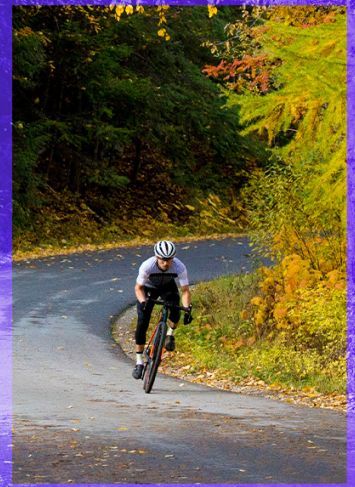




Directors Quarterly

Insights from the Board Leadership Center

October 2024



Positioned to pivot?

The implications of the US elections for companies, the economy, and the broader geopolitical landscape in the months and years ahead have business leaders and boards bracing for extended uncertainty as they prepare to close out 2024. Scenario planning is no doubt top of mind: Ahead of our September webcast exploring the **gloeconomic outlook**, only 26 percent of more than 330 directors responding to our pulse survey said they were confident in their company's ability to pivot effectively post-election.

According to our **2024 KPMG CEO Outlook**, CEOs' primary focus is anticipating and staying ahead of compound volatility. This year's survey shows CEOs are strategically allocating capital to address near-term risks such as cyber and geopolitics that can cause abrupt business disruption in the short term, while making long-term investments in generative artificial intelligence (GenAI) and mergers and acquisitions (M&A) to spur future growth.

Given the focus on leadership in times of uncertainty, it's critical that boards give extra attention to the CEO succession planning process. In this issue, we also share insights from directors on the importance of spending time identifying what the company needs in a future CEO before addressing the "who."

Also in this edition, we highlight financial reporting and auditing developments that audit committees should be paying attention to in the near term, including an update on sustainability reporting, recent SEC and FASB headlines, and PCAOB developments of interest to audit committees.

John H. Rodi

Leader

KPMG Board Leadership Center (BLC)

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Financial reporting and auditing update

Current quarter financial reporting matters

Sustainability reporting developments

Amendments to the California climate laws have progressed, signaling that companies should not delay moving forward with their preparation for adoption. There has also been a continuing stream of regulation and guidance from the European Union.

US developments: California - Amendments to GHG emissions and climate risks disclosures almost final

Since the laws were originally signed in October 2023, various amendments have been proposed and counter-proposed, and now the most significant have been approved.

- **SB-219** was signed into law by the Governor in late September 2024. Contrary to earlier proposals, these amendments do not delay the reporting effective dates for SB-253 and SB-261, but they do defer by six months (to July 1, 2025) the date for the California Air Resources Board (CARB) to develop and adopt regulations that implement SB-253. They also permit SB-253 reporting at the consolidated parent company level, and allow CARB to determine the reporting lag for scope 3 greenhouse gas (GHG) emissions (rather than within 180 days after public disclosure of scopes 1 and 2).
- **AB-2331** was proposed in March 2024 and modified in August 2024. The proposed amendments would delay the effective date for reporting to July 1, 2025 but, contrary to an earlier version of the proposals, would not remove renewable energy certificates from the scope of the law.

EU developments

Q&As on the Corporate Sustainability Reporting Directive (CSRD)

To support companies in scope of the CSRD, the European Commission (EC) has issued 90 **frequently asked questions** providing guidance regarding various details of the CSRD. While the guidance is helpful, it is important for companies to continue to track the transposition of the CSRD into legislation in the countries where the group may be in scope and determine if there are country-specific issues to consider.

Applying European Sustainability Reporting Standards (ESRS)

The European Financial Reporting Advisory Group (EFRAG) continues to publish answers to questions submitted through its open **Q&A platform**. While the Q&As are not authoritative and do not cover content that is not already in the standards, they are helpful in providing clarity on aspects of ESRS that may be unclear.

In addition, to support the first wave of companies in applying ESRS, the European Securities and Markets Authority (ESMA) has issued a statement that “strongly encourages issuers to consult the support material made available by EFRAG, which provide insights for practical use of the standards and illustrations.” Key material issued by EFRAG to date includes its **implementation guidance** on materiality and the value chain.

