Directors Quarterly

Insights from the Board Leadership Center

Q4 2025

AI optimism buoying CEO confidence

Despite ongoing economic uncertainty, optimism in AI is buoying CEO confidence: 74% of US CEOs say AI is a top investment priority, and they are accelerating their expectations for return on AI investments, according to the KPMG **2025 US CEO Outlook**.

In this edition, we provide insights and observations on the artificial intelligence (AI) landscape—where many companies are on their AI journeys and areas for board focus as companies deploy AI and AI agents.

Amid the unprecedented turbulence, uncertainty, and speed of change that have defined 2025, we offer considerations for directors to keep in mind as boards look to help ensure the company's culture can stand up to pressure.

We also share findings from our survey of nearly 275 private company directors, including their views on the strategic planning process, scenario planning and risk analysis, and GenAI, and where they believe their boards can add the most value.

Our financial reporting and auditing update covers the ongoing effects of US tariffs, key corporate provisions of H.R. 1, "One Big Beautiful Bill Act," leadership changes at the SEC and PCAOB, the SEC's regulatory agenda, the latest on sustainability reporting proposals, and other developments that audit committees should have on their radars.

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What's inside

AI: Looking for ROI, moving toward agency

Boardroom perspective

AI has continued to capture the attention and imagination of companies, policymakers, and society at a remarkable pace. At the 2025 AI Summit in Paris, technology leaders proclaimed that "AI will be the most profound shift of our lifetimes" and that AI will lead to the "largest change to the global labor market in human history."

For many companies and their boards, the opportunities and challenges are stacking up, and the technology's advance is waiting for no one.

As AI reshapes the landscape and becomes ever more critical to a company's strategy and competitive position, a top priority for boards today is to understand where this is all headed—the state of AI, the technology's pace and direction, and where management and the board should be focusing their attention to capitalize on AI's value-creation opportunities.

Based on our recent surveys and conversations with directors, AI experts, and business leaders, we offer insights and observations on the AI landscape, where many companies are on their AI journeys, and where they are likely to go in the near and long term as the technology continues to evolve.

In addition, as companies increase their deployment of AI and agents, we emphasize four critical areas of board focus:

- Full implementation of GenAI
- Deployment of AI agents
- Return on investment and the bottom line
- The people aspect

Read **AI: Looking for ROI, moving toward agency**.

Key survey findings: 2025 Boardroom Lens on AI

Below are select findings from our 2025 survey of nearly 100 US directors on the key challenges and opportunities related to GenAI.

- **Top benefits of the company's adoption and leveraging GenAI:** Optimization of the company's operations (75 percent); development of new products, services, or line(s) of business (12 percent); and increased revenue from existing products and services (9 percent)
- **State of GenAI adoption:** Integrated into their company's strategy (16 percent), company is piloting the technology selectively (41 percent), company starting to scale GenAI (25 percent)
- **Most significant obstacles facing the company in its deployment of GenAI:** New skills and talent (47 percent); need for workforce transformation, including retraining and/or workforce reductions (42 percent)

KPMG BLC, **2025 Survey: Boardroom Lens on Generative AI**, March 2025.

Financial reporting and auditing update

Ongoing effects of US tariffs on accounting and financial reporting

In Q3 2025, trade policy developments have clarified certain tariff measures, though significant uncertainty persists around their scope, duration, and regulatory enforcement. Our Q2 Quarterly Outlook highlighted emerging themes that remain relevant for assessing the financial reporting implications of tariffs.

Access our Financial Reporting View (FRV) web page for more on the effects of tariffs on accounting and financial reporting. In addition, our updated Handbook: Accounting for economic disruption, provides more detailed discussion and is a useful tool for evaluating some of these potential effects.

Tax cliff averted with One Big Beautiful Bill

With the expiration of many of the 2017 Tax Cuts and Jobs Act (TCJA) provisions in 2025 (commonly referred to as the tax cliff of 2025) new income tax legislation in 2025 was a matter of when, not if. H.R. 1—the budget reconciliation bill known as "One Big Beautiful Bill" (the bill)—was signed into law on July 4, 2025. Many of the corporate provisions in the bill extend or modify existing tax provisions under the TCJA, including domestic and international tax laws. In addition, the bill either repeals or modifies many of the clean energy tax credits from the Inflation Reduction Act of 2022. The bill preserves the corporate income tax rate of 21 percent.

