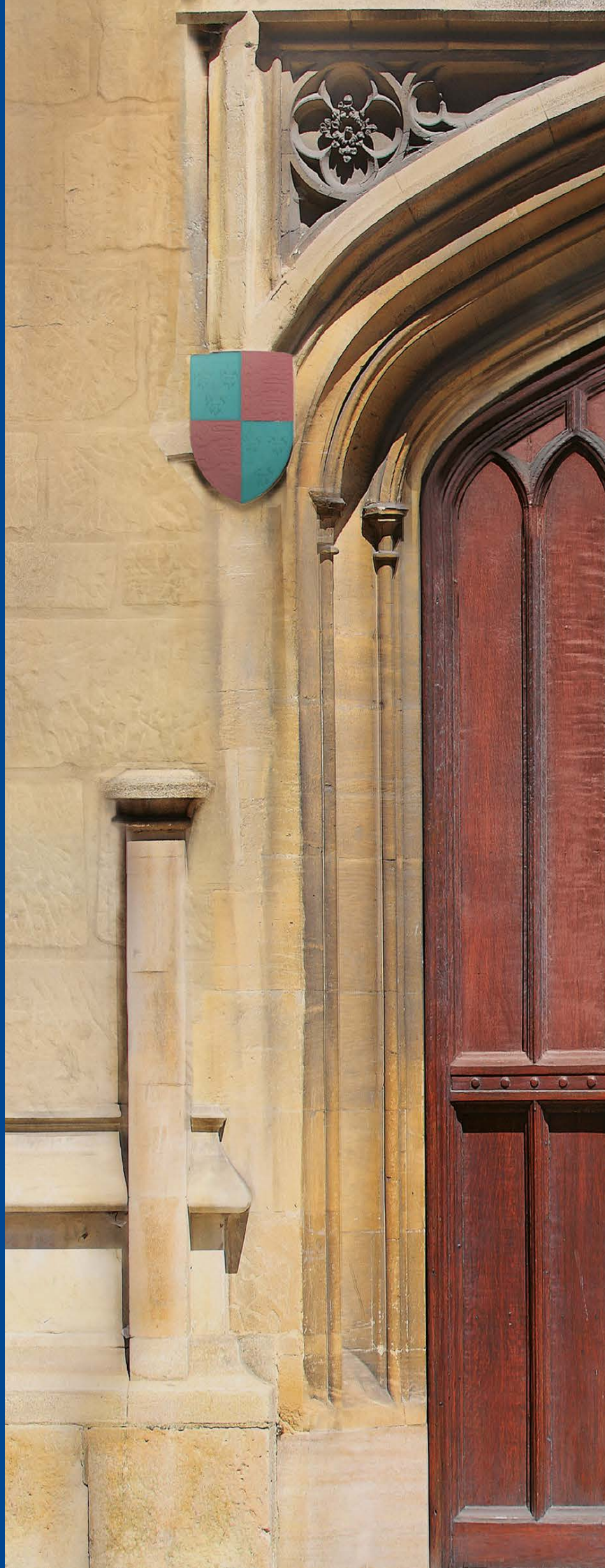
Quarterly newsletter 29

Audit Committee Institute
KPMG Board Leadership Center



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About the Audit Committee Institute

The Audit Committee Institute (ACI) champions good corporate governance to help drive long-term corporate value and enhance investor confidence. Focusing on and supporting the director community, ACI engages with directors and business leaders to help articulate their challenges and promote continuous improvement. Supported by KPMG Board Leadership Center, ACI delivers actionable thought leadership — on risk and strategy, technology, compliance, financial reporting and audit quality — all through a board lens.

KPMG Board Leadership Center serves as a governance center, bringing together KPMG's various international board programmes — including the Audit Committee Institute — all under a single umbrella.

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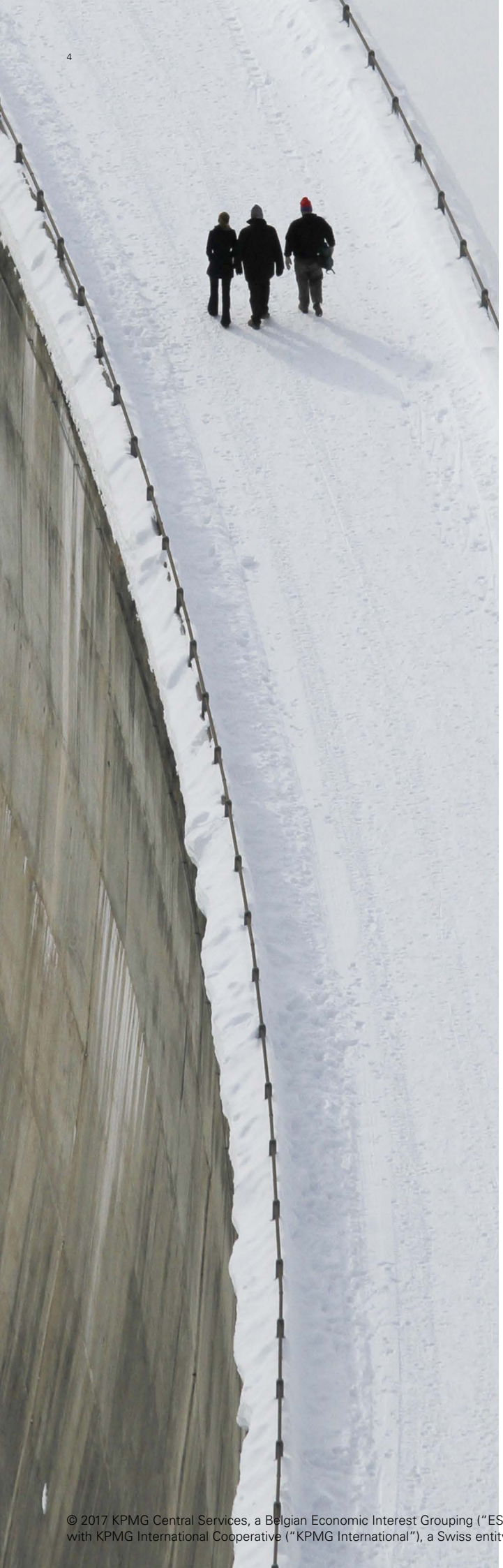

Foreword

The world is changing constantly and rapidly: we see new forms of organizations emerging, increasing influence of new technologies and far more direct stakeholder engagement. Shareholders in general, the community, regulators, politicians and the media are all involved. Against this backdrop, the Commission Corporate Governance is working on an update of the Belgian Corporate Governance Code in 2017. Under the credo "keeping it simple, flexible and focused," the first piece of this summer edition of our *Audit Committee Institute Quarterly* brings you our reflections on and our recommendations for the new Corporate Governance Code.

One of the key pillars of good corporate governance in the current business environment – and one of our key drivers behind our recommendations for the new Corporate Governance Code – is getting corporate culture right. The second article in our newsletter zooms in on a five step approach that can be applied in tackling culture and cultural change.

To better understand the themes driving corporations agendas, our summary of the key findings from *KPMG's 2017 CEO Outlook Survey* is a must-read with over 1,300 responses from around the world. While facing heightened uncertainty – both economically and (geo) politically – CEOs clearly are seeing disruption as an opportunity to grow.

Referring back to our reflections for the new Corporate Governance Code and our recommendation that sustained and sharp focus should be placed on board composition – and hence on board evaluations – we explore how boards may further enhance board evaluations – recognizing that "one size does not fit all".

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While *KPMG's 2017 CEO Outlook Survey* showed that CEOs are clearly embracing disruption to make their companies grow, companies also have to make sure – now more than ever – that they are crisis ready. The next article sets out how we see an effective approach towards crisis readiness and response in today's business world.

On July 20, 2017, the Belgian federal government adopted a new set of rules from the EU Directive 2014/95/EU in order to raise transparency around the social and environmental impact for certain large companies. All info about the timing to comply with this new law and what you will have to report externally is captured in a must-read summarizing article.

We finish this edition with a financial reporting update relevant to your role.

We trust this publication serves its intended purpose of briefing you on some of the important developments affecting your role as director and/or audit committee member.

If you require further information, please contact us at ACI@kpmg.be with any comments, or suggestions of topics you would like to see receive attention or visit our website at www.kpmg.com/be/aci.

Olivier Macq
Chairman ACI Belgium

Wim Vandecruys
Director ACI Belgium

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Reflections on the new Corporate Governance Code - Keeping it simple, flexible and focused

On 29 June 2017, the Audit Committee Institute (ACI) hosted a Roundtable session to contemplate on what actionable recommendations we, our members and the session's expert panel would propose to the Corporate Governance Commission for consideration in the revision of the Corporate Governance Code ("the Code"). In a two hour interactive discussion, we gathered a pertinent set of reflections and suggestions on board governance. These reflections are brought in the way ACI always looks at board governance: from a leading practice perspective from inside the boardroom.

