



# Directors Quarterly

## Insights from the Board Leadership Center

Q3 2026



### Taking stock at midyear

As we head into the second half of 2026, persistent volatility and the convergence of macroeconomic, geopolitical, technological, and regulatory risks continue to reshape the business landscape. Judgment, resilience, and adaptability remain paramount.

In this edition, we offer insights for boards, including observations from our 2026 KPMG Board Leadership Conference, as they recalibrate their agendas to help companies navigate near-term turbulence and longer-term structural change.

More than 70 percent of directors surveyed for our recent webcast said that their company's strategy is likely to require significant adjustment over the next one to two years. We share insights from directors on how some boards are deepening their engagement in strategy and moving toward more dynamic oversight.

Also in this edition: Evolving investor expectations around engagement for the year ahead, including questions boards should be asking management heading into the proxy off-season; the need to prepare now for quantum-related cyber risks; and a Q&A with SEC Chief Accountant Kurt Hohl on standard setting, audit committee priorities, and the implications of artificial intelligence (AI).



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# Midyear observations on the 2026 board agenda



**Low visibility, persistent uncertainty, and heightened volatility continue to define the global business environment. In the months since we published *On the 2026 board agenda*, the convergence of macro risks and business challenges has become more evident, and more urgent, in boardroom conversations.**

Economic fragility, geopolitical fragmentation, accelerating AI deployment, rapid tariff and regulatory changes, cybersecurity threats, and workforce transformation are interacting and amplifying one another in significant ways. The Iran conflict has deepened this complexity, reshaping geopolitical and market assumptions across sectors. The resulting energy supply shock also serves as a reminder to stay focused on other critical choke points across a company's operating environment (e.g., access to key commodities/materials, capital and liquidity, supplier concentration, cybersecurity breaches, and availability of labor).

Some of this is heavy turbulence to be weathered, but deeper structural change is also unfolding. Not surprisingly, 80 percent of directors we surveyed recently said their company's strategy will likely require a significant adjustment in the next 1–2 years.<sup>1</sup>

For boards, the implication is clear: Macro uncertainty and change have become a full-on governance issue, not just a management challenge. Context, experience, and judgment—the distinct qualities directors bring to the boardroom—will be vital to effective oversight and leadership in the months ahead.

Based on our ongoing work and discussions during the 2026 KPMG Board Leadership Conference, in *Midyear observations on the 2026 board agenda* we offer insights and observations on the following topics that may be helpful as boards calibrate their agendas for the remainder of the year.



Geoeconomic outlook: Confrontation and fragmentation



Cyberthreats intensified by AI and quantum risk



Seeing AI as organizational capacity



Regulatory landscape: Fragmented and in flux



AI, cognitive laziness, and the future of judgment



Understanding the activist investor mindset



In collaboration: AI and the workforce



Resilient leadership and culture

Download **Midyear observations on the 2026 board agenda**.

<sup>1</sup> Source: KPMG Board Leadership Center survey, March–April 2026.

# Strategy oversight amid volatility



**Macroeconomic and geopolitical risks, the rise of AI, and policy shifts on trade, immigration, tax, and more are reshaping the global business landscape. To help their companies navigate the volatility and uncertainty, boards are deepening their engagement on strategy—moving from annual strategic reviews to more continual, dynamic engagement.**

“The level of change and disruption and volatility today is testing all organizations to adapt and to be resilient,” said John Rodi, co-leader of the KPMG BLC. “Companies today are facing a combination of challenges that is perhaps once in a generation.”

Rodi was joined on a recent BLC webcast by Sara Mathew, lead director at State Street, and Susan Chapman-Hughes, director at JM Smucker and Toast, to discuss the changing nature of board engagement in strategy. The following are takeaways from that conversation.

[Watch the webcast replay](#)

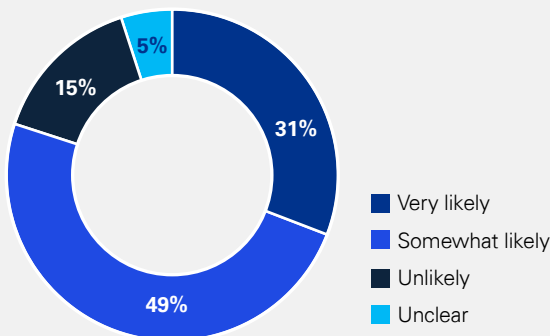
While an annual strategy process made sense when the environment wasn’t changing much, it isn’t sufficient given the current pace of change. “We moved ... to a more dynamic review a couple of years ago to address the pace of change,” said Mathew. “We also added some ad hoc meetings in between scheduled strategy meetings to deal with follow-ups as needed.”

## Moving to more dynamic engagement

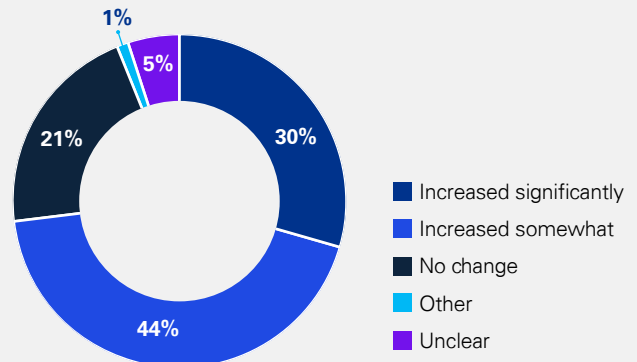
“It used to be that you could set your strategic plan for the next three years and kind of just roll off the playbook, but that is no longer the case given all the things that are happening real-time that are influencing the business growth and decisions,” said Chapman-Hughes.

