Directors Quarterly

Insights from the Board Leadership Center

July 2024

Board oversight under pressure

Ongoing wars abroad, political division and election year uncertainty in the United States, along with continuing state, federal, and global regulatory discord on sustainability and artificial intelligence, among other issues, are just some of the factors shaping the business landscape in the months ahead. While board directors have had a crash course in operating under pressure in recent years, asking tough questions, particularly regarding management's scenario planning and preparedness, remains critical—and challenging.

The acceleration of generative artificial intelligence (GenAI) is putting a sharp focus on effective board oversight. In this edition of *Directors Quarterly*, we offer areas for boards to probe with management as they try to separate the hype from reality and navigate unfolding regulatory developments.

Even with the stay of the Securities and Exchange Commission's (SEC) final climate-related disclosure rules, pressure from investors, stakeholders, and other regulators continues to drive momentum on disclosure. Companies may be subject to disclosure under state laws (with California leading the way), as well as international laws and standards, including the European Union Corporate Sustainability Reporting Directive (CSRD). We highlight areas of focus for boards and audit committees as companies determine how best to structure their compliance and disclosure programs for new disclosure requirements.

Our financial reporting and auditing update highlights recent developments on sustainability reporting and disclosure regulations, along with developments from the Public Company Accounting Oversight Board (PCAOB) and SEC.

We also explore voting trends and outcomes from the recent proxy season, which saw an increase in shareholder proposals and in requests for no-action relief. Finally, our Q&A with Yumi Narita, executive director of Corporate Governance at the New York City Office of the Comptroller, provides insights into how the New York City pension funds evaluate proxies, engage with directors, and establish their positions.

John H. Rodi
Leader
KPMG Board Leadership Center (BLC)

What's inside

2 Financial reporting and auditing update

4 Board oversight of GenAI

6 Oversight of climate disclosures

8 Proxy season highlights

11 An asset owner view on shareholder engagement

© 2024 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. USCS015731-2A

Financial reporting and auditing update

Current quarter financial reporting matters

SEC stay, other developments in sustainability reporting

While the biggest news in Q2 on sustainability reporting was the SEC's stay of its climate rule, there have been other significant updates in sustainability reporting and disclosure regulations that are relevant to US companies, as highlighted below.

US developments

As noted in our April *Directors Quarterly* update, the SEC issued an **order** on April 4 to stay its final climate rule to provide sufficient time for the upcoming judicial review. In a subsequent court filing, the SEC stated it will address a new effective date for the climate rule when the stay is lifted. Companies should nonetheless continue their efforts toward sustainability reporting because many provisions of the SEC's rule align with other reporting regimes, such as California's climate laws and international standards.

The May revision of California's proposed budget allocated funds for the California Air Resources Board to operationalize the state's climate laws on the disclosure of greenhouse gas emissions (SB-253) and climate risks (SB-261). Those laws come into effect in 2026 (FY25 data), but **proposed amendments** would push that date to 2028. In addition, an amendment to the carbon offsets law would postpone the effective date of those disclosures to January 1, 2025 (currently January 1, 2024, and already in effect).

EU developments

As implementation of European Sustainability Reporting Standards (ESRS) progresses, the European Commission (EC) has delayed the adoption deadline for sector-specific standards by two years to June 30, 2026. The EC has also delayed the deadline for adopting non-EU parent disclosure standards by two years to June 30, 2026; this delay on the EC's part has no impact on the FY28 effective date for non-EU parent reporting.

The EU's Corporate Sustainability Due Diligence Directive (CSDDD) has been formally adopted by the Council of the EU. The CSDDD aims to regulate activities within supply chains, introducing new laws to prevent and mitigate environmental and social risks. Non-EU companies, including many from the US, would be impacted if they meet certain scoping criteria.

Other international developments

The International Sustainability Standards Board (ISSB) finalized its **agenda priorities** for the next two years. It will focus on implementing its first two standards (general requirements and climate) and helping companies report on topics beyond climate. It will also enhance the Sustainability Accounting Standards Board (SASB) Standards and begin new research projects on biodiversity, ecosystems and ecosystem services, and human capital.

