Audit Committee: The Kitchen Sink of the Board

How Audit Committees Can Manage Their Evolving Responsibilities and Polish Their Proxy Disclosures

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About the Center for Audit Quality

The Center for Audit Quality (CAQ) is a nonpartisan public policy organization serving as the voice of U.S. public company auditors and matters related to the audits of public companies. The CAQ promotes high-quality performance by U.S. public company auditors; convenes capital market stakeholders to advance the discussion of critical issues affecting audit quality, U.S. public company reporting, and investor trust in the capital markets; and using independent research and analyses, champions policies and standards that bolster and support the effectiveness and responsiveness of U.S. public company auditors and audits to dynamic market conditions.

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Introduction

The role of the audit committee (AC) has changed significantly since the passage of the Sarbanes-Oxley Act of 2002; many ACs now oversee a variety of emerging risks and balance an ever-increasing workload. To understand more about ACs' evolving responsibilities, proxy disclosure strategies, and self-evaluation processes, we interviewed AC chairs or members from a variety of industries, company sizes, and maturity levels. We also interviewed members of the investor community and those charged with preparing proxy disclosures to learn how ACs can better communicate their oversight responsibilities. These interviews occurred between September 2021 and April 2022 and generated nearly 2,200 minutes of conversation.

Collectively from these interviews, we gleaned leading practices related to three questions of current interest to ACs and their stakeholders:

1. How can boards effectively allocate oversight responsibilities to the AC?
2. How can AC members keep up with an ever-evolving workload?
3. How can ACs improve their disclosures related to AC oversight responsibilities?

This report presents a compilation of leading practices identified from these interviews as part of two research papers written by accounting academics from Virginia Tech Pamplin College of Business and the Neel Corporate Governance Center at the University of Tennessee, Knoxville's Haslam College of Business.[1]

This report complements other recent reports from the CAQ:

+ Audit Committee Practices Report: Common Threads Across Audit Committees. This report surveys 246 AC members of primarily large-cap companies to shed light on how often ACs are taking on oversight responsibilities related to evolving responsibilities such as cybersecurity and data privacy; environmental, social, and governance (ESG) issues; and enterprise risk management (ERM).
+ 2022 Audit Committee Transparency Barometer. This report tracks proxy disclosure practices of the S&P 1500 related to AC oversight of the external auditor, ESG, and cybersecurity.

1 This report aims to provide relevant insights about AC oversight to professionals in a timely manner. The primary data sources supporting this report are two academic research papers, available at https://ssrn.com/abstract=4249500 and https://ssrn.com/abstract=4249507. These papers use academic methods for analyzing interview data in relation to each paper's theoretical lens to draw conclusions from the field. The academic papers include many more quotations from the interviews, so interested readers should refer to these papers for further information. These papers have not yet completed the peer review process and are, therefore, subject to change.

Key Findings

HOW CAN BOARDS EFFECTIVELY ALLOCATE OVERSIGHT RESPONSIBILITIES TO THE AC?

+ Perpetually assigning emerging risks to the AC (i.e., the "kitchen sink" approach) can lead to suboptimal oversight due to overworked ACs and a "check the box" mentality.
+ Traditional AC skill sets relate to financial reporting and internal controls. As AC responsibilities evolve, it is important that AC skill sets evolve as well.
+ Some AC members individually advocate for the AC to oversee these emerging risks because of their personal skills and interests. In these cases, AC members should be careful not to succumb to overconfidence bias and ensure that a clear succession plan is in place without them.
+ To effectively allocate oversight responsibilities, ACs may need to consider situations when it makes sense to push back on their boards.

HOW CAN AC MEMBERS KEEP UP WITH AN EVER-EVOLVING WORKLOAD?

+ AC members should be purposeful about developing skill sets that match oversight responsibilities:
    - Actively assess the committee's key risks when planning for continuing education opportunities and use specialists where needed.
    - Regularly evaluate whether AC refreshment is needed to keep up with the necessary skill sets to properly oversee evolving risks.
    - Carefully manage the AC agenda by mapping out risks to allow for deep dives on a rotation of topics throughout the year.
+ ACs can free up time for additional responsibilities by managing the agenda and relationships:
    - Work with management to fine-tune the types of materials delivered in advance and hold AC members accountable for reading them.

- Reflect on whether meetings allowed for sufficient time to evaluate management's response to key risks, and schedule meetings so that they can go long or continue at an additional time when needed.
- Maintain a collaborative relationship with management to foster transparency.
- Adopt leading practices to manage shared governance across board committees.

HOW CAN ACs IMPROVE THEIR DISCLOSURES RELATED TO AC OVERSIGHT RESPONSIBILITIES?

+ ACs can begin by defining the goal of AC-related disclosures. These disclosures provide an opportunity to be transparent about ACs' duties and actions and provide confidence that the AC is fulfilling its fiduciary duty.
+ Rather than start from scratch, AC members can use existing publications from the CAQ, this document, and other sources to reduce the time needed to identify leading examples from peers.
+ ACs can lead the charge when collaborating with management to commit to enhanced disclosures.
+ Companies should seek feedback from investors and regularly reevaluate whether disclosures are meeting investors' expectations.
+ Investors want to see clearly defined roles and responsibilities assigned to the AC, an explanation for why AC members are appropriate for the specific company, examples of continuing education for AC members, more explanation for how ACs address key risks, and details that reflect broader AC responsibilities. The Appendix provides examples to inspire these types of disclosures.

Allocating Oversight Effectively

Following the Sarbanes-Oxley Act of 2002, traditional AC oversight responsibilities include overseeing internal and external auditors, reviewing public disclosures made by management (including annual and quarterly financial statements and earnings press releases), overseeing internal controls over financial reporting, monitoring compliance with laws and regulations, and supervising the whistleblower hotline. The 30 AC members who were interviewed (heretofore referred to as AC participants) represent companies with several evolving oversight responsibilities added to their plates (see Figure 1).

When describing why one or more of these evolving risks are assigned to the AC (at least partially), AC participants cited the most common reasons as follows. We supplement AC participant responses by providing potential unintended consequences that boards should carefully consider when making decisions about allocating oversight of evolving responsibilities to the AC.

+ **Nearly three-quarters of AC participants describe how these evolving oversight issues relate to disclosures, quantifiable metrics, and internal controls, which are closely related to their core**

Figure 1:
AC Oversight Responsibilities

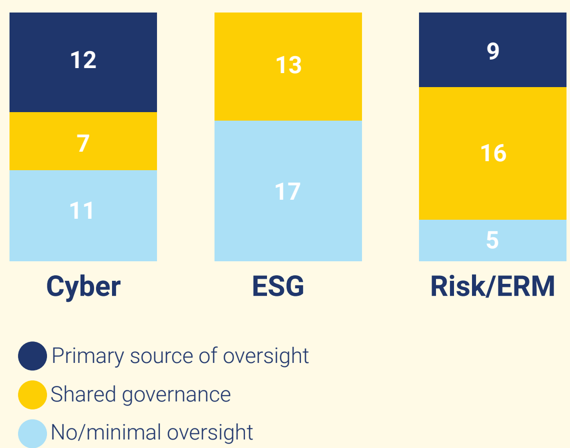

Figure note: This figure reports the number of AC participants who describe the AC as having no/minimal, shared, or primary oversight of these respective areas of evolving responsibilities. Regarding ESG, many AC participants report that they are monitoring regulatory interest in ESG disclosures but have not yet assumed any form of oversight responsibility. For those with "shared" governance over ESG, these AC participants commonly report responsibility related to overseeing the quality of ESG disclosures but another committee oversees ESG-related policies.

traditional responsibilities. For example, many AC participants believe that the process for overseeing cybersecurity risk and ERM broadly relates to the processes they already use to oversee internal controls over financial reporting and compliance with laws and regulations. Many also consider ESG to require some level of AC oversight due to anticipated disclosure regulations and enhanced attention from regulators and investors—two stakeholders ACs regularly consider as part of the financial reporting oversight process. Based on preexisting relationships with internal and external assurance providers, AC participants also consider any areas requiring assurance to be areas that the AC should generally be responsible for overseeing.

- ***Unintended consequence of using this logic.*** *This logic should perhaps come as no surprise, but it does introduce risk into the quality of the oversight. What if ACs with traditional skills (e.g., former external audit partners, current or retired CFOs) lack comfort in digging into the nonfinancial areas to ask probing questions or challenge management's assumptions? For example, do AC members feel adequately qualified to understand the underlying assumptions reflected in ESG disclosures or know when to challenge management's response to cybersecurity and data privacy risks? This logic for assigning oversight to the AC can be effective as long as boards are also closely monitoring the skill composition of the committee members.*

+ **Forty percent of AC participants view the AC as the "kitchen sink" of the board.** This group of AC participants describes these additional responsibilities with a mentality of resignation, believing that the AC is the default option for new responsibilities when there are no obvious alternatives. For example, if not narrowly related to executive compensation or to the nomination process, evolving risks in their boardrooms are automatically assigned to the AC. When asked how their AC became the "default" place to send the oversight of new risks, these AC members often pointed to the breadth of leadership and technical expertise of the AC compared with other committees. Even if the technical expertise is not an exact match, boards may assume that these AC members will be able to adapt more quickly than committees that lack more technical expertise.