Among roughly 700 directors surveyed by the KPMG BLC, the vast majority view it as “very likely” (31 percent) or “somewhat likely” (49 percent) that their company’s strategy will require significant adjustment over the next 1–2 years. Most directors responding to the same survey said their board’s involvement in the company’s strategy process has increased over the past 1–2 years.

**In your view, what is the likelihood that your company’s strategy will require significant adjustment over the next 1-2 years? (n=691)**



**To what extent has the board’s involvement in the company’s strategy process increased over the past 1-2 years? (n=705)**



Source: KPMG BLC survey of directors conducted March 31–April 23, 2026. May not equal 100% due to rounding.

Mathew emphasized the importance of integrating both agility and resilience. “If you over-rotate on resilience, over time it can become a substitute for strategy, which is dangerous,” she said. “I also think agility has organizational limits. Very large organizations and companies can’t just pivot on a dime.”

Mathew suggests separating the strategic frame from execution. “Set your overarching strategic objective. Use scenario planning to stress-test the frame,” she said. “At the execution level ... give management latitude to adapt execution without revisiting the frame every time the environment shifts.”

Judgment is required to decide when a change in environment warrants revisiting the frame, rather than just adapting within it, said Mathew. “I think that judgment and the ability to bring the board along is increasingly becoming a core leadership competency for CEOs.”

As companies navigate volatility, boards should ask, “Do you have the right people sitting in the right seats who can help you to deal with this push and pull?” said Chapman-Hughes. “You want to build resiliency and processes and the ability to make sure that you can operate so that you don’t end up going too much on defense or too much on offense.”

“Oftentimes when there is chaos, [there are] opportunities for you to lean into [and] accelerate your business strategy, and the growth of your business,” added Chapman-Hughes. “If you aren’t prepared for those times, then you’re not going to be able to take advantage of those.”

## Noses in, fingers out

A challenge for every board is engaging in strategy without stepping over the line into management’s domain. “Management is responsible for strategy, but the board is also responsible for ensuring it is a *good* strategy, not just *a* strategy,” said Mathew. To find that balance, she said boards should ask, “What does the management need from this board, at this moment, given these conditions?”

Chapman-Hughes added, “It’s important to remember that, in certain circumstances, the management team may want to have more than just your nose in, but you have to follow their lead.” That’s where process comes in. “That’s why you have set up the cadence for how you actually engage and go through strategy,” she said. “If there is a deviation or a problem with the strategy and, for example, the company ends up dealing with an activist or others ... the board needs to be aligned on how to navigate.”

As companies navigate the risks and opportunities associated with AI and AI strategy, which may change rapidly as the technology evolves, Chapman-Hughes cautioned boards not to let it distract too much from the company’s core strategy. “AI ... is an element that you should be considering around strategy. The strategy should be how you’re going to grow the business,” she said. “You can’t lose sight of why you are in business. This is where having an organization that is change-ready, and that is resilient, is really important.”

Understanding and monitoring geopolitical risk is also an imperative for boards as companies sharpen their focus on access to capital, supply chain risks, and resilience. “It’s about having directors who can assess geopolitical risk with the same rigor we apply to financial or operational risk,” said Mathew.

That doesn’t necessarily mean bringing an expert onto the board. “You want directors who are curious, read widely, who engage with ideas outside their domain,” said Mathew. “I think in this environment, those directors maybe are more valuable than someone who has deeper and more static expertise in a single area.”

Leveraging the right external expertise is equally important. “Everything doesn’t have to sit with the board, but you have to be smart enough to know when you need the help and to have the right partners at the table before you need it,” said Chapman-Hughes.

With activism expected to remain elevated in 2026, “every board should be pressure-testing themselves for activism,” said Chapman-Hughes.

“If you’re not navigating through understanding how the landscape is changing, you’re probably ... leaving risk on the table for your organization,” she said. “Preparation ... is really important and boards need to spend time on that.”

“The ability to have ... constructive, confrontative conversations in the room and still be aligned when you come out—that’s a rhythm that’s not going to happen all of a sudden if you have an activist in your stock,” she added. “That rhythm happens because you have set that as the culture in the boardroom well before.”

# Why boards need to double down on shareholder engagement



By Stephen L. Brown

**For nearly a decade, shareholder engagement followed a fairly predictable rhythm. Institutional investors were transparent with portfolio companies about their governance priorities and stewardship and communicated that information widely. Companies responded with thoughtful engagement.**

However, regulatory developments since 2025 have altered that dynamic. The old diplomatic model—built on open dialogue and mutual signaling—has been disrupted. Following changes in US Securities and Exchange Commission interpretations and institutional investor policies, shareholders are now more cautious and more scripted, and, in some cases, may be less willing to voluntarily share their insights. Many investors may now wait for a company to initiate engagement.