We identified four pillars we believe are fundamental to consider in the Corporate Governance Code for the future: focus on sustainable long-term value creation, on having culture and attitude right, focus on having a Code that helps to create and maintain effective boards and that enables open discussions on board evaluation, refreshment and succession.

Sustainable long-term value creation

Many of the corporate incidents of the last decade were rooted in business models that focused too much on achieving short-term financial objectives. Therefore, the consequences of decisions and actions for the company's long-term value creation and the impact of these on all stakeholders, should be given a prominent role in the decision-making processes.

Long-term value creation requires companies and its boards to think sustainability by making informed decisions about the long-term viability of the corporate strategy. In this respect, it is essential that the interests of all stakeholders by taken into account. Companies should consider total impact in the strategy they pursue. Value does not only refer to financial profits or benefits, but also includes other aspects, such as taking care of the community, employees and the environment.

Another reason for placing sustainable long-term value creation front and center is the unprecedented speed with which new technologies are being developed and are disrupting business models.

Being aware of – and anticipating – developments that in some cases will take place outside of the company's business is essential in order to realize objectives, enable opportunities to be seized and prevent being disrupted.

Some reflections …

— **Long-term value creation should be the start and end point for the new Code.**

— **Strategy, objectives and incentives should consider total impact and not focus solely on financial performance.** Management and employees alike should be incentivized based on collective performance that is directly linked with the company's long-term strategy. Our panel members also argued that incentive plans should also be based on non-financial objectives. Overall, plans need to be balanced – factoring in long-term financial performance, sustainability but surely also behavior and attitude.

— **Share-based remuneration should be carefully considered.** The majority of the directors attending the session were not in favor of remunerating directors based on shares of the company. In any way, the board should make sure measures are in place to prevent abuse and short-term focus due to share-based remuneration plans.

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- **Annual offsite strategy sessions are an important enabler of strategic thinking, but also for board dynamics.** Taking a step back once a year – or more frequently – was unanimously put forward as an essential element to make sure the company's strategy stays fit for purpose. Such strategic sessions benefit greatly from inviting external speakers that can update the board on key strategic developments in the business environment and can help the board to think out of the box.Discussing larger trends and asking disruptive questions will help keep the company on the right track.
- **But strategy is not simply a once a year discussion.** It should be part of the board's agenda and ongoing conversation throughout the year. Responding to short-term disrupting events in the marketplace may require quick adjustments to the company's strategy and the board and management should make sure they have the agility to respond in a timely manner.
- **Be crisis-ready.** Also outside the financial sector, at least some level of risk self-assessment and sensitivity analysis are perceived beneficial to companies. History has shown that inability to timely see the new risks looming around the corner can have devastating effect on businesses and economies. Therefore, stress testing scenarios linked to the key risks facing the company, including those out-of-the-box, would be a recommendation for corporate governance for the future. Stress testing should be both quantitative and qualitative and the board should be actively involved and prepared.

Culture and attitude

Businesses are operating in a climate of volatility and uncertainty resulting from a broad range of factors. In such an environment, cultivating a strong corporate culture from the top level all the way down through the organization is key. It is a topic high on the agenda of business leaders and investors.

One of the fundamental roles of leadership is to create and maintain a culture that reinforces the company's core values, encourages employees to do the right thing and helps drive the company's long-term strategy. Culture, done well, can be a powerful driver of organizational performance.

By making culture a regular item on the board agenda and asking the right questions, directors can help to ensure that culture supports business strategy.

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Some reflections …

— **Strategy, risk and culture should be tightly connected.** Management and the board need to create a culture which promotes desired behavior and encourages employees to act with integrity. Culture needs to be embedded in the company's decision-making processes, including strategic thinking, risk management and compliance, performance and the incentives driving these activities. The board can be an enabler in this respect by starting with a clear understanding of the strategy, the existing culture and the culture required to deliver the chosen strategy.

— **Culture starts at the top.** Attitude of board members is the most fundamental element that needs to be right – to ensure board effectiveness and to set the tone at the top. Board members should demonstrate an attitude to morally and honestly act in the best interest of the company and its long-term strategy. Directors with the right attitude and discipline make sure they stay up to date on all internal and external matters that affect the company, make sure they update their knowledge on a regular basis, take time to duly prepare board sessions and constructively challenges management in the boardroom, amongst many others. Making sure directors have the proper time and resources for all these tasks is fundamental.

— **Make sure the board is getting an unfiltered view of the company's culture.** Ensure robust reporting processes are in place, including capturing red and yellow flags as well as indicators of "good" culture. Contact between the board, top management and the employees is essential to get an idea of how the culture is experienced within the organization. Companies also may consider involving internal audit to a larger extent as it relates to culture, for example to help measure and sense-check whether/how employee behavior and practices reflect the company's culture and values while they are "in the field".

Board composition and effectiveness

As the board's role continues to evolve and stakeholders' expectations for board oversight and engagement increase, board composition and succession planning are increasingly critical to help position companies for the future. But what are the key elements for success and what potential challenges do directors have to address? Finding directors with both general business experience and specific expertise and identifying the talent, the board will need in three to five years were the most frequently cited barriers to building high-performing boards, according to a survey of more than 2,300 directors ACI did in 2016 . But what were the reflections from our Roundtable session?

Some reflections …

— **Combining technical and sector expertise with the right set of people skills is key.** Directors should be knowledgeable about the company and the sector and the area of governance they cover in the board. But that is just the basis: in order to apply this expertise effectively in the boardroom, directors need the right skillset to contribute to board sessions and decision making by being able to engage in challenging but constructive discussions, being able to see things from different angles and think out of the box, amongst others. And on top of that, overall attitude is fundamental, as explained above.

— **Board members collectively should be complementary based on what the company needs.** Rather than focusing on board members with specific expertise, our panelists agreed that the board as a whole should have the collective expertise and skillset relevant to the company they are active in. Not every board member should have for example financial or IT expertise. A board with balanced perspectives collectively should be pursued by companies. And this should not be hampered by regulation in any way. In this respect, panel members also felt that the tenure limit for independent directors may have to be loosened – to allow companies to keep critical knowledge on their past on board, for example.

— **Diversity in the widest sense.** Beyond gender and racial diversity, diversity in skills, thought, experience and background are critical. Board composition should evolve to reflect the changing business and societal environment if the board is going to be effective in its role. In family-owned business boards, specifically outside views from non-executive directors, is seen as an important element of diversity.

— **Training of directors becomes more essential than ever** in the current business environment. Panel members were not in favor of extending training requirements with mandatory training on certain topics such as IT, technology, risk management or finance. Instead, board members should have the right attitude to make sure they update themselves on any relevant topic they tackle in the boardroom.
On top of this, it is considered a leading practice to invite external speakers to the board to have access to outside views to stay up to date on, for example, technology, the market place, etc.

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— **Group dynamics needs to be right.** Having directors – and especially a chair – on board that has the right people skills is an essential first step in achieving board effectiveness. But on top of that, getting group dynamics right is equally crucial. Ensuring that all (dissenting) views are heard and that "groupthink" is avoided, is fundamental in making the right decisions in the end.

— **The role of the chair is more crucial than ever.** Strong leadership in the boardroom is important to facilitate healthy debate and address potential conflict or friction. The chair plays a critical role in establishing and maintaining an environment where debate and disagreement can occur without animosity and mistrust. The set of soft skills the chair has on board should be so that he is able to enable group dynamics that are fit for purpose, but also to effectively interact with management in and outside the boardroom.

— **Balancing independent challenge with management** executing strategy should be an ongoing focus area for the board. Independent non-executive directors are hugely important in the boardroom but be careful not to have them overpower management. The other way around applies equally: the board needs to make sure to take care of information asymmetry, ensuring that the independent non-executive directors receive the same information as the executives.

— **Management presentations should not take up most of the time in the boardroom.** Time in the boardroom is precious. All directors should receive all the information they need to prepare for the board session well upfront. During the board session itself – being well prepared – the directors should use the time to constructively challenge management and to engage in discussion to come to informed decisions. However, CxOs providing a very short update on what is on their plate at the start of the session is in general considered a leading practice. Also, having executive sessions each board meeting is considered a leading practice.

Board refreshment and succession

Robust board evaluations are a key part of a board composition and refreshment strategy. Board evaluations are crucial to achieving the right mix of perspectives and, handled well, can help facilitate change in the boardroom. ACI survey data echoes that sentiment: 87 percent of respondents cited evaluations as the most effective mechanisms to keep the right board composition.