The key corporate tax provisions are summarized in more detail in our Hot Topic and Podcast.

SEC announces key leadership changes

The SEC appointed Kurt Hohl as Chief Accountant, effective July 7, 2025. Hohl returns to the commission after a distinguished career at Ernst & Young and a prior tenure at the SEC, where he authored the foundational Financial Reporting Manual. Hohl succeeds Paul Munter, who stepped down in January. Ryan Wolfe, who had been serving as Acting Chief Accountant, returns to his role as Chief Accountant in the Division of Enforcement.

Other recent appointments include James Moloney as the Director of the Division of Corporation Finance; Judge Margaret "Meg" Ryan as the Director of the Division of Enforcement; Kevin Muhlendorf as SEC Inspector General; Erik Hotmire as Chief External Affairs Officer and Director of the Office of Public Affairs; Brian Daly as Director of the Division of Investment Management; and Jamie Selway as Director of the Division of Trading and Markets.

These appointments come as the SEC shifts toward a more market-driven regulatory approach under Chairman Paul Atkins, with a streamlined rulemaking agenda and organizational restructuring.

SEC releases Spring 2025 Regulatory Agenda

On September 4, the Office of Information and Regulatory Affairs published the SEC's Spring 2025 Regulatory Agenda. SEC Chairman Paul Atkins announced a renewed focus on innovation and the commission's core mission: investor protection, market efficiency and capital formation. Key priorities include establishing clear rules for crypto assets (covering issuance, custody, and trading), launching deregulatory efforts to ease compliance and improve access to private markets, and reevaluating the consolidated audit trail due to concerns over cost and data security. The agenda signals a more restrained, market-driven regulatory approach, with the SEC expected to revise disclosure rules and guide crypto-related policy.

Sustainability reporting – Clarity begins to emerge

The third quarter of 2025 has seen clarity begin to emerge as multiple sustainability reporting proposals take shape or have been released for public comment.

In the US, the California Air Resources Board (CARB) continues its commitment to transparency as it develops regulations. And although the SEC's climate rule is a thing of the past, the SEC's longstanding guidance on disclosures related to climate change remains relevant. Internationally, the EU's Omnibus initiative continued at pace and the International Sustainability Standards Board (ISSB) released more guidance and proposals ahead of 2026 reporting.

California climate laws

CARB held its second public workshop in August, providing further transparency about its thinking as it develops regulations and guidance that will underpin the state's climate disclosure laws. CARB expects to announce draft regulations on October 14—covering at least scoping and fees—that will be open for public comment until November 30, with final regulations released in December.

Highlights from the workshop—representing CARB's latest thinking and subject to input and change ahead of the exposure draft being released—include the following:

- The first SB-253 (GHG emissions) reports would be due by June 30, 2026. A draft template with proposed data fields will be published for public input.
- CARB's expectations for disclosure under SB-261 (climate risk reporting) are a minimal version of a Task Force on the Climate-related Financial Disclosures report with the following noteworthy points: opportunities would be included in reports, formal scenario analysis is not required, and GHG emissions could be excluded from the first report. Following the workshop, CARB published a draft checklist for preparing disclosures under SB-261.
- Based on questions raised in the workshop, it was clear that staff have not yet considered the extent to which the parent company relief provision can be satisfied with a consolidated report of a non-US parent.

For more details, visit our California digital hub.

EU developments

This quarter's most significant EU development is the release of proposed revisions to European Sustainability Reporting Standards (ESRS); comments were due by September 29. The aim of these revisions is to simplify ESRS, striking the right balance between stakeholder needs and the costs to preparers while maintaining the spirit of the EU Green Deal.

ISSB™ developments

As a number of jurisdictions move closer to first reporting under IFRS® Sustainability Disclosure Standards, the ISSB has issued guidance on transition plans and the disclosure of anticipated financial effects. This follows ISSB's guidance on materiality assessments.

