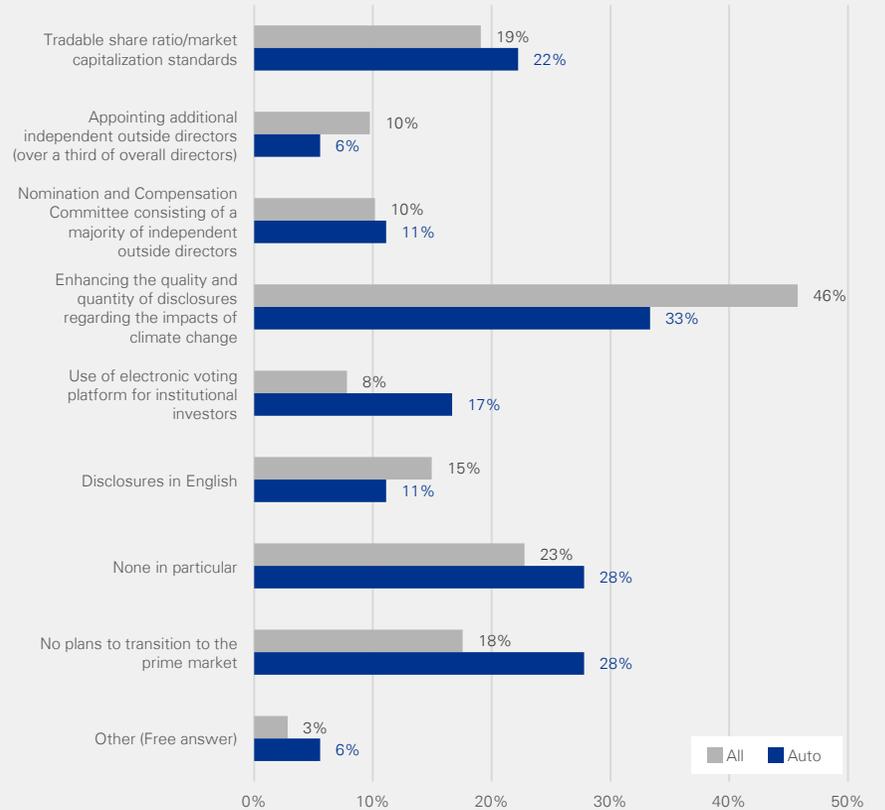


4. Governance

The revised Corporate Governance Code published in June 2021 incorporated some SX related matters in its principles. What are the top three items additionally incorporated in this revision which you feel are challenging to address?

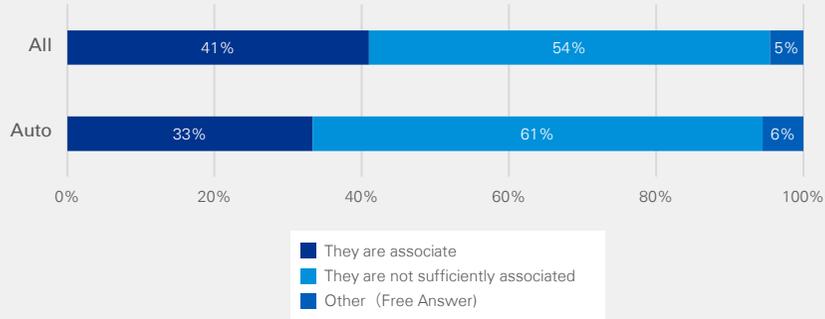


What are the top three criteria which you expect to be challenging when transitioning to the prime market?

