DIRECTORS QUARTERLY

Insights from the KPMG Board & Governance Institute

First Edition February 2022

Foreword

From coming to terms with prolonged socialisation restrictions to facing the ever-present threat of the COVID-19 virus and ensuing variants, the past two years have been daunting to say the least.

Despite entering a new year, organisations will continue to encounter uncertainties triggered by the pandemic. This includes issues like inflation, labour constraints, and the impact on supply chains. Yet, all hope is not lost. As businesses move ahead, board members have provided companies with much-needed clarity and guidance amidst uncertain times. To continue this momentum, board agendas should adopt a flexible approach. This means setting aside time to discuss new challenges while also addressing an array of oversight issues and must-do's that require focused attention and deeper dives. In this edition of Director's Quarterly, we shed light on key considerations that should rank high up on the agendas of board and audit committees as they prep for the year ahead.

Also in this issue: key geopolitical trends that will shape the world in 2022 and our latest insights on third-party risk management outlook for 2022, emerging trends in infrastructure and how to get SPAC governance right. We hope you will find the Directors Quarterly helpful as you shape your board and committee agendas for 2022.

We wish you all the best for the year ahead.

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WHAT'S INSIDE

On the 2022 Board Agenda

By tapping on insights based on our work and conversations with directors and business leaders, we have highlighted key considerations that boards can take into as they approach and execute their agendas for 2022.

1 **Deepen the board's engagement in strategy and in envisioning the future.** When it comes to strategy discussions, investors expect boards to engage effectively with management. This calls for a collaborative mindset.

2 **Embed key elements like ESG, climate risk and diversity, equality and inclusion (DEI) into risk and strategy discussions.** Expect the intense regulatory focus on climate change, DEI issues, and other ESG risks to continue in 2022. Be sure to address "transition risks" that companies might face as they work to reduce their reliance on carbon and its impact on the climate.

3 **Engage proactively with shareholders, activists, and other stakeholders.** Issues like transparency, authenticity, and trust are no longer just confined to the realm of investors. There is a growing trend of employees, customers, suppliers, and communities who are holding companies and boards accountable for their actions.

4 **Make talent, human capital management, and CEO succession a priority.** Boards should have a clear understanding of their company's talent strategy and ensure that it aligns with the organisation's broader strategy and forecast needs. Boards should also develop a talent pipeline of potential CEO and C-suite candidates.

5 **Approach cybersecurity and data privacy holistically as data governance.** Cybersecurity will continue to be a key challenge ahead. Boards need to ensure that their organisation's data and information assets are appropriately managed and utilised.

6 **Reassess the company's crisis prevention and readiness efforts.** Boards should periodically reassess the clarity and appropriateness of risk oversight responsibilities among its committees. Putting in place a robust system of reporting and controls may help to prevent or mitigate the impact of risk events.

7 **Help set the tone and closely monitor the culture of the organisation.** Boards need to understand the company's actual culture by utilising all possible tools. This will help them monitor the organisation's culture and allow them to witness it unfolding in real-time.

8 **Think strategically about talent and diversity in the boardroom.** From 2022, listed issuers will be required to construct and disclose a board diversity policy that addresses aspects like gender, skill, and experience. They will also be required to describe the board diversity policy and provide key details like targets, plans, timelines, and progress in their annual reports.

9 **Strengthen tax governance and unlock process enhancement opportunities.** As part of its tax strategy and transformation process, boards should consider adopting a more proactive approach to tax governance. This will help companies unlock critical opportunities and harness process enhancements.

Click here to read the full agenda.

On the 2022 Audit Committee Agenda

By tapping on insights gained from our work and conversations with directors and business leaders, we have highlighted key issues for audit committees as they approach and execute their 2022 agendas.

Stay focused on financial reporting and related internal control risks. Financial reporting, accounting, and disclosure impacts caused as a result of COVID-19 will continue to unfold in 2022. Key areas of focus for ACs include COVID-related forecasting and disclosures, control over financial reporting, and audit adjustments.

Monitor climate and other ESG disclosures and clarify the audit committee's related oversight responsibilities. With the Singapore Exchange (SGX) mandating climate and board diversity disclosures, ACs should encourage management to reassess the scope and quality of the company's sustainability and ESG-related reports and disclosures.

