On the 2024 board agenda

KPMG Board Leadership Center

December 7, 2023

Heading into 2024, companies face unprecedented disruption and uncertainty—wars in Ukraine and the Middle East, trade and geopolitical tensions, economic volatility, persistent inflation and higher interest rates, technology and business model disruption, elevated cybersecurity risk, climate risk, domestic polarization, political gridlock in the US, and more. Advances in artificial intelligence (AI) and heightened regulation will add to the challenge.

In this volatile operating environment, demands—from investors, regulators, employees, and other stakeholders—for greater disclosure and transparency, particularly around the oversight and management of risks to the company's operations and strategy, will continue to intensify. The pressure on management, boards, and governance will be significant.

Drawing on insights from our survey work and interactions with directors and business leaders, we highlight nine issues to keep in mind as boards consider and carry out their 2024 agendas:

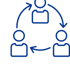
Link boardroom discussions on strategy, risk, and global disruption.

Monitor management's efforts to design and maintain a governance structure for the development and use of generative AI.

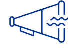
Maintain the focus on cybersecurity and data privacy and monitor management's preparations for compliance with the SEC's cybersecurity rules.

Identify the company's material or strategically significant climate and ESG issues, and embed them in risk and strategy discussions.

Keep abreast of management's preparations for new US, state, and global climate and sustainability reporting requirements.



Enhance communication and coordination regarding risk oversight activities among the board and its committees.



Clarify when the CEO/company should speak out on social issues.

Make talent, human capital management (HCM), and CEO succession a priority.

Think strategically about talent, expertise, and diversity in the boardroom.

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Link boardroom discussions on strategy, risk, and global disruption.

Much has changed in the geopolitical and global economic environment. Companies face a deluge of risks, including the escalation of the wars in Ukraine and the Middle East; the continuing deterioration of the US–China relationship; the potential for massive political and social disruption caused by misinformation or disinformation; and the polarization of society. These and other risks, including supply chain disruptions, cybersecurity, inflation, interest rates, market volatility, and the risk of a global recession—combined with the deterioration of governance on the geopolitical level—will continue to drive global volatility and uncertainty.

At the same time, companies face potential disruption to business models and strategy posed by accelerating advances in digital technologies such as AI, including generative AI and blockchain.

Help management reassess the company's processes for identifying the risks and opportunities posed by disruption—geopolitical, economic, technological/digital, social, and environmental—and the impact on the company's long-term strategy and related capital allocation decisions. Does management have an effective process to monitor changes in the external environment and provide early warning that adjustments to strategy might be necessary? That includes risk management as well as business continuity and resilience. It calls for frequent updating of the company's risk profile and more scenario planning, stress testing strategic assumptions, analyzing downside scenarios, considering the interrelationship of risks, and obtaining independent third-party perspectives.

Companies need to think about "events" and how they will impact the company's business model and strategy; however, it is also critical to understand the underlying structural shifts taking place—geopolitical, demographic, technological, economic, climate, global energy transition, societal, etc.—and the longer-term implications.

Does management have an effective process to monitor changes in the external environment and provide early warning that adjustments to strategy might be necessary?

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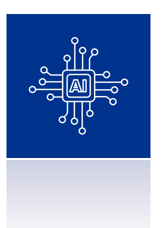

Monitor management's efforts to design and maintain a governance structure for the company's development and use of generative AI.

2023 saw major advances in the development and use of generative AI and its ability to create new, original content such as text, images, and videos. Indeed, generative AI has been the focus of discussion in most boardrooms as companies and boards seek to understand the opportunities and risks posed by the technology—a challenge given the pace of the technology's evolution.

The potential benefits of generative AI vary by industry but might include automating business processes such as customer service, content creation, product design, developing marketing plans, improving healthcare, and creating new drugs. The risks posed by the technology are significant, including inaccurate results, data privacy and cybersecurity risks, intellectual property risks (including unintended disclosure of the company's sensitive or proprietary information and unintended access to third-party IP), and compliance risks posed by efforts across the globe to regulate generative AI.