Interoperability between standards

The ISSB and the European Financial Reporting Advisory Group published joint guidance on the interoperability between ISSB Standards and ESRS, comprising a detailed, bottom-up analysis of the climate-related disclosure requirements in the ISSB's climate standard and the corresponding requirements in ESRS. The guidance is an important milestone that highlights significant synergies and allows companies to confidently move forward with gathering data and preparing disclosures.

KPMG

© 2024 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. USCS015731-2A

PCAOB adopts new standards on auditor responsibilities and quality controls

In May, the PCAOB adopted two new standards (and related amendments) that govern the auditor's role and responsibilities and set out enhanced requirements for quality control at audit firms.

AS 1000 (General Responsibilities of the Auditor in Conducting an Audit) enhances and consolidates existing standards on auditor responsibilities, emphasizing the need for due professional care, professional skepticism, and competence in conducting an audit.

In connection with AS 1000, the PCAOB has also adopted amendments to certain other standards to, among other things:

- clarify the auditor's responsibility to evaluate if the company's financial statements are "presented fairly;"
- clarify the engagement partner's responsibility to exercise due professional care related to supervision and review of the audit; and
- accelerate the time for completion of audit documentation after report issuance.

Subject to SEC approval, AS 1000 and the related amendments will be effective for audits of financial statements for fiscal years beginning on or after December 15, 2024, except for the documentation completion requirement for certain smaller audit firms, which becomes effective one year later.

QC 1000 (A Firm's System of Quality Control) replaces current quality control (QC) standards and will require audit firms to identify specific risks to audit quality and design a QC system that includes policies and procedures to mitigate these risks. Audit firms will also be required to conduct annual evaluations of their QC systems and report the results of their evaluation to the PCAOB on a new Form QC. Subject to SEC approval, QC 1000 will become effective on December 15, 2025.

PCAOB issues proposals on firm and engagement metrics and reporting

In April, the PCAOB issued a proposal on reporting standardized firm and engagement metrics and a separate proposal on the PCAOB's annual and special firm reporting requirements.

Under the **proposal on standardized firm and engagement metrics**, audit firms would be required to publicly report a range of specified metrics relating to individual audits and their audit practice if they audit one or more issuers that qualify as an accelerated filer or large accelerated filer.

The impacted firms would report firm-level metrics annually on a new Form FM and engagement-level metrics for audits of accelerated and large accelerated filers on a revised Form AP. The proposal aims to improve the availability to investors and audit committees of reliable, consistent information about audit firms and their audit engagements.

The **proposal on firm reporting** would, among other things, enhance the required reporting of information by audit firms registered with the PCAOB on the public Annual Report Form (also known as Form 2) and the Special Reporting Form (also known as Form 3). This includes additional fee information, audit firm governance information, information about any network arrangement to which a firm is subject, and cybersecurity.

The largest audit firms would also be required to confidentially submit annual financial statements to the PCAOB. In addition, the proposal would shorten the timeframe for all reporting on the Special Reporting Form from 30 days to 14 days of a reportable event and implement a new confidential special reporting requirement for events that may have a material effect on a firm's organization, operations, liquidity or financial resources, or provision of audit services.

The proposal aims to provide more informative and useful public disclosure for investors, audit committees and other stakeholders, and to facilitate the PCAOB's oversight of audit firms.

The comment period for both proposals ended on June 7.

SEC Corp Fin Director clarifies disclosure requirements for cybersecurity incidents

The Director of the SEC's Division of Corporation Finance issued a **statement** emphasizing that registrants disclose material cybersecurity incidents under Item 1.05 of Form 8-K. If a registrant chooses to disclose a cybersecurity incident that is not yet determined to be material or is determined to be immaterial, it is encouraged to disclose it under a different item of Form 8-K, such as Item 8.01.

For more detail about these and other issues potentially affecting companies in the current period or near term, see the ***KPMG Q2 2024 Quarterly Outlook***.