The ISSB has proposed significant amendments to the SASB Standards as part of supporting the high-quality implementation of IFRS Sustainability Disclosure Standards, which require industry-based disclosures; comments are due by November 30. The proposals would affect how companies determine what to disclose and set the tone for the ISSB's approach to industry guidance. In addition, with the European Financial Reporting Advisory Group no longer moving ahead with sector standards to support the application of ESRS, the final amendments are likely to have wider influence on sustainability reporting.

PCAOB postpones the effective date of QC 1000

On August 28, the PCAOB announced a one-year postponement of the effective date for QC 1000, A Firm's System of Quality Control, and associated new and amended standards, rules, and forms. Originally set to take effect on December 15, 2025, the new effective date is now December 15, 2026.

The delay is in response to feedback from various sources indicating that some firms have faced significant implementation challenges that may not be resolvable within the original 15-month implementation period. The PCAOB believes that the additional year will allow those facing these challenges sufficient time to overcome them.

The PCAOB emphasized that no changes have been made to the content of the new and amended standards, rules, and forms. Firms may still voluntarily adopt the requirements of QC 1000 early, except for the requirements to report to the PCAOB on the evaluation of the firm's quality control system.

The countdown for new income tax disclosures

Public companies should be preparing to adopt ASU 2023-09, Improvements to Income Tax Disclosures, this year end. Among other things, the ASU significantly expands annual income tax disclosures by requiring much greater disaggregation of a company's effective tax rate and income taxes paid during the year based on certain prescribed categories.

To prepare for adoption—a significant undertaking—companies should be executing on their implementation strategy. See our Hot Topic and recent webcast.

For more detail, see the KPMG Q3 2025 Quarterly Outlook.

2025 Private company board survey

Private company board survey

To gain a better understanding of the challenges facing US private company boards in their oversight of strategy—given the pace of change, disruption, and uncertainty—the KPMG BLC surveyed nearly 275 private company directors.

From the board's perspective, what are the most challenging aspects of strategic planning for management in this environment? Where can boards add the most value—both in the strategic planning process and in scenario planning?

Two years ago, in our 2023 Private Company Board Survey, nearly two-thirds of directors said that the greatest opportunity for improvement in board oversight was in strategy. Given the current business environment—from new policies on tariffs and trade, recession and inflation risks, and ongoing wars to cybersecurity threats and the transformative implications of AI—our 2025 survey takes a closer look at the challenges boards face in oversight of strategy and where they can add the most value.

> **"There should be a more robust review about the strategic plan as it evolves and changes."**
>
> *—Independent director for an employee-owned company*

*The **full report** includes quotes from directors, aggregate survey findings, participant demographics, and a detailed appendix by role and company ownership, revenue, and sector.*

How does your board add the most value in the strategic planning process? Select up to 3.

50% Challenges strategic assumptions

48% Provides fresh perspectives—on markets, competitors, customers, trends, and more

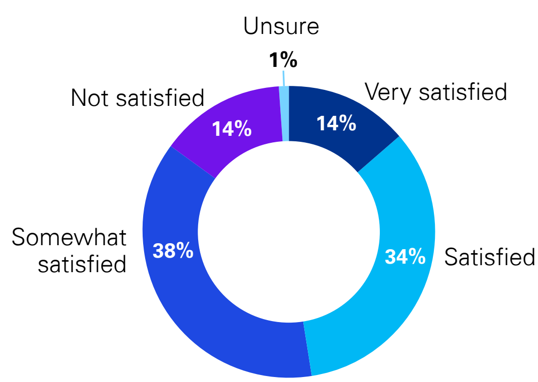
46% Works with management to help identify potential opportunities and risks

36% Helps ensure alignment of strategy, risk, controls, incentives, and culture

34% Monitors strategic execution

3% Other

How satisfied are you that management's scenario planning process adequately identifies and quantifies the risks to the company's strategy—so that management can develop plans to address these risks?



Note: Does not equal 100% due to rounding.

Source: KPMG BLC, 2025 Private company board survey insights, September 2025.