EU Taxonomy

While the EU Taxonomy Regulation is not new, in our experience many US companies are overlooking the challenges of complying with the EU Taxonomy in preparing their first report under the CSRD. The Regulation establishes a classification system that helps companies and investors identify “environmentally sustainable” economic activities, classified under six environmental objectives defined by the EU to reorient capital flows toward sustainable investment. For each of the six environmental objectives, companies must disclose key performance indicators based on revenue, capital expenditure, and operating expenditure.

Corporate Sustainability Due Diligence Directive (CSDDD)

In July 2024, the CSDDD became effective. It establishes corporate sustainability due diligence obligations—related to adverse environmental and human rights impacts—for companies operating in the EU, including non-EU companies with significant operations in the EU.

These new requirements—which include a climate transition plan that is compatible with limiting global warming to 1.5 degrees Celsius in line with the Paris Agreement—apply not only to the operations of the company, but also to the operations of subsidiaries and business partners in a company’s chain of activities (i.e., its value chain).

Accounting for economic disruption

In recent years, the global economy has experienced a series of significant disruptions that have had far-reaching consequences. These include a global pandemic, supply chain disruptions, natural disasters, market volatility and financial crises. These challenges have not only shaken economies and industries worldwide but have also had a profound effect on accounting and financial reporting practices.

During periods of economic disruption, it is crucial for companies to promptly identify potential financial statement impacts and consider the accounting and disclosure consequences. Regulators place a strong emphasis on high-quality financial reporting during these times and closely scrutinize the sufficiency and timeliness of related disclosures. Transparency becomes particularly important, especially when it comes to estimation uncertainties and the underlying basis for critical judgments used in financial reporting.

To assist companies in navigating turbulent times, KPMG has developed a comprehensive **Handbook** that provides guidance on how various balance sheet and income statement line items and disclosures can be affected by economic disruption. We strongly encourage companies to consult our guide when assessing the impact of economic disruption on their financial reporting so that they may proactively address the challenges posed by economic disruption, and effectively consider the related accounting and disclosure consequences.

SEC prioritizes cybersecurity disclosures

The SEC continues to emphasize and clarify the requirements for disclosing material cyber incidents on Form 8-K. In June, the SEC's Director of the Division of Corporation Finance released a second statement to clarify that the cybersecurity disclosure rules do not prohibit the sharing of additional information with relevant parties about material cybersecurity incidents, and to address concerns about violating Regulation FD.

The final cybersecurity disclosure rules, which became effective on September 5, 2023, require registrants to disclose (1) material cybersecurity incidents on Form 8-K Item 1.05, and (2) their processes for assessing and managing material risks from cybersecurity threats, including the role of management and board of directors' oversight, on Form 10-K. The SEC staff's first statement, issued in May, further emphasized the importance of disclosing material cybersecurity incidents under Item 1.05 of Form 8-K.

In addition, the SEC staff has issued new Compliance and Disclosure Interpretations to provide guidance on materiality determination and disclosure requirements for ransomware incidents involving cybersecurity attacks and ransomware payments.

SEC approves new and amended PCAOB standards and rules

Between August and September, the SEC approved two new auditing standards that govern the auditor's role and responsibilities and set out enhanced requirements for quality control at audit firms.

- **AS 1000, General Responsibilities of the Auditor in Conducting an Audit** enhances and consolidates existing standards on auditor responsibilities, emphasizing the need for due professional care, professional skepticism, and competence in conducting an audit. It also clarifies the auditor's responsibility to evaluate whether the company's financial statements are "presented fairly." AS 1000 and the related amendments are generally effective for audits of financial statements for fiscal years beginning on or after December 15, 2024.
- **QC 1000** replaces current quality control (QC) standards and will require audit firms to identify specific risks to audit quality and design a QC system that includes policies and procedures to mitigate these risks. Audit firms will also be required to conduct annual evaluations of their QC systems and report the results of their evaluation to the PCAOB on a new Form QC. QC 1000 is effective on December 15, 2025.

Additional audit developments of interest to audit committees

In a recent **Spotlight**, the PCAOB provided insights from its outreach to audit firms and companies regarding integration of GenAI in audits and financial reporting. Among other things, the Spotlight discussed:

- how auditors and preparers currently use GenAI;
- potential areas where GenAI tools may assist audit engagement teams in planning and performing audits in the future;
- the importance of appropriate oversight over the development, integration, and use of GenAI tools; and
- limitations on and risks related to the use of GenAI, including questions around the auditability of certain GenAI-created input.