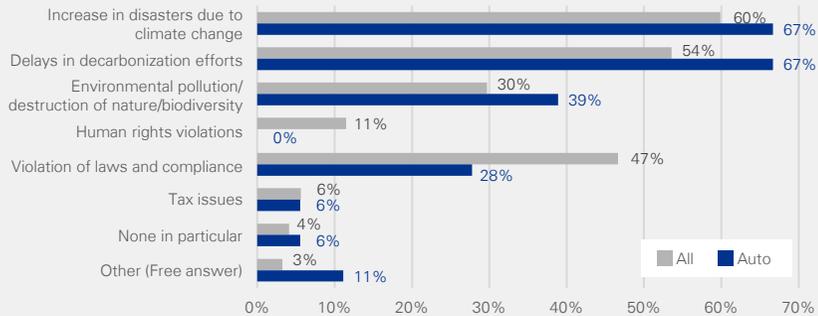


5.Risk management

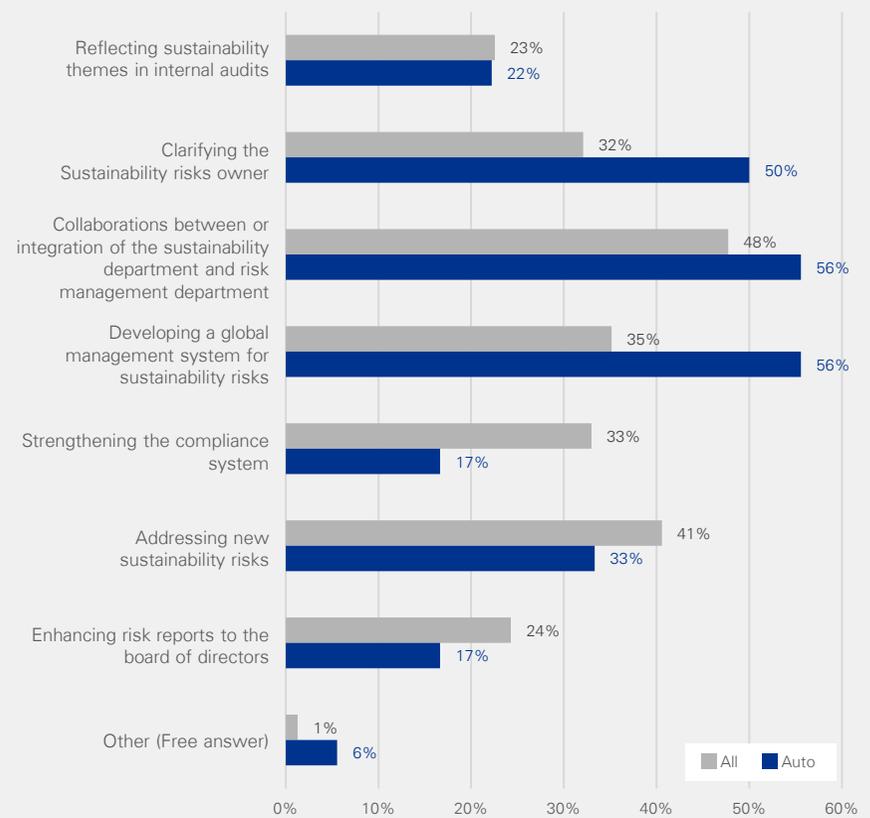
Q Are the risk management activities of your company designed and executed in association with material sustainability issues?



Q What are the top three sustainability-related risks that are of particular concern in relation to your business operations ?

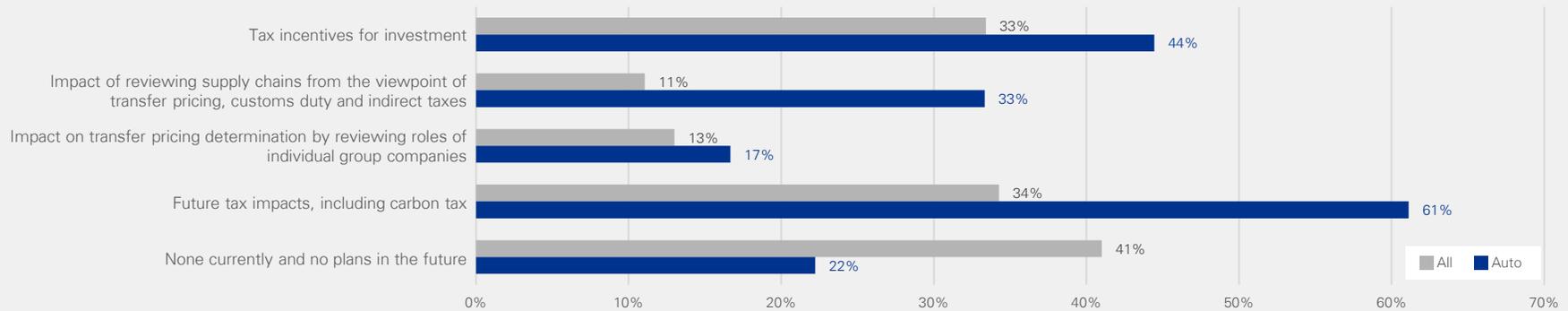


Q What are the top three initiatives in relation to the risk management system which you think are particularly necessary in proceeding with SX?