© 2024 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. USCS015731-2A

by John Rodi and Per Edin

GenAI has captured the attention of business leaders and boards for its potential opportunities, inherent risks, and record-breaking speed of adoption. Management teams are simultaneously under pressure to move faster so that they don't miss out on opportunities yet go slowly enough to responsibly manage the potential risks posed by the technology.

With GenAI, effective board oversight has never been more important or more challenging. Many companies are starting to move from piloting the technology to larger-scale rollouts while also trying to separate the hype from reality in a period featuring significant market uncertainty, an accelerating pace of artificial intelligence, and a great deal of regulatory change.

First, boards should ask, "Are we moving fast enough?" The answers to the following questions can provide the board with a good sense of the here and now, as well as a picture of the near and longer-term future.

To the chief operating officer, chief technology officer, and chief information officer: How many of our employees can safely access GenAI tools at work, and how many are actively using them to be more productive? Have we connected these tools to our own proprietary data? By the end of the year, what measurable productivity improvements should this translate into? While many executives will struggle to answer these questions now, they should be able to at some point this year.

To the chief security officer, chief revenue officer, and chief marketing officer: How are we using GenAI to sell and deliver our products and services more efficiently and effectively? Are we embedding GenAI into our products and services to make them more attractive to customers? What new offerings are we planning to take to market? Do we need to change our price levels or structure to capitalize on these changes? If customer-facing executives are not thinking about these issues now, the company could lose competitive advantage.

To the chief financial officer or chief strategy officer: If you assume that our customers, competitors, and suppliers are also rolling out GenAI, what might that do to the company's revenue and cost over the next one, three, and five years? What revenue is at risk? What new revenue can be generated? What costs will be reduced? What price pressure or opportunity does the company see? How much has the company invested in GenAI this fiscal year, and how much will be budgeted for next year?

KPMG

© 2024 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. USCS015731-2A

To the CEO or chief operating officer: Who in management is on point for driving and coordinating the GenAI transformation, and how is the work being distributed and orchestrated across multiple C-suite executives? Has management considered appointing a chief AI officer to spearhead the change?

While very few executives can answer these questions right now, it is important that they start thinking ahead to be able to do so by the end of this fiscal year.

Second, boards should ask, "Are we going slowly enough to manage the potential risks?" One critical area for board focus is the adequacy of management's policies for the development, deployment, and use of GenAI. Key topics include the following:

- How and when a GenAI system or model—including a third-party model—is developed and deployed, and who makes that decision.
- An inventory of where GenAI is being used.
- Designating a management point person and a cross-functional team with responsibilities for GenAI.
- Responsible GenAI use policies that align with the company's values and address ethical issues and legal compliance.
- GenAI risk management, mitigation, monitoring, and reporting, including a GenAI risk management framework.
- Staying apprised of the rapidly evolving regulatory landscape and ensuring compliance.
- The quality of the GenAI data (inputs and results).

While the trajectory of GenAI deployment is uncertain, we speculate that 2024 will be the year many companies move from experimentation to larger-scale rollouts; that next year might see meaningful, measurable results in workforce productivity; and that 2026 may reveal some breakaway winners and losers, with significant business model implications and competitive fallout.

This article was originally published in NACD Directorship *magazine.*

John Rodi (left) is leader of the KPMG BLC.
Per Edin is a board director and AI lead for Advisory, KPMG LLP.

For more on board oversight of GenAI, visit kpmg.com/blc.

© 2024 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. USCS015731-2A

Oversight of climate disclosures

SEC stay shouldn't mean stop

Despite the sense of relief that some companies initially felt with the SEC's stay of its climate disclosure rules,[1] the pause is unlikely to temper the forces demanding climate disclosures by other means. Whether the SEC rules are upheld, struck down in whole or part, amended, or abandoned, pressure from investors, stakeholders, and other regulators continues to drive the momentum toward detailed climate disclosure requirements.

In our recent paper ***Oversight of climate disclosures***, we remind boards that companies still face a proliferation of new and complex climate disclosure mandates—including the SEC rules, state laws (with California leading the way), international laws and standards, or some combination of these. Companies will have to comply with multiple inconsistent laws and will need to determine how best to structure their compliance and disclosure programs.