Given the strategic importance of generative AI to most companies, boards should be monitoring management's efforts to design and maintain a governance structure and policies for the development and use of generative AI. Among the areas of focus are the following:

- How and when is a generative AI system or model—including a third-party model—to be developed and deployed, and who makes that decision?
- How are the company's peers using the technology?
- How is management mitigating the risks posed by generative AI and ensuring that the use of AI is aligned with the company's values? What generative AI risk management framework is used? What is the company's policy on employee use of generative AI?
- How is management monitoring rapidly evolving generative AI legislation in the US and globally, and ensuring compliance?
- Does the organization have the necessary generative AI–related talent and resources, including in finance and internal audit?

Boards should also assess their governance structure for board and committee oversight of generative AI. In addition to the full board's engagement in overseeing AI, do (should) certain committees have specific oversight responsibilities, including perhaps taking deeper dives into certain aspects of generative AI?

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Maintain the focus on cybersecurity and data privacy and monitor management's preparations for compliance with the SEC's new cybersecurity rules.

Cybersecurity risk continues to intensify. The acceleration of AI, the increasing sophistication of hacking and ransomware attacks, the wars in Ukraine and the Middle East, and ill-defined lines of responsibility—among users, companies, vendors, and government agencies—have elevated cybersecurity risk and its place on board and committee agendas.

The growing sophistication of the cyber threat points to the continued cybersecurity challenge—and the need for management teams and boards to continue to focus on resilience. As Gurbir S. Grewal, director of the SEC's Division of Enforcement emphasized, "As opposed to cybersecurity, cyber resilience is a concept that recognizes that breaches and cyber incidents are likely going to happen, and that firms must be prepared to respond appropriately when they do. In other words, it's not a matter of if, but when."[1]

Regulators and investors are demanding transparency into how companies are assessing and managing cyber risk and building and maintaining resilience. In July, the SEC adopted final rules that require public companies to disclose material "cybersecurity incidents" on Form 8-K within four business days of a materiality determination (see On the 2024 audit committee agenda). The rules also require companies to disclose detailed, material information regarding their cybersecurity risk management, strategy, and governance in their Form 10-K, beginning with the 2023 10-K. The rules greatly expand companies' cybersecurity disclosure obligations. Preparations to comply are a significant undertaking for management, and board oversight of management's final preparations for the Form 8-K and 2023 Form 10-K disclosures is essential.

While data governance overlaps with cybersecurity, it is broader and includes compliance with industry-specific laws and regulations as well as privacy laws and regulations that govern how personal data—from customers, employees, or vendors—is processed, stored, collected, and used. Data governance also includes policies and protocols regarding data ethics—in particular, managing the tension between how the company may use customer data in a legally permissible way and customer expectations as to how their data will be used. Managing this tension poses significant reputation and trust risks for companies and represents a critical challenge for leadership. How robust and up to date is management's data governance framework? Does it address third-party cybersecurity and data governance risks?

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—Gurbir S. Grewal, director of the SEC's Division of Enforcement

[1] Gurbir S. Grewal, "Remarks at Financial Times Cyber Resilience Summit," June 22, 2023.

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Identify the company's material or strategically significant climate and ESG issues and embed them in risk and strategy discussions.

Despite some recent anti-ESG sentiment, expect the intense focus on ESG to continue in 2024. How companies manage material climate and other ESG risks is seen by many investors, research and ratings firms, activists, employees, customers, and regulators as fundamental to the business and critical to long-term value creation.

The clamor for attention to climate change as a financial risk has become more urgent, driven by reports that the summer of 2023 was the hottest on record, with global temperatures expected to reach new highs over the next five years; the frequency and severity of floods, wildfires, rising sea levels, and droughts; growing concern about climate-related migration and displacement; and concern by many experts that the window for preventing more dire long-term consequences is rapidly closing. Regulators and policymakers globally are placing greater demands on companies to act—and climate disclosures are a priority for the SEC and global regulators.