Yet the need for shareholder engagement has not diminished, particularly with the extraordinary level of geopolitical, economic, and technological disruption in the market. Below are five questions boards should be asking management about shareholder engagement.

## 1. Who is the company engaging with?

Boards should ask for specificity around this topic. It isn't enough for management to say, "We're meeting with our top shareholders." Which ones? How often? Every shareholder base includes not only a company's largest investors but also its noisiest—those who may own less stock but exert outside influence through proposals, public comments, or visibility in investor forums. Additionally, with respect to noise and impact, boards should ask about stakeholders in addition to shareholders who may exert influence through social media and other outlets. Management

should be able to distinguish clearly between these groups and provide the board with a rationale for engagement priorities.

## 2. How do shareholders perceive the board, not just the company?

Investor relations teams are typically very good at gauging sentiment around company performance, strategy, and earnings. What may be missing is insight into how shareholders view the board itself. Do investors understand the board's composition, oversight of risk, and role in governing emerging issues, such as AI?

Directors should ask: What are shareholders saying about the board as a whole? The board should expect management to gather and relay investor perceptions of how the board oversees key governance issues.

## 3. What issues are truly top of mind for shareholders right now?

The list of governance topics boards oversee has grown longer and more complex. For example, board governance and education around AI are of increasing interest to investors.

Boards should ask management to identify the two or three issues that currently matter most to the company's shareholders. In a regulatory environment where investors may be less forthcoming, focus matters. It is important for management to surface current investor priorities, for example, by looking at public stewardship policies, voting behavior, and industry forums. This requires deliberate effort.

## 4. What's the board's "break-the-glass" plan?

Every board should have a plan that outlines the circumstances under which an independent director would engage with shareholders. That plan should define who would participate, and if a director is to be involved, what preparation is required and what guardrails are needed. Some investors may

expect director engagement only when tensions rise, while others may request it directly. Either way, preparation matters. Training and clarity before the moment arrives may make a difference when it does.

### **5. How is shareholder intelligence gathered?**

If investors are talking less, companies may need to find new ways to gather data. Boards should ask management how they are leveraging public information, industry networks, and investor forums to gather insight.

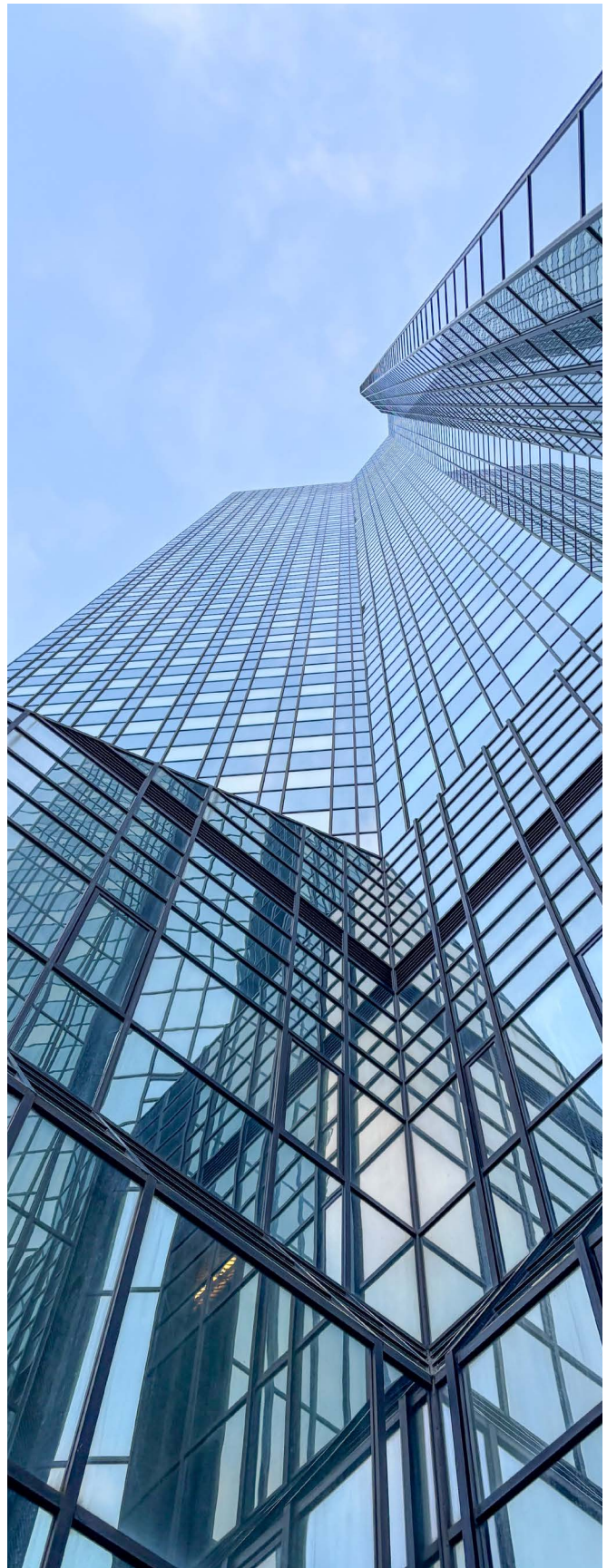
Are representatives from the company's investor relations team and the corporate governance team attending stewardship-focused meetings to hear investors discuss priorities publicly? This kind of intelligence gathering isn't optional; it is a core management responsibility and a board oversight issue.

