

AN OFFERING FROM BDO'S CORPORATE GOVERNANCE PRACTICE

BDO BOARD REFLECTIONS



WHAT TOPICS SHOULD MANAGEMENT AND CORPORATE BOARDS BE PREPARED TO ADDRESS WITH SHAREHOLDERS IN 2015?

With the stock market reaching all-time highs, dropping unemployment, increased hiring and a strong IPO market, 2015 has already been full of positive indicators for the U.S. economy. At the same time, the constant threat of cyber attacks, concerns with possible deflation and economic challenges in Europe and South America represent cause for potential concern. This unsettled climate should make for an interesting annual meeting season this Spring.

TOP OF MIND SHAREHOLDER TOPICS

The following compilation lists topics that corporate management and boards of directors should be prepared to address in connection with 2015 annual meetings. These reflect individual as well as inter-related areas of corporate financial and operational risk and strategy that require significant time and attention by companies of all sizes and across all industries. Where appropriate, topics have been aligned with additional pieces of thought leadership and/or learning opportunities for further consideration. For more BDO Insights and learning opportunities visit the [BDO website](#).

Cyber Security

Highly publicized data breaches at Sony Pictures, Anthem Insurance and other major businesses continue to put cyber security at the top of the agenda for shareholders. Weaknesses in networks and data security can expose businesses to significant losses in brand and market value.

BDO USA CORPORATE GOVERNANCE PRACTICE

BDO USA's Corporate Governance Practice was developed to provide guidance to corporate boards. The firm works with a wide variety of clients, ranging from entrepreneurial businesses to multinational Fortune 500 corporations, on a myriad of accounting, tax, risk management and forensic investigation issues.

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Shareholders may want to know if the board is actively involved in cyber security planning, whether the company has a chief of cyber security in place and how the company is taking a proactive and preemptive approach to improve data security. Consider [BDO's Cyber Security Board Primer](#) which distinguishes between activities boards should be conducting and steps management should be taking as well as provides cyber security resources and tools for further consideration. For CPE-worthy programming with respect to cyber security matters, refer to our [Managing Risk in Cyberspace](#) and [Data Breach Essentials](#) archived webinars. Stay tuned for additional BDO programming and thought leadership to be released this spring on steps companies can take in protecting their businesses and understanding trends through use of "big data" and data analytics tools and techniques.

Global Economic Concerns

Investors have become well educated on how inter-related the world's economies have become and are concerned how the financial crisis in Greece, unstable economic conditions in Venezuela and other markets will impact the global recovery. Sovereign debt holders or any companies with exposure (facilities or sales operations) in these countries should be prepared for worst case scenarios. Investors will ask about contingency plans the company has in place should there be a major collapse. Refer to our library of [BDO's industry publications](#) for further insight on global and other issues impacting your industries.

Risk Committees

Only a small minority of companies have stand-alone risk committees. Most assign any risks to the audit committee, which has seen its responsibilities expand considerably beyond the oversight of the company's financial reporting. Audit committees now grapple with issues ranging from cyber-security to foreign corrupt practices to whistleblower claims. Shareholders may inquire whether the current audit committee has the appropriate experience for all of these increased responsibilities. They may also inquire whether the company should have a separate risk committee composed of the proper expertise to provide oversight of these varied areas. Consider [BDO's Effective Audit Committees in the Ever Changing Marketplace](#) along with related practice aids that will be refreshed in the summer of 2015.

Accessing Public Equity Markets

Over the past two years, initial public offerings (IPOs) in the U.S. have experienced a renaissance with both total offerings and proceeds raised reaching the highest levels since 2000. With IPO activity expected to remain strong in 2015, shareholders may want to know if the favorable IPO market will translate to new securities offerings from existing public companies and whether management is considering any such offerings in the foreseeable future. Consider BDO's Capital Markets Practice recent [BDO 2015 IPO Outlook](#) for further information. If you are a private entity currently considering the road to going public, you find [BDO's Guide to Going Public](#) of particular interest.

M&A Opportunities/Takeover Defenses

Large cash reserves could lead to many businesses pursuing growth through mergers and acquisitions. Shareholders will want to know if management is seeking out opportunities and that potential targets are properly vetted to avoid any buyer's remorse. By the same token, Boards should have contingency takeover defenses in place to enable them to respond quickly to fend off attacks or maximize shareholder value should a transaction be accepted.

Spinoffs

There was a record 64 spinoffs in 2014 and activist shareholders will continue to campaign for more in 2015. Management should be prepared to respond to these well-funded investors who argue that businesses perform better when they aren't part of a large conglomerate.