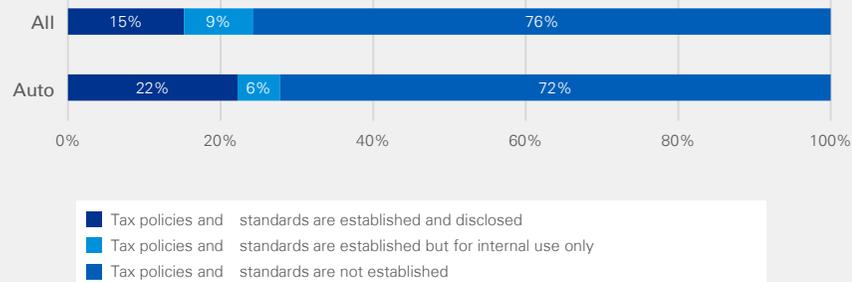


6.Tax

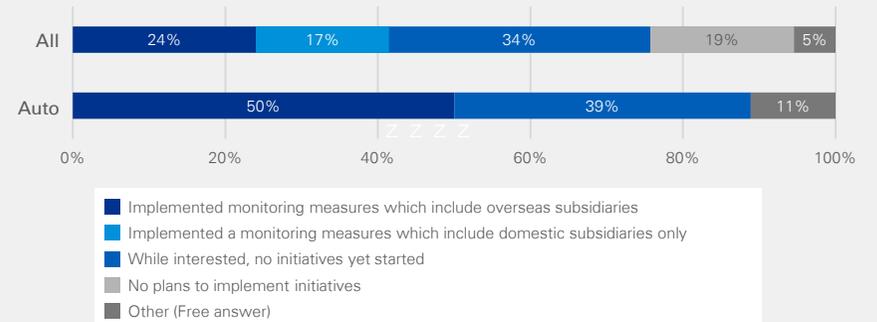
Q What are tax-related measures or considerations which you have implemented or plan to implement in line with SX? Please select up to three answers.



Q Does your company have tax policies and standards applying to risk tolerance and tax judgments that are disclosed?

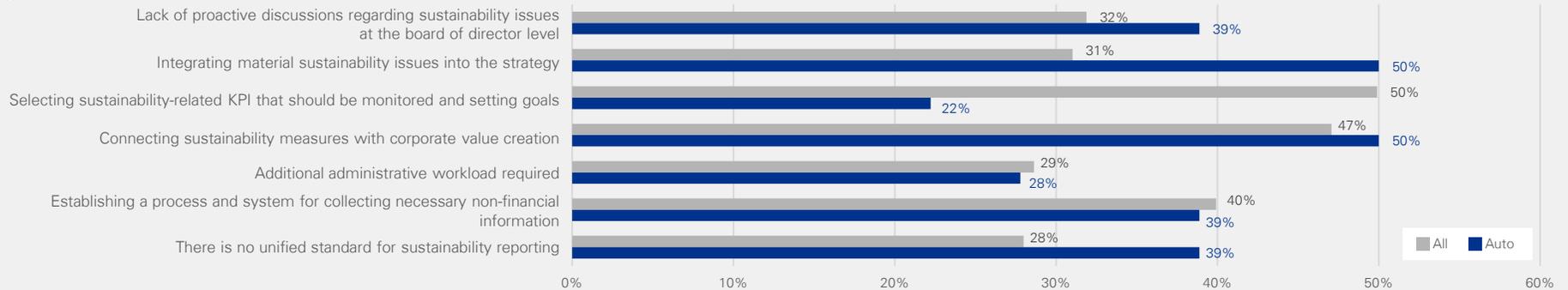


Q Which statement best describes the status of initiative for visualizing your group companies' tax information?