In another recent **Spotlight**, the PCAOB shared its observations and takeaways from the conversations it held with audit committee chairs in connection with 2023 inspections, focusing on areas such as:

- economic environment affecting the audit; and
- audit workforce, including availability of resources, effects of working in remote and hybrid environments, and use of technology.

The Spotlight also highlighted other topics that audit committees spent significant time discussing with their auditors, including how audit committees are monitoring their auditors' quality control systems and independence.

*For more detail, see the **KPMG Q3 2024 Quarterly Outlook**.*

Highlights from the KPMG 2024 US CEO Outlook

CEOs' primary focus today remains anticipating and staying ahead of the compounding and interrelated risks that threaten the short-term profitability and long-term prosperity of their businesses. KPMG coined this phenomenon **compound volatility**: the combination of near-term risks to growth and structural changes to the US economy that raise the cost of doing business with little margin for error on strategy development and execution.

Our latest edition of the **KPMG CEO Outlook** analyzed insights from more than 1,300 CEOs at large companies globally, including 400 in the United States, to evaluate how they are continuing to navigate the challenge of compound volatility. Some of the key findings in the US report include:

Economic outlook. Seventy-eight percent of CEOs surveyed are confident in the growth prospects for their companies over the next three years. When asked to identify the top trends that could negatively impact their organization's prosperity over the next three years, CEOs most highly ranked the cost of living, cybercrime and cybersecurity issues, and talent.

GenAI. Nearly 70% of CEOs say GenAI is a top investment priority despite uncertain economic conditions. CEOs most frequently identified and information technology (74%), sales and marketing (59%), and finance and accounting (48%) as the top three functional areas where their organizations will make GenAI investments over the next three years. Ethical challenges (60%) and lack of regulation (55%) were cited as the biggest challenges to implementing GenAI.

M&A. CEOs desire to pursue M&A, but their timeline remains on the horizon. Fifty-seven percent of CEOs say their organizations will wait until the second half of 2025 to seriously pursue new dealmaking, and 24% say they are waiting until 2026 and beyond.

Talent & culture. CEO sentiment related to a full return to office soars. Nearly 80% of CEOs envision employees will be in-office over the next three years, up from 34% in a survey earlier this year. Only 17% predict a hybrid working environment, and 4% a fully remote environment.

Sustainability. CEOs aren't confident they will meet their net-zero goals due to decarbonization challenges, but commitment to pushing forward with climate-related strategies remains. Nearly three-quarters see their ESG strategies having the greatest impact on driving financial performance in the next three years.

Read the full report at [kpmg.com](https://www.kpmg.com).



Geoeconomic outlook: Post-election and beyond

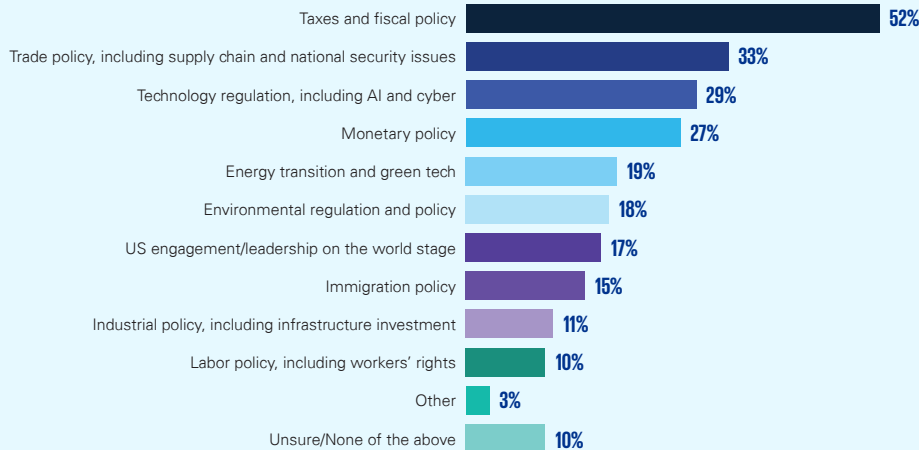


“From an economic perspective, so much depends on the outcome of the US election,” said Robert Kahn, managing director, Eurasia Group, on a September 19th webcast hosted by KPMG BLC Leader John Rodi. “Trade policies, fiscal policy, capital flows, and our relationship with China” are all on the table, said Kahn.