Below are key areas of focus for boards and audit committees:

Adequacy of controls and procedures to support current climate disclosures

- Task management with reassessing the adequacy of the company's internal controls and disclosure controls and procedures to support the company's current climate disclosures. Are the company's voluntary climate disclosures subject to review at a level of rigor similar to the financial statements?
- Help ensure management evaluates policies and procedures for making climate risk materiality determinations.
- Review management's process for ensuring that all climate disclosures are consistent and do not contain contradictory information.

Management's preparations for new climate reporting frameworks/standards

Despite uncertainty, companies should be assessing the potential implications of the SEC rules as well as the California climate laws and international laws and standards on their business, determining which laws and standards apply and the level of interoperability, and preparing for compliance based on the company's unique facts and circumstances.[2] Boards should consider:

- Climate-related expertise and resources to support regulatory and voluntary climate disclosures, at both the management level and on the board or available to the board;
- Management's plans to meet compliance deadlines required by the SEC final rules and other applicable laws and standards/frameworks;

[1] The SEC voluntarily stayed implementation of the final rules in April 2024 pending the completion of judicial review of the lawsuits challenging the rules, which were consolidated in the US Court of Appeals for the Eighth Circuit. The SEC will publish a document in the *Federal Register* at the conclusion of the stay addressing a new effective date for the final rules. See Elizabeth Ising and Ronald Mueller, Eighth Circuit Establishes Briefing Schedule for SEC Climate Disclosure Rules Litigation, Gibson Dunn Securities Regulation and Corporate Governance Monitor, May 24, 2024.

[2] Subodh Mishra, A Global Baseline? How to Navigate Interoperability Across Sustainability Reporting Rules, Harvard Law School Forum on Corporate Governance, March 28, 2024.

KPMG
© 2024 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. USCS015731-2A

- Management's policies and procedures for making final materiality determinations in line with the SEC climate rules and EU regulatory standards, particularly the Corporate Sustainability Reporting Directive (CSRD);[3] and
- The role and responsibilities of management's disclosure committee and the Climate Team[4] in updating disclosure controls and procedures, and internal controls to prepare for the SEC's climate disclosures and other new laws and disclosure frameworks/standards.

Expect complexity and scrutiny

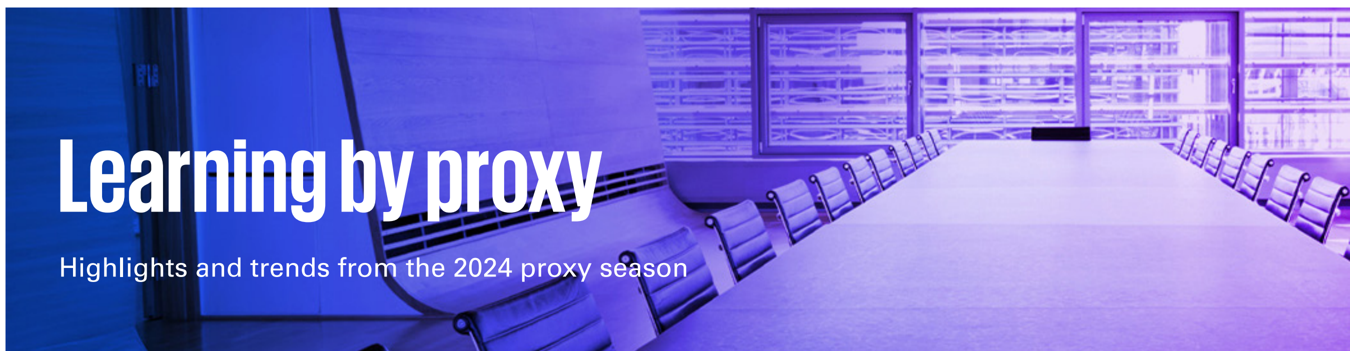
Preparations for the SEC's climate rules, as well as the California laws, EU CSRD, and jurisdictional adoption of ISSB standards, will be a complex and expensive undertaking, involve difficult interpretational issues, and likely take months and perhaps years for some companies. Expect the SEC staff to continue to issue comment letters to seek decision-useful, more-detailed disclosures from companies regarding the impact of climate change on their business and operations while the final SEC rules are being litigated.