Some reflections …

— **Board evaluations should be tackled from all angles.** Board evaluations and how to approach them remains an area of debate. What works best for one company may not work for another company. Panel members agreed that the Code should not be over-prescriptive on how to approach evaluations. However, they also agreed that a combination of self-evaluations, external evaluations and individual director evaluations over the years would be most fit for purpose. The different angles and perspectives gained collectively through these different approaches will lead to effective board evaluations. A healthy open discussion in the board, based on transparent information, should be the core of any type of board evaluation, fueled by a robust process.

— **Being aware of self-review and other bias.** Board evaluations can only be effective if directors can air their thoughts openly and honestly and if results are interpreted in an unbiased way. In this respect, our panel did consider it advisable to make sure that the party that is leading the evaluation process is sufficiently independent for its role.

— **Post mortem analysis of board decisions.** Our discussion indicated that post-mortem analyses of key board decisions are a powerful tool to evaluate the board's decision-making processes. As the actual effects of decisions do not lie, this is a fully independent and unbiased way of assessment board performance.

— **Formal director succession plans/processes can help facilitate change in the boardroom**. A talent map and skill matrix can help identify the specific skills needed on the board now and in the future; plans/processes should be forward-looking (3-5 years) and should align talent needs with strategy.

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Five steps to tackling corporate culture

It is now widely accepted that culture was at the root of the global financial crisis and the "soft stuff" can no longer be ignored. Regulators around the world start to respond by incorporating culture considerations into their supervisory guidance. These developments are triggering a change in governance, risk management and internal audit. Specifically risk management and conduct are now being considered not as separate to, but rather in the context of, the organization's broader culture.

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These are exciting times. The opportunity to deliver value and improve risk management through more focused attention on culture is significant. According to survey results published in "Corporate Culture: Evidence from the field", over 90% of the executives believe culture is important and that improving culture would improve their organization's values. However, only 15% believed their culture is where it should be.
An organization can espouse a set of values, but there is often a gap between "what is on the poster" and reality. There are a lot of factors that will impact upon success in embedding your desired culture; realistically, changes in people, process and behavior will be necessary. Tackling culture can seem daunting, but the good news is that it is possible and can be transformative. An effective way of tackling culture is using a roadmap to strengthen culture and soft controls: a framework that starts with setting clear expectations, ensuring those expectations are tangible and know and then helping what was once an aspirational approach to culture become a reality.

Here is a five step approach for managing culture change:

1. **Make it clear:** Culture expectations need to be translated from the "conceptual and theoretical" to the "tangible and actionable". It is important to engage senior management and the board in a dialogue around culture: What is the organization's desired culture? How are the values integrated into the organization's mission, vision, strategic priorities and decision-making process? How does culture support business objectives?

2. **Make it known:** You should understand the current state of behaviors, identify the gaps between current and desired future state and mobilize leadership to role model and signal the change that is expected. Conduct a culture diagnostic to understand the current state of culture: What are the current behaviors that contribute to or detract from the organizations culture ambitions? What role is leadership playing in fostering the right culture? What are the risks involved with changing culture?

3. **Make it real:** Focus on understanding the enterprise and culture dilemmas that exist and need to be addressed in order to evolve from your current state to the desired culture. Once steps are agreed upon, a roadmap with the appropriate actions and interventions can be put in place to drive desired changes in order to "Make it happen" (see step 4).

4. **Make it happen:** Making it happen is about implementation of the roadmap. Measures of success should be defined to help the organization understand the level and pace of progress against the roadmap and the effectiveness of change interventions. It is essential to be realistic about how quickly change will occur and maintain an open feedback loop to gauge process and adjust course, as required.

5. **Make it stick:** You need a combination of lead and lag measures to gauge both the progress of your culture road map and assess culture across the enterprise over time. Caution should be exercised to avoid "check the box" metrics that may be easy to measure, but lack substance and do not clearly indicate whether you are winning or losing. In order to "make it stick", you should evaluate the role each line of defense can play in measuring culture over time.

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Disrupt and grow: 2017 Global CEO Outlook

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This third annual *KPMG Global CEO Outlook*, offering deep insight into the challenges and opportunities faced by nearly 1,300 CEOs leading many of the world's largest and most complex businesses. The research offers a unique lens through which to view the strategic issues these CEOs are focusing on as they lead their businesses through a period of profound change and opportunity.

In last year's Global CEO Outlook, KPMG said it was "now or never" for CEOs focused on making transformative change in their companies. In the year since, many top executives have clearly made progress toward achieving their goals.

But those 12 months have also seen new waves of uncertainty that are compelling CEOs to think in fresh ways about the disruptive forces impacting their businesses. The advice of "now or never" still stands, but the CEOs spoken with are telling that in the face of new challenges and uncertainties, they are feeling urgency to "disrupt and grow."

This Outlook emphasizes that disruption has become a fact of life for CEOs and their businesses as they respond to heightened uncertainty. But importantly, most see disruption as an opportunity to transform their business model, develop new products and services and reshape their business, so it is even more successful than it has been in the past.

The majority of CEOs are still optimistic about their company and its prospects, as well as the national and global economy they operate within.

They say they are taking the necessary steps for their business to be a disruptor, rather than the disrupted.

They recognize the impact of increased geopolitical and economic uncertainties on their business and are working hard to be prepared. Moreover, they understand that speed to market and innovation are strategic priorities for growth in these uncertain conditions.

With continued pressure to deliver on the bottom line, CEOs are keenly focused on managing their business' core strengths while transforming the way they create value.

Operating in a more complex and rapidly changing environment is also challenging CEOs like never before, with an expanding breadth of skills and expertise needed to lead their organizations. CEOs need to stimulate innovation, oversee new types of customer relationships, manage heightened reputational risks and make bold decisions about their investments in technology.

In the wake of these challenges, it isn't surprising that a significant number of the CEOs say they are working to develop new skills and capabilities, as well as exploring new ideas and infl so as to drive essential change across their business.

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Key findings

Disruption as an opportunity

— More than six in 10 CEOs (65 percent) see disruption as an opportunity, not a threat, for their business.

— Three in four (74 percent) say their business is aiming to be the disruptor in its sector.

Heightened uncertainty

— CEOs in general remain confident about the global economic outlook, but that confidence has dipped from last year: two in three CEOs (65 percent) are now confident about global economic growth during the next 3 years — down from 80 percent in 2016.

— Most CEOs are confident in their own industry's prospects for growth in the next 3 years, but there has again been a notable dip over the past 12 months (from 85 percent to 69 percent).

A changing geopolitical climate

– Forty-three percent of CEOs are reassessing their global footprint as a result of the changing pace of globalization and protectionism.

— Fifty-two percent believe the political landscape has had a greater impact on their organization then they have seen for many years.

— Thirty-one percent think protectionist policies in their country will rise in the next 3 years.

Reputation risk climbs the agenda

— Reputational and brand risk has risen in importance for CEOs during the past year, to become one of the top three most important risks they face today (out of 16 in total), after not featuring in the top 10 in 2016.

— CEOs believe reputational damage will have the second-biggest impact on the growth of their organization over the next 3 years.

Strategic balance

— More than half of CEOs (53 percent) are increasing penetration in established markets, making this the most highly cited priority for growth.

— Innovating new products, services and ways of doing business comes second at 47 percent.

The evolution of the CEO

— Seventy percent of CEOs say they are now more open to new influences and collaborations than at any other point in their careers.

— CEOs are evolvin g their skills and personal qualities to better lead their business. Almost seven in 10 (68 percent) say they are evolving their skills and personal qualities to better lead their business.

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Battle for talent in cognitive revolution

— CEOs are more confident in their understanding of new technologies than they were in 2016, though competition for expert talent is fierce.

— As they embed cognitive technologies, businesses are expecting short-term headcount growth. Across 10 key roles, 58 percent on average are expecting a slight or significant growth in number of employees.

Headcount still growing, but weaker than last year

— In 2016, 73 percent expected their number of employees to increase by more than 6 percent in the next 3 years. In 2017, less than half (47 percent) expect this level of growth.

Intuition and analytics in understanding the customer

— Most CEOs (64 percent) say they are effective at sensing market signals.

— Yet ongoing success relies on good quality data and close to half (45 percent) say their customer insight is hindered by a lack of quality data. More than half (56 percent) are concerned about the data they are basing decisions on.

A perception of improved cyber resilience

— CEOs clearly believe they are making progress in their management of cyber, which this year has dropped to number five in the list of top risk concerns, down from number one last year.

— Four in 10 (42 percent) believe they are fully prepared for a cyber event — up from just 25 percent in 2016.

Trust in a time of disruption

— Two in three (65 percent) believe that levels of trust in business will stay the same or decline in the next 3 years.

— About three-quarters of CEOs (74 percent) say their organization is placing greater emphasis on trust, values and culture in order to sustain its long-term future.

— More than seven in ten (72 percent) of CEOs correlate being a more empathetic organization with higher earnings.