The 2023 proxy season saw an increase in shareholder proposals on climate and a broad range of ESG and diversity, equity, and inclusion (DEI) issues, but a marked decrease in support. While there was an increase in anti-ESG proposals and "masked" ESG proposals, anti-ESG proposals continued to receive low levels of shareholder support. This anti-ESG sentiment has expanded to include state laws, regulations, and litigation. Some 20 state attorneys general have launched attacks against ESG in various state and federal courts.

Despite this push-back against ESG, most investors continue to view material ESG issues as important. As BlackRock Chairman and CEO Larry Fink wrote in his 2023 Letter to Investors: "Many of our clients also want access to data to ensure that material sustainability risk factors that could impact long-term asset returns are incorporated into their investment decisions."[2]

In this environment, several fundamental questions should be front and center in boardroom conversations about climate and ESG:

- Which ESG issues are material or of strategic significance to the company? In the context of ESG, the term "material" does not have the same meaning as it does in the securities law context. The ESG issues of importance will vary by company and industry. For some, it skews toward environmental, climate change, and emission of greenhouse gases (GHG). Others may emphasize DEI and social issues.
- How is the company addressing these issues as long-term strategic issues and embedding them into core business activities (strategy, operations, risk management, incentives, and corporate culture) to drive long-term performance?
- Is there a clear commitment with strong leadership from the top and enterprise-wide buy-in?
- In internal and external communications, does the company explain why ESG issues are materially or strategically important? Indeed, some companies are no longer using the term "ESG."

[2] BlackRock, "Larry Fink's Annual Chairman's Letter to Investors," March 2023.

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Keep abreast of management's preparations for new US, state, and global climate and sustainability reporting requirements.

An important area of board focus and oversight will be management's efforts to prepare for US, state, and global regulatory mandates that will dramatically increase climate and sustainability disclosure requirements for companies in the coming years. While US companies await final SEC rules, they should be preparing for California climate laws signed October 7, 2023.

- **California's Climate Corporate Data Accountability Act** requires disclosure of GHG emissions data—Scopes 1, 2, and 3—by all US business entities (public or private) with total annual revenues in excess of $1 billion that do business in California. Reporting of Scope 1 and 2 emissions begins in 2026, with Scope 3 one year later. Assurance over Scopes 1 and 2 will also be required, with Scope 3 potentially being added later.
- **California's Climate-Related Financial Risk Act** requires all US companies—public or private, with total annual revenues in excess of $500 million that do business in California—to disclose their climate-related financial risks and measures taken to reduce or adapt to such risks. Disclosures will need to be made no later than January 1, 2026, and every two years thereafter, and be prepared in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) or similar reporting standards.
- **Amendments to California's Health and Safety Code** are effective on January 1, 2024. They require specified disclosures by business entities marketing or selling voluntary carbon offsets in California, and by entities purchasing or using voluntary carbon offsets that make claims regarding the achievement of net zero emissions or other, similar claims.

Companies will need to monitor additional regulatory and legislative initiatives regarding the California climate legislation, as Governor Newsom noted concerns that would need to be addressed by the state Administration and the legislature.

US companies doing business in Europe are also assessing the potential impacts of, and preparing for compliance with, the European Sustainability Reporting Standards (ESRSs) issued under the Corporate Sustainability Reporting Directive (CSRD)—which cover a broad range of sustainability issues beyond climate—and IFRS® Sustainability Disclosure Standards issued by the ISSB. Countries are already announcing adoption of, or commitments to consider adopting, the final ISSB standards locally, including Australia (climate only), Brazil, Japan, and the UK. The standards, which are based in part on the related standards/frameworks of the TCFD and the Greenhouse Gas Protocol, are highly prescriptive and expansive. The CSRD also includes a requirement for certain ultimate non-EU parent companies to provide sustainability reporting, with adoption of the standards applying to these businesses now scheduled for the end of June 2026, and with reporting requirements to begin in 2028.