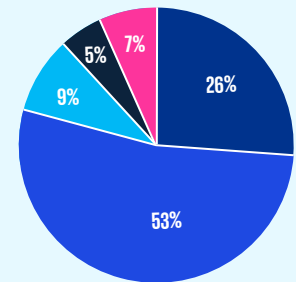
Given the election uncertainty, only 26% of directors surveyed for the webcast said that they are confident in their company’s ability to pivot based on the outcome. “We’re in a period where there’s no room for error—and our capacity to adjust and to deal with challenges is strained,” added Kahn.

[Watch replay](#)

Which of the following issues at stake in the upcoming US election are drawing the most attention from your board? Select up to three. (n=342)



How confident are you that your company is positioned to pivot effectively to different scenarios—in the US and globally—post-election? (n=344)



- Confident
- Somewhat confident
- Not confident
- No major pivot(s) expected
- Unsure

Which of the following global issues do you believe are of greatest concern to your board? Select up to three. (n=339)



Survey responses from self-identified corporate directors registered for the September 19, 2024, KPMG BLC webcast.





CEO succession planning: Putting the “what” before the “who”

by John Rodi

The number of CEO changes remains at an all-time high despite a year-over-year decline in 2024, according to Challenger, Gray, & Christmas’s *CEO Turnover Report: CEO Turnover Again Falls in May 2024; New Women CEOs Continue Decline*. CEO succession planning—helping ensure that the company is prepared for a CEO change, planned or unplanned, on a permanent or temporary basis—is a critical priority for every board. Yet, according to Heidrick & Struggles’s *CEO and Board Confidence Monitor: A Worried Start to 2024*, more than half of survey respondents (57 percent in each group) “are not at all confident, or only somewhat confident, that their CEO succession planning process is positioning the company well for the future.”

This lack of confidence is perhaps not surprising given the unprecedented and accelerating disruption and uncertainty companies and their CEOs face. The fundamentals and assumptions that have long-driven corporate thinking—cost of capital and sources of energy, geopolitical norms and trade flows, the limits of technology, the security of data, workforce needs and expectations, and traditional competitive threats—continue to be shaken. Macro forces, including GenAI, climate change, a multipolar geopolitical landscape, and the erosion of trust and healthy public discourse, are prompting deeper boardroom conversations about leadership, risk, strategy, talent, and a vision of the future for the company.

A key question for the board is whether its CEO succession planning process is keeping pace and evolving to identify the CEO skills, traits, characteristics, and experiences necessary to drive the development and execution of the company’s long-term strategy and position the company for the future. During a recent peer exchange discussion hosted by KPMG, directors emphasized the importance of devoting significant time and attention to identifying “what” the company needs in a future CEO before addressing the “who.”

Many directors recommended that boards develop a scorecard of the top six or eight—but no more than ten skills, traits, characteristics, and experiences needed in a new CEO. Developing that scorecard and identifying the “what” is a complex and time-consuming process involving the board, the current CEO, and, often, an outside advisor with a deep understanding of the business, industry, technology, and competition. What will be the impact of new technologies,

such as GenAI? Will navigating geopolitical turbulence become more important to the business? What skills, experiences, and traits will be required of the future CEO, and how might they differ from those of the current CEO? Which scorecard elements are nonnegotiable?

The scorecard skills and experiences will vary based on factors such as industry and company size. But our conversations highlighted the growing importance of two critical areas for most future CEOs: digital skills and experience identifying and managing the environmental and social risks and opportunities that are key to the company’s strategy and viewed as priorities by both employees and customers. Empathy is also an important trait.

With clarity on the scorecard elements, the board and CEO should identify internal candidates and determine what additional training and development might be appropriate. To that end, directors noted the value of an independent evaluation of the strengths, weaknesses, and developmental needs of potential CEO candidates. While boards often may prefer internal CEO candidates, all internal candidates should be measured against external candidates.

An emergency CEO succession plan is also essential. There should be more than one emergency succession candidate who is positioned assume the CEO role at a moment’s notice to help “settle the boat.” Those candidates may not be the same as the candidates for the permanent role, but they should have a deep understanding of the company and the confidence of the board and management team.

CEO succession planning should be a dynamic, ongoing process that includes the development and periodic updating of the succession scorecard, development and monitoring of a pipeline of potential CEO candidates, and reviews (at least annually) of planned and emergency succession plans.

As we’ve noted in the past—and continue to hear from the directors we talk to—succession planning should start the day a new CEO is named.

John Rodi is leader of the KPMG BLC.