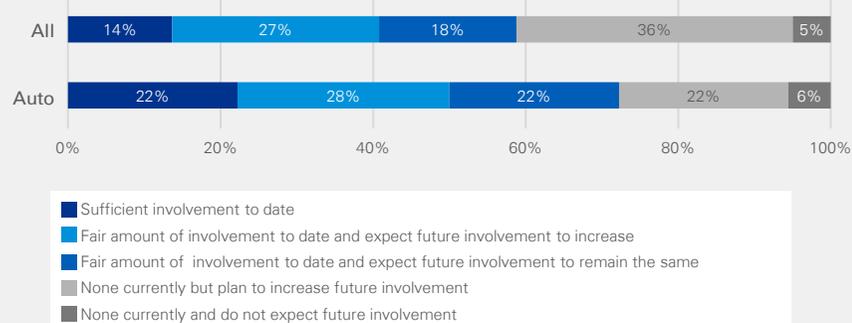


7. Comprehensive corporate report including non-financial information

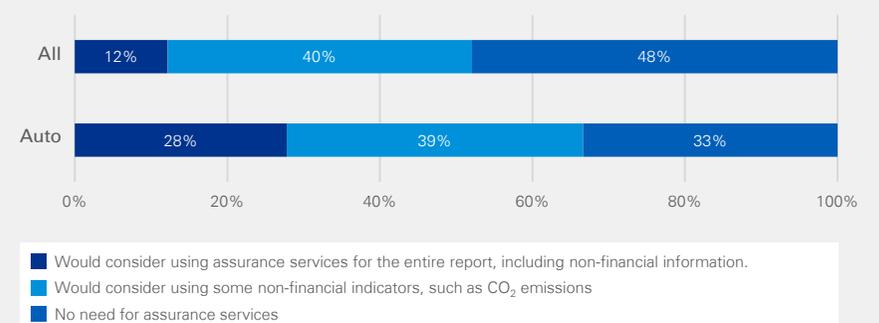
Q What are the top three issues in preparing comprehensive reports which interconnect sustainability information with financial information?



Q What is the current level of involvement of CFO in sustainability reporting?

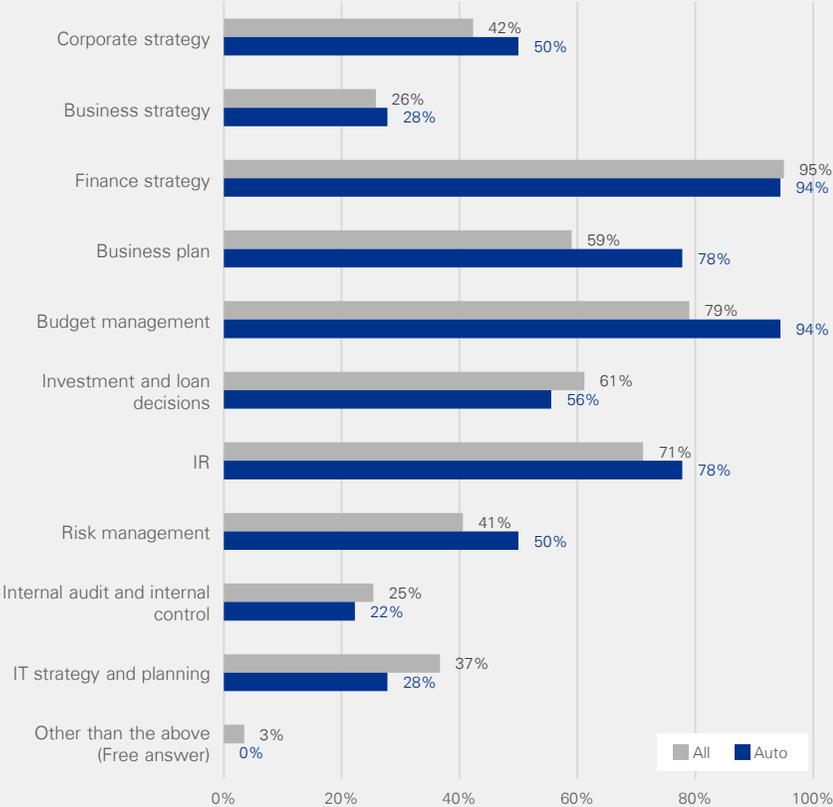


Q What are your views on using assurance services from the viewpoint of improving the reliability of sustainability-related information?

