EY Center for Board Matters

EMEIA Board Priorities 2025

How boards can shape the future with confidence

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Shape the future with confidence

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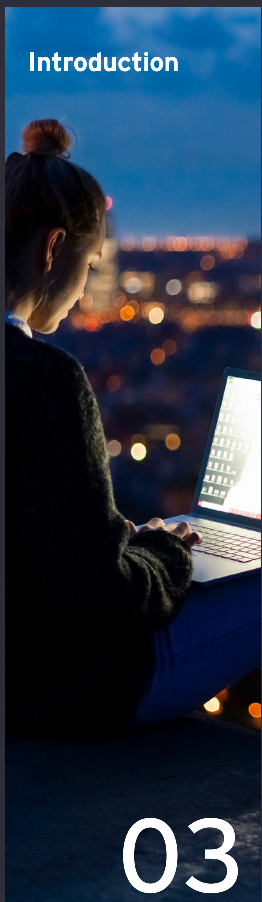
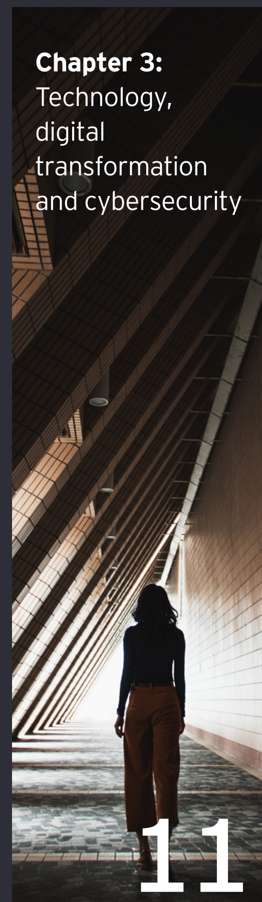
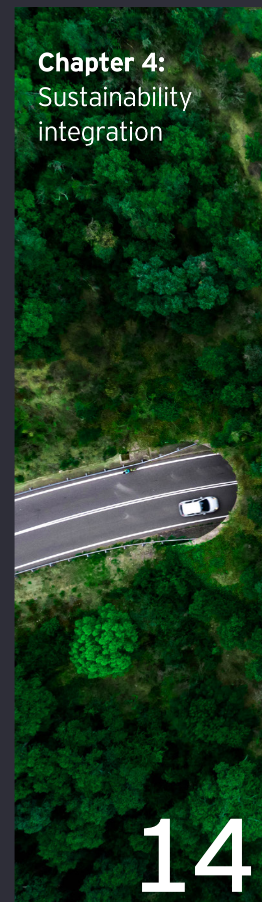
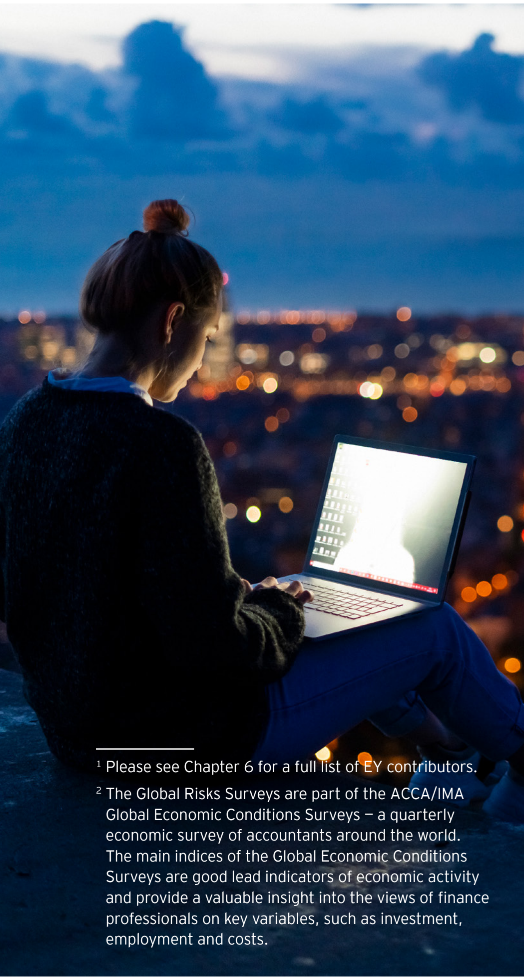


Introduction



How can boards navigate today's demanding business environment and shape the future with confidence?

Boards across Europe, the Middle East, India and Africa (EMEIA) continue to operate in highly challenging market conditions. Geopolitical tensions have further heightened since 2024 while interest rates remain elevated and a major pick-up in global growth looks unlikely in the near term.

To add to these geopolitical and economic challenges, boards are still navigating what may seem like an endless wave of regulation. They are also trying to understand how artificial intelligence (AI) and other emerging technologies can transform their organization's business model and enhance its competitiveness. Digital resilience is high on the agenda due to the ever-present threat of cyber attack.

Sustainability remains another focus area as boards consider how they can use their organization's reporting to inform its strategy for long-term value creation. Additionally, there are key workforce factors to reflect on – including skills shortages, changing demographics and the need to train people in the use of new technological tools.

In today's complex and demanding operating environment, the critical oversight provided by the board is more important than ever. Boards are helping their organizations to set, deliver and oversee strategy, manage risk and comply with regulation so they can thrive into the future. To fulfil this role, however, they need robust and timely information, expert advice and the skills to effectively question management.

EY teams have conducted qualitative research to identify board priorities in 2025, how board members can best support their organizations over the next 12 months, and which questions they should be asking of management teams. The research also explores boards' likely priorities in five years' time, so they can scan the horizon and develop the necessary skills and knowledge to succeed in future.