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With the anticipated release of the SEC's final climate disclosure rules, the enactment of California's climate legislation, and ongoing developments in various international reporting standards, US companies must determine which standards apply, and the level of interoperability of the applicable standards. A key area of board focus will be the state of the company's preparedness—requiring periodic updates on management's preparations, including gap analyses, resources, and skills/talent requirements to meet regulatory deadlines. Many companies will have to comply with multiple standards. In addition to the compliance challenge, they should also consider whether disclosures are consistent, and the potential for liability posed by more detailed disclosures abroad. This will be a major undertaking for management and will require cross-functional management teams, including management's disclosure committee and management's ESG committee/team—perhaps led by an ESG controller—with multiple board committees overseeing different aspects of these efforts.

Clarifying the responsibilities of each standing committee for oversight of climate, sustainability, and ESG issues is essential.

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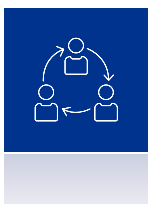

Enhance communication and coordination regarding risk oversight activities among the board and its committees.

The increasingly complex and dynamic risk environment—and the fusion of risks unfolding simultaneously—requires a more holistic approach to risk management and oversight. Many of the risks companies must address today are interrelated. While many companies historically managed risk in silos, that approach is no longer viable and poses its own risks. Investors, regulators, ESG rating firms, and other stakeholders continue to demand higher-quality disclosures about risks and how boards and their committees oversee them.

Many boards are reassessing the risks assigned to each standing committee. In the process, they are often assigning multiple standing committees oversight responsibility for different aspects of a particular category of risk. For example, the nom/gov, compensation, and audit committees may each have some overlapping oversight responsibility for climate, HCM, and other ESG risks. If cybersecurity and data governance oversight reside in a technology committee (or other committee), the audit committee will still have certain oversight responsibilities (e.g., over internal and disclosure controls and procedures).

Given these overlapping committee risk oversight responsibilities, boards should encourage more effective information sharing and coordination among committees by:

- Identifying areas where committee oversight responsibilities may overlap and developing a process for frequent communication and discussion of committee activities in these areas.
- Maintaining overlapping committee memberships or informal cross-attendance at committee meetings.
- Conducting joint committee meetings when an issue of strategic importance to multiple committees is on the agenda.
- Holding periodic meetings of committee chairs to discuss oversight activities.

Additionally, all boards should insist on focused, appropriately detailed, and robust committee reports to the full board.

Essential to effectively managing a company's risks is having an up-to-date inventory of risks and maintaining critical alignments—of strategy, goals, risks, internal controls, incentives, and performance metrics. The full board and each standing committee have a role to play in helping to ensure that management's strategy, goals, objectives, and incentives are properly aligned, performance is rigorously monitored, and that the culture the company has is the one it desires.

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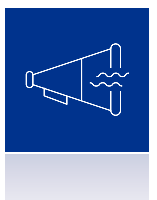

Clarify when the CEO/company should speak out on social issues.

Polarizing social and political issues are moving front and center in the boardroom. With employees, customers, investors, and stakeholders sharpening their scrutiny of a company's public positions, when should a CEO or company speak out on controversial issues, if at all? As many companies have experienced firsthand, the consequences of speaking out—or remaining silent—can be significant.

Given recent boycotts of companies that have spoken out on controversial issues and the increasing polarization of society, many companies may be less willing to speak out. In an election year, with so much at stake for the country and for democracy, what is the company's position on corporate political activity and political speech? When does the company have a responsibility to take a position?

Consider what role the board should play in addressing these questions and, in collaboration with the CEO, establishing parameters for the CEO and the company. Some boards have written policies; others have an informal understanding that the CEO will confer with board leadership before speaking on a controversial issue. Some companies have cross-functional management committees to vet issues on an ongoing basis to determine when speech is appropriate.