  - ***Unintended consequence of using this logic.*** *In these situations, the AC members often referred to their oversight responsibility as a short-term assignment until the risk area became more clearly defined or until it was a big enough risk to warrant a stand-alone committee. This logic can be inefficient for boards because it requires later determining a new committee for overseeing the risk and could inadvertently lead to a "check the box" mentality for overseeing this emerging risk. It can also lead to overburdened ACs that lack sufficient time to manage their workload. Two of the AC participants pointed to the small size of their board as a reason for this approach—there just aren't enough members to form another committee. Notably, out of the AC participants who talked about this "kitchen sink" logic, one-third sat on boards with a risk committee either voluntarily or through regulatory mandate. Therefore, the presence of a risk committee does not automatically relieve the impression that the AC is the default committee for new and undefined risks.*

+ **Nearly one-third of AC participants used their own skills and interests as justification for assigning these emerging risks to the AC.** Despite often admitting that it might not have been the most logical place to assign the risk oversight, these AC members advocated for the risk to be assigned to the AC because they were confident that it would get the attention it deserved. They were also confident that they personally had the skills to oversee it.

  - ***Unintended consequence of using this logic.*** *AC members in this position should consider the risks associated with overconfidence bias[2] and ensure an appropriate succession strategy is in place to maintain the same level of oversight in their absence. Are you encouraging other AC members to challenge your assumptions and experiences? If you and management receive similar types of training and continuing education, are you actively seeking out alternative viewpoints to challenge management's assumptions and beliefs? If you leave the board, who within the AC or the board will be equipped to continue monitoring this risk? These are important questions to think through in these situations where oversight effectiveness may rely on the expertise or interest of one director.*

2 Refer to https://www.thecaq.org/professional-judgment-resource/ for more information about signs of overconfidence bias and ways to counteract its negative consequences.

WHEN SHOULD ACs PUSH BACK ON THEIR BOARDS?

Several AC participants recalled actively pushing back on their boards to ensure that their AC didn't become overburdened. When asked why, they share the following reasons:

+ **Nearly one-third of AC participants recall thinking about where to assign a specific responsibility and choosing *not* to assign it to the AC because of workload concerns.** Most of those AC participants also mentioned the option of the board voluntarily creating a new committee to tackle some of the additional responsibilities that tend to get assigned to the AC. Interestingly, none of the AC participants who are part of regulated companies with mandated risk committees described workload concerns as a reason for a responsibility to be pushed away from the AC, suggesting that the mandated creation of a separate risk committee helps to address workload concerns for ACs. These separate committees can help offset workload concerns but also introduce other potential risks related to sharing oversight responsibilities, which we discuss more in the section titled "Managing Audit Committee Workloads."

AC participants view dialogue about committee workload as an important aspect of the overall board culture because it could spur frustration or resentment if one committee has substantially more work than the other committees.

+ **Nearly one-quarter of AC participants push back on their boards because they believe that something is a broader strategic issue that requires attention from the entire board or from a different skill set of board members.** While some AC participants were comfortable pushing issues back to the board, others were not convinced that detailed risk oversight could occur at the board level, due to either an insufficient number of full-board meetings (and the risk of needing more touchpoints during the year) or inadequate time allocated to this risk oversight area in the full-board meetings. We discuss this challenge more in "Managing Audit Committee Workloads."

Managing Audit Committee Workloads

When asked for leading practices on managing an ever-evolving set of responsibilities, AC participants offer several suggestions relating to skills, time, relationships with management, and relationships with other committees. Many of these practices could be applied to managing traditional AC responsibilities as well.

MANAGING SKILL SETS

More than half of AC participants consider their continuing education to be a critical part of their ability to manage evolving responsibilities from a skill set perspective. These AC participants often strategically select continuing education that focuses on emerging risk areas, such as cybersecurity, ESG, and risk management. They leverage conferences and webinars offered by associations and the large accounting firms. They also sign up for niche technical conferences (e.g., on cybersecurity), participate in NACD local chapter networking events, sit on corporate director panels and roundtables, and eagerly absorb world and business news. A few AC participants described actively seeking out professional organizations and conferences that would help them better understand the investor viewpoint (e.g., NACD meetings, Governance Week conference, and membership in the International Corporate Governance Network). Many AC participants recall leveraging their external audit firm to identify potential training and continuing education opportunities. They also point to the importance of sitting on multiple boards because they are constantly learning from one board meeting and applying that knowledge at another board meeting.[3]

Three AC participants described how their boards actively work on educating board members during meetings. For example, one board offers an optional three-hour education event on the day before each board meeting.

Board members work with management to identify topics of current interest to all parties. A member of management leading the selected issue (e.g.,

3 When determining policies related to sitting on multiple boards, companies should carefully balance the benefits of learning opportunities with investor concerns about overboarding.

the risk owner for cybersecurity or a subject matter expert on carbon emissions) spends time educating the board on the topic. As one AC participant noted:

> *"It's as much of an educational process for the audit committee doing that deep dive as it is our fiduciary responsibility to make sure that management is on top of the risk."*

Short deep-dive sessions are also initiated at the AC level to coincide with AC meetings. Two AC members mentioned that they request a topic that simultaneously educates and improves their ability to maintain their oversight responsibilities.

These types of director educational opportunities offer several benefits for boardrooms:

+ Directors benefit by staying up to date with the operational side of the business and its evolving risks.

+ Directors benefit from meeting other members of management, which can help with future succession planning.

+ Directors benefit from hearing how management thinks about an issue in more depth than usual, and they can compare this thought process to other trainings they have attended. Does management seem competent? Do they seem to be up to date?

+ Boards benefit by educating directors who may not be responsible for the detailed oversight of management (i.e., those not trying to seek out this form of training or education on their own) but who can offer fresh perspectives once updated on the topic.

+ Boards benefit by giving back to their directors on a personal level—making it fun for directors to attend meetings by offering them education on an interesting topic (e.g., robotics) that they can take back to their other boards or use for personal development.

Another opportunity to manage the skills needed to oversee evolving responsibilities of the AC is to regularly refresh the committee and strategically look at expertise when selecting AC members. A few AC participants also point to the importance of the board or AC hiring their own consultants and technical advisors for areas where there is not enough expertise on the board. Finally, several AC participants reference the importance of their relationship with their external auditor to gain key insights about emerging topics across the industry or other peer groups.

MANAGING TIME

Managing the agenda and strategically separating pre-meeting topics from topics to discuss during the meeting are the most commonly cited approaches to managing the time necessary to oversee evolving responsibilities. AC participants highlighted the following leading practices in managing their workloads:

+ **Plan ahead in order to dive deep.** AC participants recommended mapping out the list of areas needing oversight during the fiscal year. They also discussed rotating which areas get a deep dive across different meetings and building in time for flexibility because more complex issues may arise in the normal course of business.

+ **Prioritize and recalibrate.** AC participants recommended leveraging the entity's risk assessment process to prioritize how much time each topic receives during meetings. They highlighted that the AC is *"not taking things off [the agenda]; it's about shifting risk assessment to figure out how you're going to cover it all."* An AC participant further discussed the following:

  > *"As chairman, I started a process where, at every meeting, we selected one enterprise risk. The company goes through an entire process, identifies 20, 30 enterprise risks, but we focus on the top 5, top 10. And every meeting we'll take one of those risks and we'll do a deep dive, where we'll have the risk owner come in, make a presentation: 'What are the risks? What are the inherent risks? What are the controls to mitigate that risk? What are you doing? What keeps you up at night?'"*

One AC participant also discussed ending each meeting by asking for feedback to ensure that future meetings capture the most important topics:

> *"At the end of each meeting, I ask the committee if there is anything that we could have done better. 'Any feedback? Anything that you want to see at the*

next meeting?' And I think it's easier when people have things fresh on their minds, from something that's just recently occurred. Then we confirm our agenda for the next meeting. If there is a particular topic that we want to discuss at the next meeting, or someone touched on a particular subject and we really want to hear more about that subject, then that would be something that would come out of that discussion to prioritize at the next meeting."

+ **Be strategic with pre-meetings and pre-readings.** Many AC chairs have detailed meetings with management in the week preceding the full AC meeting. These pre-meetings allow both parties to work together to plan the detailed agenda and agree on the level of detail to be discussed in the meeting. It also gives the AC chair an opportunity to dive deep, asking technical questions that other members may not be as interested in or that may require additional research on management's part before the meeting. Further, one-third of AC participants emphasized the importance of the pre-read materials. Often described as ranging from 100 to 400 pages, a well-run AC meeting will have very little repetition with the pre-read materials. Meeting time can be saved for discussion, debate, and strategic planning.

