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Center for Board Effectiveness

On the Board's Agenda | US
Looking back at a look forward

Each January, *On the Board's Agenda* contemplates the risks and opportunities boards could face in the coming year. As we think about the outlook for 2025, it's useful to look back at our **previous look forward**. After all, as Shakespeare wrote in *The Tempest*, "What's past is prologue."[1]

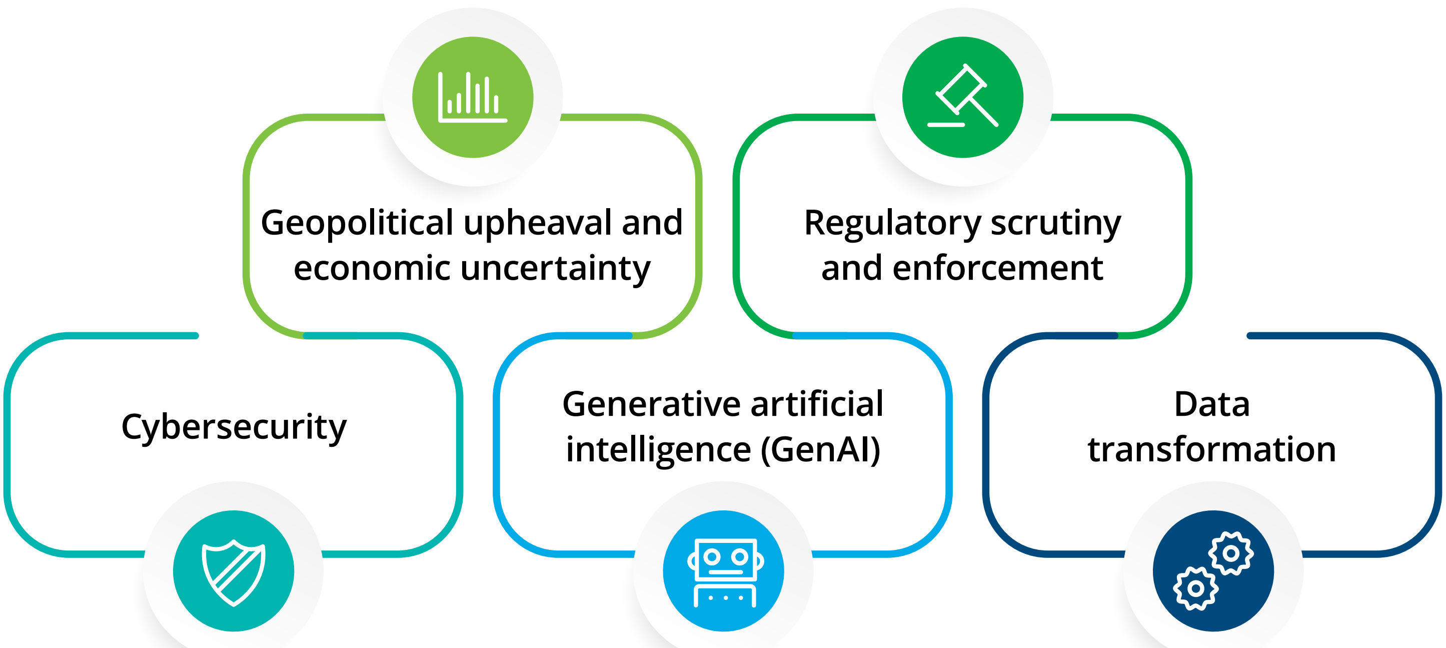
Viewing 2024 with an enterprise risk lens

A core focus of the 2024 outlook was the importance of viewing challenges and opportunities through an enterprise risk management (ERM) lens. An ERM-centered approach might be useful due to the emergence of risk categories around geopolitical tension,[2] economic uncertainty,[3] and significant technology developments.[4] In doing so, we also noted that boards' responses to these items could have an outsized impact on their companies' strategy, sustainability, and resiliency.