We've gleaned a number of considerations or criteria from directors and business leaders for determining whether or not the CEO should speak out on highly charged social and political issues:

- Is the issue relevant to the company and its strategy? Is it aligned with the company's culture, values, and purpose?
- How will speaking out resonate with the company's employees, investors, customers, and other stakeholders? Understanding in advance the issues of importance to each group is vital. Employees increasingly choose where they work based on company values. What is the impact, if any, of Supreme Court affirmative action cases on the company's DEI programs?
- As the views of stakeholders are not uniform, how should CEOs and companies manage the inevitable criticism of their decision to speak or not speak? Having felt the backlash of speaking out on social/political issues, some companies have adjusted their approach to taking action without publicizing what they're doing.
- Not speaking out can be as powerful as speaking out on certain issues. How do the CEO and the board come to terms with that ambiguity and risk, and weigh the consequences of speaking out or not?
- Make sure in advance that the company's lobbying and political contributions are aligned with its speech.

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Make talent, HCM, and CEO succession a priority.

Many companies have long said that employees are their most valuable asset. And employees continue to demand fair pay and benefits, work-life balance (including flexibility), interesting work, and opportunities to advance. Recent union strikes and a resurgence of organized labor signal a challenging labor environment ahead. In 2024, we expect continued scrutiny of how companies are adjusting talent strategies to meet the challenge of finding, developing, and retaining talent amid a labor-constrained market. To that end:

- Does the board understand the company's talent strategy and its alignment with the company's broader strategy and forecast needs for the near and long term?
- What are the challenges to keeping key roles filled with engaged employees?
- Which talent categories are in short supply and how will the company successfully compete for this talent?
- Does the talent strategy reflect a commitment to DEI at all levels?
- As talent pools become generationally and globally diverse, is the company positioned to attract, develop, and retain top talent at all levels?

In addition to monitoring SEC and global rulemaking developments regarding HCM, boards should discuss with management the company's HCM disclosures in the 2023 10-K, including processes for developing related metrics and controls to help ensure data quality. HCM will likely be a major area of focus during the 2024 proxy season given the high level of investor interest in the issue.

Pivotal to all of this is having the right CEO in place to drive culture and strategy, navigate risk, and create long-term value for the enterprise. The recent wave of CEOs stepping down highlights the need to ensure that the company is prepared for a CEO change—planned or unplanned, on a permanent or emergency interim basis.

- How robust are the board's succession planning processes and activities?

- Has the succession plan been updated to reflect the CEO skills and experience necessary to execute against the company's long-term strategy? Those strategies may have changed over the last two years.
- Are succession plans in place for other key executives? How does the board get to know the high-potential leaders two or three levels below the C-suite?

CEO succession planning is a dynamic, ongoing process, and the board should always be focused on developing a pipeline of C-suite and potential CEO candidates. Succession planning should start the day a new CEO is named.

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Think strategically about talent, expertise, and diversity in the boardroom.

Boards, investors, regulators, and other stakeholders remain focused on the alignment of board composition with the company's strategy—particularly director expertise and diversity.

Increased investor engagement on this issue points to a central challenge with board composition: Having directors with experience in key functional areas critical to the business while also having deep industry experience and an understanding of the company's strategy and the risks to the strategy. It is important to recognize that many boards may not have experts in all the functional areas such as cybersecurity, climate, HCM, etc., and may instead choose to engage outside experts.

The introduction of universal proxy voting during the 2023 proxy season increased the focus on individual director qualifications and skill sets, with some activists targeting specific management nominees during proxy fights. We expect that focus to continue in 2024.

The SEC's 2023 regulatory agenda showed April 2024 for the anticipated release of proposed amendments to the proxy rules requiring enhanced disclosures about the diversity of board members and nominees, which means those amendments will not be in effect for the 2024 proxy season. Nonetheless, diversity will remain a priority. According to Spencer Stuart's 2023 S&P 500 New Director and Diversity Snapshot, while specific professional skills are driving director recruitment, diversity of gender, race or ethnicity, and LGBTQ+ remains an important consideration for boards.

Board composition, skill sets, diversity, and renewal should remain a key area of board focus in 2024, as a topic for communications with the company's institutional investors and other stakeholders; enhanced disclosure in the company's proxy; and most fundamentally, positioning the board strategically for the future.

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