Corporate culture under pressure: What boards can do

By John H. Rodi

As an intangible asset, corporate culture is often hard to value and gauge until it is put to the test. The unprecedented turbulence, uncertainty, and speed of change that have defined 2025 are doing just that.

From the Trump administration's tariff policies and related economic stress to AI-related workforce disruptions and anxieties, employee disengagement, and the erosion of trust in institutions and information, conditions that may strain corporate culture are likely to persist. Strategic agility, smart risk-taking, and resilience—which are vital in the current operating environment—all hinge on corporate culture.

Many boards have intensified their focus on corporate culture in the years following the #MeToo movement and during the COVID-19 pandemic. Nonetheless, the brighter spotlight on earnings and the heightened pressure to meet performance targets, along with workforce anxieties and the disruption of business models and workplace norms, should prompt boards to sharpen their oversight of company culture.

The following are considerations for directors as they look to help ensure the company's culture can stand up to pressure.

Tone at the top

To start, directors should work with management to help ensure the fundamentals are in place and visible to employees at all levels of the organization.

These fundamentals include robust risk management processes and ethics and compliance programs, employee training, a whistleblower hotline, and, most importantly, the tone at the top. Reinforcing ethical conduct and integrity and ensuring the company's culture uplifts transparency, accountability, and responsiveness to stakeholder expectations are the keys to build and maintain trust and protect the company's reputation.

Holding leaders accountable not only for results but also for how they achieve those results conveys to all employees what is expected and what is rewarded. Beyond setting the tone for behaviors and values throughout the company, the CEO and senior management are responsible for creating a culture that aligns with the company's strategic goals. Corporate leadership, particularly the CEO, should be visible and approachable.

Directors should recognize that while having the systems and processes in place to report wrongdoing are must-haves, if the culture and power dynamics in the organization are misaligned, or if there's an implicit penalty for speaking out, even the best processes may fall short. Employees should feel empowered to speak up, ask questions, and raise difficult topics without fear of retaliation.

Boards also should be sensitive to the potential impact of CEO turnover on culture, especially when changes are unplanned or frequent.

Understanding the company's actual culture

Written corporate values may not reflect the unwritten rules of how things are actually done. Understanding the behaviors that are key to the execution of strategy, the incentives driving them, and whether those behaviors are, in fact, taking place is essential to leverage culture as a source of stability, resilience, and competitive advantage.

Board members should look beyond the tone at the top to understand how company culture looks from the viewpoint of employees at the mid- and lower levels. Reviewing findings from employee surveys, investigations, and hotline reports can help identify yellow and red flags.

Recognizing that every organization has blind spots, management should have mechanisms in place for problems to be raised to the board, when appropriate, so that they can be addressed in a timely manner.

Directors should also consider the ways in which AI may support how a company monitors culture-related indicators; it may be helpful with analyzing employee sentiment in surveys and on social media or identifying potential issues related to employee turnover and engagement. When using a dashboard for reviewing culture-related information and metrics, boards should keep in mind that these dashboards may lack context and consider the information as signals that may require a deeper look.

In addition, it may be helpful for boards to spend time outside the boardroom and corporate headquarters. We continue to hear from directors that there is tremendous value in spending unstructured, unmanaged time visiting company plants and facilities. Directors should watch for the presence of "subcultures" that can develop in different business units and functions, which may positively or negatively affect the company's overarching culture.

A few hours with a local management team and interfacing with employees can offer board members a clearer picture of company culture and whether it aligns with discussions in the boardroom and with management.

Maintaining critical alignments

Directors should assess whether incentive structures and performance management systems reinforce the desired culture and behaviors or encourage excessive risk-taking. A healthy culture can help companies maintain the critical alignment of strategy, risks, talent, and internal controls, particularly during periods of major disruption and uncertainty.

To that end, the audit committee should help ensure that internal audit's annual audit plan includes a culture and values assessment to evaluate whether employee behaviors align with stated corporate values and to identify areas for improvement. This alignment should be assessed in the following areas.