The EMEIA Board Priorities 2025 is based on in-depth interviews with EY professionals, including the EY Center for Board Matters,[1] as well as Rachael Johnson, Global Head of Risk Management and Corporate Governance for Policy and Insights at Association of Chartered Certified Accountants (ACCA.) Additionally, the research draws on data from the risk section of the ACCA and Institute of Management Accountants (IMA) Global Economic Conditions Surveys (GECS) (2024).[2]

Many of the topics in this year's report continue the themes from last year, although geopolitics is now an even more prominent concern. The research highlighted the following as specific areas of focus for boards in 2025:

- Geopolitical volatility and resilience
- Shaping tomorrow's workforce
- Technology, digital transformation and cybersecurity
- Sustainability integration
- Navigating compliance challenges and regulatory demands

[1] Please see Chapter 6 for a full list of EY contributors.

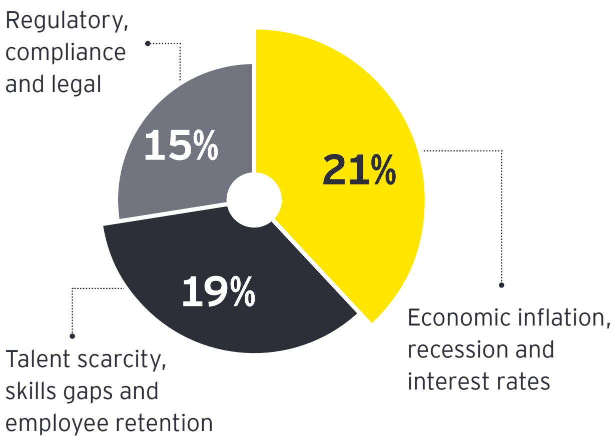
[2] The Global Risks Surveys are part of the ACCA/IMA Global Economic Conditions Surveys – a quarterly economic survey of accountants around the world. The main indices of the Global Economic Conditions Surveys are good lead indicators of economic activity and provide a valuable insight into the views of finance professionals on key variables, such as investment, employment and costs.

1 Geopolitical volatility and resilience

Key developments

Widespread geopolitical and economic uncertainty is arguably the greatest challenge facing boards in EMEIA today. This includes the war in Ukraine and the situation in the Middle East, heightened political tensions and disrupted global supply chains. There are three key trends that could further test the financial and operational resilience of organizations in 2025, according to the EY 2025 Geopolitical Outlook.

Top three risk priorities for EMEIA (Q4 2024)



Source: ACCA and IMA GECS (2024)

"The first trend is the shift from elections to policy making as new governments implement the policies they were elected to deliver last year," says Famke Krumbmüller, Leader of the EY EMEIA Geostrategic Business Group. "Secondly, economic competition and sovereignty remains a major theme as governments look to secure their sovereignty through industrial policies and trade protectionism, including tariffs. The third trend is the continuation of political tensions, particularly between China and the US, which is likely to further disrupt supply chains."

Alongside these geopolitical trends, organizations must contend with some major economic challenges.

Global growth is set to remain sluggish in 2025, with the International Monetary Fund forecasting growth of 3.2%. Meanwhile, interest rates are still high, some governments are increasing corporate taxes to reduce their countries' fiscal burdens, and the inflation rate for services remains elevated in many regions.

EMEIA-based respondents to the ACCA and IMA GECS (2024) ranked the issue of "economic inflation, recession and interest rates" as their highest risk priority in the fourth quarter of 2024. More than a fifth (21%) of respondents from the region included it among their top three risk priorities.

"We also see the decoupling of the world economy – a shift away from a connected, globalized model to a more localized model," says Simon Edel, EY-Parthenon Strategy and Transactions Partner, Ernst & Young LLP. "Boards should be aware of the operational implications of decoupling in terms of currency movements, supply chains and market demand."

This complex and volatile geopolitical context creates significant financial risks for organizations in EMEIA – risks that can be hard to forecast. Potential risks include having to refinance debt at higher interest rates and changes in global trade flows negatively impacting revenues and profits. These financial risks cannot be addressed purely through efficiencies and better cash management, says Andreas Warner, Partner, EY Strategy & Transactions GmbH. "In this difficult environment, organizations need to think more broadly," he says. "Very often, a thorough strategy review is required, which might also lead to adjusting the business portfolio by carving out and selling part of the business."

While the current geopolitical environment presents risks to organizations, it also presents opportunities. For example, if political tensions lead to the realignment of trading relationships, organizations could benefit from nearshoring policies as customers look to do business with suppliers in jurisdictions perceived as "friendly."

What boards should do in 2025

To support their organizations to keep navigating geopolitical uncertainty while building financial resilience, boards should:

- Explore the business opportunities presented by the current geopolitical context, including opportunities to take advantage of corporate nearshoring policies or government policies that incentivize local production in specific sectors.
- Ask management whether it has a geostrategy for seizing opportunities and strategically managing political risk in this era of global turbulence.
- Understand the business opportunities and political risk context posed by any new markets the organization plans to enter or any transactions it intends to undertake.
- Assess and address the risk of supply chain disruption due to geopolitical factors.
- Implement regular robust scenario planning exercises to model different geopolitical events, their consequences and appropriate responses. This would include crisis response planning to identify any strategic footprint shifts the organization could make today to increase its future resilience.
- Advise management to engage in early conversations with finance providers to establish the organization's best options for refinancing debt.
- Ask internal audit to integrate geopolitical considerations into the organization's existing risk management and audit frameworks, focusing on the risk areas where geopolitical events could have the greatest impact.
- Review whether the board has sufficient diversity of experience and background to provide effective oversight of geopolitics. Consider hiring a board member with geopolitical expertise or appointing a knowledgeable external adviser or an internal geopolitical intelligence officer.
- Consider whether the supervision of geopolitical risk by management should feature as part of executive compensation.