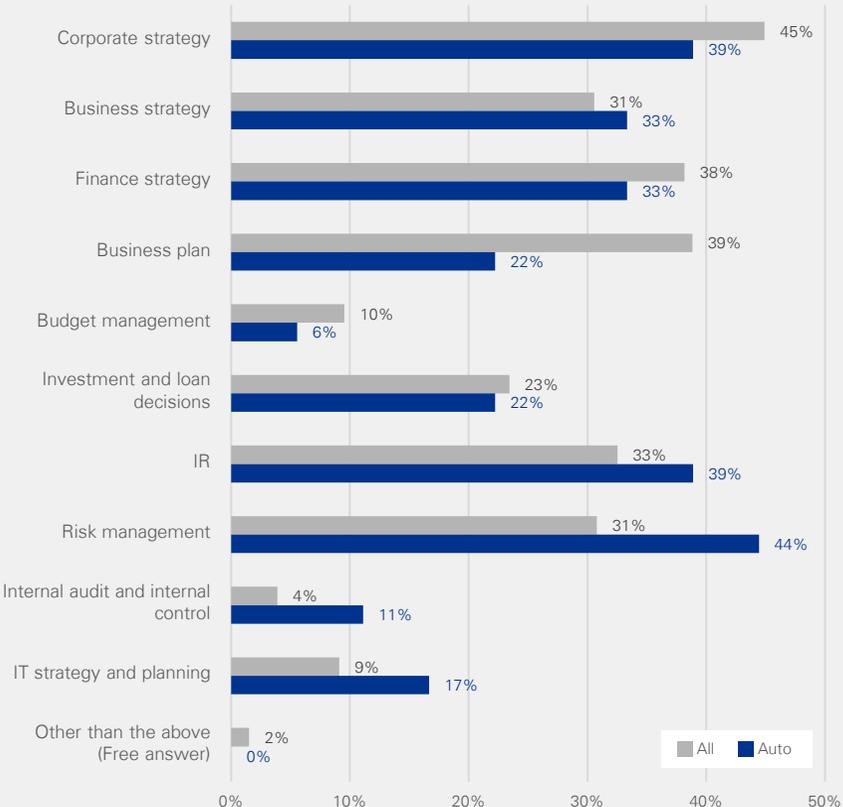


8.Accounting and Finance (1)

Please select all business area for which the CFO is currently responsible. (Multiple choice possible)

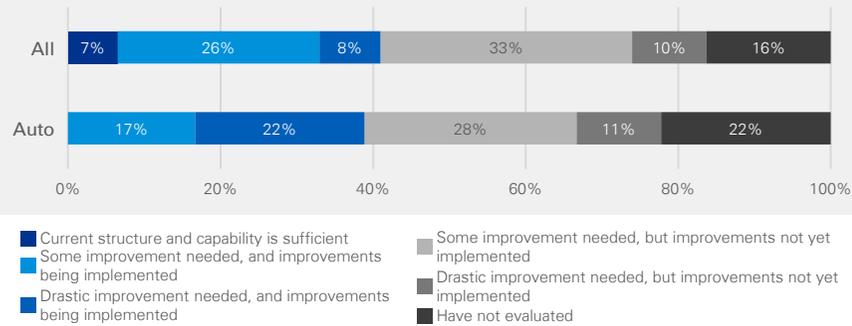


It is expected that management decisions driven by the linkage between financial and non-financial information will increase as the company makes progress towards SX. Of all areas that the CFO is responsible for, please select up to three areas that are considered to be of greater importance.