Decision-making. Directors should evaluate whether the company's values, including those related to safety, ethics and compliance, customer service, and civility in the workplace, are clear, effectively communicated, and reinforced. Is it clear that the company will stand behind employee decisions that are grounded in the company's values? This is particularly important in light of the decline in employee trust globally: While business continues to be the most trusted institution today, the *2025 Edelman Trust Barometer: Trust and the Crisis of Grievance* reports that 75 percent of employees now trust their employer to "do what is right," down three percentage points from the previous year.

Risk awareness. Fostering a risk-aware culture that encourages timely identification, escalation, and discussion of risk issues and supports effective risk management beyond formal controls and procedures is essential. This is particularly important, from an oversight perspective, given the increased focus on scenario planning and the calibration of strategy and risk in light of sweeping policy changes, geopolitical volatility, and AI-related disruption.

Talent. Linked to these areas of critical alignment is, of course, the talent needed to calibrate and carry out the strategy, spot risks and opportunities, and lead. Voluntary turnover at companies with high-trust cultures is less than half of the US turnover rate, according to the 2025 Great Place to Work report, *How High-Trust Culture Drives Business Success;* in a volatile environment, it is important to note the impact of such cultures.

Considering the implications of AI

Along with understanding the efficiencies and opportunities offered by AI, the board should help ensure that management considers the potential risks, which may undermine or alter corporate culture. Such risks include job displacement and workforce restructuring anxiety, the erosion of trust and transparency, data privacy and security concerns, bias and discrimination, the spread of misinformation, and the weakening of ethical standards in the absence of robust AI guardrails and oversight.

Prioritizing culture as a corporate asset

The financial impact of a reputational hit to a company is a stark reminder of the link between a company's culture and its brand identity and value in the marketplace. On average, share prices drop 35.2 percent and take 425 days to recover to pre-crisis stock levels, according to Australian strategic communication firm SenateSHJ's *The Financial Fallout of Corporate Crises: Revealing Insights from the Crisis Index 300* report.

Productivity and performance can also be tied to the culture. Heidrick & Struggles' 2021 survey report, *Aligning Culture with the Bottom Line: How Companies Can Accelerate Progress*, shows that companies led by CEOs who intentionally prioritize culture as a top driver of financial performance—and clearly link culture to strategy—achieve financial performance that is significantly better than other companies.

As one of the company's major assets, corporate culture should be a regular topic of board discussion throughout the year to help ensure ongoing attention and responsiveness to cultural shifts.

Directors should also take a hard look at the board's own culture and expectations. In the 2025 NACD Trends and Priorities Survey, the candor of conversations between board members and the candor of board-management discussions were cited as the elements of board operations and board-management relations that directors deemed important or very important areas for improvement.

Understanding, monitoring, reinforcing, and calibrating corporate culture requires time, focus, and intention. Prioritizing corporate culture as a strategic asset to the business, with real implications for corporate performance, is pivotal as companies navigate ongoing disruption and uncertainty.

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Mark your calendar

KPMG BLC Quarterly Webcast

October 30, Virtual

Join the KPMG BLC and Eurasia Group for our quarterly webcast on the intersection of geopolitics, AI, and the board.

To register, 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**.

2025 LCDA Board Leaders Convening

November 12–14, San Francisco, CA

Join KPMG at the Latino Corporate Directors Association (LCDA) 10th Annual Board Leaders Convening for LCDA members and Latino business leaders at the pinnacle of corporate leadership and governance. This invitation-only event features dynamic panels, peer exchanges, and timely discussions on emerging trends in corporate governance.

To register, visit **latinocorporatedirectors.org**.

KPMG Annual Accounting & Financial Reporting Symposium

December 3–4, Las Vegas, NV

Designed for financial executives, the 35th Annual Symposium will include sessions on FASB and SEC developments, audit committee issues, US legislative and federal tax updates, the economy, technical accounting topics, and emerging technologies.

To register, visit **kpmg.com/us**.

Selected reading

The geopolitics shaping AI: A boardroom perspective *KPMG BLC & Eurasia Group*

Effects of tariffs on SEC quarterly disclosures *KPMG Financial Reporting View*

Onboarding new directors *Debevoise & Plimpton via HLS Forum*

The overlooked elements of executive pay *Meridian*

Trends in board leadership structures *Cooley*

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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 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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