Questions for boards to ask of management

- Do we have the right expertise and capabilities within the organization to effectively monitor, analyze, and interpret geopolitical risks? If not, what steps are we taking to enhance our geopolitical intelligence gathering and analysis capabilities?
- How are we integrating geopolitical risk analysis into our broader strategic planning and enterprise risk management processes? Which specific mechanisms are in place to ensure geopolitical factors are considered when evaluating business opportunities and setting priorities?
- Which scenario planning exercises have we conducted to model different geopolitical events, their potential consequences, and our planned responses? Can you walk the board through the most significant scenarios and our preparedness for each?
- Which specific opportunities does the uncertain geopolitical context present and how are we intending to capitalize on those opportunities?
- Which crisis management and communication strategies have we developed to respond to potential geopolitical events such as physical conflicts or trade wars? How frequently are these plans tested and updated, and how do they align with our overall risk management framework?
- Are we exploring different economic and political future scenarios and developing appropriate responses for situations that may arise?
- How can we diversify our supply chain to increase its resilience and capacity to withstand an unexpected crisis? Which specific strategies have we implemented for diversification and alternative sourcing?

Questions for audit committees to consider

- How are we quantifying and disclosing geopolitical risks in our financial statements and regulatory filings? Have we asked management to provide examples of how these disclosures have evolved in response to recent geopolitical events?
- Which strategic mechanisms can we deploy – beyond cost cutting and better working capital management – to enhance our financial resilience? Do we have sufficient real-time visibility around the organization's financial position and are we stress-testing our liquidity?
- Which specific internal control measures have we implemented to monitor and mitigate the financial impacts of geopolitical risks, particularly in high-risk regions where we operate? How do we ensure the effectiveness of these controls?
- Does our scenario planning around geopolitics and the economy raise any issues about the potential of our organization to continue as a going concern? If so, how can we engage with our stakeholders and internal auditors to mitigate those risks?
- Which hedging mechanisms do we have in place to manage our currency risk and exposure to fluctuations in commodity and energy prices?

View from ACCA

"Boards can't necessarily predict how geopolitical risks will manifest themselves or how the different risks will interconnect," says Rachael Johnson, Global Head of Risk Management and Corporate Governance for Policy and Insights at ACCA.

"Nevertheless, they will be better equipped to manage geopolitical risks, and take advantage of any opportunities that arise, if they ask the right questions and use scenario planning to make decisions in line with their risk appetite."

She adds: "AI tools, including large language models, can also provide boards with deeper insights to help them plan for future threats and inform enterprise-wide decision-making. In addition, we are seeing more boards use AI tools to summarize lengthy risk reports."

2 Shaping tomorrow's workforce

Key developments

Some significant trends are transforming the employment landscape in EMEIA, creating opportunities and challenges. These trends include the continued adoption of remote and hybrid work models, technological advances such as the rise of generative AI (GenAI), a shortage of skilled workers in many industries, and the creation of more sustainability-related jobs. Furthermore, immigration constraints are making it harder for organizations in certain markets to source talent.

Additionally, today's employment landscape is defined by a greater focus on health and wellbeing, as well as some notable demographic shifts. More Gen Zs are entering the workforce while the overall workforce is aging due to greater life expectancy and declining birth rates. According to the EY 2025 Geopolitical Outlook, the over-50s comprised more than a quarter of the global population for the first time ever in 2024.

"Talent scarcity, skills gaps and employee retention" was highlighted as the second-highest risk priority by EMEIA-based respondents to the ACCA and IMA GECS (2024) during the fourth quarter of last year. Nearly a fifth (19%) of respondents from the region put it in their top three.

"The employment market is undergoing significant changes driven by digital transformation, sustainability, demographic shifts and evolving work preferences," says Zhanna Dobritskaya, EY EMEIA Area Managing Partner, Talent, Ernst & Young Accountants B.V. "By understanding these trends, boards can help their organizations to better prepare for the future and create a more dynamic, inclusive and resilient workforce."

For example, the effective integration of new AI-enabled tools into workflows should be a particular focus. They should make sure that the organization is investing sufficiently in training and upskilling so that new tools are used effectively and responsibly. Also, employees may be resistant to adopt new tools over fears of job losses to technology. So, it is critical to address these fears through communication and by committing to a human-centric approach that puts people at the heart of transformation.

The EY 2024 Work Reimagined Survey found that 38% of employees say they are likely to quit in the next year. As a result, talent attraction and retention must be a priority for boards in 2025. Boards should explore how their organization can create a more attractive employee value proposition that includes career development opportunities, flexible work arrangements, a positive work culture and comprehensive benefits packages. They should also foster an inclusive culture that values contributions from all generations and endorses continuous learning and development.

Going forward, Dobritskaya believes that the most resilient organizations will move away from a traditional approach to talent management that focuses on formal education credentials and a linear career journey. Instead, they will adopt a skills-based approach where employees are encouraged to develop future-focused skills and competencies, and embrace flexible job roles and career paths.

What boards should do in 2025

To support their companies to shape tomorrow's workforce, boards should:

- Understand the changing employment landscape, including immigration trends and the impact of technology on the workforce of today and tomorrow. They should also have an awareness of new approaches to talent management and the investment needed to attract, develop and retain talent.
- Establish whether the organization has an agile, effective and futureproof workforce strategy and plan that is aligned with its strategic business goals. This strategy should cover strategic workforce planning, remuneration models, continuous learning and development, and employee wellbeing. Boards should review the strategy on a regular basis.
- Support investment in upskilling and reskilling so that the organization can effectively plug its skills gaps, particularly in emerging areas such as AI and sustainability. Boards could also ask how their organization is using internal mobility assignments to enable employees to gain diverse experiences and skills and whether immigration issues are acting as a barrier to mobility.
- Appoint diverse leadership teams that have the right mindsets and skill sets to enhance strategic decision-making and foster an inclusive organizational culture. The organization should also have an effective leadership succession plan that draws on a diverse talent pool.
- Check that the organization is prioritizing the continuous development of current and future leaders by implementing leadership development programs that focus on future skills, developmental experiences and a growth mindset.
- Establish what strategies the organization has in place to support effective knowledge transfer so that critical skills and information are passed on to younger employees as older employees retire.
- Consider setting specific workforce objectives for the CEO and other C-level executives, making talent a key performance indicator for executive compensation.