+ **Be flexible.** More than one-third of AC participants allow their meetings to go longer or schedule additional meetings as needed. These participants attribute their ability to effectively cover all oversight areas to their willingness to be flexible with meeting timing and frequency. Some describe going longer even though some members have to drop off for other conflicts, but they report that most AC members are willing to stay longer when needed to get the job done.

+ **Use personal time.** Nearly one-third of participants report using their personal time to make up the difference—they use this time to do additional research, meet with members of management, spend extra time prepping for meetings, and so on.

One-third of AC participants also discussed the importance of having a highly competent and trustworthy internal audit group. ACs can work with internal auditors to design an internal audit plan that aligns with AC oversight needs. By leveraging internal auditors to increase testing in specific areas, ACs feel that they have more time to focus on strategic oversight, knowing that internal auditors will alert them about any control failures. Similarly, some interview participants consider the management succession planning process to be critical to their ability to oversee emerging risks. By actively ensuring that the right management team is in place with the right ethics and the right skill set, AC members feel more confident in their oversight roles.

MANAGING THE RELATIONSHIP WITH MANAGEMENT

A third theme in leading practices for managing AC workloads relates to the ACs' relationship with management. AC participants emphasized the importance of having a trusting relationship with management because their ability to oversee management ultimately comes down to management's willingness to be transparent. Some AC chairs use the pre-meeting calls to build rapport with management and establish trust. When managers know that they can trust the AC to listen, they are more willing to give the AC chair an informal warning about issues that are not yet at the level of needing AC attention but are on the managers' radar.

Without that trust, if an AC wants to add an item to the agenda, management might push back with this: "Why are you asking that question?" By having a trusting relationship, AC and management can work together to build consensus on strategic issues.

AC participants describe building that trust by learning to call or email management prior to the formal AC meetings—this avoids any "gotcha" questions at the meeting, personally respecting members of management, having frequent touchpoints, listening without overreacting, and balancing the temptation to manage instead of providing oversight. As highlighted by one of the participants:

"If an issue is coming up, for example, in internal audit … they're not sure where it's going to go, but the head of internal audit will call me and just give me a heads-up: 'This is happening. I don't know if it's going to be a big issue or not.' I don't do anything with it other than know that this might be coming. So then they know that they can come to me and I won't say anything unless and until it becomes an issue and then we deal with it…. I respect that confidence. I want them to come to

me. And if I don't respect that confidence, they're not going to come to me."

MANAGING RESPONSIBILITIES SHARED WITH OTHER COMMITTEES

The fourth and final theme within these leading practices relates to the AC's relationship with other committees. Many AC participants report sharing oversight responsibilities with other committees to help allocate workload across committees. Because shared governance can lead to either gaps in oversight or duplicative oversight, it is important to consider leading practices when operating that way.

Such leading practices relating to shared oversight, as identified by interview participants, include these:

+ **Invite board members to attend any committee meeting.** Nearly one-quarter of AC participants report that their boards have a policy of allowing members to attend any committee meeting, even if they are not a member. They also strategically schedule the committee meeting times to maximize potential participation. These AC participants identified several benefits, including feeling like they are more aware of what is happening at the company, quickly identifying gaps or duplicative oversight efforts, enhancing their ability to hear novel perspectives from those not entrenched in the committee work, and improving transparency over the scope of work each committee is taking on. The latter can help improve overall board culture and allow for the timely identification of workload imbalances. In these situations, the non-committee members cannot vote, but they are encouraged to participate in discussions.
+ **Structure the nominating and governance (nom/gov) committee to hold overall ERM oversight and include the chairs from all other committees.** Two AC chairs' experiences shed light on a rare but particularly novel leading practice for boards. At these companies, the nom/gov committee has the traditional nomination and governance oversight responsibilities but also holds the overall ERM oversight responsibilities. This version of the nom/gov committee is composed of the chairs of all other committees, which allows for seamless communication about workloads and current foci on key risks. In these two cases, the nom/gov committee is responsible for reviewing management's ERM strategy and deciding how detailed risk oversight will be allocated among the remaining board committees. The chairs then work in their respective committees on detailed risk oversight and come back to the nom/gov committee to report on how detailed risk oversight is progressing. Because the committee includes the chairs of all other committees, they can quickly identify potential gaps and duplicative efforts while also offering insights from other meetings. Thus, detailed oversight is assigned to each committee based on workload capacity and technical expertise, but aggregation within nom/gov allows for monitoring of the overall ERM plan.

Other leading practices include having a formalized matrix of defined responsibilities by committee, having joint committee meetings for specific topics (e.g., a joint meeting of audit and risk committees to hear reports about cybersecurity or a joint meeting of audit and ESG committees to hear reports on ESG disclosures), and coordinating with other committee chairs before each meeting.

Communicating with Stakeholders

When discussing how ACs communicate their role and oversight activities to stakeholders, we specifically focus on four types of disclosures within the proxy statement (collectively, AC disclosures): (1) information related to committee leadership structures and director biographical information, (2) information related to AC responsibilities and allocation of risk oversight, (3) the AC report, and (4) information related to external auditor oversight (separate from the AC report). AC participants viewed shareholders to be the primary stakeholder that could benefit from these disclosures.

Our interviews revealed divergent views among AC participants about the goal and purpose of these AC disclosures. While some view the goal of the disclosures as complying with the minimum legal requirements, others believe that proxy disclosures are an opportunity to “tell a story” about their governance structures and policies, to provide confidence to shareholders that they are fulfilling their fiduciary duties in overseeing management, and to clarify what are and are not responsibilities of the AC.

Companies should seek legal advice to determine whether their disclosures meet the minimum requirements to comply with applicable regulations. The following areas provide recommendations for how ACs can take a fresh look at their AC-related proxy disclosures if they are interested in extending beyond the minimum disclosure requirements.

STEP 1: DEFINE YOUR GOALS

When determining what disclosures are appropriate or useful to stakeholders, a key first step is to define the goal of these disclosures. While our interviews with AC chairs and members provided substantial variation in defining the goal of the disclosures, investors communicated two consistent themes that indicate disclosures can provide value: (1) be transparent about ACs’ duties and actions and (2) provide confidence that the AC is fulfilling its fiduciary duty.

However, the way that investors intend to use proxy disclosures is split based on the type of investor. Institutional investors that conduct individual analysis and engage regularly with companies would prefer to see companies “tell a story” with their governance disclosures. The story informs the type of engagement that they have with the company boards privately. These investors believe that companies with strong governance can improve market pricing by increasing transparency through enhanced disclosures. They do not want to see companies completely copying peers or overly relying on template disclosures, as stated by an institutional investor participant of this type:

> *"If the company asks, 'Well, what are some best practices?' then you can figure it out and tell us your story, right? If we start to give too many 'do this, this, this, and this,' then what will be happening is everyone will just go to that disclosure.… I think being overly prescriptive is not going to be helpful."*

In contrast, governance rating agencies and institutional investors managing large portfolios need systematic disclosure norms to machine-code key governance information. Currently, these stakeholders rely on oversimplified aspects of "governance" due to two key reasons:

1. Not enough companies in their portfolios are voluntarily providing enhanced disclosures, so they cannot incorporate those data into their policies and models.

2. Even among companies with enhanced voluntary disclosures, there is little consistency in formatting or language choices, making it difficult to use machines to systematically classify data.

For these reasons, it's likely that many ACs believe that investors are not using the information they are already willing to provide. When asked whether they would be willing to include more granular details about AC oversight in the proxy statement, some AC participants wonder this: Why provide more information if investors do not even use what we currently disclose? As stated by an institutional investor participant:

> *"Companies should disclose just because they should. We may or may not use it, but when we need it, we want it to be there. We've heard this argument: 'No one's going to read it, so I'm not going to disclose it.' Well, you do it anyway because that's part of transparency. That's part of that window into the boardroom that we need."*

The inconsistencies between ACs and different types of investors suggest that a first step in maintaining effective AC disclosures is ensuring that ACs have clearly defined their disclosure goal based on investor type. Here, ACs can also consider how to appeal to both sets of investors by using clearly labeled and defined sections of the proxy statement to communicate more quantitatively relevant data and then use additional language to enhance individual qualitative analysis.

Our interviews also reveal a potential opportunity for disclosure regulation, perhaps through XBRL tagging or systematic classification (like the section numbers in a 10-K filing or the pay versus performance proxy disclosure rules effective December 16, 2022). This approach could allow companies to individualize their disclosure choices while also providing governance rating agencies and institutional investors with a method for systematically capturing quantitative and qualitative data across large samples. Several AC participants expressed concern about XBRL tagging proxy statements if it led investors to overly rely on tagged data without the additional context that the qualitative disclosures or engagement opportunities provide. Thus, to move forward in enhancing proxy disclosures, discussions between investors and issuers need to occur to meaningfully disclose governance information in a way that is also useful to shareholders.