Pay Disparity

Although the SEC has continued to delay the implementation of new Dodd-Frank regulations requiring disclosure of the ratio of the CEO's pay to the median pay of employees of the company, media reports of high ratios - such as Walmart's CEO being paid better than 1,000 times more than the median Walmart worker - are sure to keep pay disparity a focus of shareholders at 2015 annual meetings. Companies should be aware of these concerns and communicate clearly to shareholders how their performance-focused executive compensation models benefit the company and shareholders. Consider BDO's recent BDO 600 Compensation surveys: [2014 Board Compensation Practices](#) and [2014 CEO and CFO Compensation Practices](#). For CPE-worthy programming, refer to our [2015 Executive Pay Outlook for Mid-Cap Companies](#) archived webinar.

Mid-Year Rate Hike?

With Fed watchers predicting the long anticipated rate hikes to begin sometime this summer, investors may be interested whether management is planning to access the debt market to fund strategies prior to a rate hike in order to take advantage of favorable interest rates in the near term.

Related Parties & Significant Unusual Transactions

A new rule (PCAOB Auditing Standard 18), focused on related parties and unusual transactions, takes effect in 2015. The new standard, in part, requires auditors to more closely scrutinize executive pay and identify inherent risks, such as incentives that have the potential to reward management for decisions that could prove detrimental to shareholders interests. Investors will want to know that the board is on top of these relationships and transactions, and whether disclosures properly reflect the associated risks. BDO has covered aspects of AS 18 in a [Flash Report](#) as well as recent CPE-worthy programming for boards: [2015 What's on the Minds of Boards?](#) and [2015 Executive Pay Outlook for Mid-Cap Companies](#).

Proxy Access

Proxy access allows major shareholders to have more of a say in board composition and make their own suggested nominations for board directors instead of accepting only such candidates as proposed by the board. This is not a common practice in the U.S. and a proposed rule by the SEC to mandate proxy access was overturned in 2011 by a Washington, D.C. district court ruling. For shareholders to gain proxy access, the company's has to have such a permissible practice written into its bylaws. In a general sense, supporters contend that shareholders should be able to nominate their own representatives in order to ensure accountability by the board. Opponents of proxy access often cite shareholder activism promotion of special interest measures if such they can install specific candidates. The debate continues as General Electric recently became one of the few companies to allow groups of shareholders to put forth nominees to the company's board, provided the candidates' backers have at least 3% of GE shares for at least three years. Hewlett Packard and Verizon Communications have adopted similar measures in recent years. Shareholders may ask whether the company will be adopting similar proxy access plans.

Sustainability

Once the province of leading "green" businesses, sustainability reporting is becoming increasingly more common among businesses in general. Companies gather information about processes to help avoid or mitigate any environmental or social risks that could materially impact the business. Beyond managing their social and environmental impacts, companies that practice sustainability report related benefits in improved operational efficiencies and an enhanced reputation with employees, shareholders and customers. Investors may be interested in knowing whether the company is planning on making sustainability disclosures.

Succession Planning

As the economy continues to improve, executive movement should start to increase - including CEO turnover. Succession planning is one of the board's most important responsibilities. Shareholders will want to know that the board has a succession plan in place and candidates identified, if needed, for all C-level positions and board members as well. BDO has several resources of interest in this area: [Perspectives on Executive Succession Planning](#), [Succession Planning Discussion Guide](#), and [Succession Planning Assessment Tools](#).

Disaster Planning

Severe storms have wreaked havoc with much of the U.S. this winter, as extreme weather and other natural disasters seem to be on the rise in recent years. These events are a powerful demonstration of supply chain risks in a global economy. Any single failure in a business's supply chain can cause problems throughout the company. Boards should be prepared to articulate what they have done to prepare for low probability, but high impact events such as natural disasters.

Internal Controls

The SEC and the PCAOB have been vocal about increased scrutiny related to internal controls over financial reporting (ICFR), even where there is no required audit of ICFR. Boards may be asked questions related to ICFR, whether the disclosure of any identified material weaknesses is sufficient and appropriate, and whether any significant deficiencies identified by management or the auditors have been properly addressed. Investors may also inquire if the company is in compliance with the new COSO framework for internal controls. Consider BDO's series of Flash Reports on COSO frequently asked questions available on BDO's [Insights](#) page and our CPE-worthy archived webinar [COSO 2013: Preparing for Implementation](#).

This is just a sampling of some of the more prevalent, broadly applicable issues that are top of mind for shareholders as we continue on through 2015 and management and boards prepare for annual shareholder meetings.

RESOURCES

BDO commits significant resources to keep our clients and contacts up to date on current and evolving technical, governance, industry, and reporting developments. Our thought leadership consists of quarterly email updates, publications, surveys, practice aids, and tools that span a broad spectrum of topics that impact financial reporting, as well as corporate governance. Our focus is not simply to announce changes in technical guidance, regulations or emerging business trends, but rather expound on how such changes may impact our clients' businesses. Through our various webinar offerings, we reach a broad audience and provide brief, engaging, just-in-time training that we make available in a variety of ways to meet the needs of your busy schedule. To begin receiving email notifications regarding BDO publications and event invitations (live and web-based), visit the [BDO registration page](#) and create a user profile. If you already have an account on BDO's website, visit the [My Profile](#) page to login and manage your account preferences.

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