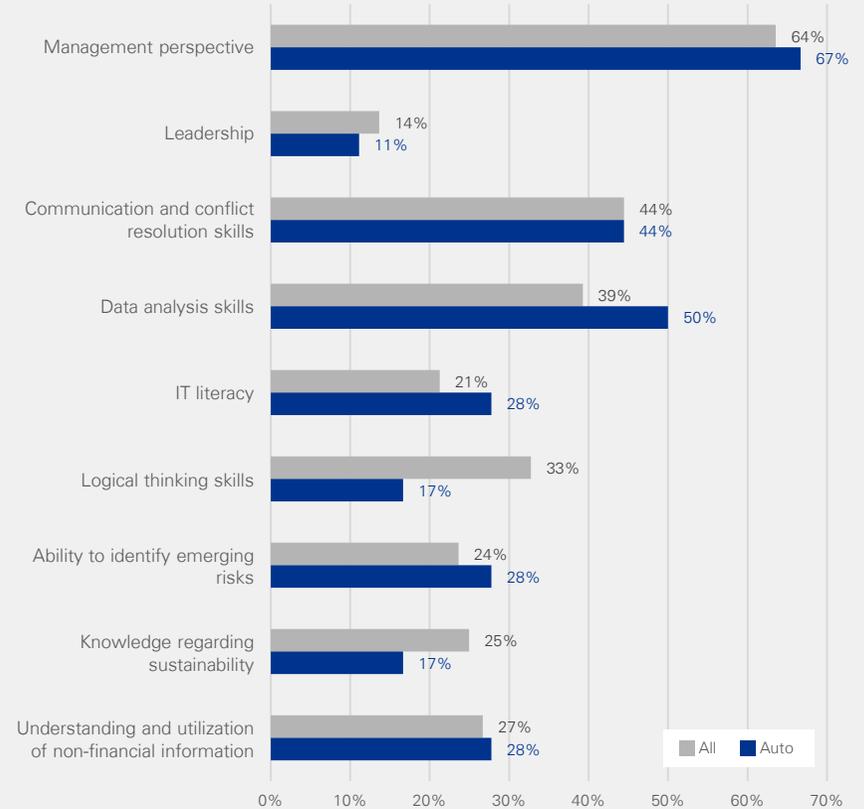


8.Accounting and Finance (2)

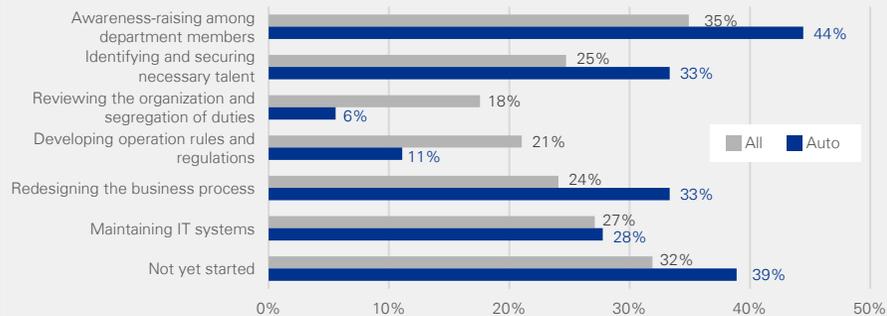
Please select the statement reflecting the current accounting and finance department structure and capability in terms of promoting SX in the future.



Please select up to three applicable items with regard to human resources and skills required for the accounting and finance department in the future.