STEP 2: ACTIVELY SEEK OUT DISCLOSURE EXAMPLES

Many companies actively seek out disclosure information from peers; whether the request for benchmarking arises from the AC or from management, the office of the general counsel or other relevant management personnel often help with conducting this activity. AC participants recognize that they do not necessarily desire to be at the front of the pack with their disclosures, but they also do not want to fall far behind. As ACs voluntarily expand their disclosures based on recommendations from the CAQ and other sources, it is important for ACs to refer to peer disclosures to understand what shareholders are seeing from peer organizations.

Failing to stay in line with peers could be a red flag to investors and could force investors and governance rating agencies to make assumptions (based on peers) to fill in the blanks. For example, when asked what assumptions they would make if an AC did not mention cybersecurity or ESG disclosure oversight, five of the eight investor participants who were asked this question stated that they would assume the AC must not be substantially involved in the oversight. In these situations, the AC may be doing work that investors cannot see. Two of the eight investor participants said they would instead assume that the AC is involved, even if not disclosed. In these cases, investors assume the AC is actively involved in overseeing these evolving risks, even if they are not. As one investor stated, how a company's disclosure compares to that of peers can send a signal about the overall governance of the company:

> *"Maybe we're overly cynical, but if you don't tell us something, it immediately raises questions about why you aren't telling us this. That's what we tell companies: Tell us the story, so we don't have to fill in the blanks. Because likely we are not going to do it the way you thought we would."*

Several AC participants voiced concern about the amount of time it would take to individually benchmark AC disclosures against those of their peers. Instead, companies can consider using preexisting benchmark reports, such as the CAQ's annual Audit Committee Transparency Barometer, which examines the disclosures ACs make with respect to their oversight of the external auditor, ESG, and cybersecurity. We have compiled additional examples in the Appendix that include other areas that extend beyond the AC's role in external auditor oversight.

STEP 3: ADVOCATE FOR YOUR DISCLOSURES

One troubling aspect gleaned from our interviews was the number of AC participants who believed that enhanced disclosures would introduce litigation risk, either for them personally or for the full board of directors. In contrast, our interviews with general counsels revealed less concern about litigation risk. As one general counsel (GC) participant replied:

> *"We think the benefit of enhanced disclosure outweighs the risk because we don't know what the risk really is."*

The extent to which GCs could see actual risk of litigation is when the company makes false statements about the scope and breadth of AC oversight. Thus, in order to provide expanded AC disclosures, ACs have to be performing substantive oversight activities worth disclosing.

GCs recommend that if an AC wants to voluntarily enhance its AC disclosures, all they have to do is ask. The GC is well positioned to work with management to find a solution that meets the company's risk profile and also allows the AC to enhance its disclosures about governance processes. Many GCs start the proxy drafting process during the fourth quarter, so we recommend that ACs approach GCs prior to year-end if they expect to see enhanced disclosures. If a GC is not willing to work with the AC, then that is perhaps a sign of a larger issue about management culture that suggests that they are not willing to be transparent with shareholders.

STEP 4: REGULARLY REVISIT DISCLOSURES

Perhaps the most consistent thing we heard from all interview participants is the concern that governance disclosures face a high risk of becoming rote and stale. When this occurs, the disclosures are no longer useful to investors and become solely a compliance exercise.

Having structural consistency in disclosures (e.g., location, general content, formatting) can help investors process information more easily. However, given the ever-evolving set of business risks that companies face each year, it is unlikely that governance operated exactly the same as the prior year.

When we asked investors what they want to see from disclosures, they nearly unanimously pointed to a desire to see something about that specific year's governance:

+ **What were the major risks that the AC faced this year?** Shareholders and analysts who closely follow a company already know the primary business risks, so there should not be anything new here. Instead, this type of disclosure allows investors to see where ACs spent the majority of their time. The investor can then decide whether this aligns with their expectations based on their own assessment of the company's risks. When describing this, two investor participants noted the following:

"We make judgments on what we think is a material risk to the company, and so we would like to see what the company thinks is a material risk to the company. If there are differences, we can utilize engagement because maybe we're thinking of something incorrectly, or maybe we are thinking of something that the company is not thinking about that we want to make sure that they start considering in their process."

"Investors want to know that the audit committee is focused on the factors that matter, right? They're looking increasingly for some measure of specificity to the company. They don't just want that boilerplate. Yeah, audit committees are overseeing all risks, but if it's a fossil fuel company, or if it's a commercial bank, or if it's a technology company, are they focused on the aspects that actually matter in this industry? I think that investors are getting a lot more astute about that tailoring."

+ **How did the AC address these risks?** Investors recognize that it is impractical to have a detailed account of all AC topics, and they are not expecting proxy disclosures to look like a set of board minutes. However, they believe that even basic information could help them better understand the AC's year-to-year diligence. As one investor participant noted:

"It would be really interesting to get a better understanding of, in a given year, how an audit committee has prioritized their time. My experience is that audit committees would tend to have a focus, something they are going to look at in a given year. And I guess what I would be interested in seeing communicated is what those decisions are. How do they arrive at that conclusion? How do they decide what to prioritize, what to deprioritize?"

OPPORTUNITIES TO POLISH AC-RELATED PROXY DISCLOSURES

Putting together everything we learned during the interviews, we see the following areas as the greatest opportunities for enhanced AC disclosures. Examples that address each of these opportunities are in the Appendix:

+ **Clearly define the allocation of risk oversight for the overall board and the committees.** ACs and investors both recognize that each board has a unique way of allocating risk oversight to the board overall and to the committees. In order for investors to assess whether the qualifications of the AC are appropriate, they first need to understand what risks are overseen by the AC. See Appendix A.1 (Allocation of Risk Oversight) for examples of companies already making this type of disclosure.

+ **Explain why the AC members, individually and as a whole, are appropriate for this specific company.** Investors and AC participants both see the benefit of clearly communicating who is on the AC and the qualifications of each member. Companies can further improve this disclosure by telling a story to highlight how specific qualifications align with company-specific risks overseen by the AC. This is an opportunity for companies to use visualization and matrices to make it easier for investors to see how individual AC members come together to provide a collection of relevant experiences and qualifications. See Appendix A.2 (AC Qualifications) for examples of companies already making this type of disclosure.

+ **Highlight continuing education.** Given that many ACs believe that a key aspect of managing evolving responsibilities is constantly learning new things, companies can showcase what AC directors are doing to stay up to date with current issues and evolving risk areas. See Appendix A.3 (AC Continuing Education) for examples of companies already making this type of disclosure.

+ **Describe how the AC addresses key risks.** Very few ACs currently provide detailed disclosure of the key risks addressed by the AC, but this was one of the most frequently discussed issues with investors. This type of disclosure provides an opportunity to highlight ACs' tactics for managing evolving responsibilities: prioritizing risks, mapping out key topics across meetings, interacting with key executives, and scheduling additional meetings as necessary. Many AC participants criticized quantitative measures, such as number of meetings, because those measures do not adequately convey the nature of those meetings or what was discussed. By shifting the discussion to be about risk and how ACs address those risks, readers will have the necessary context to interpret something quantitative such as the number of meetings. See Appendix A.4 (Addressing Key

Risks) for examples of companies already making this type of disclosure.

+ **Discuss more than just external audit oversight.** Our conversations with AC participants reveal that their jobs are much greater in scope than purely external auditor oversight. Despite these trends, regulations focus on external auditor oversight, and most publications describing AC disclosure practices focus on external auditor oversight disclosures. It should not be surprising that the primary way that governance rating agencies currently evaluate ACs is through the performance of the external auditor, and that external auditor oversight is the most common issue referenced in proxy and institutional investor voting policies. ACs have an opportunity to expand this discussion by enhancing their disclosures to discuss the range of issues overseen by the AC. This encompasses each of the areas described previously: clearly discussing the full scope of responsibilities overseen by the AC, describing the range of AC director qualifications (including nonaccounting experience), continuing education on a variety of topics, and a summary of risks beyond auditor oversight.

  Note: The importance of clearly communicating how ACs oversee the external auditor cannot be overstated since this is one of the primary responsibilities of the AC. For more discussion about opportunities to enhance disclosures specific to external auditor oversight, we recommend the annual Audit Committee Transparency Barometer.