This article was originally published in NACD Directorship® Magazine.

Boards are not backing off on diversity disclosures

Since 2021, we have seen a notable increase in both the ways in which boards disclose their diversity and the disclosed number of board seats held by female, racially/ethnically diverse, and LGBTQ directors. And despite recent backlash against corporate diversity initiatives from some activists, customers, and state lawmakers, we do not see boards backing off on their diversity-related disclosures.

The **KPMG Board Diversity Disclosure Benchmarking Tool** tracks how corporate boards disclose their diversity characteristics. Powered by ESGAUGE, this complimentary resource allows corporate and board leaders, investors, and other stakeholders to compare diversity disclosure practices by sector, index, and company size.

Progress since 2021

Over the last three years, the percentage of S&P 500 companies that disclose the board's racial/ethnic diversity has increased by 27 percentage points and the percentage that disclose the board's LGBTQ status has increased by 24 percentage points.

For Russell 3000 companies the change has been even more dramatic. The percentage of Russell 3000 companies that

disclose the board's racial/ethnic diversity has increased by 51 percentage points and the percentage that disclose the board's LGBTQ status has increased by 38 percentage points.

Nasdaq's impact

The implementation of the Nasdaq Board Diversity Rule over this period likely had an outsized impact on Russell 3000 companies since half are listed on the Nasdaq stock exchange. For example, Russell 3000 companies disclose at greater rates than S&P 500 companies the number/percentage of directors identifying with each racial/ethnic category (57% versus 45%) or as LGBTQ (37% versus 24%).

In contrast, S&P 500 companies are more likely than Russell 3000 companies to disclose, by name, individual directors' race/ethnicity (43% versus 20%) and LGBTQ status (9% versus 5%). As larger companies tend to adopt leading governance practices first, we may see a growing trend in the future toward disclosing the demographic characteristics of individual directors by name.

To register for complimentary access to the tool and to read more highlights, visit kpmg.com/blc.

Disclose the racial/ethnic diversity of the board in some form

	July 2021	June 2024
S&P 500	71%	98%
Russell 3000	34%	85%

Disclose the LGBTQ status of the board in some form

	July 2021	June 2024
S&P 500	5%	29%
Russell 3000	2%	40%

Mark your calendar

2024 LCDA Board Leaders Convening

November 14–16, Miami, FL

Join KPMG at the Latino Corporate Directors Association (LCDA) 9th Annual Board Leaders Convening for LCDA members and Latino business leaders at the pinnacle of corporate leadership and governance. This invitation-only event includes dynamic panels, peer exchanges, and trending corporate governance discussions.

For registration, visit latinocorporatedirectors.org.

KPMG Annual Accounting & Financial Reporting Symposium

December 4–5, Las Vegas, NV

Designed for financial executives, the Symposium will include insights and information on trending topics like ESG, data integrity, cybersecurity, GenAI, and the latest on financial accounting and reporting developments.

To register, visit exceed.kpmg.com.

KPMG BLC Quarterly Webcast

January 23, 11:00 a.m. EST

Join us for the first KPMG BLC quarterly webcast of 2025 as our KPMG Board Leadership team discusses the critical challenges and priorities driving board and committee agendas in the year ahead.

For more information, visit watch.kpmg.us/BLCwebcast.

KPMG Board Insights Podcast

On demand

Conversations with directors, business leaders, and governance luminaries to explore the emerging issues and pressing challenges facing boards today.

Listen or download now at listen.kpmg.us/BLCpodcast.

Selected reading

2024 US Spencer Stuart Board Index

Spencer Stuart

GenAI: Audit committee oversight

Center for Audit Quality

Rethinking board practices

Jones Day via HLS Forum

IPO material weakness study

KPMG LLP

CEO succession in times of crisis

Heidrick & Struggles

To receive articles like these from Board Leadership Weekly, register at kpmg.com/blcregister.

About the KPMG Board Leadership Center

The KPMG BLC champions outstanding corporate governance to drive long term value and enhance stakeholder confidence. Through an array of insights, perspectives, and programs, the BLC—which includes the KPMG Audit Committee Institute and close collaboration with other leading director organizations—promotes continuous education and improvement of public and private company governance. BLC engages with directors and business leaders on the critical issues driving board agendas—from strategy, risk, talent, and sustainability to data governance, artificial intelligence, audit quality, proxy trends, and more. Learn more at kpmg.com/us/blc.

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