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Disruption as an opportunity

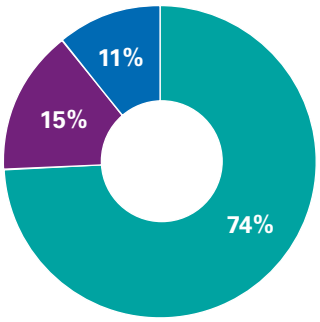
Today, more than ever before, leading a business is about challenging convention and driving radical change. Three in four CEOs in the survey (74 percent) say their company is striving to be the disruptor in its sector.

There are many reasons why CEOs are embracing disruption. We have witnessed a shake–up of the geopolitical status quo by way of the elections in the US, the UK and other countries. Above all, technology–driven change is sweeping through industries and economies on a global scale.

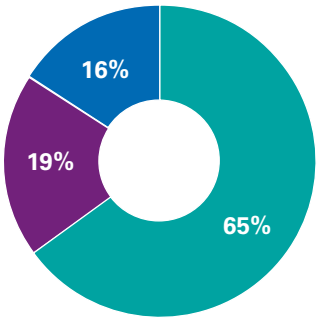
While these developments are welcome for some, they have created an even greater level of uncertainty. In turn, companies are championing new ways of creating value to ensure their businesses are not left behind. Respondents say they are making innovation a top strategic priority, as well as a key initiative designed to achieve growth.

Driving disruption in their own business may be a relatively new priority, but it is welcomed by CEOs – more than six in 10 (65 percent) consider technological disruption to be an opportunity, not a threat, for their organization.

CEOs' views on disruption



Rather than waiting to be disrupted by competitors, my organization is actively disrupting the sector in which we operate



We see technological disruption as more of an opportunity than a treat.

Agree *Neither agree nor disagree* *Disagree*

Source: 2017 Global CEO Outlook, KPMG International

The evolving risk landscape

As uncertainty increases, businesses have reviewed their register of key risks. Seven in 10 CEOs (69 percent) report that they have increased investment in governance and risk management in the past year, with 27 percent increasing it significantly. As they do so, operational risk has risen to become the highest concern for CEOs overall.

Reputational risk

One of the most striking changes in this year's survey is the rise in the number of CEOs who cite reputational and brand risk as a top concern. This is the third most important risk for CEOs (out of 16 in total), whereas last year it did not even break into the top 10.

2017		2016	
1	Operational	1	Cyber security
2	Emerging technology	2	Regulatory
3	Reputational/brand	3	Emerging technology
4	Strategic	4	Strategic
5	Cyber security	5	Geopolitical

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CEOs also see reputation and brand risk as having the second–biggest impact on growth over the next 3 years; in 2016, it ranked seventh out of 10.

CEOs are acutely aware that everything they do takes place in a more transparent environment than ever before. The impact of social and mainstream media spreading damaging news on a global scale and at a pace never seen before, is well understood by CEOs. Hackers can quickly distribute compromising emails online, while harmful videos of poor customer service can rapidly "go viral".

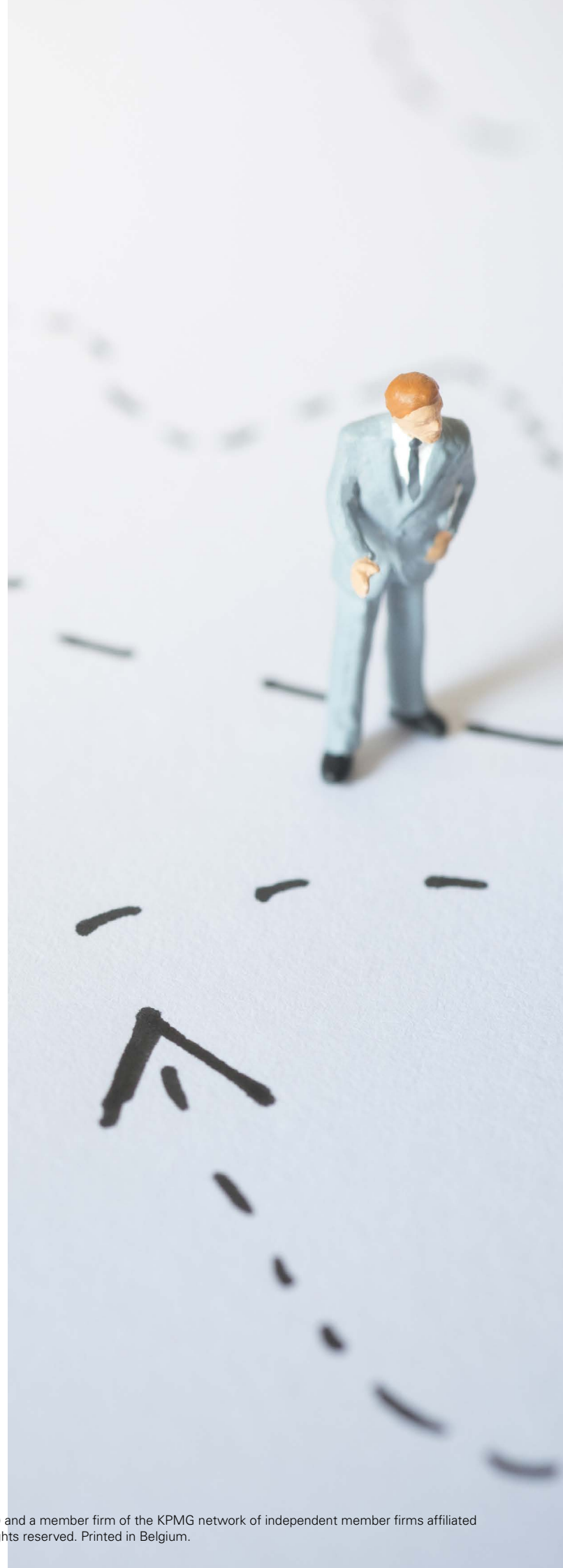
This issue may be amplified by compositional changes to the labor force, where a larger proportion of employees are hired "on demand" and do not necessarily "live" the brand's values as consistently as full–time employees.

The cyber connection

Considering the high–profile nature of many recent cyber attacks and the catastrophic damage they can cause, it might seem surprising that cyber appears at number five on the risk list — after ranking first last year.

To an extent, this is explained by CEOs' growing confidence in their management of the risk. And it is worth noting that there is a cyber dimension to all of the top risks identified — particularly operational, emerging technology and reputational risk — which confirms that CEOs' perception of the risk and its interconnectedness is maturing.

We see strong signals that many CEOs are moving beyond a generic view of cyber risk to develop risk, resilience and mitigation plans in the context of the parts of their business that could be most seriously affected. The risk remains very much top of mind.



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Priorities for today's CEO

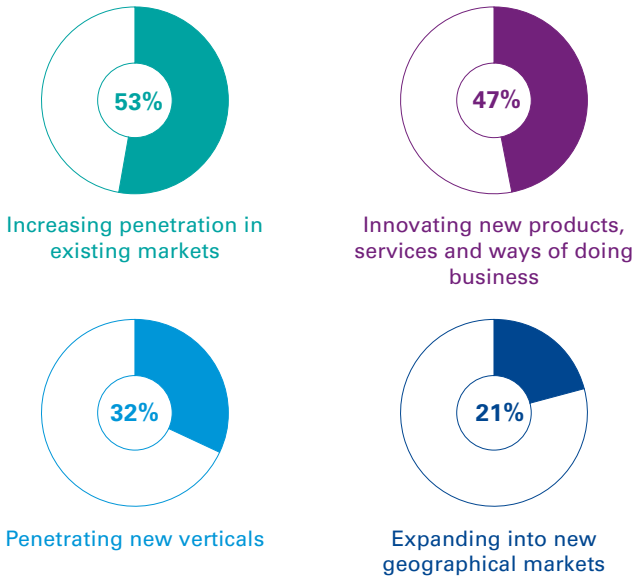
If three in four CEOs are aiming to disrupt their sector, what does this mean — in practical terms — for their business? And if 68 percent of CEOs are evolving their roles, how will they challenge the people and systems that make up their organizations?

An even bigger question relates to the balancing act that CEOs must play as they prepare for future uncertainty.

Taking bold moves in the market while ensuring resilience in a changing world, inevitably has implications for a company and how it operates.

This section summarizes how CEOs are answering these questions by looking at their priorities across seven core areas of the business — specifically its market strategy, its approach to innovation, the technology it needs to achieve its goals, its relationships with customers, its talent, its management of cyber as an ever-evolving threat and, finally, its place in society more broadly.

CEOs' views on disruption



1. Strengthening the core

We find CEOs preparing for uncertainty in the years to come by strengthening their existing markets and their core businesses. One in two (53 percent) is increasing strategic penetration in established markets as a high priority, while only 32 percent and 21 percent are expanding into new verticals and regions as a high priority, respectively (see Chart 8). At the same time, 70 percent of CEOs are making bottom-line growth a primary objective for investment.