To read the full report, visit **kpmg.com/blc**.

[3] Under the CSRD, the double materiality assessment will be a priority, as companies will be required to disclose not only how climate and sustainability issues affect the company, but also how the company's operations affect the environment and society more generally.

[4] A cross-functional management team from legal, finance, sustainability, risk, operations, information technology, human resources, and internal audit.

© 2024 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. USCS015731-2A



Learning by proxy

Highlights and trends from the 2024 proxy season

Both investors and companies are maturing in how they view critical issues raised at the corporate ballot box. Even amid a proxy season that included "the priciest shareholder fight ever," according to *The Wall Street Journal*, and a headline-grabbing court challenge to a shareholder proposal, Freshfields Partner Pamela Marcogliese said she generally observed more stability and balance in 2024 than in years past.

"You're not starting from a blank slate in most instances," said Marcogliese during a June 27 webcast with KPMG BLC Senior Advisor Stephen Brown. "Companies have made a lot of progress. Now, when shareholder proposals come in, they come against a background of a lot of prior work."

Such prior work not only supports engagement with investors and asset managers but also eases the path of compliance for disclosure of cybersecurity and climate risk. Despite the current stay of the SEC's climate disclosure rule, Marcogliese suggested that future compliance with applicable global and state climate-related reporting regimes has made the US rule "an afterthought." "Investors have been pushing for information on [climate] issues for a while," said Marcogliese. "Prior to the effective date of any of these rules, many companies have been providing voluntary disclosure."

The past proxy season also featured greater availability of so-called pass-through voting whereby large asset managers give mutual fund investors more say in how their representative shares are voted. "It's a reflection of where we are in the times and understanding that people have different views," said Marcogliese. Similarly, the scope of investors and policymakers who are engaging on environmental, social, and governance (ESG) has expanded. "It's no longer a free pass to support all ESG at all costs," said Marcogliese." There are countercurrents."

***Find Freshfields' proxy season recap and our webcast replay at* kpmg.com/blc.**

Freshfields Partner Elizabeth Bieber said she has added "anti-ESG" activism to her taxonomy of activist investors, which also includes "vanity activism" that is not principally motivated by financial return; "financial activism," which relies on an ESG thesis, and "true believer" activism to support sustainable investing.

Increasingly, activists are seeking voting support from other market participants and stakeholders, either by forming coalitions of smaller shareholders or more prominently sharing their proposals through presentations, the press, and social media. "Activists don't need as much of an investment in companies to achieve their goals," said Bieber. "Some have said they don't even need board seats to do exactly what they'd like to do."

Bieber noted some of the traditional barriers to activism, including having a classified board, or even a controlled board or a controlled company are no longer seen as barriers. "Activists are saying, 'We can achieve a number of our objectives with support from various stakeholders and a compelling narrative,'" said Bieber. "It has made the landscape a little bit more complicated for every company."

Going in to the proxy "off-season," Marcogliese added that directors and companies should not lose momentum gained from the learnings of the 2024 proxy season. "Avoid complacency. Continue to monitor the trends and make sure that your engagement and disclosure optimally position the company and that they are aligned to the company's strategy," said Marcogliese.

The views and opinions expressed herein are those of the interviewees and do not necessarily represent the views and opinions of KPMG LLP.

KPMG

© 2024 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. USCS015731-2A

2024 Proxy season results

Shareholder proposals. The number of shareholder proposals continues to increase. In 2024, the number of known shareholder proposals exceeded the prior record set in 2023.

ESG. Environmental and social proposals continue to receive low levels of shareholder support, with only three E&S proposals receiving majority support as of June 14, 2024. Governance proposals continue to have higher support, with 38 proposals receiving majority support, more than double the number during the 2023 proxy season.