The bottom line is that shareholder engagement now requires more effort, structure, and creativity than in the past.

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Stephen L. Brown is a senior advisor with the KPMG BLC.

Source: Stephen L. Brown, "Why Boards Need to Double Down on Shareholder Engagement," *NACD Directorship Magazine*, June 2026.



# Prepare now for quantum cyber risk



By Patrick A. Lee and Aaron Kemp

**For decades, quantum computing has been “five years away” from reality, a disruptive technology brimming with potential yet always just out of reach. Recent quantum breakthroughs, however, are changing the game and rapidly accelerating the timeline of when quantum computers could upend current encryption standards.**

As these advancements reshape the quantum cyber-threat landscape, the urgency to implement post-quantum cryptography (PQC)—to secure data files against quantum computing’s powerful code-breaking ability, when it becomes viable—has never been greater.

An important role for the board is to help ensure that quantum computing is explicitly integrated into the board’s oversight of cyber risk and enterprise risk management, including scenario analysis around encryption failure.

## The quantum cyber threat is already active

Companies should prepare now for quantum cyber risk because the threat is active, the transition is slow and complex, and regulatory and investor expectations have effectively started the clock on the race against “Q-day.”

The board should consider the key factors below when assessing the company’s planning.

**The “harvest now, decrypt later” threat exists today.** Adversaries can already intercept and store encrypted traffic and files with the intention of decrypting them once quantum computers are strong enough to break today’s public key cryptography, or the two-key method used to lock and unlock digital information. Any data with a long sensitivity window—trade secrets, health records, national security-related data, or mergers and acquisitions and legal files—may

be compromised years from now based on theft that occurs today.

**Migration to PQC takes time.** Large organizations are deeply dependent on public-key cryptography. Discovering where those algorithms are used, identifying long-lived and critical data flows, redesigning systems for cryptographic agility, testing new algorithms, and then migrating at scale is a multiyear transformation. Waiting until a cryptographically relevant quantum computer is clearly imminent will not provide companies with enough time to migrate to PQC safely.

**Timelines for quantum computing are uncertain but trending toward greater urgency.** With expert assessments increasingly pointing to the arrival of cryptographically relevant quantum computers in the early 2030s, and potentially late 2020s, companies and boards must plan against earlier timelines. The relevant planning horizon is already overlapping with credible quantum timelines, as the data and systems companies deploy today may still be in use 10 to 20 years from now.

**Regulators, standard-setting bodies, and governments are already working on migration.** Governments and standard-setting bodies have started to standardize post-quantum algorithms and issue mandates and road maps for PQC migration across the public sector and critical infrastructure. That creates de facto expectations for companies in the private sector, especially in highly regulated industries, to understand their exposure and have credible transition plans. Organizations that wait to transition will face compressed regulatory timelines, higher compliance costs, and potential scrutiny for failing to act on widely signaled risk.

**Expectations are mounting that companies will be prepared.** Customers, investors, and regulators are increasingly asking whether companies are prepared for quantum-era threats. To reassure stakeholders, companies should be able to demonstrate that they have a concrete road map for migration to post-quantum cryptography.

## Focusing on quantum resilience

Given the scope and complexity of preparing for quantum cyber risk and resilience, directors should recognize that this is a multiyear transition that requires active board and committee oversight, comparable in scale to year 2000 preparations. Therefore, it calls for early strategic planning, cross-functional coordination, and sustained capital investment.

Below are a few key areas the board and its committees should focus on:

- **A quantum risk baseline and cryptographic inventory.** The inventory should identify where quantum-vulnerable encryption is used to protect critical assets, which the National Institute of Standards and Technology calls a “crypto-agility” assessment.
- **The transition road map to post-quantum cryptography.** Transitioning to PQC will be complex and staged, requiring planning over several years. Boards should expect a documented road map from management that aligns with emerging standards. This should be a highly structured program, similar to those that manage other mission-critical risks.
- **Third-party and supply chain quantum readiness.** Quantum risks extend to cloud providers, software vendors, and other service partners whose cryptography underpins the company’s resilience.

- **Governance structure, expertise, and escalation.** Consider whether risk oversight responsibilities across the board and its committees are clearly delineated and aligned with evolving cyber and quantum threats. Boards may require more external briefings so they can probe management credibly on quantum risk.
- **Integration of quantum risk into cyber risk, resilience, and disclosure.** Quantum risk should be incorporated into the company’s broader cyber-risk assessment, incident-response planning, and resilience exercises. Investors and regulators will expect reassurance regarding management’s quantum preparations in the company’s disclosures.

There will be no clear signal that it is “the right time” to adopt quantum safe cryptography. Now is the opportune moment for business leaders to prepare for post-quantum cyber risk and, more broadly, a post-quantum future.