Boards have had to deal with many risks, anticipated and otherwise, throughout 2024. We expect similar challenges are likely to appear on their agendas in the coming year. In general, boards seem to have a high awareness of these concerns and their inherent challenges, as indicated in a recent survey of corporate secretaries by Deloitte and the Society for Corporate Governance. About 80% of respondents said the board was heavily involved in annual updates to risk management plans.[5]

Reviewing highlighted risks and opportunities

Last January, we identified five discrete matters that boards were likely to face during 2024. The items were focus areas, not an exhaustive list. After all, it's not possible to list *all* risks boards could face in *any* year. As we close out the year, it's worth considering their impact on boards.



Geopolitical tension and economic uncertainty

The 2024 outlook linked the state of political affairs to the prevailing macroeconomic climate, because the two issues can be interconnected. Both loomed large in 2024 with topics like climate change, global migration pattern shifts, and ongoing armed conflicts being an ongoing part of business dialogues.[6] A recent Deloitte and *Fortune* survey of CEOs illustrates the importance of these issues. Most CEO respondents (60%) ranked geopolitical headwinds as a top disrupter (previously, it was 24%).[7]

Regulation scrutiny and enforcement

The Securities and Exchange Commission (SEC) focused on a wide variety of disclosure regulations during the year. That's reflected in the contents of the agency's three currently proposed[8] and 33 final adopted rules (as of November 2024).[9] Newly adopted regulations addressed an array of matters, including climate-related disclosures; the use of projections in disclosures relating to shell companies and special purpose acquisition companies; reporting requirements for investment advisers; and changes to the SEC's electronic filing system, EDGAR. Also reflecting additional disclosure enhancements, the FASB adopted new financial statement disclosure requirements on segment expenses and disaggregated income statement expense information.

In 2024, the SEC also faced legal challenges to some of its rules. The SEC voluntarily stayed the climate-related disclosure rules, pending the outcome of litigation. Additionally, previously adopted rules on disclosures regarding corporate share buybacks were voided by a federal appeals court. Of course, suspensions and invalidations of rules can complicate the process of corporate preparations around compliance.

As of the date of this publication, the SEC has not issued new rulemaking initiatives since the third quarter of 2024; but the agency has continued enforcement activity. For example, in September 2024, it announced settlements in cases involving protections for whistleblowers, failures to timely file beneficial ownership reports, selective disclosure of certain information by means of a CEO's social media accounts, and a director's concealment of a personal relationship with an executive officer. It also brought actions alleging failures of disclosure controls.

Finally, there were some changes in the legal landscape. One example that could have regulatory impact is the overturning of the *Chevron* doctrine.[10] In *Chevron*, in cases where the intent of Congress on legislation was not clear, courts deferred to agency interpretations of statute.[11] As a result of the decision, in cases involving ambiguous provisions of federal statutes, courts must now exercise independent judgment to determine whether an agency has acted within its statutory authority.

Cybersecurity and data transformation

Issues around cybersecurity have long been a top concern for boards. In the 2024 Deloitte and Center for Audit Quality ***Audit Committee Practices Report***, cybersecurity was the chief priority for audit committees.[12] This could reflect a shift in boards viewing cyber issues not just as a technology concern, but as a business continuity risk.

As enterprises adopt GenAI and realize that their proprietary information can be used to train AI models, additional digital transformation initiatives should be considered. As technology adoption grows, so, too, is cyber risk heightened. One example is cloud migration. Data stored in the cloud may be an attractive target for malicious threat actors. Not being proactive in ongoing digital transformations and vigilance can be costly.

Generative artificial intelligence (GenAI)

For several years, GenAI has loomed large in business dialogues.[13] Adoption of this technology has risen in tandem with new regulations from the National Institute of Standards and Technology and similar standards bodies.[14] The effect of these new rules will vary by business and industry sector, but they could affect AI-related governance, security processes, and privacy protections.