No-action relief is back. Almost 100 more requests for no-action relief were submitted in 2024 compared to 2023 and the SEC granted relief to nearly double the number of requests from 2023.

The anti-ESG movement continues to gain momentum. Although shareholder voting support for anti-ESG proposals remains minuscule, the number of proponents and proposals are increasing along with the use of notices of exempt solicitation.

Broad socioeconomic issues continue to impact the proxy season. This year, labor is a considerable focus. Shareholder proposals are focusing on a myriad of labor-related issues, and labor unions have begun to emulate activists with a single-issue proxy contest and proxy solicitation in the 2024 season.

Investors are in the hot seat. Large asset managers continue to accelerate pass-through voting as they are subject to ESG and anti-ESG pressures. Several have publicly left investor coalitions. Many have reduced support for shareholder E&S proposals. Public investment managers are also increasingly facing proposals on their own policies and voting records.

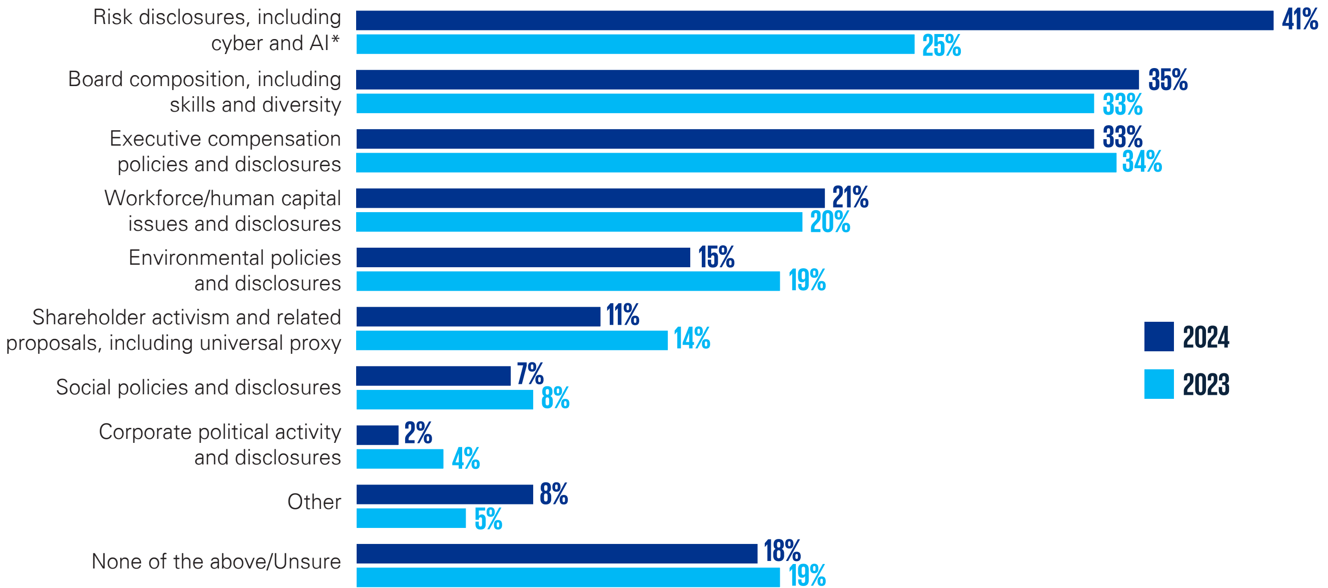
Executive compensation considerations are expanding. Beyond say-on-pay and approval for company equity plans, this year, a variety of new executive compensation-related proposals emerged, including one seeking to fix director compensation at $1 absent shareholder approval.

