2024 European Corporate Governance Conference – Summary

On the 20th of March the 2024 European Corporate Governance Conference took place. Organized by EY in partnership with Accountancy Europe, BusinessEurope, ecoDa, EuropeanIssuers, Guberna and VBO-FEB. Coinciding with the renewed agreement on the CS3D the conference focused on integrating sustainability, risk management and internal control demands into the business model.

The **opening conversation** introduced themes that were reiterated throughout the conference by various speakers. Specifically, an understanding that sustainability demands are changing corporate governance (CG) expectations, especially from investors, even though implementation by businesses is slowing down. Another recuring point was that boards are not proactive enough to adapt to this change and innovate their business model. It was posited that boards should be the ones leading the sustainable value creation rather than leaving initiative to the management. A common concern was that boards often lack the resources and expertise to perform this task. In this conversation AI was proposed as an aid to governance and attention was drawn to the CG code of South Africa that already refers to AI.

Following the opening conversation were two **keynote speeches** by **MEP for Renew Europe** Group Barry Andrews and, virtually, by **European Commissioner for Justice** Didier Reynders. Mr Andrews emphasised the widespread public support for the CS3D regulation, despite his disapproval of the last minute, unilateral, watering down by the Council. He also pointed out that it will be affecting about 5300 large corporations that mostly are already doing due diligence in some form and are covered under other regulations such as deforestation. He further warned that capacity building is needed for effective risk analysis. Mr Didier's message focused on the importance of using economic leverage to foster change and the compatibility of the CS3D with preexisting EU regulations. He mentioned as well that the CS3D is an obligation of means and that SMEs are amply supported. He finally outlined the plan for upcoming guidelines on engaging with stakeholders and the EU's commitment to making the legislation workable.

Beyond these the conference took the form of four panel conversations between representatives of relevant interest groups accompanied by a case study. The first of which was on the **Business case for sustainability**. It was outlined that integrating sustainability to the business plan presents opportunities to motivate employees, develop new products, disrupt the market, and access cheaper finance. It was also emphasised that investors appreciate the increased transparency offered by the sustainability regulations. Advice on capturing these opportunities was presented such as the need for a common definition of sustainability within each company and L'Oreal's example of a strategy and sustainability committee to connect the two issues. The conversation included challenges, such as the need for new techniques, expertise, and accounting tools to complete the large and technical project of compliance with the EU regulations.

The second panel focused on the benefits of **strong risk management and internal control**. The panel generally concurred that new and overlapping risks from the changing global situation demanded greater resilience from companies and integrated, strategy driven, risk management systems that looked beyond traditional risks and embedded the considerations at all levels. From governance, to management, to culture. The important role of the board in actively bringing about this change was highlighted. While the costs of the transition were acknowledged, it was also emphasised that the change demanded in the sustainability reporting standards would be beneficial for risk management and financial trust in the long term, though it was argued that this is not the time for more new legislation. The DG FISMA representative Sven Gentner also mentioned that more action on supervision and audit may be on the table in the next mandate but for now the focus was on existing regulation.

The third panel focused on the upcoming **CS3D directive** and the reactions of various interest groups. The representative of WWF expressed concern with the exclusion of financial institutions and other sustainability limitations to the scope of the regulation, as well as the removal of CG clauses from a CG initiative, in a time of lacking incentives for sustainable management. He also pointed out that the risk-based approach presents little burden to corporations and that civil liability, while important, is very narrow. The investors representative reiterated support for the regulation that creates a better investment field. The business representatives voiced concerns over the recent changes to the law, the resource burden involved in risk assessments, and the potentially significant fines. Mr Dionisie, representing DG JUST, addressed some of the concerns when he posited that despite steep theoretical fines, he did not expect states to be incentivized to levy harsh penalties or implement stricter guidelines. He claimed that it would benefit business to level the playing field and outlined that the commission will focus its efforts to facilitate smooth and harmonized implementation and enforcement. He also was confident that the regulation would be adopted by the Parliament and applauded the work of the Belgian presidency in achieving a Council breakthrough. Finally, he warned that this was not the end of sustainability and that the Commission will look again at the financial sector as signaled by the two year review clause in the CS3D.

The fourth and final panel focused on **sustainability reporting and assurance**. It discussed how sustainability reporting standards are largely qualitative and companies lack the training, tools, and resources to properly integrate sustainability considerations. It was also posited that boards have the duty to guide their companies in integrating sustainability and adapting KPIs to account for the new considerations, as well as take a holistic view. Of conversation was also the need for boards to be educated in these issues in order to address them but they would not need to become experts. While the difficulty of performing assurance based on less measurable information was highlighted, it was also discussed that the auditing profession was motivated to adapt to the needs of sustainability and double materiality.

In conclusion, the conference was dominated by a few key messages. Sustainability and new risks are changing the demands faced by companies and governance needs to adapt to ensure future success. On top of that boards are where the direction needs to come from, and they need to give themselves the tools to fulfill their duties. In terms of regulation, its value for the economy was acknowledged though not without strong reservations. On the political and Commission side there seemed to be a common focus on defending and implementing the currently existing political agreements.