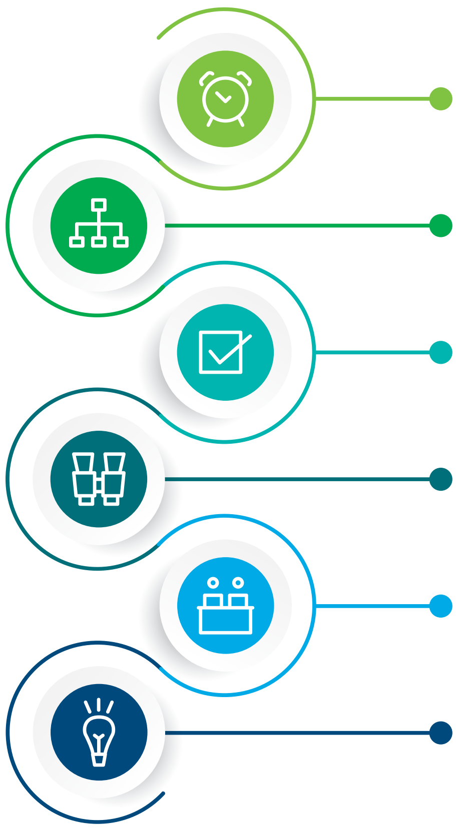
According to Gartner, worldwide IT spending will total US$5.26 trillion in 2024.[15] That's an increase of 7.5% from 2023 and could be indicative of growth in GenAI-related investments. While AI is not new, its scaled use in the enterprise and by employees brings the question of governance and oversight of AI and GenAI into sharp focus.

So how are boards navigating these opportunities and challenges? How are they balancing their time across the many topics that are on the agenda? And how are they confident that AI implementation is transparent, safe, and responsible with the appropriate guardrails? Especially as governments and regulators are considering various regulations and policies to address risks and concerns around AI. What is clear, though, is that boards are eager to spend more time on AI and GenAI, enhance their knowledge and experience, and accelerate the pace of adoption in their organizations.

Alongside the Global Boardroom Program research,[16] each quarter, Deloitte US's State of Generative AI in the Enterprise report surveys C-suite executives and board members from organizations that are actively implementing GenAI technologies. Its third-quarter 2024 report, which surveyed 2,500+ respondents, finds that while "promising pilots have led to more investments . . . many GenAI efforts are still at the pilot or proof-of-concept stage."[17] Much like the use cases many organizations are experimenting with, the survey shows that it's still early stages for AI board governance. Similarly, a recent publication with the National Association of Corporate Directors explores what boards and committees can do to start developing effective governance over AI.[18]

The role of board effectiveness

Board effectiveness was the last, but not the least, topic addressed by the January 2024 outlook. And this is an area that is likely to be an ongoing focus for boards—in 2025 and beyond. Specifically, the ever-increasing number and complexity of the matters subject to board governance and oversight requires constant vigilance. Doing that effectively, of course, could point toward the need for continuous improvement of board processes and practices like:



Improving the quality and timeliness of the information provided to boards

Restructuring board and committee agendas to make more effective use of director time

Conducting more rigorous board, committee, and individual director assessments

Focusing on needed director skill sets in considering board succession planning

Providing more effective new director onboarding

Offering more opportunities for continuing director education

As we end this year, we expect the array of risks and opportunities faced by boards in 2025 will resemble what they confronted in 2024. However, due to the dynamic governance landscape, we also expect the nuances around these issues will evolve. The developments of 2024 highlight that risks—whether they be geopolitical, technological, or regulatory—may not always fit into distinct categories. For boards, there could be value in keeping the interconnected relationships of these issues top of mind. Boards that adopt a more integrative oversight approach could be better positioned to navigate the increasingly complex business landscape.

Endnotes

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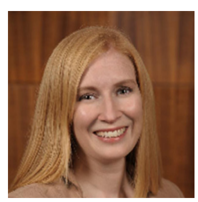

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