Participant Demographics

AC PARTICIPANTS (N = 30)

- 25 discussed perspectives as an AC chair;
  5 discussed perspectives as an AC member
- 50% female
- Average of 65 years of age (range of mid-40s to upper 70s)
- Average of 7.4 years of tenure at focal company (range of 1 year to >15 years)
- Average of 10 years of experience as an AC member of a public company (range of 2 years to >20 years)
- Average of 2.8 unique public companies where participant has served on AC (range of 1 to 7)
- 5 still in practice; 25 retired from practice and working on boards full-time
- Career experience (each participant can have more than one experience):
  - External audit partner (18)
  - Public accounting firm leadership (6)
  - CEO (9)
  - CFO (6)
  - Private investment and investment services (3)
  - Regulator (1)

FOCAL COMPANIES DISCUSSED IN INTERVIEW (N = 29)[4]

- Geographically dispersed companies in the U.S.
- 6 financial services, 5 consumer cyclical, 8 industrial, 10 other (including energy, health care, real estate, and technology)
- Average of 4.6 for the ISS Governance QualityScore (range of 1 to 9)
- Market caps ranging from <$150M to >$100B
    - 6 small cap (<$2 billion)
    - 10 midcap ($2–10 billion)
    - 12 large cap (>$10 billion)
    - 1 no longer listed
- 9 listed on Nasdaq; 19 listed on NYSE
- Average of 30,000 employees (range of <500 to >100,000)
- Average of 4.3 members on the AC (range of 3 to >7)
- Average of 3.2 financial experts on the AC (range of 1 to >4)
- Average of 8.2 AC meetings during the year (range of 4 to >12)
- 87% use a Big 4 audit firm; all Big 4 firms represented in the sample

OTHER VIEWPOINTS (N = 19)

- 5 preparers of proxy disclosures (general counsel, corporate secretary, or CFO)
- 5 professionals from 3 institutional investment firms (each with more than $100 billion in net assets as of March 2022; 1 asset manager and 2 pension funds)
- 2 proxy advisors
- 2 analysts (representing sell-side and buy-side experience)
- 1 corporate governance research firm
- 4 professionals from shareholder advocacy groups

4 Two AC participants requested not to discuss one specific company and instead discussed their experiences collectively. For those participants, we use the demographics of the public company we initially identified for recruiting that director to the study. Further, the number of focal companies is 29 because two AC participants served the same focal company.

Appendix

Examples of Enhanced Disclosures

This appendix contains examples of enhanced AC disclosures that companies currently provide. The disclosures selected for inclusion are those identified by the research team and are not intended as an indication of the companies represented by the ACs who participated in our interviews. These examples tie back to areas discussed in the “Opportunities to Polish AC-Related Proxy Disclosures” section (i.e., allocation of risk oversight, AC qualifications, AC continuing education, and addressing key risks).

A.1 ALLOCATION OF RISK OVERSIGHT

ACs and investors both recognize that each board has a unique way of allocating risk oversight to the full board and to the committees. For investors to assess whether the qualifications of the AC are appropriate, they first need to understand what risks the AC oversees. Our interviews with AC members suggest that companies are sometimes slow to update proxy disclosures as their oversight activities evolve. Investors emphasize the importance of having this information in the proxy statement because they prefer to see it all in one place as opposed to comparing the proxy statement with the AC charter (which may not be updated annually).

Here are four examples of companies with leading practices in this area:

Example 1.1: Jacobs Solutions Inc. (formerly Jacobs Engineering Group Inc.)
Industry Sector: Industrials—Engineering & Construction
Index: S&P 500

AC oversight disclosures related to ESG disclosure and cybersecurity oversight are not common, yet ACs increasingly report in surveys that they are taking on these responsibilities. In this example, Jacobs Engineering Group Inc. is specific about what aspects of ESG the AC is overseeing.

Audit Committee

Members:* (1) - Barbara L. Loughran (Chair) - Manny Fernandez - Linda Fayne Levinson - Robert A. McNamara - Christopher M.T. Thompson† * Each member is independent and financially literate and qualifies as an audit committee financial expert † New member appointed to Committee in fiscal 2021	*Primary responsibilities include monitoring and overseeing the:* • Integrity of the Company's financial statements • Independent auditor's qualifications and independence • Performance of the Company's internal audit function and independent auditors • Compliance by the Company with legal and regulatory requirements • Oversight of controls and processes over material ESG data reporting and other ESG related matters delegated from the ESG & Risk Committee	**Meetings in Fiscal 2021**: 7 **Committee Member Attendance**: 100%

Source: https://www.sec.gov/Archives/edgar/data/52988/000119312521354013/d219676ddef14a.htm

Example 1.2: Exelon Corporation
Industry Sector: Utilities—Regulated Electric
Index: S&P 500

Similarly, Exelon Corporation provides additional context by presenting committee responsibilities side by side with a list of executives and business leaders who regularly send reports to each committee.

Board Oversight of Risk

The Company operates in a complex market and regulatory environment. The Board has broad responsibility to provide oversight of significant risks primarily through direct engagement with management and through delegation of ongoing risk oversight responsibilities to the Committees. Any risk oversight area not allocated to a Committee remains with the Board. Each Committee reports regularly to the Board on discussions of enterprise risks for which it is responsible. Furthermore, the Board regularly discusses enterprise risks in connection with the evaluation of capital investments, other business opportunities and strategies as well as emerging trends or developments. Reports provided by senior leadership, as well as third-party experts, support oversight of the key risks delegated to each Committee and the full Board.

COMMITTEES			FULL BOARD
AUDIT AND RISK	COMPENSATION	CORPORATE GOVERNANCE	
✓ Review internal audit risk assessment and oversee risks associated with financial reporting ✓ Oversee tax strategy and assessment of tax risks ✓ Review conflicts of interest, ethics, and compliance issues ✓ Oversight of compliance with policies governing interactions with public officials	✓ Evaluate risks related to compensation policies and practices ✓ Oversee leadership development and succession planning (other than for CEO) ✓ Oversees matters related to corporate culture and human capital	✓ Oversee succession planning for CEO ✓ Review risks related to governance and shareholder activism ✓ Sustainability and climate change strategies and efforts to protect and improve the environment ✓ Oversight of political contributions	✓ Oversight of enterprise risk and risk management strategies, policies, procedures, and mitigation efforts ✓ Cybersecurity ✓ Utility operations, strategy, and safety ✓ DEI initiatives and diverse business spending ✓ Capital allocation related to environmental and climate risks
REPORTS FROM	REPORTS FROM	REPORTS FROM	REPORTS FROM
• CFO • Controller • Audit Services • Independent Auditor • Tax • General Counsel • Compliance & Audit	• Chief HR Officer • CFO • Executive Compensation • Corporate Governance • Independent Compensation Consultant	• Corporate Governance • Chief Sustainability Officer • Environmental Strategy • Chief HR Officer • Independent Compensation Consultant	• CFO • Compliance & Audit • General Counsel • Chief Information Officer • Chief Security Officer • Government Affairs • Utility CEOs

Source:https://www.sec.gov/Archives/edgar/data/1109357/000120677422000727/esc3973661-def14a.htm

Example 1.3: Becton, Dickinson and Company
Industry Sector: Healthcare—Medical Instruments & Supplies
Index: S&P 500

Becton provides further detail of ESG oversight, including how each committee is responsible for oversight of certain ESG goals and other matters. We expect this additional detail to become more important as boards determine their oversight of ESG matters.

ESG oversight

At the Board level, the Governance Committee has oversight responsibility for the processes, policies and practices relating to ESG matters. The oversight of BD's 2030+ ESG Goals and other important ESG matters is allocated among the Board and the Committees. The Governance Committee oversees the 2030+ ESG Goals of Climate Change, Product Impact and Transparency; the Compensation Committee oversees the 2030+ ESG Goal of Healthy Workforce and Communities; and the Audit Committee oversees the 2030+ ESG Goal of Responsible Supply Chain. The full Board continues to receive regular reports on Climate Change, Healthy Workforce and Communities, Product Quality and Safety, Cybersecurity and Privacy and Board Composition. The independent directors also continue to oversee CEO compensation. In 2021, the Board conducted a deep-dive on ID&E and plans to conduct such review annually.

At the management level, BD has an Enterprise Risk and ESG Committee ("ERC") that provides oversight of BD's ERM program and its progress towards the 2030+ ESG Goals and other priority ESG matters. The ERC consists of a cross-functional group of management, and works with various internal operating committees that are executing on BD's ESG strategy in order to monitor and ensure accountability for progress on the 2030+ ESG Goals. The ERC is also responsible for reporting to the Board and the Committees and overseeing external and internal reporting on ESG matters.

The table below lays out Board and Committee oversight of BD's 2030+ ESG Goals and other important ESG matters. BD's 2030+ ESG Goals have been highlighted in **bold**.

