EuropeanIssuers

Webinar Report

EuropeanIssuers Capital Markets Webinar Series: Digitalisation of European Companies

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EuropeanIssuers Capital Markets Webinar Series

Digitalisation of European Companies: Regulatory Challenges and Shaping Strategy for a Digital Future

28 September 2021

11.00 – 12.15 (CET)

Webinar Report

Moderator: *Pierre Marsal, Co-Chair of Securities Law & Markets' Infrastructure Working Group, EuropeanIssuers*

Speakers:

- *Jan Ceyssens, Head of Unit Digital Finance, DG FISMA, European Commission*
- *Dr Joachim Schwerin, Principal Economist, Unit Digital Transformation of Industry, DG GROW, European Commission*
- *Agostino Nuzzolo, General Counsel, Telecom Italia*
- *Nathan Birtle, Senior Vice President of Sales, Diligent*

Supporting the digital transition of companies is a key priority for the EU, and as such, the EU should take advantage of the stage of companies in its recovery strategy to help repair the damages caused by the pandemic. Moderated by **Mr Pierre Marsal**, the webinar focused on how digitalisation is transforming our society, the economy and financial sector, as well as how it is changing the way in which companies operate and how people interact and exchange information. Moreover, the discussion focused on the way in which EU priorities focus on creating a framework that facilitates digital innovation, tackling fragmentation in the Digital Single Market and addressing the risks associated with this digital transformation.

The first panellist, **Mr Nathan Birtle**, talked about the regulatory challenges and how they are shaping the strategy for digital future. Some of the main challenges identified were related to the difficulty to ensure strong ESG performance, the remote working which has been accelerated by the COVID-19 pandemic and the cybersecurity concerns. As for cybersecurity threats, he added that more than 99% threats require some form of human interaction (e.g. to follow a link), and certain things, such as remote workforce, personal emails and the increasing phishing schemes, make the risk to be prone to a cyberattack even greater. To this end, Mr Birtle mentioned that companies need to address how to collect the data, and what are the requirements for data collection, as the multiple frameworks and reports which are in place and required to be applied by companies create risks[1].

[1] For more information please refer to the article: "Digital Transformation Enhances Boards & Leaders Work Together" on page 4.

From the regulatory side, **Mr Jan Ceyssens** pointed out the main efforts from the EU's side to include digital means in the overall corporate governance process, such as the possibility to submit information and make it available via digital platforms. It is nevertheless, not only a matter concerning the European level, but also the national one. In order to facilitate the uptake of distributed ledger technology (DLT), the EU proposed to implement a DLT pilot, which aims at allowing the capital markets to cast the opportunities of new technologies. Mr Ceyssens also pointed out that there could be a lot of developments and achievements in the area as long as the proportionate measures which are not to be too cost intensive are implemented by everyone.

Mr Agostino Nuzzolo mentioned that most companies are already adopting the digitalised items available for better organisation and better corporate governance. From the legal standpoint, Mr Nuzzolo discussed two main points. The first one is the predictive analysis, which sometimes is not discussed in terms of the impact it can have on the management of the company. Secondly, the smart contracts have become more popular in theory, however, in practice they are not easily manageable. However, smart contracts are a strong innovation in the management of clients and can make the company more efficient and sustainable. However, Mr Nuzzolo pointed out to one area of corporate governance which has yet to come into digitalisation, and that is the shareholder meeting. While there have been solutions proposed due to the COVID-19 situation, there are no standard ready to be used. He added that there is a big opportunity to change the relationship between issuer and shareholder at the digital level.

In his intervention, **Dr Joachim Schwerin** discussed the industrial and SMEs perspective. With 14 different defined ecosystems, he mentioned that all of them had to undergo green digital transition. As for the SMEs side, considering that more than 90% of European companies are SMEs, there is a clear need for uniformization of rules, as there are big differences between the Member States. In order to improve the environment, Dr Schwerin discussed two main proposals. The first one is related to education, which became very important, as digital skills are needed in numerous situations. He explained that companies need to improve digital knowledge in areas related to data and GDPR, cybersecurity, and crowd management. As for the second proposal, Dr Schwerin mentioned the access to finance. One issue to be kept in mind, he added, is that innovation comes at an unprecedented pace, and it relates not only to blockchain and AI, but also to interconnection, and it comes on top of the already existing legislation.

In relation to how the cybersecurity requirements fit the corporate law, Mr Nuzzolo mentioned that it is quite a new concern, but it is indeed moving rapidly and there is a need for coordination cross-country, therefore an international convention on the topic which could clarify the standard definition of the crime and enhance cooperation between state organisations could be useful. Moreover, he added that while some businesses insist in having large number of people accessing the data in order to make the business more effective, this increases also the risks to being the victim of a cyberattack. As for the extent to which the DLT will be taken into account in the review of the central securities depositories regulation (CSDR), Mr Ceyssens recognised the importance and connection of the two instruments, but mentioned that the CSDR will not be impacted.

EuropeanIssuers' recent positions related to sustainability reporting and sustainable corporate governance:

- Press release on EuropeanIssuers' concerns on the European Commission's Corporate Sustainability Reporting Directive Proposal, dated 14 July 2021: http://www.europeanissuers.eu/docs/view/60818184e59b0-en

- EuropeanIssuers' Statement on the European Commission's Corporate Sustainability Reporting Directive, dated 22 April 2021: http://www.europeanissuers.eu/docs/view/602164d014cc5-en

EuropeanIssuers is a pan-European organisation representing the interests of publicly quoted companies across Europe to the EU Institutions. There are approximately 13,225 such companies on both the main regulated markets and the alternative exchange-regulated markets. Our members include both national associations and companies from all sectors in 14 European countries, covering markets worth €7.6 trillion market capitalisation with approximately 8,000 companies.