Questions for boards to ask of management

- How does our talent strategy directly support our long-term business strategy, and which metrics are we using to measure its effectiveness?
- Which strategies can we implement to attract and retain top talent in a rapidly changing job market? For example, can we make greater use of flexible and adaptive work models? Are we sufficiently prioritizing employee wellbeing and mental health? How are we capitalizing on our sustainability performance to attract and retain top talent?
- Given technological advancements and changing market conditions, how are we forecasting future talent needs and what steps are we taking to address identified skills gaps?
- How can we use technology and innovation to enhance productivity and employee satisfaction while minimizing the risks associated with AI-enabled tools and hybrid and remote work arrangements?
- What are the critical skills gaps within our organization, and how can we address them through training and development programs, as well as partnerships and collaborations? Is our talent pipeline robust enough to mitigate the risks associated with workforce scarcity?
- What is our comprehensive succession planning strategy for C-suite and critical roles, and how are we developing our leadership pipeline two to three levels below the executive team?
- In an environment where talent is scarce and mobility is constrained in some markets, are we sourcing diverse talent to enable good decision-making?

Questions for audit committees to consider

- How are we, as an audit committee, developing our own skills to effectively oversee emerging risks related to talent, diversity, equity and inclusion (DEI) and other social topics?
- How are we assessing and reducing the risks associated with talent gaps or turnover in key roles related to financial reporting, internal controls, and sustainability data collection and disclosure processes?
- To what extent have we integrated workforce-related metrics and risks into our sustainability reporting framework, and how are we ensuring the accuracy, consistency, and reliability of this data across financial and nonfinancial disclosures?
- How are we assessing and reducing the risks associated with our people embracing new AI tools and using remote and hybrid work arrangements?
- How are we budgeting for investments in technology and infrastructure to support a future-ready workforce?
- Are there any financial risks associated with workforce scarcity and skills gaps that we need to plan for?

View from ACCA

To help their organization manage its talent-related risks and opportunities, ACCA's Rachael Johnson suggests that boards set up "shadow boards" – alternative boards that provide diverse perspectives from around the organization. "We have seen how shadow boards can help boards engage with employees across the workforce, allowing them to better understand people's expectations and concerns," she says. "It also gives employees an opportunity to share ideas and feel involved in matters that ultimately affect them all."

3 Technology, digital transformation and cybersecurity

Key developments

AI and other emerging technologies are reshaping the business landscape, presenting transformative opportunities for value creation. They are both strategic assets in their own right and enablers of transformation. EY analysis estimates that the GenAI revolution alone could increase global GDP by US$1.7 trillion to US$3.4 trillion over the next decade and meaningfully impact more than half the global workforce.

Accordingly, one of the greatest opportunities – and challenges – for boards today is overseeing the implementation of AI systems. Boards should consider how the organization's approach to AI integrates with its overall purpose and strategy. It is important to review whether the implementation of new AI tools would support the organization's existing strategy or whether rapid advances in AI merit a strategic rethink.

To thrive into the future, organizations will need to capture value from AI systems by developing revenue-generating AI products and services. Yet, this is a challenge at present. "While many organizations have pilots underway, we see few fully implemented solutions that are delivering a positive financial impact for the business," says Dr Eva-Marie Muller-Stuler, EY MENA Data & AI Consulting Leader, Ernst & Young Middle East. "At the same time, organizations worry about being overtaken by competitors if they don't invest in AI."

Organizations must comply with all data and technology-related rules in the markets where they operate – a major task in today's fast-moving regulatory landscape. Around the world, jurisdictions are introducing AI-specific legislation and guidance, with the EU's AI Act a frontrunner in AI regulation globally. Cybersecurity and data privacy are also under regulatory scrutiny, with regulators increasingly focused on digital resilience in the event of a cyberattack.

Digital resilience is crucial for protecting critical business systems and infrastructure and minimizing the risks of physical and operational disruption. So, boards will want to make sure that cyber risk management is integrated into their organization's overall enterprise risk management framework and that external dependencies – including dependencies on third-party suppliers – are understood and assessed for vulnerabilities. The organization should also consider how digital resilience could be impacted by a physical incident such as an extreme weather event or the activities of a state actor (e.g., the cutting of an undersea cable).

Diverse teams can design systems that meet the needs and expectations of the organization's stakeholders and minimize the risks of bias in AI and other technology systems. "Cyber risk management involves very, very complex problems," says Lutz Naake, Assurance Technology Risk Partner, EY GmbH & Co. KG Wirtschaftsprüfungsgesellschaft. "So, you need people who understand the business, understand the technology and understand the processes. If you have a diverse set of people, you're likelier to get all those skills."

What boards should do in 2025

To keep supporting transformation in an era of rapid innovation, regulatory change and rising cyber threats, boards should:

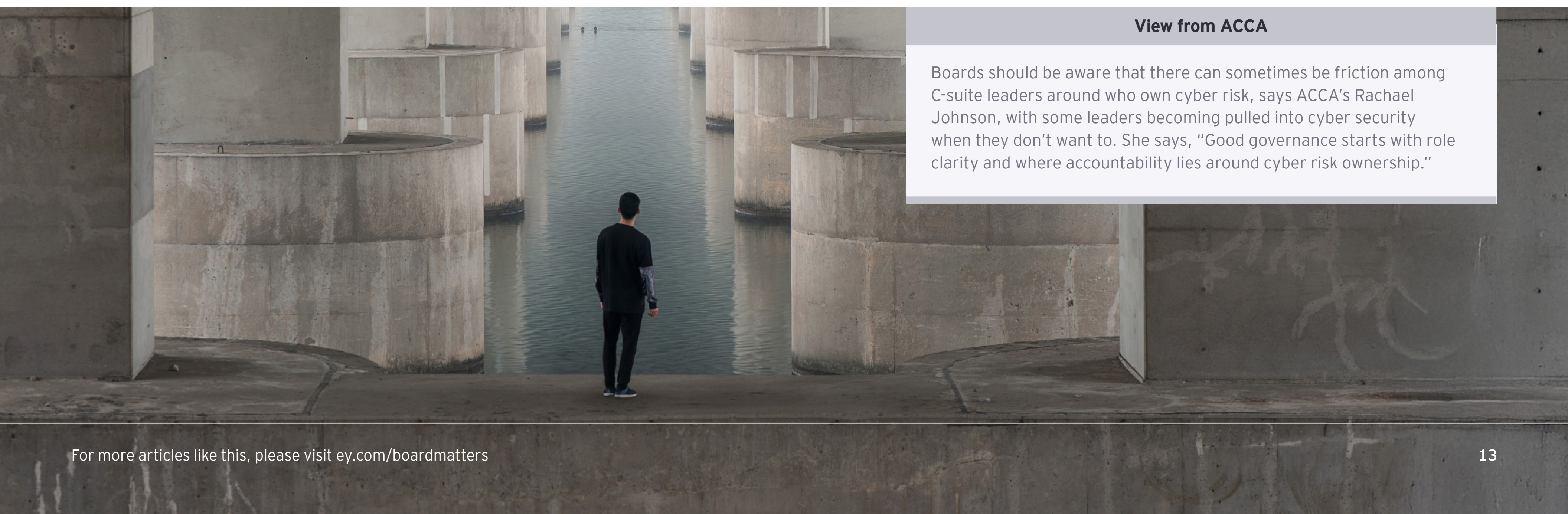
- Ask management to outline the organization's AI and digital strategy for today and tomorrow, including its readiness to respond to both risks and opportunities. This strategy should align with the organization's overall business objectives and identify key areas where AI and digital technologies can create value. It should also set clear goals and metrics for digital transformation initiatives and outline the resources and investments required for implementation.
- Encourage management to establish a culture of innovation throughout the organization by promoting experimentation and calculated risk taking. This involves allocating resources for R&D and recognizing and rewarding innovative ideas and projects.
- Consider setting up an AI function to develop the organization's AI strategy, oversee its compliance with AI regulations and establish appropriate policies, processes and controls.
- Ensure that management establishes robust governance structures and ethical guidelines for AI use within the organization.
- Check that the organization has developed comprehensive incident response and business continuity plans. These should consider the potential impact of a cyber event on operational and physical infrastructure, as well as the potential impact of a physical event on digital infrastructure.
- Advocate for training and upskilling in technology, AI and cybersecurity right across the organization, including the board. Leaders at all levels should be able to identify appropriate use cases while understanding the risks.
- Establish whether the organization's existing cybersecurity approach is working effectively or whether more budget, capabilities and tools are needed to identify, manage and mitigate cyber threats. Resilience and incident response policies should be properly integrated into risk management frameworks.
- Understand which third-party technology providers act as critical suppliers to the organization and find out how management is verifying the digital resilience of those suppliers.
- Make sure the organization understands all relevant data and technology-related regulations and that legal text is translated into practical actions and policies that support compliance.
- Establish how the organization's approach to diversity, equity and inclusion is considered in its technology strategy.
- Consider hiring a board member with technological expertise, setting up a dedicated technology committee or appointing an external adviser.

Questions for boards to ask of management

- How does our AI and digital strategy align with our overall business objectives, and what measurable outcomes are we targeting?
- Which governance framework and ethical guidelines have we established for responsible AI development and deployment?
- How are we assessing and mitigating potential risks associated with AI including cybersecurity, data privacy and bias?
- Which processes are in place to engage diverse stakeholders, incorporate their feedback, and address their concerns regarding our AI initiatives?
- How are we integrating cyber risk management into our enterprise risk management framework? Are we effectively identifying and managing the risks associated with our external dependencies?
- How are we ensuring we have the right talent, diversity and skills within the organization to drive our AI and digital transformation efforts?

Questions for audit committees to consider

- What is our current AI governance framework, including policies for responsible AI development, deployment and use across the organization?
- What controls are in place to mitigate the AI and cyber risks facing our business and are those controls appropriate and working effectively?
- What role is assurance (internal or external) playing in understanding and mitigating the risks?
- How are we assessing and mitigating potential risks associated with AI implementation, particularly in financial reporting processes and internal controls?
- How are we monitoring the cybersecurity of our supply chains? Are we undertaking regular risk assessments and what reporting is being provided?



View from ACCA

Boards should be aware that there can sometimes be friction among C-suite leaders around who own cyber risk, says ACCA's Rachael Johnson, with some leaders becoming pulled into cyber security when they don't want to. She says, "Good governance starts with role clarity and where accountability lies around cyber risk ownership."

4 Sustainability integration

Key developments

To futureproof their organizations, EMEIA boards must provide effective oversight around the transition to sustainable business models. Research by the EY New Economy Unit, Beyond sustainability as usual, highlights five key principles for a sustainable future. These principles are:

- Sufficiency – developing products and services based on needs
- Circular business models – aligning production and consumption with natural ecosystems
- Systems thinking – evaluating impacts across the value chain
- People and planet – prioritizing wellbeing in value creation
- Equity and justice – ensuring shared and lasting prosperity

While organizations typically have big ambitions around sustainability, the 2024 EY Global Corporate Reporting Survey reveals some significant challenges. Only 47% of finance leaders believe it very likely that their organization will meet major sustainability priorities, including net-zero targets.

Furthermore, the 2024 EY Climate Action Barometer finds that less than half (41%) of large companies worldwide have published a transition plan for climate change mitigation. This may be because companies are wary of divulging sensitive commercial information or exposing themselves to greenwashing allegations or litigation. Alternatively, they may be struggling to take sufficient action on climate due to the high level of investment required and the uncertain political and regulatory environment.