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*Patrick A. Lee is a senior advisor with the KPMG BLC. Aaron Kemp is US Quantum Leader, KPMG LLP.*

*This article first appeared in NACD Directorship Online.*



# Q&A with Kurt Hohl, SEC chief accountant

**Kurt Hohl, SEC chief accountant, spoke with Candy Duncan, audit committee chair at Teleflex and retired partner from KPMG LLP, for the Women Corporate Directors Audit Committee Peer Exchange series in late March. Hohl shared his views on the state of accounting and auditing standard setting, current areas requiring audit committee vigilance, and how technological innovation impacts financial reporting, boards, and regulators. The following discussion has been edited for length and clarity.**

*Hohl's comments below are provided in his official capacity as the Chief Accountant of the US Securities and Exchange Commission (SEC) but do not necessarily reflect the views of the Commission, the Commissioners, or other members of the staff.*



**Candy Duncan: Kurt, thank you for joining us today. Let's start with what compelled you to come out of retirement to rejoin the SEC?**

**Kurt Hohl:** This is a critical time for the capital markets. I've known Chairman Atkins for over 35 years. We worked together during my first tour of duty at the SEC back in the late '80s and early '90s. And when he asked me to take on this role, I thought that this was a great opportunity to make my second contribution to public service.

We have an ambitious agenda that we're looking to accomplish over the next few years, including substantial changes at the Public Company Accounting Oversight Board (PCAOB) as well as engagement in international standard-setting reform. The latter is an area of interest because those accounting and auditing standards are used in the US capital markets fairly extensively.

Here, we'll continue to engage with the Financial Accounting Standards Board (FASB), the International Accounting Standards Board, the International Audit and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA) on developing standards that take into account cost-benefit analyses and are focused on emerging issues.

Of course, AI is a significant area of interest for us. We ask issuers that come to speak with us questions about how they're using AI for financial reporting. We ask auditors about how they're using AI, what are they seeing at their clients, how they are using AI to improve their engagement level audit quality, and how they use AI to monitor their system of quality control. And then we're engaging with regulators, both domestically and internationally, in terms of what use cases they're seeing with AI and how they're overseeing it.

We're also focused on auditor independence. We need to make sure that our independence rules and interpretations continue to be fit for purpose. It's particularly relevant when AI is integrated into the audit service delivery.

**CD: What advice do you have for audit committees as we think about current and future financial reporting? And how are you aligning with other divisions at the SEC, including Corporation Finance and Enforcement?**

**KH:** Engagement is my primary message. When cyberthreats emerged, audit committees were focused on trying to determine their appropriate oversight regarding such threat's actual or potential impact on the quality of the issuer's financial reporting. That is where audit committees are today with respect to AI. They are asking how are companies using AI in their financial reporting function? Does the audit committee know how

the company is using AI? How does it affect financial statement preparation? How are the auditors using AI? What are the auditor independence implications associated with its use? That's a lot to think about for audit committees.

There are also some interesting and novel accounting issues associated with AI in terms of data center leases and power purchase agreements that add complexity and don't fit neatly into current accounting guidance. We continue to elevate those issues to the attention of auditors, preparers, audit committees, the two accounting standard-setters, and other regulators.

Digital assets is also a focus area. Expect to see more coordination between the SEC, Commodity Futures Trading Commission, and the federal legislature to add clarity to the marketplace.

On the enforcement side, Chairman Atkins said recently that we're looking for quality of enforcement actions, not quantity. We're focused on rooting out bad actors in the marketplace and holding them accountable. I think you'll see a higher level of coordination between the SEC and the PCAOB on auditor enforcement cases. We have overlapping mandates in this area.

**CD: What are your views regarding oversight and reform of the PCAOB and their inspections, in particular?**

**KH:** The inspection process really hasn't changed in the 22 years since the PCAOB was established, even though the environment has changed significantly. The standards that apply to auditors today are a lot different than they were when the inspection program was first designed. One of the things that I emphasize is a shift in inspections towards focusing on a firm's system of quality management or quality control.

There was a new standard issued internationally, which is now followed by all the firms in the United States: ISQM1 Quality Control Standard. That has been in place for three years. The PCAOB issued their own quality control standard (QC 1000), which was deferred last year. I expect the PCAOB to act on that soon. Post adoption of these standards, I expect a change in inspection approach to be focused on how the audit firm's leadership supports individual engagement teams in the field and holding leadership more accountable for quality. I think that QC 1000 and ISQM 1 will bring more leadership attention and changes to help ensure that high-quality audits are being performed.

Coinciding with that is probably a change in the future PCAOB inspection reports. I don't know how many people have ever picked up a PCAOB inspection report and were able to understand it or understand its

significance. We're working with the new board to take a look at whether now might be the time, in conjunction with a change in the inspection focus, to change the inspection report to be more suitable to other stakeholders besides the accounting firms that receive it. This is where audit committees can be vocal and help the PCAOB with input on how to make meaningful changes. What kind of information would you like to see? What are some of the challenges you see in terms of how the PCAOB works with audit committees during the inspection process?

**CD: Let's move to international standard setting. What are you seeing there?**

**KH:** When the SEC first allowed the use of International Financial Reporting Standards (IFRS), there was good governance at the IFRS Foundation and there was stability in funding. The IFRS Foundation has been under pressure of late, particularly in the last couple of years when the IFRS Foundation added the International Sustainability Standards Board to its scope.