A focus on the core does not contradict CEOs' stated ambitions around disruption, because we see innovation coming a strong second as a strategic priority and as a top business-wide initiative (see "Champions of disruption" and Chart 9, on pages 20 and 21).

Businesses are likely to be prioritizing disruption in their existing markets and will move into other markets as a secondary consideration. Once they are confident in the resilience and agility of the underlying organization and once the economic climate seems more stable, we could expect CEOs to focus again more strongly on new opportunities further afield.

Disrupting from within

Today, one in four CEOs (26 percent) expects their business to be transformed into a Significantly different entity within 3 years — down from 41 percent in 2016. This data point at fi appears to go against CEOs' stated drive for disruptive innovation. Yet a closer reading of the data suggests that the picture is more nuanced.

We see CEOs' appetites for transformation varying markedly by region, due to local market pressures and geopolitics. Respondents in China, India, Australia and Japan are more likely to expect their businesses to become Siginificantly different entities within 3 years; those in the US and Europe are less likely to expect this.

It appears that a number of organizations in the US and Europe are leading a growing trend in innovation that does not necessarily equate disruption with wholesale transformation.

The top five strategic initiatives

Rank	Initiatives
1	Greater speed to market
2	Fostering innovation
3	Implementing disruptive technology
4	Becoming more data driven
5	Digitization of the business

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Transformation as usual

The survey finds that rather than seeing transformation as a discrete program, with an abrupt transition from one incarnation of the business to the next, many businesses will have accepted it as part of "business as usual". Again, this may be targeted at the areas that need it most at the time, as a means to enable agility, rather than across the board.

2. Champions of disruption

The prospect of uncertainty would traditionally cause businesses to restrict their investments in innovation. Yet CEOs today are scaling up, rather than scaling back, on technology-led innovation. For many, fresh thinking is a logical response to challenging conditions.

CEOs may be focusing on existing markets as a growth priority, but the strategic initiatives they are pursuing across the rest of the business all support innovation in one respect or another (see Chart 9) — whether that's getting to market more quickly, embracing digitization or implementing disruptive technology. We also see many CEOs taking a hands-on role in the innovation process.

Managing the impacts of disruption

Disruption is not without its risks — especially when the majority of competitors are also planning to out-innovate the market. About half of CEOs (48 percent) are expecting major disruption in their sector in the next 3 years.

The findings suggest that many CEOs are confident in their ability to manage industry change and succeed in a highly competitive, innovation-focused environment. Last year, 65 percent of CEOs said they were concerned about their business model being disrupted by a new entrant that they do not currently see as a competitor. This year, that proportion has dropped to 48 percent. Four in 10 CEOs (39 percent) believe that any disruption their business encounters can be contained within specific functional areas.

Yet CEOs are not complacent: they know that their businesses can always innovate more effectively, especially when deploying emerging technology. One in two CEOs, for example, admits that their organization may not yet have the advance warning systems, capabilities and innovative processes to respond to rapid disruption.

2. Technology: A mixed picture on maturity

The ability to disrupt a market, or to innovate within an organization's established structures, is closely linked to a business's understanding of emerging technologies and their potential application.

CEOs in 2017 are notably more confident in their understanding of new technologies than they were in 2016. While half (47 percent) remain concerned about whether their business is keeping up to speed with new technologies, this finding was significantly higher — 77 percent — in 2016. KPMG's Goodburn believes that this growth in confidence may reflect that CEOs are working with different technologies on a daily basis and have more experience in seeing how they are interlinked. After assessing the opportunities and limitations of one technology, it becomes much easier to adapt and apply that knowledge to newer technologies.

Goodburn uses the iPhone® mobile digital device as an analogy. "Apple® didn't create mobile, or the internet, but created the ability to bring those technologies together at the consumer level and disrupt the world," he says. "CEOs know they need to mix one technology with another technology or platform and those intersections enables them to create new solutions and capture new opportunities."

Understanding technology does not mean, however, that CEOs consider technological innovation within their business to be a fait accompli. Four in 10 (38 percent) express concern that they are not using digital as effectively as they could to connect with customers. And six in 10 (61 percent) tell us they are concerned that their organization is not having as much success with new business models as it should.

Ongoing challenges

Despite the progress that businesses have made in technology, deep-seated challenges remain. In particular, as illustrated by Chart 11, the principal issues that CEOs face relate to talent shortages and the complexity of integrating cognitive technologies.

Similarly, when asked about their biggest barriers to implementation, complexity of integration and internal skills shortages come first and third, respectively.

The challenge of complexity is heightened, of course, when the business does not have an adequate number of suitably skilled people with an in-depth understanding of the technologies involved, especially when it comes to fast-evolving cognitive processes.

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Half of CEOs (52 percent) say they are concerned about their business' ability to integrate artificial intelligence (AI) into basic automated processes. Approximately one in three (31 percent) tells us that their organization is not ready to adopt advanced AI.

The top five strategic initiatives

Rank	Challenge
1	Attracting new strategic talent
2	Integrating cognitive technologies
3	Piloting emerging technologies
4	Optimal use of data analytics and predictive technologies
5	Reskilling the current workforce

3. Beyond the short term: Building trust inside and out

In recent years and particularly since the global financial crisis, public opinion has been highly critical of big business. Many CEOs believe that there will be little improvement in this sentiment in the near future.

Just one in three respondents to the survey (35 percent) expect public trust in business to get better in the next 3 years.

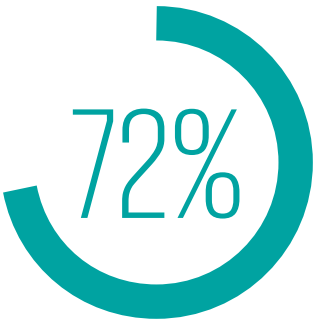
Negative public opinion can have a direct impact on business, as KPMG's Mc Cormick explains. "In some countries, the interest from civil society in the question of who is paying their "fair share" of tax has resulted in tax behaviors being seen as an indicator of wider corporate culture, impacting reputational risk and public trust," she says.

Partly for this reason and in recognition of the growing importance of brand and reputation to business success, 61 percent of CEOs say building greater trust among external stakeholders and customers is a top three priority for their organization today.

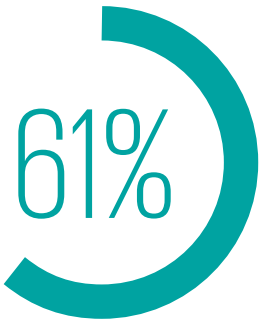
Trust and corporate culture

However, building integrity and improving perceptions of an organization is far from easy and is unlikely to be achieved in the short term. Indeed, organizations that seem overly keen to demonstrate their principles, through expensive marketing campaigns, may find their efforts met with cynicism from critics who delight in accusing big business of "greenwashing" and other tactics.

With this in mind, we believe it is critical to have a long-term focus on building a respectful and transparent culture within the organization. This view appears to be shared by CEOs in the survey, three in four of whom (74 percent) say they are placing greater importance on trust.



More than seven in 10 CEOs in this year's survey (72 percent) correlate being a more empathetic organization with higher earnings.



of CEOs say building **greater trust** among **external stakeholders** and customers is a **top three priority** for their organization today.

Conclusions

Innovation alongside uncertainty

In a world that has changed radically in a short space of time, CEOs are slightly less confident about the future than they were last year — but the majority remain optimistic for the global economy overall and particularly for their own business' potential. Most notably, their ambitions for innovation — for disrupting their businesses and the market — are as strong as ever. This paints an optimistic picture of the resilience and resourcefulness of today's leading businesses and the CEOs leading them.

Strengthening the core

CEOs recognize the value of disruption — for themselves, their businesses and the market — but they are far from reckless. Expecting fresh uncertainty ahead, many are balancing innovation with a focus on core resilience. They are disrupting their existing markets and making their underlying businesses stronger until moving into new markets becomes a less risky prospect.

Smart technology still needs smart people

Businesses are confident in their ability to use innovation to their business' advantage. For many however, a core challenge will be ensuring they can draw on enough suitably talented technology experts to adopt, deploy and deliver results from new technologies.

While these new technologies might reshape the labor force in the longer term, we are hearing clearly from CEOs that in the near term they still expect headcounts to rise and that they are struggling to find enough suitably skilled staff to implement the technology already available to transform their business. For this reason and perhaps counterintuitively, CEOs expect cognitive technologies in the short term to lead to an increase, rather than a decrease, in headcount.

The personal challenge

As they consider the economic, technological and geopolitical challenges of the future, CEOs are rethinking their own skills and personal qualities. This is encouraging in a commercial landscape that is evolving fast. And yet the bigger test for CEOs is how they apply these enhanced talents to the business and put their new technical and soft skills to optimum use.