We aim to ensure that EU policy creates an environment in which companies can raise capital through the public markets and can deliver growth over the longer term. We seek capital markets that serve the interests of their end users, including issuers.

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For the recording of the webinar, please visit EuropeanIssuers YouTube Channel.

Digital Transformation Enhances How Boards & Leaders Work Together

Faster, higher, stronger… those tenets so evident in the Olympic Games might equally describe the drive for digital transformation as businesses strive to adopt technologies that will unlock better commercial performance, more efficient operations and quicker time to market. However, there is an essential fourth tenet for governance, risk and compliance (GRC) professionals: "safer". Because there is no doubt that, as businesses restructure around digital processes and partner with numerous third-party organisations to build complex digital ecosystems, the role of cyber security is critical.

Digital Transformation and Cybersecurity Are Inextricably Bound

As businesses seek to grow more flexible and scalable by migrating core systems to the cloud and supporting the rapidly evolving "work from anywhere" culture, their digital footprint grows exponentially. The attack surface has expanded with more endpoints than ever before and employees accessing confidential customer and corporate data via home and public networks. This has created an enormous opportunity for cybercriminals to capitalise, and they haven't been slow to respond. Furthermore, the cost of a cyberattack can be around €3.3 million, so it is important to bear in mind that low cost solutions can potentially cost lots of millions.

Malicious external threats are not the only cyber risk facing organisations and their boards. As our work and home lives become more closely intertwined, IT and governance teams must now consider deploying security measures to protect employees home offices and mobile work set-ups to prevent them from inadvertently sharing or losing sensitive data.

Effectively, data must be protected at every point in its journey through the organisation — and also when shared with authorised third parties — if the risks associated with theft or accidental loss are to be mitigated. With these risks ranging from reputational damage and operational impacts to legal compliance failure and, in the case of the theft of corporate intellectual property, competitive compromise, GRC professionals could be forgiven for wishing that the digital transformation genie could be put back in the bottle. However, competitive drivers mean the business can't afford to be left behind, something highlighted by the pandemic, where digital laggards found themselves at a considerable disadvantage when establishing remote-working, for example.

So, how can GRC professionals work with colleagues in IT to build a cybersecurity framework that works for board business and beyond?

Choose the Right Technology to Support Processes

The first step is to examine the current processes and associated data flows to identify gaps that can be plugged through further digitisation and the use of supporting tools. For boards, the creation and sharing of confidential board materials is an excellent example. Often companies have digitised part of the process but haven't yet found an end-to-end solution.

So, we might see board packs being created as documents in a secure area on the corporate network by governance team members before being dispatched to directors via email.

There are a couple of weak points in this approach. First, version control and security challenges exist when multiple people are working on the same document. As Diligent SVP and MD Liam Healy put it: "It's often not the final version that's the most sensitive; it's version ten. And if that version is leaked or sent to the wrong email account, that's a big risk." Yet this is easily done as team members collaborate to get the job done.

The second risk arises in the distribution phase. Email is not a secure channel through which to share sensitive information. This is even less the case when it is shared outside the corporate network with non-executive directors who may be using personal email accounts. A compromised inbox could see critical data stolen. If the lost data is subject to the stock market or data privacy regulations, its publication or illegal use constitutes a severe compliance failure.

Board-related cyber risk can be mitigated by providing governance teams with secure board management software to create, collaborate and distribute board materials. Tools such as Diligent boards also deliver version control and audit trails, enabling tracked changes and individual access and editing rights locked down to the least privilege levels.

The principle of least privilege and its related philosophy of zero trust networking are gaining currency across the cybersecurity landscape as the traditional corporate network perimeter has dissolved. If GRC professionals understand and implement this in relation to board activities, they can align with colleagues within the broader security space who follow this approach.

Preparing Your Organisation for Today's ESG Data Challenges and Beyond

Environmental, social and governance (ESG) issues have become more complex and multifaceted than ever before. At the same time, ESG continues to ascend on board and leadership agendas.
On the environmental side, corporations must accelerate their response in areas from water and fossil fuel consumption to environmental waste and climate change, all while navigating social issues such as pay equity and fair labour standards. They must also consider the increased attention to responsible, efficient governance, particularly in areas such as executive compensation and CEO succession.

The EU's 'Green Deal' — launched in 2019 by the European Commission — incorporates notable elements covering the integration of sustainability factors and climate risks into the bloc's financial policy framework. Subsequently, the EU Regulation on sustainability-related disclosures in the financial services sector (also known as the Sustainable Finance Disclosures Regulation or SFDR) came into effect on March 10 2021.

The SFDR applies to financial-market participants (FMPs) and introduces the concept of Principal Adverse Impacts, which cover sustainability factors that include environmental and social issues and employee, human rights, anti-corruption, and anti-bribery matters.

The EU is phasing in SFDR between now and 2023, although phase two, which involves the "principal adverse sustainability impacts statement", has now been delayed by six months to July 2022.

Additionally, adopted in July 2021, the EU Taxonomy Disclosure Requirements demand that large companies, banks, asset managers and insurers of certain KPIs report the proportion of environmentally sustainable economic activities in their business, investments, lending or underwriting activities.

As the reporting environment continues to evolve, it is time for GCs, board members, and executive leaders to review their climate leadership goals and frameworks. They must put the right data, technology and reporting in place — to get ahead of environmental disclosure requirements before they become mandatory, and digitalisation can also be the boost companies need to make ESG reporting a seamless reality. The Diligent ESG solution simplifies ESG data collection, benchmarking and reporting, and provides audit-ready documentation and reports for every step of the process. Diligent ESG is intuitive to use and highly flexible, so it can scale as your ESG needs evolve.