Board's Role of Oversight of ESG

Corporate Governance and Nominating Committee	Compensation and Human Capital Committee	Audit Committee	Quality and Regulatory Committee	Full Board

• ESG Goals and Sustainability Review
• **Climate Change**
• **Product Impact (Plastics/Packaging)**
• **Transparency**
• Board Composition
• Lobbying/Political Contributions
• Social Investing
	• **Healthy Workforce and Communities**
	  • Human Capital, including ID&E
	• Executive Compensation
		• **Responsible Supply Chain**
		• Cybersecurity & Privacy
		• Business Ethics & Compliance
			• Product Quality and Safety	• **Climate Change**
				• **Healthy Workforce and Communities**
				  • ID&E
				  • Human Capital
				• Product Quality and Safety
				• Cybersecurity and Privacy
				• Board Composition
				• Executive Compensation

BD Enterprise Risk and ESG Committee

BD Operating Committees

Source: https://www.sec.gov/Archives/edgar/data/10795/000001079521000097/a2022proxystatement.htm

Example 1.4: Target Corporation
Industry Sector: Consumer Defensive—Discount Stores
Index: S&P 500

The AC for Target is significantly involved in oversight of information security, cybersecurity, and data privacy. Within its proxy statement, the company details this oversight responsibility along with additional programs and practices conducted throughout the year.

Information security, cybersecurity, and data privacy

Securing the information we receive and store about our guests, Team Members, vendors, and other third parties is important to us. We have systems in place to safely receive and store that information and to detect, contain, and respond to data security incidents. While everyone at Target plays a part in information security, cybersecurity, and data privacy, oversight responsibility is shared by the Board, its Committees, and management:

Responsible party	Oversight area for information security, cybersecurity, and data privacy
Board	Oversight of these topics within Target's overall risks
Audit & Risk Committee	Primary oversight responsibility for information security, cybersecurity, and data privacy, including internal controls designed to mitigate risks related to these topics
Management	Our Chief Information Officer, our Chief Information Security Officer, and senior members of our cybersecurity and compliance and ethics teams are responsible for identifying and managing risks related to these topics, and reporting to the Audit & Risk Committee and/or the full Board

Our program and practices for these areas include the following:

- **Frequent Board and Committee updates.** Management provides regular updates to the Board and/or Audit & Risk Committee on these topics throughout the year and, at least annually, the Chief Information Security Officer provides an information security program review to the Audit & Risk Committee to inform the Committee in its oversight of these topics.
- **Systems and processes.** We use a combination of industry-leading tools and in-house technologies to protect Target and our guests, operate a proactive threat intelligence program to identify and assess risk, and run a Cyber Fusion Center to investigate and respond to threats.
- **Understanding evolving threats in the industry and with our suppliers.** Our Cyber Threat Intelligence team works to understand evolving threats and industry trends, and our Vendor Security team monitors and assesses risks with our suppliers.
- **Investment, training, and development of our cybersecurity team.** We invest in building and developing cybersecurity talent and engineering expertise in-house rather than relying solely on third-party providers. We also offer in-house training and educational courses through our Cyber Plus Institute, which is a security training curriculum leveraging internal subject matter expertise along with curated resources.
- **Collaboration with organizations across all industries.** We share information and collaborate with organizations across different industries to fight cybercrime and advance capabilities in these areas.
- **Regular training and compliance activities for our Team Members.** Our Team Members receive annual training to understand the behaviors and technical requirements necessary to protect company and guest information. We also offer ongoing practice and education for Team Members to recognize and report suspicious activity.
- **Use of third parties.** Beyond our in-house capabilities we engage with leading security and technology vendors to assess our program and test our technical capabilities.
- **Insurance coverage.** We maintain insurance coverage to limit our exposure to certain events, including network security matters.

Source: https://www.sec.gov/Archives/edgar/data/27419/000130817922000265/ltgt2022_def14a.htm

A.2 AC QUALIFICATIONS

Investors and AC participants both see the benefit of clearly communicating who is on the AC and their relevant qualifications. Companies can further improve their disclosures by telling a story to highlight how specific qualifications align with company-specific risks overseen by the AC. This is an opportunity for companies to use visualization and matrices to make it easier for investors to see how individual AC members come together to provide a collection of relevant experiences and qualifications.

Many companies in the United States now include board-level skills matrices, and we include examples from Honeywell and Cognizant in examples 2.2 and 2.3. However, in interviews, investors suggested that they would like to see additional context for why specific board members are appropriate for the specific risks overseen by the AC. We do not have a specific example of a leading practice in the United States, but we believe companies could take inspiration from the style of this letter written by Euromoney's AC chair in 2021.

Example 2.1: Euromoney Institutional Investor PLC
Industry Sector: Financial Services—Financial Data & Stock Exchanges
Index: FTSE 250

In this letter, the AC chair points to the director biographical information that is presented similarly to U.S. proxy disclosures, but then goes on to contextualize that experience for AC-specific service.

Committee membership

The Committee consists of three independent Non-Executive Directors. The experience of each member of the Committee is summarised on pages 65 and 66. I can confirm that I bring recent and relevant financial experience to the Committee as a Fellow of the Association of Chartered Certified Accountants, having previously held a number of FTSE 100 and 250 listed company roles as either Group CFO or CEO and I am Chair of the Audit Committee for two other organisations.

During the year there were several changes to the Committee membership. The Committee would like to thank Lorna Tilbian for her service. As of March 2021, the Board welcomed India Gary-Martin to the Committee, having been appointed as an independent Non-Executive Director of the Company in March 2021.

The Board considers each member of the Committee to be independent within the definition of the 2018 Code. They bring a broad and diverse range of commercial experience, such that the Board is provided with assurance that the Committee has the appropriate skills and experience to be fully effective and meet the 2018 Code requirements.

A separate session is scheduled at each meeting for the Committee to meet with the Head of Internal Audit and the external auditors without the Executive Directors present. Outside of Audit & Risk Committee meetings I attend both the Tax & Treasury and Risk Committees, for which a standing invite is also extended to the other Committee members, and I also hold routine meetings with both internal and external audit. This enables me to deepen my understanding of the key issues and ensures that sufficient time is devoted to them at each meeting.

I would like to thank the members of the Committee, the management team and the external and internal audit teams for their commitment and contributions to the work of the Committee over the past year.

Colin Day
Chair of the Audit & Risk Committee
17 November 2021

Source: https://www.euromoneyplc.com/sites/euromoney/files/reports-presentation/2021/annual-report-and-accounts-2021-final-web.pdf

Example 2.2: Honeywell International Inc.
Industry Sector: Industrials—Conglomerates
Index: S&P 500

This board skill set matrix illustrates how disclosures can convey the type and extent of expertise of the directors (i.e., the graphics show whether the directors have technical expertise, managerial expertise, or working knowledge for each of the skills or competencies).

BOARD SKILL SET MATRIX

The Honeywell Board adopted a skills and experience matrix to facilitate the comparison of its directors' skills versus those deemed necessary to oversee the Company's current strategy. The skills included in the matrix are evaluated against the Company's articulated strategy each year so that the matrix can serve as an up-to-date tool for identifying director nominees who collectively have the complementary experience, qualifications, skills, and attributes to guide the Company. Honeywell's 2022 Board Skill Set Matrix reflecting the characteristics of its director nominees is below.

		Darius Adamczyk (Chair & CEO)	D. Scott Davis (Lead Director)	Duncan B. Angove	William S. Ayer	Kevin Burke	Deborah Flint	Rose Lee	Grace D. Lieblein	George Paz	Robin L. Washington
STRATEGIC SKILLS	Global Experience	Managerial	Managerial	Managerial			Technical	Managerial	Technical	Managerial	Technical
	Regulated Industries/ Government Experience	Managerial	Managerial	Working Knowledge	Technical	Technical	Technical	Managerial	Working Knowledge	Technical	Managerial
	Innovation and Technology	Technical	Managerial	Technical	Managerial	Managerial	Managerial	Technical	Managerial	Technical	Managerial
	Marketing	Managerial	Managerial	Technical	Technical	Managerial	Managerial	Managerial	Managerial	Managerial	
	Industries, End-Markets & Growth Areas	Technical	Technical	Technical	Technical	Technical	Technical	Managerial	Working Knowledge	Technical	Working Knowledge
	ESG	Managerial	Technical	Working Knowledge	Working Knowledge	Managerial	Working Knowledge	Technical	Managerial	Working Knowledge	Technical
CORE COMPETENCIES	Senior Leadership Experience (most senior position held)	Chair and CEO	Chair and CEO	Presi-dent	Chair and CEO	Chair and CEO	CEO	CEO	VP	Chair and CEO	CFO
	No. of Public Company Boards (Current* I Past)	2 I 1	2 I 2	1 I 0	1 I 2	1 I 1	1 I 0	2 I 1	3 I 0	2 I 1	4 I 2
	Risk Management	Managerial	Managerial	Working Knowledge	Managerial	Technical	Managerial	Managerial	Working Knowledge	Technical	Technical
	Financial Expertise	Managerial	Technical	Managerial	Managerial	Managerial	Managerial	Managerial	Working Knowledge	Technical	Technical
DIVERSITY	Gender	Male	Male	Male	Male	Male	Female	Female	Female	Male	Female
	Race/Ethnicity	White	White	White	White	White	Black	Asian	Hispanic	Hispanic	Black

Technical Expertise (direct hands-on experience or subject-matter expert during his/her career)

Managerial Expertise (expertise derived through direct managerial experience)

Working Knowledge (experience derived through investment banking, private equity investing, serving as a member of a relevant board committee at Honeywell or at another public company, or serving as an executive officer or on the board of a public company in the relevant industry)

Source: https://www.sec.gov/Archives/edgar/data/773840/000077384022000024/a2022honeywellproxy.htm

Example 2.3: Cognizant Technology Solutions Corporation

Industry Sector: Technology—Information Technology Services
Index: S&P 500

As an additional example, Cognizant defines the following key qualifications and then creates detailed historical bios for each director. This disclosure provides investors with information about when and where the directors obtained their expertise. We include the disclosure for the AC Chair and another AC member as examples.