Reinforce audit quality and set clear expectations for the external auditor. Setting clear expectations and ensuring frequent quality communications with the external auditor is key towards enhancing audit quality.

Understand how technology is impacting the finance function's talent, efficiency, and value-add. The challenges of finding, developing, and retaining talent, amidst shifting working trends and a labour constrained market has created a talent war. This has particularly affected roles related to finance functions and internal audit.

Help ensure that internal audit is focused on the company's critical risks. ACs should work with the Head of Internal Audit (HoIA) and Chief Risk Officer (CRO) to help identify critical risks and ensure that internal audit is focused on targeting these issues and related controls.

Stay updated on global tax developments and risks — a key component in ensuring ESG compliance. There have been efforts to achieve consensus for global tax reform to enable jurisdictions to tax automated digital services. Tax has also emerged as an important element of ESG, with stakeholders expecting companies to practise good tax governance by contributing a fair share back to society.

Make the most of the audit committee's time together. Streamline committee meetings by insisting on quality pre-meeting materials and by making use of consent agendas. Create a comfortable working relationship with management and auditors so that financial reporting and compliance activities can occur in a systematic and routine manner.

Click here to read the full agenda.

Geopolitical Risk Outlook 2022

What to look out for in 2022?

According to Top Risks 2022, an annual forecast of political risks by global consultancy firm Eurasia Group, the year 2022 will be headlined by two key crises that will require a coordinated international response. They are the COVID-19 pandemic and climate change. With both China and the United States unlikely to take the lead in addressing these issues, other countries will have to step into the fray. While there are several potential flashpoints across the world, here are 10 of the most pressing geopolitical risks that will impact the world in 2022:

1. **No zero Covid:** While initially successful, China's zero-Covid policy has since become increasingly unsustainable. A failure to contain new waves of infections might lead to larger outbreaks, more extensive lockdowns, and ultimately, greater economic disruptions. With increasing state interventions, there is a possibility that the population might grow more dissatisfied.

2. **Technopolar world:** The poorly governed digital space imposes immense costs on society and businesses. Tech firms and governments continue to be at loggerheads on how to best manage data privacy, cyber-security, as well as the safe and ethical use of artificial intelligence. As a result, U.S.-China and U.S.-Europe tensions regarding these issues are expected to rise.

3. **U.S. midterms:** With the control of Congress and key states at stake, the 2022 U.S. midterms represent a historic tipping point. Depending on the result, this could set the stage for a controversial presidential election in 2024.

4. **China at home:** President Xi Jinping's reform plans will unsettle markets and companies in 2022. Expect scrutiny on firms and sectors that Beijing considers as too politically powerful, systemically risky, or socially harmful.

5. **U.S-Russian relations are on a knife-edge:** Economic sanctions between U.S. and Russia would give rise to significant winter energy shortages. This, in turn, could strain U.S.-Europe relations and lead to deeply divisive ties.

6. **U.S.-Iranian ties:** With Iran's nuclear program advancing rapidly and with diplomacy stalled, the Biden Administration has few options. Israel will likely take matters into its own hands and the repercussions will leave oil prices and regional states jittery. This might increase the risk of conflict.

7. **Two steps greener, one step back:** Continued upward pressure on energy costs will force governments to favour policies that lower energy costs. As a result, this will delay climate action and increase climate pressures on governments.

8. **Empty lands:** As the result of power vacuums across the globe, many countries and regions may have to suffer harsh consequences. For example, civil wars will lead to new risks in countries like Yemen, Myanmar, and Ethiopia. Meanwhile, the refugee crisis might worsen in places like Venezuela and Haiti.

9. **Corporates losing the culture wars:** Empowered by the call-out culture and social media, ethically minded consumers, employees, and media outlets, will place new demands on multinational corporations and the governments that regulate them. More time and money will be channelled towards navigating these increasingly complex environmental, cultural, social, and political spheres.

10. **Turkey's troubles:** As Turkey's economy struggles, expect President Erdogan's foreign policy this year to grow more antagonistic to distract voters from unfavourable domestic affairs. In the unlikely event that elections take place in early 2022, existing risks will be exacerbated.