Source: Freshfields Bruckhaus Deringer US LLP

© 2024 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. USCS015731-2A

Proxy issues on the board's agenda

Which of the following proxy issues did your board spend significantly more time discussing this year compared to prior years? (Select up to 3)

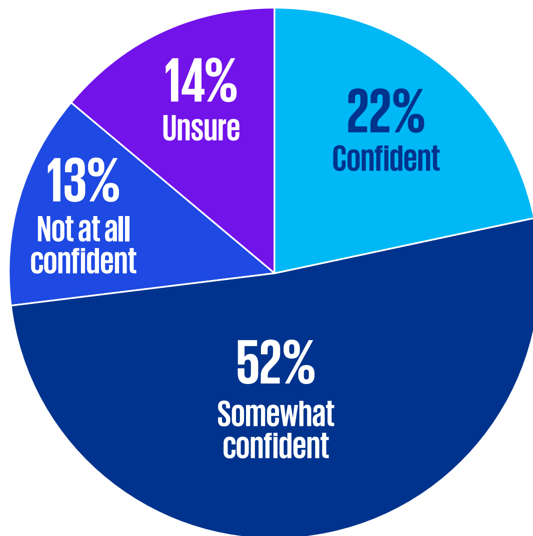


Survey responses from 333 self-identified corporate directors registered for the June 27, 2024, KPMG BLC webcast compared to 246 self-identified corporate directors for the June 29, 2023, KPMG BLC webcast.

** "Including cyber and AI" was added to this answer in 2024. All other answers were the same for both years.*

Board oversight of material generative AI issues

How confident are you that your board can effectively oversee the company's approach to generative AI, as well as related data governance issues?



Survey responses from 358 self-identified corporate directors registered for the June 27, 2024, KPMG BLC webcast. Percentages do not equal 100 due to rounding.

The views and opinions expressed herein are those of the survey respondents and do not necessarily represent the views and opinions of KPMG LLP.

KPMG

© 2024 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. USCS015731-2A

An asset owner view on shareholder engagement

Q&A with Yumi Narita, NYC Office of the Comptroller

In late May, Yumi Narita, executive director of Corporate Governance at the New York City Office of the Comptroller, spoke with Stephen Brown, KPMG BLC senior advisor, to offer insight into how the $270 billion New York City pension funds evaluate proxies, engage with directors, and establish their positions. At the end of May, the five New York City pension funds held over $114 billion in public equities.

Yumi Narita
Executive Director of Corporate Governance New York City Office of the Comptroller

Stephen Brown
Senior Advisor
KPMG BLC

The following transcript has been edited for length and clarity.[1]

Stephen Brown: What is unique or most interesting about the engagement approach taken by New York City?

Yumi Narita: Compared to large asset managers, asset owners like New York City hold a much smaller portion of every company. So, what is our lever and how do we engage companies is really important. For us, we believe in shareholder proposals. It's not enough to write a letter to the CEO about our concerns.

We generally go to the board of our five pension funds to ask them for approval on initiatives coming up during the next proxy season; they will select the ones they like and then we file shareholder proposals as a first engagement step. The reason for this is around timing. If an Annual General Meeting is in May and filing for the proxy is in the fall of the prior year, we don't have time to send a letter and wait for a response.

We're also known to withdraw our proposals as soon as there's a compromise. We're not another investor who just wants to be in the proxy statement. We just want that disclosure to happen.

SB: Given your prior stewardship experience at both very large passive and active asset managers, how are other institutional investors different from the way New York City operates?

YN: For passive asset managers, engagement, particularly with directors, is incredibly important as a touch point. Even if there were governance or disclosure concerns, it was generally a long road before there was a vote against a director. Rarely are they supporting shareholder proposals.

On the other hand, when I was working for an active asset manager, we'd get more contributions from the portfolio managers on how to vote certain proxies and they would want to engage the company in more conversations about ordinary business, which flies in the face of most safe investor engagement practices. An active manager can also sell the stock.

[1] This conversation was recorded as part of Women Corporate Directors, WCDirect programming on May 22, 2024. A full video replay of the conversation is available **here**.

[2] The EEO-1 Component 1 report is a mandatory annual data collection that requires all private sector employers with 100 or more employees, and federal contractors with 50 or more employees meeting certain criteria, to submit workforce demographic data, including data by job category and sex and race or ethnicity, to the EEOC. (From the U.S. Equal Employment Opportunity Commission.)

© 2024 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. USCS015731-2A

SB: What are the big issues you are facing as a shareholder this year?