There is also a challenge in international standard setting for auditing. We have a very complex structure whereby the profession and the Public Interest Oversight Board (PIOB) work together to oversee the development of auditing standards. The PIOB is facing significant financial challenges: It has experienced a decline in the number of sources and their respective contributions. The public accounting profession currently funds over 90 percent of the operations of the international standard-setting bodies (IAASB and IESBA), which raises concerns about independence and objectivity.

We are working with our global counterparts to evaluate how we can solve some of the governance and funding issues to provide investors with confidence in how standard-setting bodies develop high-quality standards that can continue to be used in capital markets.

**CD: What about in the US?**

**KH:** We meet very frequently with the Financial Accounting Standards Board (FASB) to share accounting issues that we see developing in the marketplace. We are encouraged by the standard-setting projects they've undertaken.

One of the things that we also are focused on with the FASB and other standard setters is the concept of materiality of disclosures, and the cost-benefit associated with developing new standards requiring new disclosures. Investors and analysts always want to see more information in the financial statements. But the question is, what is the information that's material? How does it meet the reasonable investor standard?

We're working to better understand what information financial statement users want. How critical it is to their investment decisions. Similarly, another area where we can work with audit committees and companies is how to evaluate the cost to prepare that information. The costs of preparing disclosures are ultimately borne by investors. A robust cost-benefit analysis is something that we want to see in the standard-setting world. An associated challenge is that many of the participants in our financial reporting ecosystem, who are key to achieving accurate and balanced cost-benefit analyses—companies and audit committees—don't necessarily participate at a sufficiently high degree in the standard-setting input process.

The lease accounting standard is an example where preparers weren't sufficiently engaged on implementation cost until after the standard was final. And then they said, "It's going to require system changes. It's going to require more ..."

**CD: How is the Office of the Chief Accountant staying up to date on the use of AI in analyzing and preparing financial reports? Do you have any insights for us as audit committee members?**

**KH:** Don't be afraid. AI can do some wonderful things. I ask every single stakeholder that I speak with about their use of AI because of the opportunities that are available. Some companies are initially telling me, "We're not really using it" ... but when I probe, I discover they are ... from expense reimbursements to three-way matches to reconciliations. And some may be using tools that are using AI and they don't even know it.

I encourage you to work with the management of the companies that you oversee to understand the processes that they go through to identify AI they use, how they're using it, and whether they're over-relying on it. If you don't engage now, you're going to fall behind.

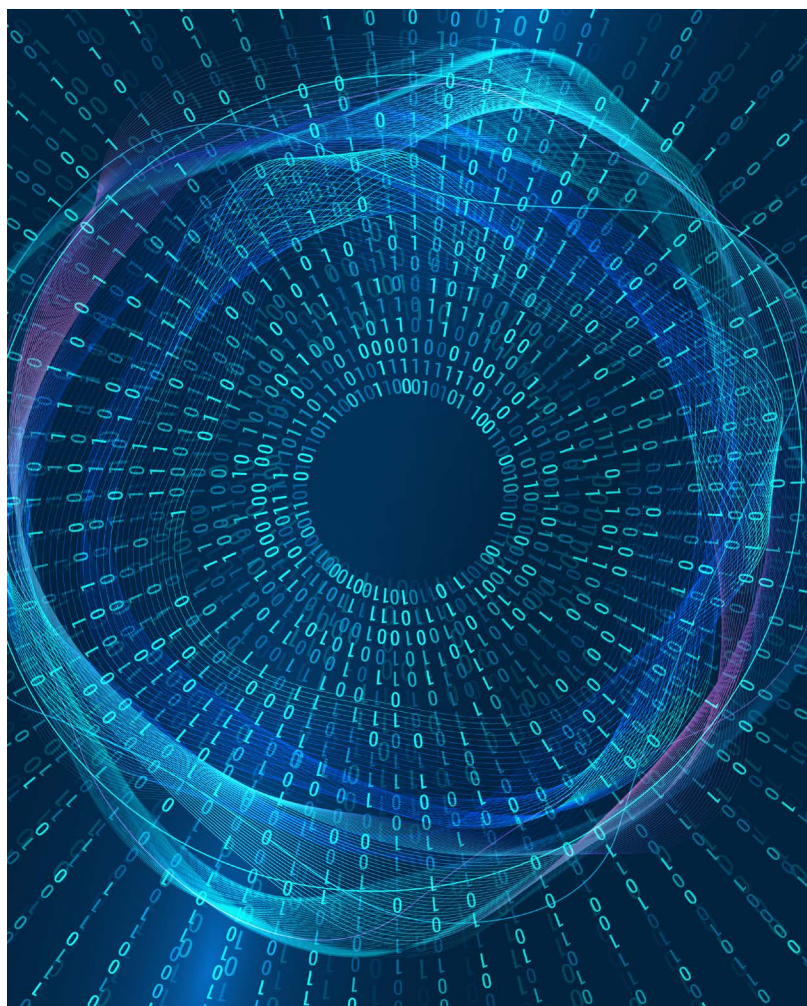
Engage with your auditors too. They have an opportunity to use AI built into their tools to improve their audit quality. It's now possible to load audit files into a tool, and the AI within the tool is able to detect some challenges or anomalies.

We're also looking at whether we need to provide guidance on AI related to issuer disclosure controls and procedures and issuer internal controls over financial reporting.