Source: Eurasia Group's Top Risks For 2022

Third-Party Risk Management Outlook 2022

To gather insights on third-party risk management (TPRM), KPMG International conducted a survey involving 1,263 senior professionals across six sectors and 16 countries worldwide.While our research revealed that TPRM remains a **strategic priority for almost 85 percent of businesses**, it also presents several key challenges for companies. Here are some key findings from our data:

Third-party incidents are disrupting the business and damaging reputation

About 73 percent of respondents stated that they have **experienced at least one major disruption** that is directly attributable to third parties within the last three years alone. Another 38 percent said they have **experienced at least three or more disruptions** over the same period.

Businesses underestimate the need for a sound TPRM program, resulting in insufficient budgets

Almost 61 percent of respondents believe that **TPRM is undervalued**. Meanwhile, almost one in two say they **do not have sufficient in-house capabilities** to manage all the third-party risks they face.

Technology is not yet fulfilling its promise

About 59 percent of respondents are frustrated by **the lack of visibility that their technology gives them around third-party risk** across the supply chain.

The challenge of limited resources is here to stay

Close to 30 percent of respondents are planning to **assess third party providers to see if they comply with the ESG-related environmental risk component** within the next three years. Larger companies are more likely to have such frameworks in place.

Most businesses struggle to maintain a fit-for-purpose TPRM operating model

Some 55 percent of respondents said that i**t was luck, and not their TPRM programme**, that enabled them to avoid a major third-party incident during the pandemic. In turn, 77 percent said that an **overhaul of the TPRM operating model was long overdue.**

As executives find themselves constantly prioritising resources in an evolving business landscape and budgets remain limited, the message is clear: there are no quick fixes to the five thematic challenges outlined in this research. However, TPRM leaders need to recalibrate their operating models and the way they approach third-party risks.

This necessity will be underscored by the expansion of ecosystems and the growth of supply chains. The risks presented by fourth parties will further accelerate the complexity of the issue.

Click here to read the full report.

Emerging trends in Infrastructure

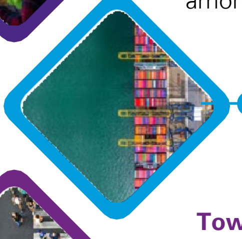
The infrastructure decisions that we make today will set the stage for how the world will evolve over the next century. So, infrastructure leaders have an opportunity to fundamentally change our collective path as we embark on a journey to fulfil the climate, social, and governance agenda. Here are a few key trends from KPMG's *Emerging trends in infrastructure 2021* report to take note of:

Shifting from talk to action – In 2022, we expect to see the private sector redouble its investment and activity on the climate agenda. As a result, infrastructure players with a clear path to achieve net zero ambitions will thrive while climate laggards are expected to fail.

Building long-term in a short-term world – Infrastructure planners are expected to become much more focused on key issues like stakeholder engagement, data and analytics, and emerging technologies. This will pave the way for greater flexibility and collaboration in future planning and investment.

Maintaining control while encouraging agility – Regulators and governance bodies are expected to adopt a more central role that will lean towards encouraging value. More than any other factor, the speed at which this occurs could determine our future.

Making digital a reality – Infrastructure planners will start to take a much longer-term and holistic view of digital transformation. This includes aspects like integrating data from the back to the front office, driving digital literacy by engaging with users and customers and encouraging access and acceptance, amongst others.



Supply infrastructure, supply the world – Infrastructure players will be focusing more on encouraging diversity in their organisations. Beyond helping to reduce talent supply constraints, this will also provide them with an opportunity to bring fresh perspectives into the sector.

Towards a new 'liveable' environment – City planners and policy makers will start to reimagine how populations want to live, work and play. There will be increased priority on assets that will be able to accommodate a range of different lifestyles. Expect short-term changes to remain at the planning stage until the right solutions are found to solve these issues.

Paying for it all – Governments will have clearer and more persuasive conversations about how they will fund their infrastructure plans by adopting a long-term perspective. As a result, taxation is expected to rise and expand.

Click here to read the full report.

Getting SPAC governance right

The business that emerges from a SPAC transaction must instantly deliver its public company responsibilities. Ultimately, it is the duty of the job to ensure this.

Given their background, there is greater impetus for businesses that emerge from SPAC transactions to deliver on their public company responsibilities instantly. Ultimately, the role of the board is to ensure that the organisation does not fall short of delivering the right results.

