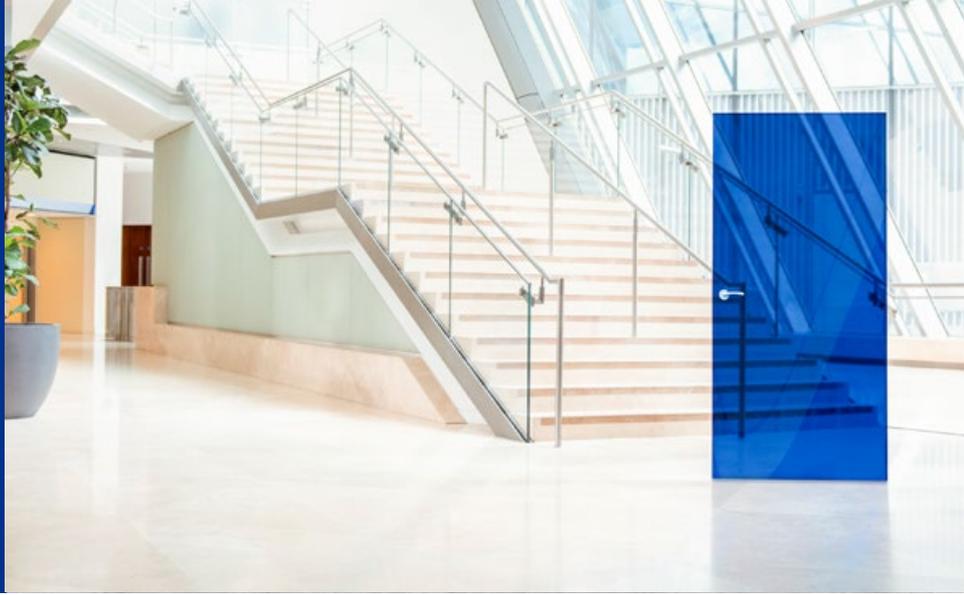




Ukraine conflict: Boardroom considerations

KPMG Board Leadership Centre



As the Russian-Ukraine conflict unfolds, companies have had to move quickly to ensure the safety of their employees, while girding themselves for the economic impacts and operational disruption to come. Many companies are now re-evaluating their businesses in Russia, with some curtailing their operations there or deciding to leave entirely. Meanwhile companies with operations in Ukraine have suspended operations. Even for companies not operating in the region, the conflict adds new risks to a global economy already struggling with inflation and supply chain disruption. Recognising that the implications for companies will vary by sector and geographic reach, this paper looks at key issues for boards to address.

The well-being of employees and those affected by the conflict

The conflict's impact on Ukrainian lives – including, at the time of writing, upwards of 2 million refugees¹ – has rippled worldwide, compounding the anxiety and toll that two years of pandemic-related hardship has taken on workers.

Understand how the company is supporting employees in Ukraine, Europe, and around the world. For companies with a significant employee base in Russia, deciding whether to cease operations in light of the reputational risk and pressure will no doubt be difficult.

The company's public position

Expectations for companies/CEOs to make public statements condemning the Russian invasion (as many companies in the US and Europe have done) and activist demands for divestitures in Russia and/or assistance to Ukrainian refugees, reinforces the importance of having a clear internal process for determining and articulating the company's public positions – on this and other major crises – with consistency. Decisive actions might be necessary as employees, customers and society at large expect boards to behave responsibly. Any communication of the company's public position needs to be calibrated against the current position of the government, as it may impact the company by drawing undue attention.

Evaluating reputational risks

Monitor for potential reputational issues posed by misinformation via major social media platforms and understand how the company is viewed by its stakeholders and the broader public in the context of the conflict and evolving narrative. Proactively communicate with key investors about the rationale for and implications of the company's position(s).

Cybersecurity

As recommended by the National Cyber Security Centre (NCSC), all organisations should be moving to a position of heightened alert when it comes to cybersecurity and protecting their most critical assets.

The increased risk of cyber threats – whether Russian retaliation for sanctions or public support for Ukraine, increased hacking and ransomware activity, or the impact of Russian malware “released into the wild” – should be prompting fresh tabletop exercises, a review of business continuity plans, and assessment of third-party/vendor vulnerabilities. Consider the adequacy of the company's cyber-related talent and resources in the event of a major breach, disruption, or failure of critical infrastructure, as well as the company's connectivity and coordination with law enforcement. Monitor regulatory and/or legislative developments impacting cybersecurity incident reporting and disclosures.

Macroeconomic, trade, and supply chain issues

The impact of the conflict on the economy will continue to be multidimensional and interrelated – from increased energy and food costs to supply chain disruptions, slowed economic growth, and continued stock market volatility. Concerns about inflation have already prompted interest rate hikes by central banks, with implications for capital allocation decisions. Trade restrictions and compliance with sanctions and export controls – including understanding counterparty and third-party risks, along with associated controls like Restricted Party Screening – should be front and centre.

Geopolitical volatility and the company's risk profile

Reassess the company's global risk profile in the context of shifting geopolitical dynamics – within Europe and around the world. These and other geopolitical uncertainties highlight the critical importance of robust scenario planning, including spending time envisioning the future and challenging the company's strategic and risk-related assumptions and making scenario planning an ongoing, iterative process.

More fundamentally, has the speed and impact of the conflict surfaced any critical gaps in the company's risk management process or crisis readiness – or the board's risk oversight – that need to be addressed?

Corporate reporting

The events and market conditions associated with the Russian-Ukrainian conflict may have significant accounting, audit and reporting implications for financial statement preparers (and auditors). Boards should understand the nature and extent of any operating and financial exposures and the potential financial statement impacts, in particular management's assessment of the entity's ability to continue as a going concern and the need for additional disclosures to reflect any uncertainties and volatility triggered by the crisis.

For organisations, the impacts will generally be considered to be non-adjusting events requiring disclosure of *inter alia*: significant business interruption; any damage/ destruction of non-financial assets; the seizure/ expropriation of assets by government authorities; significant declines in sales, earnings and/ or operating cash flows; and any plans for major asset disposals.

Also, the risks posed by the Russian-Ukrainian conflict may need to be addressed in the company's risk-factor disclosures – e.g., if the business depends on imports/exports to or from Russia; if Russia, Ukraine, or affected countries have a material customer base; or if the company's key third-party vendors are affected by the conflict.

Accelerate the transition to net zero

Sixty percent of Russian exports are oil and gas. Moving away from oil and gas will impact Russia's access to financial resources while also addressing the existential crisis that is climate change. The IPCC report published on 28th February was not much talked about. Nevertheless, the IPCC issued a stark warning: "Human-induced climate change is causing dangerous and widespread disruption in nature and affecting the lives of billions of people around the world, despite efforts to reduce the risks. People and ecosystems least able to cope are being hardest hit".

Government policy priorities

Monitor the direction of government policies that could impact the company and/or its operations – including any shifts in defense, ESG, sanctions, energy, cybersecurity, and cryptocurrency policies and spending, among others.

As many companies learned firsthand during the COVID pandemic, the depth and frequency of reports to the board on how the company is responding to a crisis should strike a balance between keeping the board sufficiently informed without unduly burdening or distracting management. The Russia-Ukraine conflict and its wider geopolitical implications also reinforce the importance of having geopolitical expertise in the boardroom, whether on the board, in management, or from a third party.

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