YN: We have a constant set of initiatives that are more governance-focused, such as looking at individualized board matrices and disclosure of race, ethnicity, and gender, as well as director skill sets that relate to the company individually. We've gotten pushback from companies in the past, but it's becoming more common. We also have a long-standing push for EEO-1 disclosures and ensuring that the report is shared with investors.[2]

It's worth noting that the comptroller is an elected representative of New York City. This administration is very interested in climate. We have more client scientists staffed to the Office. We look at global Climate Action 100+ target companies when it comes to disclosures around Scope 1, 2, and 3 emissions, and vote against some directors if we believe there's not robust climate risk oversight.

A rising concern also relates to disclosure of responsible AI policies. This came up in the Hollywood writers and actors strike. Are there responsible and ethical guidelines around the use of AI? Having clear board oversight policies around AI was key. There's data and privacy concerns as well, but New York City is always fighting for workers. We're looking at freedom of association policies or how employees are monitored. Are you using technology to track assets or people? What are the unintended consequences which erode trust between companies and employees?

Control and monitoring can have a very negative effect on people.

SB: Speaking of monitoring, what has surprised you or continues to surprise you in interactions with companies and directors?

YN: For some directors, there's a notion that this is going to be your last job and you will stay on the board until retirement age. But from an investor perspective, the market is shifting quickly, and companies are becoming global. There always has to be an understanding of, "Are you the right person to be in that boardroom?" I think that's a tough position for directors.

Make sure the boardroom is full of productive people. Work to remove those who are not effective. We also have to get rid of the stigma of leaving the board. I spoke to a director who was part of a turnaround strategy. She was ready to leave because the turnaround was complete, but her tenure was only three years. She didn't want it to seem like she left the board due to behavior or poor performance or some other reason.

SB: Do you think board members should make investor meetings part of their annual governance duties?

YN: Yes. Boards generally sit with company executives and the higher ups, and maybe some of the workers at the company. But that's a whole different flavor than talking with an investor. I'm trying to understand from our 25-minute conversation how much of a questioner you might be; how much will you raise your hand; how much will you push against groupthink? A board is made up of individuals who have different skill sets. Ultimately, I think that the most important question is can you push back? Can you ask a tough question at the right time? That is critical. If you're not ready for that, you should not meet with investors. They will eviscerate you.

The views and opinions expressed herein are those of the interviewee and do not necessarily represent the views and opinions of KPMG LLP.

KPMG

© 2024 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. USCS015731-2A

Mark your calendar

WCD Global Institute & Visionary Awards

September 29–October 1, Orlando, FL

Women Corporate Directors (WCD) hosts its annual Global Institute, open to members and director non-members. The conference includes corporate governance–focused peer exchanges, keynote panels, industry breakouts, and networking sessions.

To register, visit **WCDGlobal.org**.

Audit committee workshop – NACD Summit 2024

October 6, National Harbor, MD

This workshop for audit committee members will cover what's on the SEC's agenda, issues driving current investor expectations for the audit committee, and how to strengthen the audit committee's relationship with the CFO.

To register, visit **summit.nacdonline.org**.

Chair and lead director track – NACD Summit 2024

October 7, National Harbor, MD

Intended for board chairs, committee chairs, and lead independent directors, this track will include sessions on positioning the CEO for success and CEO succession, post-election policy scenarios, and strategic forecasting.

To register, visit **summit.nacdonline.org**.

KPMG Board Insights Podcast

On demand

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

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

Selected reading

Midyear observations on the board agenda
KPMG BLC

SEC staff guidance on cyber incident disclosure
Weil, Gotshal & Manges LLP

PCAOB conversations with audit committee chairs
PCAOB

Asian representation on Fortune 1000 boards
KPMG BLC

10 ways to optimize TPRM
KPMG LLP

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

About the KPMG Board Leadership Center

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

Contact us

kpmg.com/us/blc
T: 800-808-5764
E: **us-kpmgmktblc@kpmg.com**

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

Learn about us: **kpmg.com**

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2024 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization. USCS015731-2A