Key qualifications: Technology and consulting services · Talent management · Security · Regulated industries · Operations management · International business development · Public company leadership · Public company governance · Finance, accounting and risk management

Sandra S. Wijnberg
Former CFO of Marsh & McLennan Companies

Director Since 2019 · Age 65 · Independent
Committees: A + F (CHAIR)
Birthplace: USA

Key qualifications

Executive experience

2019–2007: **Aquiline Holdings, LLC**, a registered investment advisory firm (2007 – 2019)
- Executive Advisor (2015 – 2019)
- Partner, Chief Administrative Officer (2007 – 2014)

Private equity insights and expertise in the investment management sector and with registered investment company regulations from having served in executive and advisory capacities for an investment advisory firm.

2006–2000: **Marsh & McLennan Companies, Inc.** (MMC), a global professional services company (2000 – 2006)
- Senior Vice President and Chief Financial Officer

Extensive technology and consulting services, talent management, regulated industries, international business development and finance, accounting and risk management experience from her position as CFO of Marsh & McLennan, a then $11 billion annual revenue enterprise with 55,000 employees around the world providing risk and insurance services, risk consulting and technology and other consulting and investment management services.

1999–1997: **Yum! Brands, Inc.**, a global operator and franchisor of quick service restaurants (1997 – 1999)
- Senior Vice President, Treasurer and ultimately interim Chief Financial Officer

International business development and finance, accounting and risk management experience from her senior finance roles, including as interim CFO, at a large, global enterprise.

1997–1994: **PepsiCo, Inc.** (PEP) (1994 – 1997)
- Chief Financial Officer, KFC Corporation (1996 – 1997)
- Vice President and Assistant Treasurer (1994 – 1996)

International business development and finance, accounting and risk management experience from senior finance roles, including as CFO of a significant subsidiary, at a leading Fortune 50, Nasdaq-listed global company.

Current public company boards

Present–2021: **T. Rowe Price Group, Inc.** (TROW), a global asset management firm (since 2016)
Hippo Holdings, Inc. (HIPO), a homeowners' insurance company (since 2021)
2016: **Automatic Data Processing, Inc.** (ADP), a provider of human resources management software and services (since 2016)

Select past director and other positions

Office of the Quartet, U.S. Department of State Deputy Head of Mission, Jerusalem recruited to advance the Quartet's Palestinian economic development mandate (2014 – 2016)
Tyco International plc (now Johnson Controls International plc) (2003 – 2016) – director

Education

University of California, Los Angeles – B.A.
University of Southern California, Marshall School of Business – M.B.A.

Archana Deskus
Chief Information Officer of PayPal

Director Since 2020 · Age 56 · Independent
Committees: A C
Birthplace: India

Key qualifications

Executive experience

Present–2022: **PayPal Holdings, Inc.** (PYPL), a digital payments company (since March 2022)
- Executive Vice President, Chief Information Officer

2022–2020: **Intel Corporation** (INTC), a technology company (January 2020 – March 2022)
- Senior Vice President, Chief Information Officer

2020–2017: **Hewlett-Packard Enterprise Company** (HPE), an information technology company (2017 – 2020)
- Senior Vice President, Chief Information Officer

2017–2013: **Baker Hughes Incorporated**, an oilfield services company acquired by General Electric in 2017 (2013 – 2017)
- Vice President, Chief Information Officer

2012: **Ingersoll Rand Inc.** (IR), an industrial manufacturing company (2011 – 2012)
- Vice President, Chief Information Officer

2011: **Timex Group USA, Inc.**, a watch manufacturing company (2006 – 2011)
- Vice President, Chief Information Officer

2006–2003: **Carrier Corporation** (CARR), a heating, air-conditioning and refrigeration solutions company (2003 – 2006)
- Vice President, Chief Information Officer

Extensive experience as a senior leader, setting and leading technology and information security strategy for a number of large, global technology companies across a diverse set of industries.

Current public company boards

Present–2019: **East West Bancorp, Inc.** (EWBC), the holding company for East West Bank, the largest independent bank in Southern California; also on the board of subsidiary East West Bank (since 2019)

Select past positions

Data Science Institute of the University of Houston – advisory board member (2018 – 2020)
IBM Global Technology Services – customer advisory board member (2016 – 2017)
Junior Achievement of Southeast Texas – board member (2014 - 2017)

Education

Boston University – B.S.
Rensselaer Polytechnic Institute – M.B.A.

Source: https://www.sec.gov/Archives/edgar/data/1058290/000120677422001214/ctsh3985061-def14a.htm

A.3 AC CONTINUING EDUCATION

Given that many ACs believe that a key aspect of managing evolving responsibilities is constantly learning new things, companies can showcase what AC directors are doing to stay up to date with current issues and evolving risk areas. We include a couple of examples of companies with leading practices in this area.

Example 3.1: JPMorgan Chase & Co
Industry Sector: Financial Services—Banks–Diversified
Index: S&P 500

While many companies have abbreviated statements describing director education in general, JPMorgan provides additional context for their deep-dive presentations along with specific topics. This disclosure is for the full board. Companies could consider also disclosing AC-relevant continuing education in their report of AC activities. Companies could consider also disclosing AC-relevant continuing education in their report of AC activities.

Director education

Our director education program assists Board members in fulfilling their responsibilities. The director education program commences with an orientation program when a new director joins the Board. Ongoing education is provided through “deep dive” presentations from LOBs, discussions and presentations by subject matter experts and other opportunities, including events that provide client, employee and other perspectives that can have a significant impact on the Firm. In 2021, directors were provided with education on subjects including the following:

- the Firm’s products, services and lines of business;
- cybersecurity and technology, including an update on the Firm's cybersecurity modernization strategy and cyber threats landscape;
- diversity, equity and inclusion ("DEI");
- ESG matters, including the Firm's climate risk management framework;
- significant and emerging risks; and
- key laws, regulations and supervisory requirements applicable to the Firm.

Source: https://www.sec.gov/Archives/edgar/data/19617/000001961722000303/a2022proxystatement.htm

Example 3.2: Teck Resources Limited
Industry Sector: Basic Material—Other Industrials Metals & Mining
Index: S&P/TSX 60 Index

Teck goes a step further than many companies do by explicitly listing 2021 continuing education with specific details of topics, presenters, and director attendees. This disclosure allows investors to assess the quality and relevance of the topics in relation to the company's risks.

Teck's ongoing director education programs entail, as a matter of routine each year, site visits, presentations from outside experts and consultants, briefings from staff and management, and reports on issues relating to Teck's projects and operations, sustainability and social matters, competitive factors, mineral and oil reserves and resources, the economy, accounting and financial disclosure issues, mineral and hydrocarbon education and other initiatives intended to keep the Board abreast of new developments and challenges that Teck may face. Analysts' reports relating to the industry are distributed to directors regularly, and selected press clippings covering the industry, actions by competitors, and commodity issues are distributed daily. Directors participate at the Board's annual strategy meeting in assessments of Teck's possible growth paths and other strategic matters and are encouraged to attend, at Teck's expense, industry conferences and director education seminars and courses.