Recently, organizations have been so heavily focused on compliance with the Corporate Sustainability Reporting Directive (CSRD) and other sustainability reporting rules that finding spare capacity to address business model transformation is difficult. As sustainability reporting evolves into a business-as-usual activity over time, organizations will be able to shift their attention from compliance to action and use reporting to better integrate sustainability into their business models.

"Boards will now have an opportunity to push more accountability into the business," says Rebecca Donnellan, Partner in Climate Change and Sustainability, Ernst & Young LLP. "So, there's a lot of focus on having proper action plans that sit behind targets. Boards are also looking at whether they have the right fundamentals in place to meet those targets, in terms of people and budgets."

Jan Niewold, EY EMEIA Climate Change and Sustainability Services Leader, Ernst & Young Accountants B.V., believes not having access to the right people and skills is hindering organizations' ability to deliver on their sustainability strategies. "When I speak to boards, they say their main challenge is people," he says. "They need to find the right people who are capable of embedding sustainability within the business."

Furthermore, the new technologies needed to enable transition – such as carbon capture and storage – are not necessarily mature and can be expensive to implement. The challenge of funding transition is further exacerbated by the current high-interest-rate environment.

Another challenge for boards, highlighted by Dr Matthew Bell, EY Global Climate Change and Sustainability Services Leader, is balancing short-term operational pressures with the longer-term transition to a more sustainable economy. This is made more difficult by what he describes as a "fundamental disconnect between our capital structures and working within planetary limits". For that reason, it's important that boards proactively engage with investors about their organization's strategy for sustainability integration.

As the EY 2024 Institutional Investor Survey shows, 92% of investors worry that environment, social and governance initiatives harm short-term corporate performance. "Organizations are not incentivized to minimize impact or maintain controls on externalities that aren't priced into their business," says Bell. "So, when they are driving to achieve quarterly – or even annual – returns, and they are doing that at the expense of nature or the social infrastructure, there is no penalty."

Nevertheless, Bell warns that in the years ahead, unsustainable organizations risk losing competitiveness – which will impact on investor returns. They could even face government intervention, such as nationalization, particularly if they operate in carbon-intensive sectors such as energy. So, it is imperative that boards keep promoting more sustainable business models and integrate sustainability objectives into executive remuneration plans.

The EY Institutional Investor Survey also reveals that perceptions of greenwashing are currently threatening the credibility of organizations' nonfinancial reporting, with 85% of investors describing greenwashing as a worsening problem. For that reason, boards should be wary of including too much "storytelling" in sustainability reports and back up claims with authentic and reliable evidence.

Leading effectively on the sustainability agenda will ultimately require boards to change their mindsets. "Sustainability is not just about adapting to the short-term reality of decarbonization," says Rui Bastos, EY Global Risk Leader. "It's also about the long-term reality of adapting to what a future world will look like."

What boards should do in 2025

To support their organizations to further integrate sustainability into their business models, boards should:

- Oversee the organization's strategy for integrating sustainability into the business. Boards should monitor whether management has established appropriate key performance indicators for sustainability objectives. They should also understand how the organization's materiality assessment is being used to inform both its strategy and its reporting.
- Develop the skills to question management effectively on sustainability matters, including questions on emission scopes and net-zero targets. To strengthen the board's capability in sustainability, it may be necessary to seek external expertise or appoint a sustainability expert to the board.
- Appoint the right executives to lead on the sustainability agenda and integrate sustainability objectives into their remuneration and performance evaluations.
- Verify that sustainability data – such as emissions, resource usage, and social impact – is assured and validated to meet both regulatory standards and stakeholder expectations, reducing the risks of greenwashing and reputational damage.
- Understand the technological architecture that is used to support sustainability reporting and whether further investment is needed to support the provision of high-quality reporting.
- Check whether management is undertaking product life cycle analysis, to understand the sustainability of the organization's products and services. This will help the organization to make its products more cost-effective, resilient and sustainable, potentially by changing how products are made or pivoting to other suppliers.
- Review how the organization is funding its sustainability strategy and explore opportunities to capitalize on tax relief and other incentives to fund sustainability initiatives that give the organization a competitive edge in the market.
- Explore how new technologies, including AI, can be deployed to enhance the business models of the future so they are more sustainable.

Questions for boards to ask of management

- How are we adapting to the short-term reality of the climate and nature crises and the long-term reality about what a future world will look like? Are we undertaking sufficiently comprehensive scenario analysis that considers the impact of these crises, both on our own business and on our supply chains?
- How are we preparing for potential disruptive, sustainability-related scenarios? How will the organization's financial performance and viability as a going concern be impacted by the physical and transition risks of climate change going forward? What actions can we take to mitigate that impact?
- How can we use our sustainability reporting process and outputs to better embed long-term value creation into our strategy, including climate factors, but also nature, society and governance?
- How are we allocating our resources to most effectively integrate sustainability into our business? Do we have enough people, the right people and sufficient budget? If not, why not? Can we evolve our existing business model, or should we create a new one?
- To what extent is our value chain aligned with our strategy for sustainability and impact integration? How can we encourage our suppliers and other value chain partners to support our objectives and drive systemic sustainability?

Questions for audit committees to consider

- How are we ensuring the integrity and reliability of our sustainability-related data across our operations, and which processes are in place to validate the accuracy of this information before it is included in our disclosures?
- How can our finance and sustainability teams work together more effectively to deliver sustainability reporting that is of equivalent standard to financial reporting?

Perspective from ACCA

"The boards that use reporting requirements as a way to help link risk with strategic objectives and gain competitive advantage will be the smart ones that can lead their companies to a more sustainable future," says ACCA's Rachael Johnson. "The boards that just tick the boxes and worry about being compliant are the ones that will fall behind."