Going public via a special purpose acquisition company (SPAC) is becoming increasingly attractive for private companies. For one thing, a SPAC merger allows a company to go public and get a capital influx more quickly than it would have with a traditional initial public offering (IPO) process. For example, compared with an IPO process that might take 12–18 months[1] to be completed, a SPAC deal is completed in quick succession, often with many key details ironed out in a matter of weeks.

Given the swift undertaking, it is no surprise that board governance — a key aspect of public company readiness — is not always high up on the agenda during a SPAC transaction.

Across most of the overseas class-action suits brought against SPAC companies as a result of plummeting post-transaction prices, it was observed that investors accused the board of being asleep at the wheel instead of practicing due diligence.

The importance of setting up an effective board cannot be overstated. The SPAC board should be composed of directors with rich operating and public company experience. They should also have adequate committees, including an audit committee comprising of objective directors that meet regularly. Board directors from the SPAC acquirer, some of whom may stay on as directors on the combined company, should keep close tabs on the due diligence of the target company. They should also think about how to mitigate any potential downside risks. These include elements related to environmental, social, and governance (ESG) compliance.

A few key questions to consider:

- **Weighing a transaction.** Has the company fully assessed the trade-offs in a transaction with a SPAC compared to a traditional IPO or sale to a private or public entity? Is the board aligned with management on the strategic direction of the company? How might the strategy shift under new ownership and/or an infusion of equity capital?
- **Leadership insights.** Do the financial sponsors have a track record in completing a SPAC transaction and/or sector-specific expertise and operating partners? How will the public company board be established? Of the existing board and management, who is available and best suited to serve in that capacity for the public entity?
- **Valuation and other matters.** Does the board have a solid understanding of the company's potential public market valuation? What factors may impact that valuation and the company's ability to consummate a SPAC transaction? Are there existing legal, regulatory, or compliance matters (e.g., conflicts of interest) that could impact the company's ability to sell?
- **Diligence and disclosure.** Is the company prepared for the diligence process, including the availability of audited historical financial statements in line with public company expectations? Can the company make appropriate disclosures related to historical acquisitions that are material to the financial statements? Does the company have an appropriate internal control structure?
- **Public company reporting.** How robust are the processes for closing the books, budgeting, and forecasting? What would be required to ramp up to public company compliance, reporting, and disclosure—including steps to establish proper board governance, an investor relations team, and executive compensation plans?

[1] Why so many companies are choosing SPACs over IPOs

Visit **KPMG SPAC Intel Hub** for more insights on the special-purpose acquisition company mergers.

Recent regulatory developments

Mandatory climate and board diversity disclosures

On 15 December 2021, Singapore Exchange (SGX) mandated that all issuers must provide climate reporting on a 'comply or explain' basis in their sustainability reports from the financial year (FY) commencing 2022. Climate reporting will subsequently be mandatory for issuers in certain industries from FY 2023 and 2024. In addition, the Exchange also announced a series of ESG metrics, which are expected to be a "starting point for what companies can disclose in their sustainability reports." Such metrics are expected to "make information more accessible and comparable . . . [and] make data more transparent, and simplify decision-making for investors."

Resources

SINGAPORE Illustrative Financial Statements 2021 illustrates best practices for financial statement disclosures that comply with the Singapore Companies Act, Singapore Financial Reporting Standards (International) [SFRS(I)] and the Singapore Exchange Limited Listing Manual for companies with a financial year ending 31 December 2021.

Singapore Budget 2022
Finance Minister Lawrence Wong's Budget 2022, unveiled on 18 February 2022, is both pivotal and forward-looking. Driving sustainable, inclusive growth will be a defining challenge critical to building a brighter future together. KPMG in Singapore is pleased to share key Budget highlights and insights for the road ahead. Read it here.

About KPMG Board & Governance Institute (BGI)

The KPMG Board & Governance Institute (BGI) champions outstanding governance to help drive long-term corporate value and enhance investor confidence. Through an array of programmes and perspectives — including KPMG's Audit Committee Institute (ACI) and more — KPMG BGI engages with directors and business leaders to help articulate their challenges and promote continuous improvement of public- and private-company governance. Drawing on insights from KPMG professionals and governance experts worldwide, KPMG BGI delivers practical thought leadership — on risk and strategy, talent and technology, globalisation and compliance, financial reporting and audit quality, and more — all through a Board lens.

Learn more at http://kpmg.com.sg/bgi.

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