CORPORATE BOARDS USA

Boardroom Fundamentals 301
Module 5: Cybersecurity

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Cybersecurity

Cybersecurity risk has increasingly become a focus of boardroom oversight responsibility. Because of its complexity and evolving nature, oversight can be challenging. Best practices include the following:

- Set the "tone at the top" to establish an organization-wide expectation that cybersecurity is important and that the board is paying attention
- Ensure that cyber risk is part of the enterprise risk management framework
- Require periodic reporting by the executive charged with implementing cyber controls, such as the Chief Information Security Officer or other IT leader
- Review results of risk assessments, penetration testing, tabletop exercises and internal audits
- Obtain cyber risk insurance and assess its adequacy on a regular basis
- Inquire about the adequacy of resources and budget to safeguard cyber assets
- Understand the company's cybersecurity strategy, priorities and policies
- Ascertain the company's internal process and response plan for reporting cybersecurity and privacy breaches to customers and regulatory authorities
- Consider appointing a technology expert to the board

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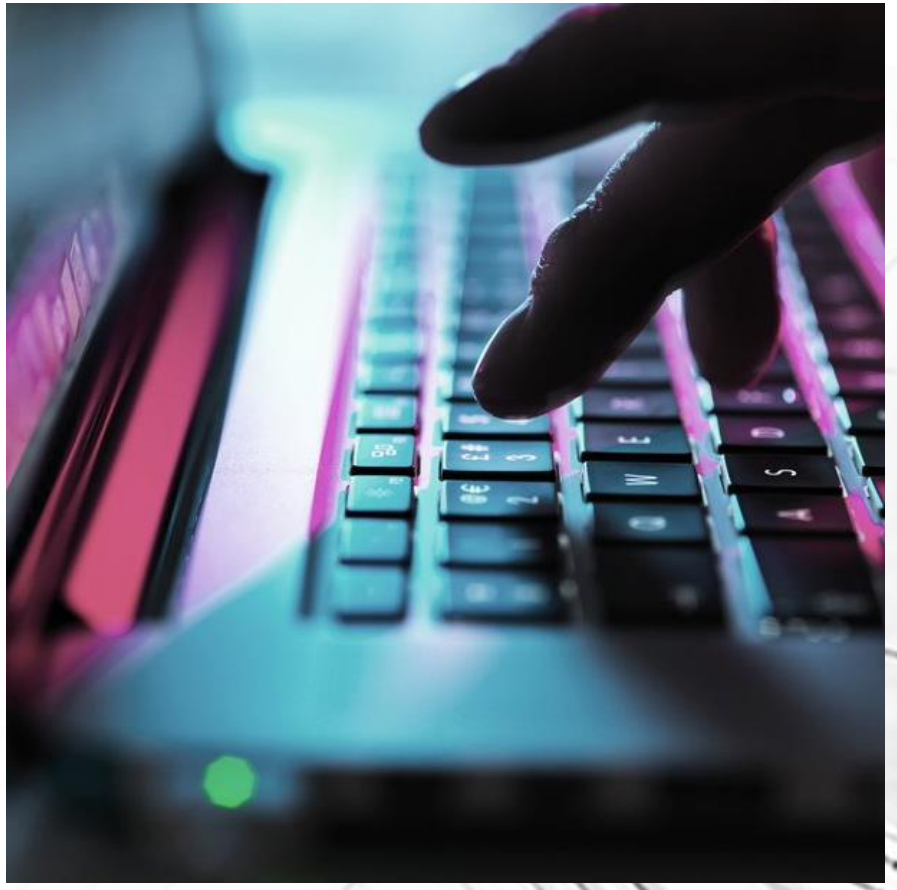
Questions Board should ask Management

- What is the organization's cybersecurity framework and strategy?
- Where are the company's most significant vulnerabilities and what controls are in place?
- What training (and how frequently) is given to employees about cyber risks and how to protect against cyber breaches?
- Are the company's key assets protected?
- Does the company have a plan to respond to malicious attacks, including ransomware? If so, how often is it tested?



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Current SEC Guidance on Cybersecurity Disclosure

While no specific SEC regulation requires disclosure of cybersecurity risks, a 2018 Interpretive Release explained how current rules may impact disclosures about cyber risks, governance and incidents including:

- How the board administers its risk oversight function if cybersecurity risk is material to a company's business
- The impact of costs associated with cybersecurity incidents on the company's financial condition
- Material pending legal proceedings relating to cybersecurity issues
- The design of reporting control systems to ensure that the financial impact of cyber incidents is incorporated into the financial statements
- Risk factors specifically relating to cybersecurity

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Proposed SEC Regulations

In March 2022, the SEC issued proposed rules that would require expanded disclosure about cybersecurity risk management, strategy and governance, specifically:

- Reporting cybersecurity incidents within four days of determining that the breach was material
  - Information is material if a reasonable shareholder would consider it important in making an investment decision or
  - If it significantly alters the total mix of information made available
- Cybersecurity governance, including policies and procedures and the board's oversight function
- Management expertise in cybersecurity
- Identification of any board member with cybersecurity expertise

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Questions?

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End of Module 5