CORPORATE BOARDS **USA**

Boardroom Fundamentals 101
Module 5: Emerging Areas of Board Oversight

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Cyber-risk

- The risk of cyber attacks on corporations is pervasive and increasing so boards need to ensure that appropriate personnel, resources and controls are in place to mitigate risk
- While accountability for cyber security rests on every employee in an organization, a robust information security program should be in place, led by a knowledgeable security expert who regularly updates the board on the status and efficacy of the program, including
  - mitigating controls
  - adequacy of existing technology
  - risk assessments
  - internal audits
  - penetration tests
  - employee training
  - periodic phishing tests and consequences for repeated employee failures
  - timely patch updates

- Boards should examine the reporting structure of the information security program to ensure independence and avoid conflicts of interests

Cyber-risk (cont.)

- Like other aspects of enterprise risk, boards often delegate responsibility for overseeing cyber-risk to the audit committee with regular reporting to the full board, although some boards have appointed separate risk or technology/cyber committees for this purpose
- Boards should consider cyber insurance, which has become more widely available and cost effective in recent years

Esg & corporate social responsibility

Environmental, Social and Governance (ESG) criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments

ENVIRONMENTAL	SOCIAL	GOVERNANCE
Considers how a company performs as a steward of nature.	Examines how it manages relationships with employees, suppliers, customers, and the communities where it operates.	Reviews a company's leadership, executive pay, audits, internal controls, and shareholder rights.

ESG and Corporate Social Responsibility (cont.)

Differences between ESG and Corporate Social Responsibility

ESG	Corporate Social Responsibility
• Focused on three major issues	• Includes any socially responsible activity, such as volunteerism, charitable contributions
• Quantifiable, measurable	• Not a measurable discipline
• Scores & ratings by third parties	• Self-imposed and self-regulated but no ratings or scores

Emphasis on Corporate Social Responsibility is transitioning to ESG but corporate social responsibility remains an expectation

Why does ESG matter to boards?

- ESG is a hot topic today that creates risks and opportunities, as well as shareholder value
- Boards' role is shifting from creating value principally for shareholders to considering the well-being of other stakeholders
- Failure to address ESG may subject a board to no votes from institutional investors and proxy advisory firms
- Companies with successful ESG strategies may be at an advantage in attracting capital, talent and customers

ESG and Corporate Social Responsibility (cont.)

- Meeting the evolving needs of passive and ESG investors requires a new look at resources
- Successful companies are creating cross-functional teams to address ESG strategy and communications
- Most small and mid-cap companies do not have a dedicated sustainability officer
- The effort is led by different people at different companies
- Organization needs to be able to support ESG initiatives and metrics operationally and financially

DIVERSITY, EQUITY AND INCLUSION

Board diversity is emerging as an increasingly significant consideration in the selection of new board members, primarily because of

- Laws in California and other jurisdictions that require gender and ethnic diversity
- Recent Nasdaq proposal requiring diversity on boards
- Institutional investor pressure
- Customer, employee and other stakeholder interests
- Investment banker board diversity requirements for IPOs

Diversity, equity and inclusion (cont.)

Making the case for board diversity:

- It's the law!
- Studies have shown enhanced financial performance of companies with diverse boards (Catalyst, McKinsey and BCG)
- Companies with diverse boards may be better able to attract customers and employees
- Board diversity may lead to diversity of thought and better decision making, growth and innovation
- Good corporate citizenship

Diversity, equity and inclusion (cont.)

Proposed Nasdaq Rule

- Proposal would require listed companies to publicly disclose consistent, transparent diversity statistics regarding their boards of directors
- Companies would be required to have, or explain why they do not have, at least 2 diverse directors, including one who identifies as female and one who identifies as an underrepresented minority or LGBTQ+ (foreign companies and smaller reporting companies would have flexibility to satisfy requirement with two female directors)
- Disclosure requirements apply one year after SEC approval of the listing rule
- Timeframe for application of board composition requirements based on listing tier and ranges from 2-5 years

Questions?

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End of Module 5

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