Reputation matters

Reputation risk is one of the biggest threats faced by organizations — primarily due to the transparency created by the digital world. By building cultures based on respect and clear ethical values and planning for a more sustainable future, organizations can demonstrate integrity and help ensure their business' long-term success.

At a time of growing uncertainty, the role of the CEO will not become any easier or any less complicated. Yet the survey shows that CEOs around the world have accepted the challenge and are leading their businesses with determination, passion and an inspirational openness to new ideas.

Enhancing board evaluations

As most experienced directors can attest, board service is not for the faint of heart. Directors play a critical role in guiding their companies through a complex business environment that is filled with uncertainty, disruption and other challenges. And given the pace of change companies face today, investor expectations for board performance are high.

State Street Global Advisors, one of the largest asset managers in the world, defines its expectations for the role of the board as follows:

— "Help set and challenge current strategy, particularly under uncertain macroeconomic conditions, high market volatility and in a fast changing technological environment;

— Set risk appetite and mitigate or set mitigation standards for reputational and other risks;

— Influence firm culture and set ethical standards for doing business;

— Develop the right incentive structure that focuses management on the long-term strategy;

— Hold management accountable in a timely manner for the execution of strategy and long-term performance;

— Plan for the succession of directors and senior leadership; and

— Provide strong audit oversight to ensure that the financial reports are accurate."[1]

Effective evaluations provide a pathway for boards, committees and individual directors to objectively assess their strengths and weaknesses and implement plans for continuous improvement. Yet in a study conducted by the Rock Center for Corporate Governance at Stanford University and The Miles Group[2], while 66 percent of the directors rated their board as highly effective at accurately assessing CEO performance, the percentage dropped to 36 percent when the question addressed the accuracy of the board's assessment of the performance of board members. Only 23 percent rated their boards as very effective at giving direct feedback to fellow directors and 54 percent said that if they had sole power do to so, they would have one or more of their fellow board members removed. The stakes for companies are too high for boards to be satisfied with these results.

The purpose of the evaluation

Separating the evaluation process from the renomination decision is emerging as a best practice. While evaluation results clearly are relevant to the "fitness for purpose" determination, the focus of the evaluation should be to assess and set priorities for continuous improvement.

Put simply, a solid evaluation should offer insight into what is working, what needs improvement and where the board, committees and individual directors should devote their efforts over the coming year.

The evaluation process

If evaluations are approached as a matter of compliance and housekeeping, they will serve only

[1] Ronald P. O'Hanley and Rakhi Kumar, Changing Board Practices and Culture to Meet Investor Expectations, IQ INSIGHTS, August 2016.

[2] David F. Larcker, Stephen Miles, Taylor Griffin and Brian Tayan, Board of Directors Evaluation and Effectiveness, Rock Center for Corporate Governance, Stanford Graduate School of Business in collaboration with The Miles Group, November 2016.

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as a "check the box" exercise and will not help the board — or individual directors — to improve. A strong evaluation begins with a process designed to facilitate an honest, constructive and insightful assessment of strengths, weaknesses and gaps that leads to meaningful follow-up.

Evaluations may be performed in a variety of ways and there is no one "right" way to do them. The discussion below highlights key variables for consideration: who will be evaluated, who will do the evaluating and how the evaluations will be obtained. For each variable, suggestions include the essentials of a basic evaluation, one that is a step above and a recommendation for a top-tier evaluation. As needs vary from board to board and from time to time for the same board, the evaluation process should not be cookie cutter. For some boards, a basic evaluation performed annually and coupled with next-level or top-tier elements every 3–5 years will be cost-effective and sufficient, while for others, an annual top-tier assessment will produce essential insight. Many top-performing boards alter the process from year to year as a means of avoiding "evaluation fatigue." Whatever method is used in a particular year, the key is to ensure that thought has been given to the process and the needs of the board.

Who will be evaluated?

Basic: Full board
Next level: Evaluation of the full board and all committees
Recommended: All of the above, plus evaluation of individual directors.

Individual director evaluations can be tricky, as directors may be reluctant to offer criticism of their peers. Yet evaluations that serve to hold directors accountable and provide suggestions for self-improvement can be of enormous value. A global survey of large public company directors identified five individual behaviors believed to help create a high-performing board culture and drive board effectiveness:

(1) ask the right questions,
(2) possess the courage to do the right thing for the right reason,
(3) constructively challenge management, when appropriate,
(4) demonstrate sound business judgment and
(5) possess independent perspective and avoid "groupthink."
(6) Even top directors could likely benefit from a 360-degree assessment against those behaviors and for lesser-performing directors, individual evaluations can provide the lead director with factual data needed to support a difficult decision about whether the director should be renominated.

What will be evaluated?

Basic: Verification that board and committees have met the obligations imposed by law and governance principles/committee charters.
Next level: Assessment of the effectiveness of the board's operations — information, agendas, priorities, communication with each other and with management.
Recommended: All of the above, plus an assessment of board culture, individual director engagement and periodic deep dives into key areas.

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There are likely certain areas that the board will want to assess routinely to confirm that they are focusing on the right topics, receiving the information needed to do their work and holding management, each other and themselves, personally, accountable. In addition, there may be specific areas of focus, for example, whether the board's oversight of cybersecurity needs enhancement, how the board can be more effective in a crisis, etc.

Who will do the evaluating?

Basic: Board members engage in self-assessment.
Next level: Board members engage in peer assessment.
Recommended: All of the above, plus periodic input from members of senior management and others who have significant interaction with the board.

Members of management who interact with the board can often provide valuable insight. Are the members of the board aligned and clear in their instructions to management? Does the board ask questions and provide guidance that evidences a deep understanding of the business, its strategy and its culture? How would management describe the tone in the boardroom? Others who are in frequent contact with the board or a committee, such as external auditors and compensation consultants, may also provide valuable insight based on their observation of how the board/committee functions compared to others with whom they interact. And committees may benefit from input from directors who are not members of the committee.

How will the assessments be obtained?

Basic: Survey.
Next level: Individual interviews conducted by the director leading the evaluation process.
Recommended: Varying the assessment method to keep it fresh, including periodic use of a third-party evaluation process. Company legal counsel should be consulted before creating documents.

Written surveys are useful since they are efficient, create a record that evaluations have been performed and can help identify trends by comparing current results to results on the same topic over a period of time. In a well-functioning board, written

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surveys can also provide a quick pulse to help the chair determine which areas to focus on for a deeper dive. Online assessments can be particularly useful when they deliver the data in a graphic form that helps facilitate insight.

Surveys as the sole means of evaluation, however, may not be sufficient to elicit insights and concerns that often come out only in the context of a free-flowing, open-ended discussion.

The culture of the board and the skill of the person doing the interviewing will each help determine the value of the information gathered during a one-on-one interview. While a strong lead director or committee chair should be able to solicit valuable information during the interview process, a professional who specializes in board evaluations may bring a higher level of objectivity and depth to the process. Companies stand to benefit from third-party evaluations, particularly if there is a lack of trust among the board members, or if there is a crisis or significant concern that the board needs to address. In addition, as a matter of good governance, many high-performing boards of large companies routinely engage outside experts to perform evaluations on a periodic basis, for example every three years.

Who will be accountable for the evaluation process?

No matter how robust the process, an evaluation will only be as strong as the leader driving it. Whether a non-executive chair, a lead director, or the chair of the governance committee, a single leader must own the evaluation process in order to ensure accountability. The more the leader establishes a tone of candor, constructive criticism and respectful challenge, the stronger the evaluation. And the director leading the evaluation process should be evaluated both as an individual director and in his or her board leadership role.

Results and follow-up

If performed in a spirit of thoughtfulness and transparency, evaluations can bring to light a wealth of observations and potential areas for improvement. High-performing boards use the results as the basis for a candid discussion that leads to specific action plans. Other boards might choose to focus on matters such as the quality of prereads, meeting effectiveness or full-board education. For individual directors, action plans might cover their communication style, subjects to consider for continuing education, or, in the unfortunate case of a director who is not performing up to expectations or whose skills are no longer the right fit for the business, a decision to part ways.

Final thoughts: Evaluating the evaluation

As the board moves toward continuous improvement, these questions can be used for self-reflection on the strength of its evaluation processes:

- Do we assess effectiveness and fitness for purpose separately — and do we have the fortitude to part ways with a respected and well-liked director who is no longer the right fit when the needs of the company change?
- Do we tailor the evaluation process to the needs of the board and avoid "check the box" evaluations?
- Is our process sufficient to gain deep insight into the effectiveness of the full board, the committees and individual directors?
- Do we allocate sufficient time to discuss the results of the evaluation and develop concrete plans for improvement?
- Do we monitor progress against our post-evaluation goals and hold ourselves accountable for meeting them?
- Do we stay current on best practices in board evaluations and incorporate relevant practices to enhance our process and keep it fresh?
- Does the non-executive chair (or other leader of the evaluation process) set the right tone by asking thought-provoking questions, facilitating candid reflection and discussion and expecting individual accountability and continuous improvement?