5 Navigating compliance challenges and regulatory demands

Key developments

Boards are continuing to navigate a complex and ever-evolving regulatory environment, both in their home jurisdictions and globally. Due to the fragmented nature of sustainability regulation, in particular, it is becoming increasingly hard for organizations to gain and maintain competitive advantage over rivals based in markets with less prescriptive regulation. This creates an unlevel playing field for organizations that operate on a global scale – a strategic challenge that boards are having to address.

This explains why "regulatory, compliance and legal" was highlighted as the third-highest risk priority in the fourth quarter of 2024 by EMEIA-based respondents to the ACCA and IMA GECS (2024). Overall, 15% of respondents from the region put it in their top three.

For large organizations that are based in, or operate in the EU, compliance with the Corporate Sustainability Reporting Directive (CSRD) is a major challenge since it marks the greatest shake-up in corporate reporting in decades. Organizations are at different stages on their journey toward compliance, depending on whether they are reporting in 2025, during the first phase, or later. Certain EU countries have been slow to transpose the CSRD into local law, meaning that implementation is more advanced in some markets than in others.

This context is creating significant local uncertainties and disrupting what should be a level playing field for EU organizations. Those organizations that are reporting in the first phase can expect high levels of scrutiny from stakeholders. Nevertheless, publication of the first set of reports is also an opportunity to benchmark against peers. Organizations that won't report until a later date can use this year's reporting as an opportunity to identify, and learn from, leading practices.

CSRD reporting is not the only sustainability reporting requirement that boards must oversee, however. "As well as complying with the CSRD, organizations must comply with mandatory sustainability reporting rules in other jurisdictions where they operate," says Isabelle Tracq-Sengeissen, EY Global Sustainability Professional Practice Director. "These include rules based on the sustainability disclosure standards issued by the International Sustainability Standards Board."

Organizations are also preparing to comply with the EU's Corporate Sustainability Due Diligence Directive (CSDDD), which is being phased in from July 2027 onwards. Compliance with the directive is a major challenge, particularly for large companies that have thousands of suppliers worldwide. "Under the CSDDD, companies have a civil liability for their chain of activities," says Stephan Geiger, ESG Leader for Financial Services, Ernst & Young AG. "So, they need to dig deep to get to know their suppliers. While the CSDDD is creating some nervousness, it's also an opportunity for companies to engage with their business partners and create positive narratives for their brand."

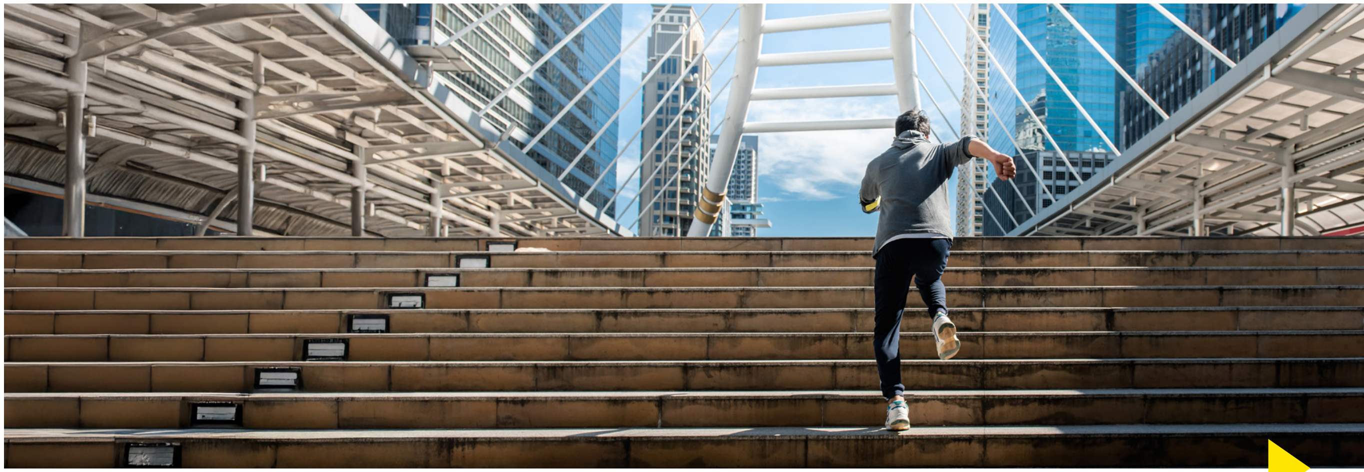
On the topic of cybersecurity, the Digital Operational Resilience Act (DORA) aims to strengthen the IT security of EU financial entities by harmonizing the rules on operational resilience for the financial sector. Applied since 17 January 2025, DORA requires financial companies to have a comprehensive information, communication and technology (ICT) risk management framework and mechanisms to quickly detect and report ICT-related incidents to the relevant regulator. Technology providers that serve the financial sector are also within scope of the rules. These include providers of cloud computing, data analytics, data center and software services.

"For financial services companies, the big challenge is how do you now interact with your ecosystem," says Jack Armstrong, Operational Resilience Leader, Ernst & Young LLP. "What are the enhanced data items you will need from your partners to report to the regulator? How will you work together? How will you test? Because you will need to join up with them to make sure your value chain is resilient."

Another significant regulation aimed at digital resilience is the EU's Network and Information Security 2 (NIS2) Directive, which expands on the EU's previous NIS directive. NIS2 requires companies in critical sectors – including digital infrastructure, energy and financial services – to enhance their security measures, address the security of their supply chains and report any cyber incidents to the relevant authorities.

While regulation has increased substantially over the past few years, a new trend is starting to emerge: deregulation. To boost European competitiveness, the EU has vowed to launch a "simplification revolution", with the aim of drastically reducing the administrative, regulatory and reporting burdens on businesses while maintaining climate goals. The proposed Omnibus Simplification package aims to consolidate the EU Taxonomy, the CSRD and the CSDDD into a single regulation. In many respects a welcome development, it potentially presents new challenges for boards.