**CD: One last question on the challenges or emerging risks that you believe will most test the current financial reporting systems over the next five years?**

**KH:** Geopolitical risk is one thing that should be on everybody's mind. But there's not too much that we on the SEC staff can do to control that. Also, the Commission has some robust and ambitious plans on changing public company reporting, I think for the better, whether it be permitting semiannual reporting or disclosure simplification.

The best advice that I can give is to stay engaged. We always welcome stakeholders engaging with us. If there's any uncertainty that you have, my job as a regulator is to listen and help you before it becomes an issue.



# Financial reporting and auditing update



## IEEPA tariff developments: From uncertainty to execution

The refund landscape for tariffs imposed under the International Emergency Economic Powers Act (IEEPA) continues to evolve amid ongoing legal and administrative developments. While refund processing has begun for certain claims, uncertainty persists regarding the scope of eligible claims and the timing of ultimate recovery. These developments are driving the need for significant judgment related to the timing of refund recognition as well as considerations related to financial statement presentation and related disclosures.

Companies continue to face practical questions around when to recognize refunds, how much to record, and where to present them in the financial statements, as well as around the broader effects on operations, contracts, and disclosures.

Read our [Quarterly Outlook](#) for more details regarding tariff developments and related financial reporting considerations, including:

- An update on the refund landscape
- Accounting for tariff refunds: Applying established frameworks of the loss recovery model and the gain contingency model
- Financial statement presentation of tariff recoveries

## Ongoing conflict in the Middle East – Impacts to financial reporting

Geopolitical conditions in the Middle East remain fluid, with elevated tensions and intermittent military activity involving Israel, Iran, and US forces continuing to reshape the regional operating environment. These developments have contributed to airspace restrictions and disruptions to Red Sea maritime trade routes, prompting some global supply chains to reroute and absorb higher transportation and insurance costs.

Renewed volatility in energy markets has also increased uncertainty for companies with direct or indirect exposure to the region, requiring management to reassess assumptions underlying forecasts, asset recoverability, and operational continuity.

The ongoing developments may have implications for financial reporting under US GAAP or IFRS® Accounting Standards, especially for entities with operations, customers, suppliers, or other dependencies in affected areas. Potential areas of impact may include:

- **Cost structures and margins.** Volatility in oil, natural gas, or transportation costs may affect production expenses, inventory valuation, or contract profitability.
- **Supply chain and contract disruption.** Shipping delays, rerouting, or the invocation of force majeure provisions may affect revenue recognition, contract costs, or the assessment of onerous arrangements.
- **Asset valuation and recoverability.** Physical assets or right-of-use assets located in, or economically dependent on, the region may require heightened monitoring for indicators of impairment.
- **Liquidity, credit risk, and disclosures.** Increased uncertainty may affect customer collectability, counterparty credit risk, and the scope of risk factor and subsequent-events disclosures.

Companies should identify relevant risks and uncertainties arising from these conditions; evaluate their potential effects on recognition, measurement, and disclosure; and consider whether incremental transparency is warranted as facts and circumstances evolve.

## SEC proposes optional semiannual interim reporting framework

The SEC proposed **amendments** to its periodic reporting framework that would permit domestic reporting companies to satisfy interim reporting requirements on a semiannual basis as an alternative to quarterly reporting on Form 10-Q. The proposal would introduce a new Form 10-S and make related conforming amendments to Regulation S-X and other rules to accommodate optional semiannual reporting.

Key aspects of the proposed reporting framework include:

- **Optional semiannual reporting**
  - Exchange Act reporting companies subject to Sections 13(a) or 15(d) would be permitted to file one interim report covering a six-month fiscal period.
  - Quarterly reporting would remain available, as the default framework, for companies that choose to maintain existing reporting practices.
- **New Form 10-S**
  - Companies electing semiannual reporting would file interim information on Form 10-S.
  - The form would generally include the same categories of financial information and narrative disclosures as Form 10-Q, adjusted for a six-month period.
  - Filing deadlines would be 40 or 45 days after the semiannual period end, depending on filer status.
- **Election of reporting frequency and conforming changes**
  - Companies would elect an interim reporting frequency annually through a check box on Form 10-K, with the election fixed for the subsequent fiscal year.
  - Financial statement age requirements in registration statements would be streamlined to align with the elected reporting frequency.

The ability to report semiannually could have broad implications for financial reporting oversight, investor communications, and capital markets readiness. Reporting companies may need to perform entity-wide assessments to evaluate how a change in reporting frequency could affect the availability and comparability of interim information, the operation of disclosure controls and procedures, and reliance on other disclosure mechanisms such as earnings releases. Companies will also want to consider whether the optional semiannual framework aligns with their reporting objectives, governance and oversight practices, capital raising activities, and investor expectations.

The proposal applies to Exchange Act reporting companies that currently file quarterly reports on Form 10-Q and new registrants seeking to access the capital markets through IPOs.

The comment period ends July 6.

## SEC proposes to simplify filer status framework

The SEC has proposed **amendments** that would significantly simplify the filer status framework for domestic reporting companies. The proposal would increase public float and seasoning thresholds for large accelerated filers (LAFs), eliminate certain existing filer categories, and expand scaled reporting and disclosure accommodations to a broader population of issuers.