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Non-financial reporting for Europe's largest companies: the essential rules in a nutshell

In 2011 the European Commission identified the need to raise the transparency of large companies on the social and environmental impact of their activities to a similar (high) level across all EU Member States. This would "help investors, consumers, policy makers and other stakeholders to evaluate the non-financial performance of large companies and encourage these companies to develop a responsible approach to business".1 Therefore, Directive 2014/95/EU of the European Parliament and of the Council of 22 October 2014 amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups, was adopted ("Directive").

Below is a brief overview of the main principles of the Directive:

I. Timing?

The EU Member States had to transpose the Directive into national law and communicate the measures adopted to the European Commission by 6 December 2016, since all undertakings within the scope of the Directive should apply the provisions for the financial year starting on 1 January 2017 or during the calendar year 2017.

Today, Belgium has not yet implemented the Directive into national law.[2] However, the Belgian government has submitted a draft bill on 29 June 2017 which was adopted by Belgian Parliament on 20 July 2017 ("Belgian bill")[3].

II. Which undertakings must comply with the non-financial reporting obligation?

According to the Belgian bill, the following undertakings fall within the scope of application:

— Large undertakings which are public-interest entities[4] exceeding on their balance sheet dates (i) the criterion of the average number of 500 employees during the financial year and (ii) at least a balance sheet total amounting to 17 million euros or an annual turnover amounting to 34 million euros (excluding VAT)[5]; and

— Public-interest entities which are parent undertakings of a large group exceeding on their balance sheet dates, on a consolidated basis, the criterion of the average number of 500 employees during the financial year.

Undertakings that are part of a group shall be exempted from these obligations, provided they are included in the non-financial statement of the (consolidated) annual report of another undertaking (e.g. the parent company).

III. How and what to report?

The abovementioned undertakings should include a non-financial statement in their annual report, including (new articles 96, §4 and 119§2 of the Belgian Companies' Code):

a. a brief description of the undertaking's activities;

b. a description of the policies pursued by the undertaking in relation to those matters, including due diligence processes implemented;

c. the outcome of those policies;

d. the principal risks related to those matters linked to the undertaking's operations including, where relevant and proportionate, its business relationships, products or services which are likely to cause adverse impacts in those areas and how the undertaking manages those risks;

[1] https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting_en (consulted on 23 August 2017).

[2] As is the case for Cyprus, Ireland, Portugal, Slovenia and Spain. France has partial transposition measures communicated to the European Commission, whilst the other 21 EU Member States have communicated full transposition measures. Source: https://ec.europa.eu/info/publications/non-financial-reporting-directive-transposition-status_en (consulted on 23 August 2017).

[3] http://www.dekamer.be/FLWB/PDF/54/2564/54K2564001.pdf.

[4] Public-interest entities are (for example) listed companies, insurance companies, credit institutions and other companies designated by national authorities as public-interest entities.

[5] In assessing these financial conditions, the company will be regarded individually unless it is a parent company.

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e. non-financial key performance indicators relevant to the particular business.

The Directive and the Belgian bill allow the concerned undertakings with a certain degree of flexibility on how to disclose relevant information, using international, European or national guidelines e.g. the UN Global Compact[6], OECD guidelines for multinational enterprises[7], ISO 26000[8] or the guidelines of the European Commission[9]. The undertakings must specify which frameworks they have relied upon.

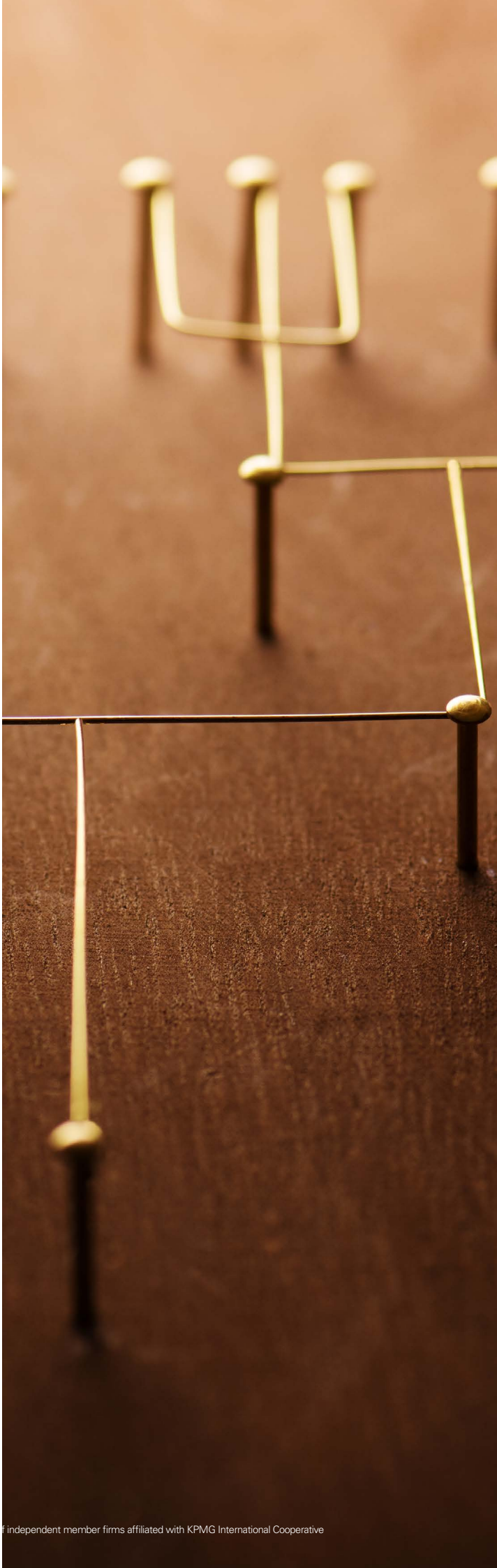
Where the undertaking does not pursue policies in relation to one or more of those matters, the non-financial statement shall provide a clear and reasoned explanation for not doing so (being the well-known "comply or explain" principle).

Important to note is that in exceptional circumstances, the management body of the undertaking can decide not to disclose certain information if this would be seriously prejudicial to the commercial position of the undertaking, provided that such omission does not prevent a fair and balanced understanding of the undertaking's development, performance, position and impact of its activity. The explanatory memorandum to the Belgian bill gives the example of an envisaged merger or demerger.

In addition, listed companies should include a description of their diversity policy in their corporate governance statement (modified article 96, §2, 6° of the Belgian Companies' Code). If no such policy is in place, the statement shall contain an explanation as to why this is the case.

Finally, companies which are controlled by the Government (or by any other entity governed by public law) will need to file a remuneration report together with their annual accounts (new article 100, §1, 6°/3 of the Belgian Companies' Code).

Undertakings which are affected by these new rules must ensure that their annual report on the 2017 annual accounts includes a non-financial statement.



[6] https://www.unglobalcompact.org/take-action/action/sdg-reporting

[7] http://www.oecd.org/corporate/mne/

[8] https://www.iso.org/iso-26000-social-responsibility.html

[9] https://ec.europa.eu/info/publications/170626-non-financial-reporting-guidelines_en

