

## **EDITORIAL: The new regulatory frontier and the impact on governance and risk control**

*Dear readers!*

It is an honour and pleasure on behalf of the editorial team to present the first issue of the journal *Risk Governance and Control: Financial Markets & Institutions* in 2023.

Companies operate in increasingly turbulent and uncertain markets due to, among other things, crises with global effects (covid, war in Ukraine), technological innovations (industry 4.0), and new global challenges (environmental, social, and governance (ESG) issues). These are phenomena that must be well managed by companies in order to maintain a successful business or, at least, survive. From this point of view, risk governance and risk control are essential tools for corporations to achieve their goals through appropriate risk decision-making. This thesis has been supported in the recent literature by Farida et al. (2022), Fujianti et al. (2022), Gouiaa and Issa (2022), Mantovani et al. (2022), Hogan and Kostyuk (2021), AlHares and Al-Hares (2020).

However, the ability of companies or industries to remain thriving is strongly influenced by regional institution decisions that can determine the growth or decline of entire economic sectors.

Emblematic is the decision, later changed, by the European Union (EU) to forbid from 2035 the production of gasoline, diesel, and hybrid cars in Europe to encourage the shift to electric cars. While European car companies are currently among the world's leading car manufacturers with established expertise in gasoline and diesel cars, the same cannot be said about electric cars.

About half of all electric cars are manufactured in China, and the company with the largest market share in passenger electric vehicles sales is Chinese: the leader is the Chinese BYD auto with about 20 percent in Q4 2022 (International Energy Agency [IEA], 2022). Recently, the German car rental company Sixt announced that it will purchase 100,000 BYD electric vehicles for its European fleet by 2028 (Mihalascu, 2022), a sign of a market trend and the fact that regional institutional decisions can favour industries in certain geographic areas to the detriment of others.

In literature, there is extensive debate on sustainability issues. A critical examination by researchers of the impacts that certain legislative choices may produce on companies, including governance risk, could help the regulator to avoid taking decisions that overly penalize regional companies or industries.

For example, the literature may contribute to improving the quality of the new European Sustainability Reporting Standards (ESRS) in the issuance phase and in the subsequent post-implementation review. In 2022, the EU issued the Directive 2022/2464 that amended, inter alia, the previous Directive 2014/95 on non-financial information. The new Directive requires a large number of

European companies to produce a sustainability report in accordance with sustainability standards issued by the EU, called the ESRS.

The draft ESRS were published in 2022 immediately raising controversy over excessive information and onerous compliance costs such that the EU changed its position. In March 2023, the President of the European Commission announced his intention to reduce sustainability reporting requirements by 25 percent (von der Leyen, 2023). These choices will have effects on the type of information companies provide to their stakeholders on ESG issues and how related risks are managed. It is desirable that public institutions will consider the outcomes of these studies in the logic of balancing information benefits for stakeholders and compliance costs for companies.

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