Companies may wish to consider how the proposed filing status framework could change their current designation and affect related reporting and regulatory compliance requirements.

The proposal aims to replace the current multi-tiered filer status framework with a more streamlined structure intended to reduce complexity and compliance burden.

- **Simplified filer structure.** Companies would be classified into two primary categories—LAFs and non-accelerated filers (NAFs)—with the accelerated filer and smaller reporting company categories eliminated.
- **Expanded accommodations.** Disclosure and reporting accommodations currently available to smaller reporting companies and emerging growth companies would generally be extended to all NAFs.
- **New sub-category.** A “small non-accelerated filer” sub-category would be introduced within NAFs, providing extended filing deadlines for the smallest registrants.

If adopted, the proposed amendments would have meaningful reporting and compliance effects for many companies, including:

- **Reduced ICFR auditor attestation.** Many companies currently subject to Section 404(b) of the Sarbanes-Oxley Act could move to NAF status and no longer require auditor attestation of internal control over financial reporting (ICFR).
- **Broader use of scaled disclosure.** More companies would qualify for reduced disclosure requirements and extended filing timelines.
- **Simplified annual assessment.** Companies would no longer need to evaluate overlapping filer categories and transition thresholds each year.

The proposed amendments would apply to domestic issuers subject to Exchange Act reporting under Sections 13(a) or 15(d), including new registrants seeking to access the capital markets through IPOs. They would not apply to asset-backed issuers, registered investment companies, or foreign private issuers using foreign reporting forms. The comment period ends July 20.

## Sustainability reporting

### US developments

On May 20, the California Air Resources Board submitted its initial regulation to implement California's climate laws to the Office of Administrative Law (OAL) for review and approval. The OAL has 30 working days to complete its review and approve the regulation. Once approved, the regulation will be law once filed with the California Secretary of State for it to become effective. This regulation establishes key definitions and fee calculations that underpin the scoping of SB-253 (greenhouse gas (GHG) emissions) and SB-261 (climate risks) along with an August 10, 2026, deadline for first SB-253 reporting.

Also in May, the SEC proposed to rescind its climate rule in its entirety. The rule was originally adopted in March 2024 but was quickly met with legal challenges from multiple stakeholders, prompting the SEC to issue a stay in April 2024 that remains in effect and has effectively paused implementation. Despite this stay and the proposed rescission, compliance with existing disclosure requirements under Regulation S-K remains important and can result in climate-related disclosure being required.

### European Union developments

In May, the European Commission (EC) published its **final draft delegated regulation** amending the European Sustainability Reporting Standards (ESRS). This final draft closely aligns with the technical advice prepared by the European Financial Reporting Advisory Group, which was submitted to the EC in December 2025. With the feedback period now closed, the EC intends to finalize and adopt the revised standards by mid-2026. Once adopted, the standards will undergo scrutiny by the European Parliament and European Council for up to four months. After this review process, the standards will be published in the Official Journal of the European Union and will enter into force.

Also in May, the EC released for public comment its draft Voluntary Standard for smaller companies, which would set a limit on the information that can be requested from small companies in the value chain of larger companies applying ESRS. The EC plans to adopt the delegated regulation in the summer of 2026.

### GHG Protocol

The GHG Protocol is in the process of developing a new **Actions and Market Instruments Standard**. In May, it published a white paper that proposes the introduction of a multi-statement accounting and reporting structure for GHG reports. This white paper, and feedback received on it, will form the basis for a draft standard, expected to be released in Q3 2027.

*For more details about these and other issues potentially affecting companies and boards in the current period or near term, see the **Q2 2026 KPMG Quarterly Outlook**.*

# Mark your calendar

## Audit committee workshop—NACD Directors Summit™ 2026

*October 11, National Harbor, MD*

Sponsored by the KPMG BLC, this workshop will explore timely issues and leading practices in audit committee and board oversight, featuring an array of insights and perspectives, including audit committee members, subject-matter experts, and other stakeholders.

To register, visit [nacdonline.org](https://nacdonline.org).

## Board leaders track—NACD Directors Summit™ 2026

*October 12, National Harbor MD*

Sponsored by the KPMG BLC, this series of sessions will bring together lead directors and independent chairs to share their insights and ideas. Experienced boardroom leaders and subject-matter experts will explore effective practices in boardroom leadership as well as timely issues and challenges.

To register, visit [nacdonline.org](https://nacdonline.org).

## Webcast replay: Lessons from the 2026 proxy season

Watch the KPMG BLC June 25 webcast on the 2026 proxy season. Speakers include Freshfields Partners Elizabeth Bieber and Pamela Marcogliese and KPMG BLC Senior Advisor Stephen Brown.

To register, visit [watch.kpmg.us/BLCwebcast](https://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](https://listen.kpmg.us/BLCpodcast).

# Selected reading

[AI governance principles for boards](#) *KPMG International*

[Conversations with audit committee chairs](#) *PCAOB*

[Do boards need AI experts?](#) *Debevoise & Plimpton LLP*

[2026 CEO and board confidence monitor](#) *Heidrick & Struggles*

[2026 Global AI in Finance Report](#) *KPMG International*

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