Directors' continuing education during 2021 included the following:

Topic	Presented by	Attendees
Indigenous Peoples and Implementation of UNDRIP	Management/External Counsel	All directors
Climate Change, External Context, and Adapting to the Physical Impacts of Climate Change	Management/Eurasia Group/Intact Centre on Climate Adaptation University of Waterloo	All directors
Investor Relations and Capital Markets Trends	Management	All directors
Steelmaking Coal Resilience	Management/McKinsey	All directors
Copper Industry Outlook	Management	All directors
Energy Industry Outlook	Management	All directors
Geopolitical Outlook	Management	All directors
Railway Regulatory Processes	Management/External Counsel	Ashar, Dowling, Fukuda, Higo, Keevil, Lindsay, McVicar, Murray, Pickering, Snider
Economic Developments in China	Management	All directors
Economic Recovery, Scarcity and De-Carbonization	Goldman Sachs	All directors
J.P. Morgan Board Summit	J.P. Morgan	Ashar, Dowling, Keevil, McVicar, Power
ESG Certificate & Designation Program	Competent Boards	Murray
Leadership; Emerging Securities Law Issues; Cybersecurity	Blake, Cassels & Graydon	Murray
Remuneration & Governance Reporting	LSE/Alvarez & Marsal/Prism Cosec	Dowling
Climate Change Risk in Mining Symposium	World Economic Forum	Dowling (presenter)
ESG	Digby Wells	Dowling
Mining Audit Committee Roundtable	KPMG	McVicar
BC Mine 2020: A new agenda for transformation and sustainable growth	PWC	McVicar
CIBC Sustainability Conference: On the road to COP26	CIBC	McVicar
A Dialogue with Indigenous Leaders	ICD	McVicar
Industry Safety Forum	Pike Associates	Ashar
Oil Industry Forums	CGEP	Ashar

Source: https://www.sec.gov/Archives/edgar/data/0000886986/000095014222001151/eh220236982_ex9901.htm

A.4 ADDRESSING KEY RISKS

Investors want to see what the AC viewed as the key risks in the past year and what the AC did to ensure that management appropriately addressed those risks. This type of disclosure aligns with AC participants' tactics for managing their evolving responsibilities: prioritizing risks, mapping out key topics across meetings, interacting with management, and scheduling additional meetings as necessary. Including a discussion about how ACs address key risks gives readers a better sense for how robust AC oversight is in a given year. The following are three examples of companies with leading practices in this area.

Example 4.1: Korn Ferry
Industry Sector: Industrials—Staffing & Employment Services
Index: S&P SmallCap

Korn Ferry's proxy statement offers an annual Q&A with each committee chair. In this example from 2021, the AC chair discussed how the AC responded to COVID-19 risks. In recent years, the AC chair covered topics including auditor retention (2022), ISO security and privacy certifications (2019), impacts of the European Union data protection regulations and oversight of cybersecurity (2018), adoption of the revenue recognition standard (2017), and acquisition integration (2016).

Governance Insights:

Managing COVID-19 Risks

Q & A with Debra Perry, Chair of the Audit Committee

Question: How did Korn Ferry respond to operating during the pandemic, including providing for continuity of operations and the safety of its employees?

Korn Ferry employs over 7,800 people across more than 50 offices and 100 countries. The operational and human impacts of the COVID-19 pandemic presented an immense challenge for the Company and a serious test of its business continuity planning. With the benefit of our prior preparation and business continuity planning, however, Korn Ferry was able to respond swiftly and carry through on its commitment to protect the health and safety of our employees and their families under the guiding principles of Safety, Caution, and Agility.

Global operations shifted almost entirely to remote work as we entered the first quarter of fiscal 2021. Korn Ferry's existing mobile and collaborative technology capabilities facilitated this transition and the virtual delivery of services to clients. The Company also imposed a range of safety measures, mobilized local, regional, and global teams to address the pandemic's impact, and formed a COVID-19 Task Force of cross-functional and operational executives. Additionally, colleagues have led numerous client conversations, including having meaningful discussions around navigating COVID-19 impacts and sharing insights into how some clients approached the path to recovery through their organizations, people, and leadership.

The Board and Audit Committee have actively participated in overseeing the Company's COVID-19 response, including by monitoring the impact of COVID-19 on the Company's financial position and results of operations, understanding how management is assessing the impact, and considering the nature and adequacy of management's responses, including health safeguards, business continuity, internal communications, and infrastructure. Now, more than a year into the pandemic, Korn Ferry continues to evolve its operations and business continuity planning, remaining focused on Safety, Caution, and Agility.

Question: The COVID-19 pandemic has necessitated a virtual format for many aspects of the Company's business that historically have been performed on-site. How did this impact the services performed by the Company's external auditor and the Audit Committee's oversight of the annual audit plan?

Due to the COVID-19 pandemic and related stay-at-home orders, the Company's fiscal year end 2021 audit was performed virtually. As part of its oversight responsibilities for the Company's financial statements and audit plans, prior to the preparation of the audit, the Audit Committee met frequently with Ernst & Young LLP and Korn Ferry management to review and discuss the overall plans for the audit and the adjustments that would be undertaken in light of the virtual preparation of the audit. During the audit process, the Audit Committee continued to communicate regularly with Ernst & Young LLP on matters relating to the remote delivery of the audit and status of the audit process. These discussions included updates on certain adjustments to Ernst & Young LLP's procedures and timing of work to address the increased risks that were inherent in performing its audit procedures remotely and the process of adapting its audit approach to a more digital-based process, as well as a review of digital tools/platforms utilized in the audit to help advance this virtual work.

Source: https://www.sec.gov/Archives/edgar/data/56679/000130817921000306/lkfy_2021def14a.htm

Example 4.2: Discover Financial Services
Industry Sector: Financial Services—Credit Services
Index: S&P 500

Discover's proxy statement offers additional insights into whom the AC meets with during the year and the key topics of discussion. This disclosure is included in the Audit Committee Report; it can help investors understand the role of the AC and its importance to board oversight decisions.

> While the Board of Directors has oversight with respect to risk management related to the COVID-19 pandemic, its committees are overseeing the management of COVID-19 risks specific to duties delegated to them. The Audit Committee has overseen the management of risks from the COVID-19 pandemic related to the Company's internal controls over financial reporting, the independent audit, and the way in which risks and impacts to the business related to COVID-19 are disclosed in the Company's SEC filings.
>
> Throughout the year, the Audit Committee met with and received reports from the Company's Chief Risk Officer, Chief Audit Executive, General Counsel, Chief Financial Officer, Chief Accounting Officer, Chief Information Security Officer, Anti-Money Laundering Compliance and Sanctions Officer, and Chief Compliance Officer, among others. These meetings, reports, and discussions covered a wide variety of topics, including, cybersecurity, risk management, financial results, new accounting and regulatory guidance, regulatory compliance matters, the Company's Anti-Money Laundering/Bank Secrecy Act programs, and the impact of the COVID-19 pandemic to the Company. The Audit Committee also met with the Company's independent auditors 16 times over the course of the year.

Source: https://www.sec.gov/Archives/edgar/data/1393612/000139361222000011/a2022proxy.htm

Example 4.3: McDonald's Corporation
Industry Sector: Consumer Cyclical—Restaurants
Index: S&P 500

To provide additional context for the timing of oversight activities, McDonald's Corporation breaks down the key oversight areas by quarter of activity for the AC. Although this example does not provide the same level of granularity as Korn Ferry, we encourage companies to draw inspiration from this type of disclosure to show prioritization and mapping of key topics across meetings. This is also an opportunity to integrate the AC's evolving responsibilities (e.g., ERM, cyber) into this type of disclosure.

Audit & Finance Committee

Committee Members:
John Mulligan (Chair)
Lloyd Dean
Catherine Engelbert
Margaret Georgiadis

All members are financially literate and qualify as an "audit committee financial expert" as defined by the SEC

Meetings in 2021: 8

Relevant Areas of Focus:

- Oversee financial reporting, accounting, control and compliance matters
- Appoint, retain, compensate and evaluate our independent auditors
- Review audit scope and results with independent and internal auditors
- Review material financial disclosures, disclosure controls and procedures ("DCPs") and internal controls over financial reporting ("ICFR")
- Pre-approve all audit and permitted non-audit services
- Evaluate management's processes to assess and manage enterprise risk
- Oversee global compliance program, including Sarbanes-Oxley and tax compliance
- Oversee financial risk and financial risk management
- Oversee our financial policies and strategies, including our capital structure, dividend policy and plans for share repurchases
- Oversee any investigations related to specific cybersecurity or technology incidents

Our Audit & Finance Committee establishes its meeting calendar for the following year during the fourth quarter and typically addresses the following key matters throughout the year:

Q1

- Review Form 10-K, DCPs and ICFR
- Discuss annual audit results and review critical audit matters
- Review critical accounting policies
- Review independent auditors' services and fees
- Review internal auditors' year-end report
- Annual review of compliance program
- Approve Committee-related disclosures for our Proxy Statement

Q2

- Review Form 10-Q, DCPs and ICFR
- Update on compliance matters

Q3

- Review Form 10-Q, DCPs and ICFR
- Review independent audit plan and associated fees for annual audit
- Monitor new or proposed regulatory and accounting initiatives
- Review mid-year internal audit plan
- Update on compliance matters
- Review capital structure, dividend policy and plans for share repurchases for the following year

Q4

- Review Form 10-Q, DCPs and ICFR
- Review independent auditors' services, evaluate independent auditors, determine auditor independence and appoint independent auditors for following year
- Review internal audit plan
- Update on compliance matters
- Review charter and Committee evaluation

Source: https://www.sec.gov/Archives/edgar/data/63908/000120677422001058/mcd3962181-defc14a.htm

We welcome your feedback!

Please send your comments or questions to info@thecaq.org

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