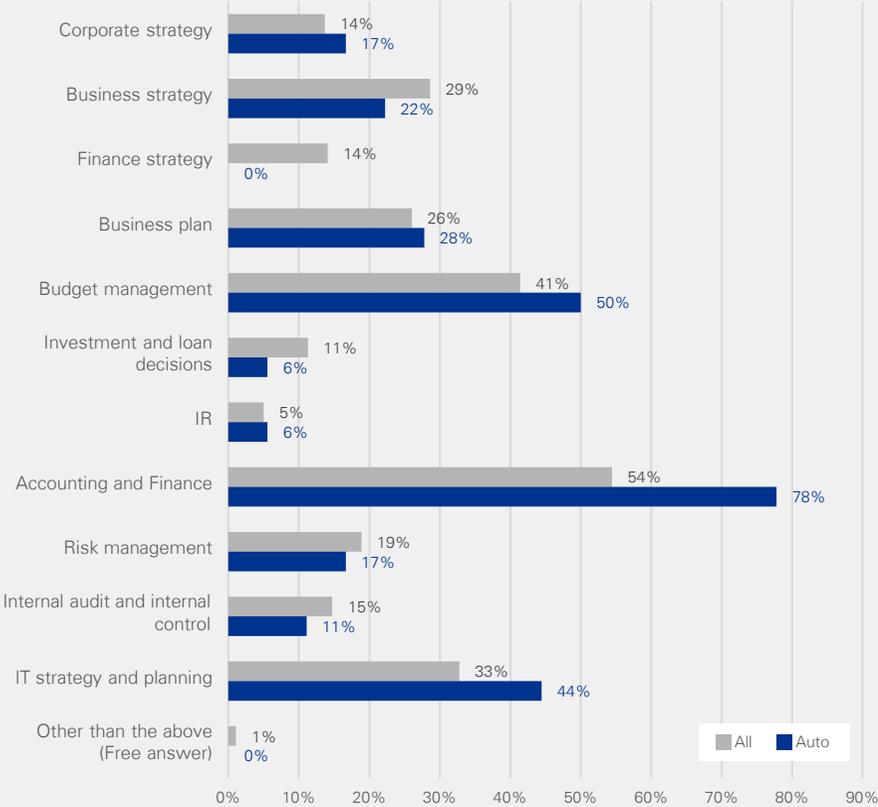


Please select the items that have been or are being addressed for improvement activities in the accounting and finance department for the promotion of SX.



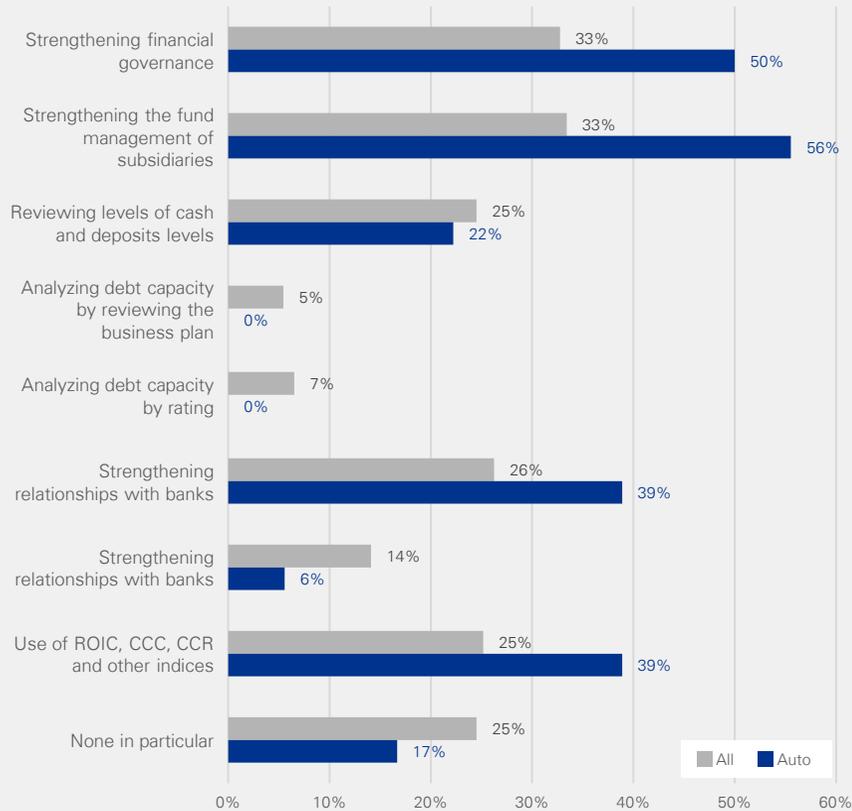
8.Accounting and Finance (3)

In view of SX promotion in the future, please select three areas for which you think digital utilization will be more necessary than ever before.