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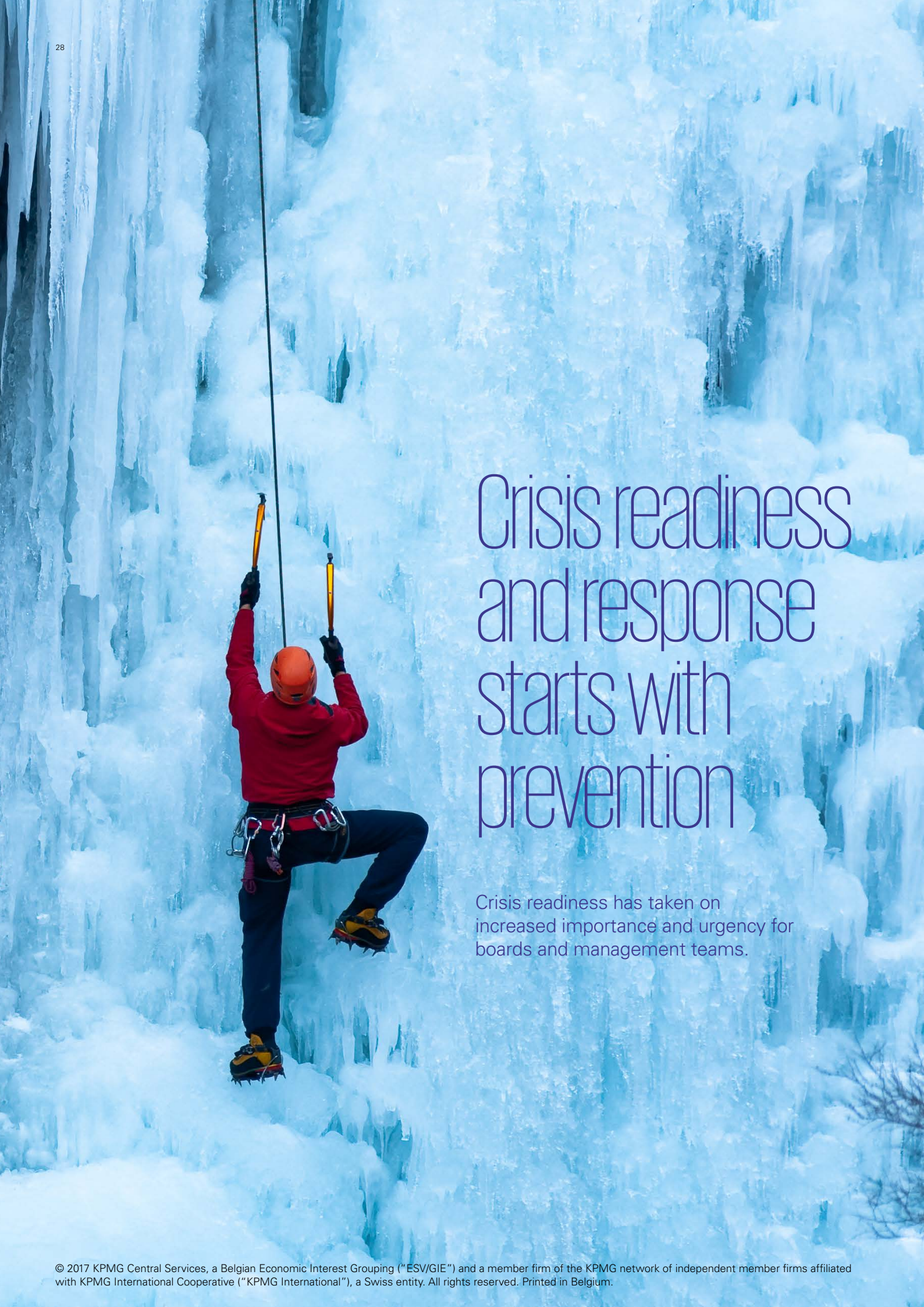

Crisis readiness and response starts with prevention

Crisis readiness has taken on increased importance and urgency for boards and management teams.

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The list of potential crises that companies can find themselves facing today looms large — from major product recalls, data breaches and health scares to natural disasters, terrorist events and ailing business leaders, to name just a few. And thanks to social media, the speed with which news of a crisis (accurate or inaccurate) can spread has been reduced to mere minutes, making the company's ability to respond quickly and effectively to a crisis increasingly critical. As postmortem media reviews of numerous crises have demonstrated, when a company's response is deemed to have fallen short, a question that is always asked is, "Where was the board?" This is particularly true in cases where a crisis was preventable, early warning signs were ignored, or the crisis was attributable to the company's culture or tone at the top. The message for boards: Crisis prevention is integral to crisis readiness and response.

While management has primary responsibility for crisis readiness and prevention, the board plays a crucial role in understanding and overseeing the company's efforts — in particular: management's crisis prevention activities; tone at the top, culture and incentives; and the company's crisis readiness, particularly whether it has a robust crisis response plan.

Crisis prevention.

Crisis prevention goes hand-in-hand with risk management, as risk management involves identifying and anticipating risk events that could occur and become crises and putting in place a system of controls to prevent such risk events and mitigate their impact should they occur. We are clearly seeing an increased focus by boards, particularly audit committees, on key operational risks across the extended global organization, e.g., supply chain and outsourcing risks, information technology and data security risks, etc. Among the questions audit committees are addressing with management are:

— Does the company understand its critical operational risks?

— What has changed in the operating environment?

— Has the company experienced any control failures?

— Is the company sensitive to early warning signs regarding safety, product quality and compliance?

— How sound are the company's disaster recovery plans?

— Is internal audit focused on the adequacy of controls around key operational risks?

Audit committees should probe to determine whether management has a sound system of controls in place to mitigate critical risks and avoid crises.

Tone at the top, culture and incentives.

While a robust risk management process is essential in avoiding and mitigating risk events, it is not enough. Many of the crises that have done the most financial and reputational damage to companies have been caused by a breakdown in the organization's tone at the top, culture and incentives. As a result, boards are paying particular attention to these "capital R" risks, which may pose the greatest risk to the company. In today's business environment, it is more important than ever that the board be acutely sensitive to the tone from and example set by, leadership; reinforce organizational culture (i.e., what the company does, how it does it, including a commitment to compliance and the management of risk); and understand the behaviors that the company's incentive structure may encourage.

Crisis readiness and response.

A key role for the board is to work with management to develop and approve a robust crisis response plan tailored to the company's specific risk profile, periodically engage in disaster rehearsal exercises and test and refresh the crisis response plan as appropriate. A critical component of any crisis response plan is the communications protocol:

— Who gets notified — the board, regulators, customers, shareholders and other stakeholders — and when?

— What channels will be used to communicate internally and externally?

— How will the company monitor and manage reputational issues — particularly via social media?

Even the best-prepared companies will experience a crisis — and there is rarely a perfect response. The ability to avoid disaster — and avoid mismanagement of the situation — will largely be determined by the effectiveness of the company's crisis prevention efforts and crisis response plan.

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Financial reporting news

Insurance Contracts – Introducing IFRS 17

The new insurance contracts standard – IFRS 17 – has finally been published, heralding fundamental changes for insurance contract accounting.

IFRS 17 will give users of financial statements a whole new perspective. The ways in which analysts interpret and compare companies internationally will change. The standard places insurers reporting under IFRS on a level footing, opening up the "black box" of current insurance accounting.

The new standard brings both benefits and challenges for insurers, who will need to gain an understanding of the accounting changes and the impacts on their businesses.

The effective date of 1 January 2021 may seem a long way off – but for many, the implementation effort will be significant.

KPMG's First Impressions: IFRS 17 Insurance Contracts will help you assess the impacts and prepare for transition. It explains the key requirements with the use of illustrative examples.

IFRIC 23 – Income tax exposures

Tax is a sensitive topic, attracting a lot of attention and triggering much debate about tax transparency both within and beyond the boardroom.

Interpreting grey areas in tax law can be complex. It is sometimes unclear how tax law applies to a particular transaction or circumstance. So how do you decide what to put in your financial statements if you're uncertain about a tax treatment that you've adopted in your tax return?

New requirements introduced by IFRIC 23 Uncertainty over Income Tax Treatments bring clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities. Under IFRIC 23, the key test is whether it's probable that the tax authority will accept the company's chosen tax treatment.

The Interpretation applies for annual periods beginning on or after 1 January 2019 with earlier adoption permitted.

Lease definition – The new on-/off-balance sheet test

Under the new leasing standard, IFRS 16, lease definition becomes the key on-/off-balance sheet test.

In many cases, assessing whether there is a lease will be straightforward and a transaction that is a lease today will be a lease under the new standard. But this will not always be the case.

Identifying all lease agreements and extracting all key data may require substantial effort. The practical expedient to grandfather the lease definition on transition may prove popular.

KPMG's Lease Definition publication will help to identify leases when preparing to adopt IFRS 16. It provides a detailed analysis of the key elements of the lease

IFRS 15 Revenue – KPMGs new resources to help you get ready

In a matter of months, the new revenue recognition standard – IFRS 15 – will change the way that many sectors account for sales contracts. To help you make a smooth transition, KPMG issued a range of guidance materials. KPMG's series of Are you good to go? publications will help drive IFRS 15 implementation projects to the finish line. Visit kpmg.com/goodtogo to stay up to date and for further practical guidance to help to make the move to the new standard, check out KPMG's IFRS 15 transition toolkit.

Read more of any of the publications above and more on IFRS:

– KPMG Belgium IFRS Institute: **www.kpmg.com/be/en/topics/ifrs–institute**
– KPMG Global IFRS Institute: **www.kpmg–institutes.com/institutes/ifrs–institute**

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About ACI

The Audit Committee Institute (ACI) champions good corporate governance to help drive long-term corporate value and enhance investor confidence. Focusing on the audit committee and supporting the director community, ACI engages with directors and business leaders to help articulate their challenges and promote continuous improvement. Supported by KPMG Board Leadership Center, ACI delivers actionable thought leadership — on risk and strategy, technology, compliance, financial reporting and audit quality — all through a board lens.

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