"Organizations are still setting up their internal controls and risk processes that support sustainability reporting," says Tim Volkman, EY EMEIA Deputy Public Policy Leader. "So, while there may be some reduction in the reporting burden on boards in the medium to long term, currently there is a risk that simplification will bring more confusion and uncertainty."



What boards should do in 2025

To support their companies to navigate compliance challenges and regulatory demands, boards should:

- Stay informed and educated. The board can monitor ongoing regulatory developments, both in EMEIA and beyond to understand their impact on the organization, possible scenarios that may occur, and how the organization needs to respond.
- Set the right tone at the top in relation to risk management, ensuring that it is properly embedded throughout the organization. This includes the management of regulatory risk.
- Encourage management consider and design regulatory compliance processes and outputs so that, where possible, the organization can draw on them when pursuing its strategic objectives.
- Support their organization with its sustainability reporting journey. This might mean becoming more familiar with implementation guidance, communicating with stakeholders around a published report, or reviewing the published reports of other organizations to identify and learn from best practice.
- Establish whether the CSDDD is being actively embedded into the organization's risk management system and ask for regular reporting on supply chain-related risk, with that reporting enhanced with insights from the sustainability team.
- Understand how the workforce is being trained on new regulations and which policies and procedures are being put in place in response to those regulations.
- Seek out external advice on how to comply with the most significant regulations impacting the organization.

Questions for boards to ask of management

- How is management fostering a culture of compliance, and which mechanisms are in place to ensure consistent accountability across all levels of the organization?
- What is the process for assessing and prioritizing compliance and ethics risks in our organization, and how often is this assessment updated?
- How are compliance issues escalated within the company and which criteria determine when an issue should be brought to the board's attention?
- How have we assessed whether the compliance functions have sufficient resources, authority and independence to effectively carry out their responsibilities?
- What process do we have in place for regulatory horizon scanning? What role, if any, is there for predictive analytics to anticipate and prepare for upcoming regulatory changes? How could external expertise provide useful insights to inform our strategy?
- Are we doing scenario planning to prepare for different regulatory developments including a potential simplification of regulations? How are we using that scenario planning to build the resilience of our business?
- How does compliance with digital cybersecurity and resilience regulations align with our long-term strategic objectives, including technology objectives such as cloud adoption and our core modernization program?

Questions for the audit committees to consider

- Which benchmarks and metrics are being used to measure the effectiveness of our compliance program, and how do we compare to industry leading practices?
- As sustainability-related regulation and standards continue to evolve rapidly, how are we preparing for potential changes in disclosure requirements, and what steps are we taking to future-proof our sustainability reporting processes?

View from ACCA

"Navigating compliance challenges starts with getting compliance out of the back office and working with the front line to manage risks," says ACCA's Rachael Johnson. "The Three Lines framework is important for preserving the independence of both the organization and its external auditor, but we see many organizations trying new ways of working together more consistently and efficiently across all three lines."

6 Board priorities in 2030

Which issues will be topping the board agenda in five years' time?

Organizations and their boards are having to navigate constantly evolving challenges and opportunities. These are some of the key issues that could dominate board agendas in five years' time:

1. **Selective globalization.** As the shift to a more divided, multipolar world continues, potentially bringing trade wars and heightened security concerns, organizations may come under pressure to de-risk their supply chains. This would involve working more closely with suppliers in "friendly" jurisdictions. Pressure to "friendshore" is likely to be greater if an organization operates in a sector deemed strategic by its government.
2. **The multi-generational workforce.** Talent management is likely to be an even more pronounced issue in five years' time as older workers constitute a larger share of the overall workforce. Boards will need to consider how they can continually reskill and upskill talent so that their workforce is equipped to use new technological tools and thrive in a fast-changing world.
3. **AI-powered transformation.** AI is evolving rapidly and will probably absorb board attention for some time. By 2030, boards are likely to be focusing on the strategic aspects of AI, including the potential for different use cases. They are also likely to explore the use cases for blockchain and quantum computing. Additionally, AI tools are set to enter the boardroom itself.
4. **Value creation.** By 2030, sustainability should be embedded into organizational strategy and incorporated in a broad definition of value that combines financial, environmental and social matters. Furthermore, while organizations will be scrutinized over their decarbonization strategies, they will also increasingly be held to account over

their social licence to operate. Organizations will be expected to have a positive societal impact in a range of different areas from public health and wellbeing through to environmental protection, cybersecurity and talent upskilling. The chief financial officer of the organization may evolve into a chief value officer.

5. **Regulation, deregulation and regulatory fragmentation.** Boards are used to regulation. By 2030, however, they will need to navigate a challenging combination of regulation, deregulation and regulatory fragmentation across a range of areas from cybersecurity through to sustainability and tax.

How should boards evolve to succeed in the future?

By 2030, boards should have evolved their operating models to access a broader bank of knowledge, perspectives and skills outside of the traditional board and committee model. Options include getting regular updates from internal and external experts on hot topics, appointing internal and external advisers with specific domain expertise, and setting up taskforces and independent councils. Shadow boards can be an effective way of engaging with a broad cross-section of the workforce.

Boards will also need to enhance their own knowledge and skillsets to be successful in future. They will need to build capacity on key topics including geopolitics, regulation and technology, so they are aware of potential opportunities and risks. Horizon scanning is invaluable for setting strategy and planning for different alternative futures. It is likely that boards will begin to use AI and other technologies to support them in the exercise of their responsibilities.

Additionally, boards should develop skills in critical thinking and self-reflection and have a general sense of curiosity. They should understand what each board member brings to the table in terms of experience and strengths and be willing to review their composition to bring in new knowledge and skills as needed. In response to changing societal expectations, boards will also need to become more empathetic and more accessible to their stakeholders.

Note:
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