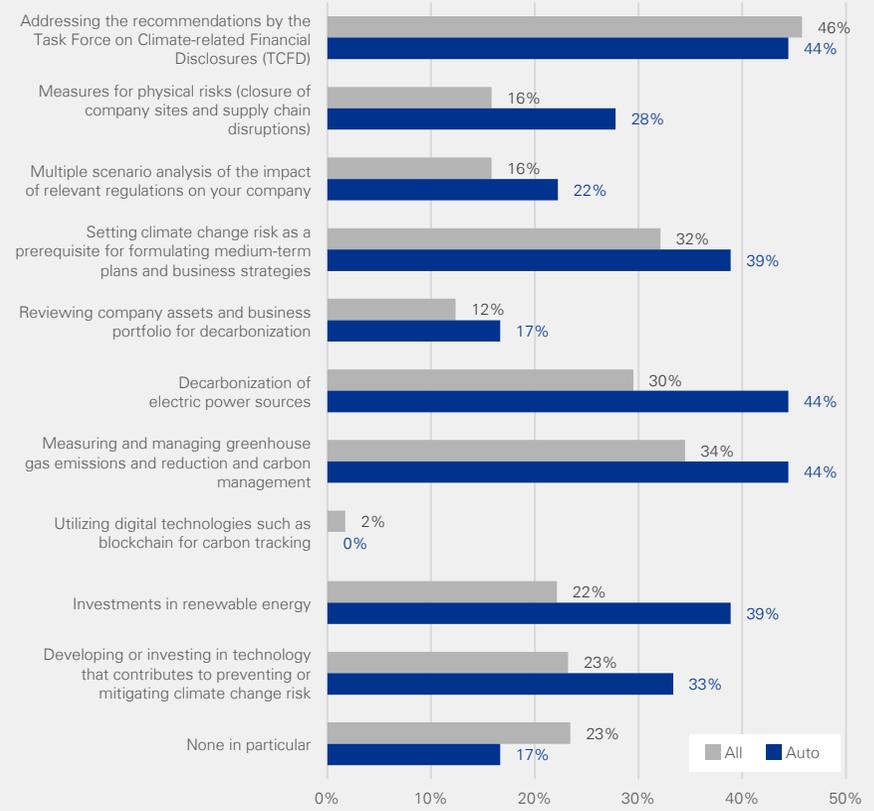


9.COVID-19

COVID-19 continues to affect businesses. Please select any measures that you have implemented or plan to implement with regard to corporate funding and "cash." (Multiple selections possible)

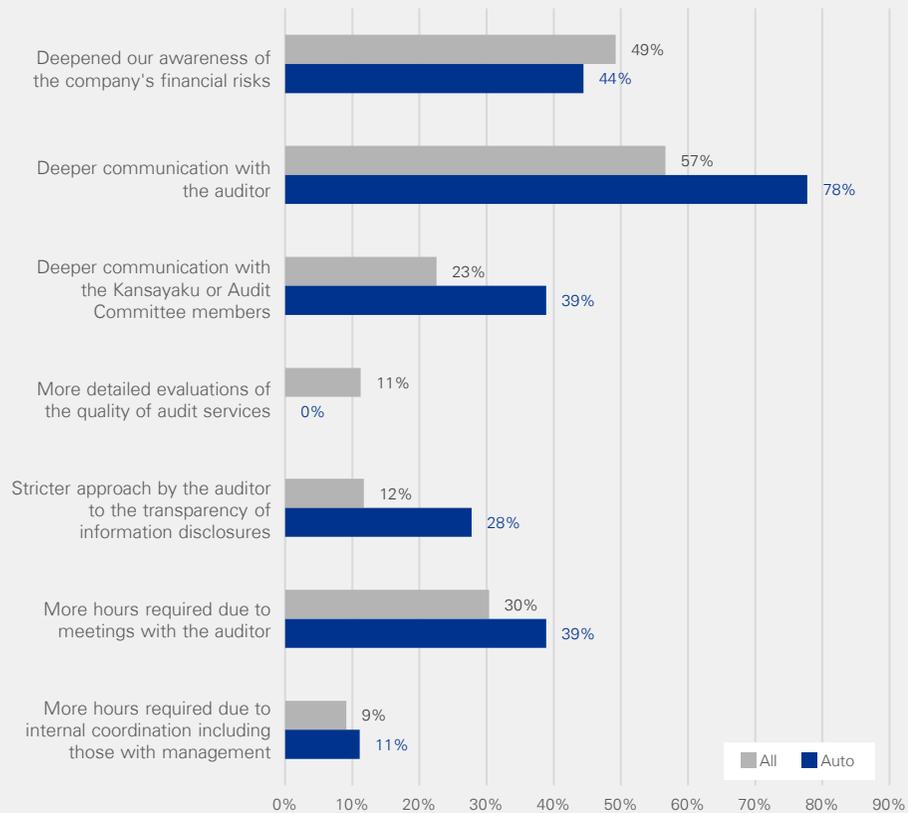


Please select all applicable measures that you have implemented or plan to implement in terms of dealing with climate change risk, which is receiving increasing attention from the market due to COVID-19. (Multiple selections are possible)



10.KAM introduction

What are the top three effects of KAM introduction you recognize?





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