

Establishing A Corporate Governance Structure: Standing Committees of the Board

BDO

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Whether an organization already has a board in place or is in the process of designing one, establishing a high-functioning corporate board structure is a foundational element of sound governance and a critical component of the IPO readiness process for companies seeking to list on a public exchange. The following highlights key considerations in forming the board's commonly recognized standing committees[1], which are generally permanent committees established with defined areas of oversight. For public companies, these typically include the Audit (and Risk), Compensation (and Human Capital), and Nominating and Governance committees.[2]

This practice aid summarizes general information drawn from SEC rules, applicable stock exchange listing standards, and other governance-related rules, regulations, and resources. It is intended for informational purposes only and does not constitute legal, regulatory, or governance advice. Companies should consult their specific listing exchange standards, governing documents, legal counsel, and other appropriate resources when evaluating committee requirements, responsibilities, and practices.

COMMITTEE OVERVIEW

	Audit	Compensation	Nomination & Governance
Description	An independent committee of the board of directors to assist in the board's oversight of the integrity of the company's financial statements; compliance with legal and regulatory requirements; appointment, compensation and performance of the independent auditor; performance of the company's independent internal audit function.	An independent committee of the board of directors that assists in the board's oversight of the compensation philosophy and the recommendation for board approval of CEO, executive officers, and board director compensation in alignment with investor expectations and strategic attraction, development, and retention of talent.	An independent committee of the board of directors that assists the board with establishing general governance oversight, the qualifications, identification, nomination of director candidates and the evaluation and refreshment of board members.
Membership	▶ At least 3 directors ▶ All are to be independent ▶ All should be *financially literate* ▶ One director designated as the *"qualified financial expert"*	▶ At least 2 directors ▶ All are to be independent directors	▶ No minimum, but generally at least 2 ▶ All are to be independent directors

[1] Listing exchanges require all companies to maintain an audit committee and expect that companies will also maintain a compensation committee and a nomination and governance committee.

[2] More and more modern-day companies are choosing to expand traditional responsibilities and nomenclature of the standing committees to address oversight of the evolving emerging risk landscape.

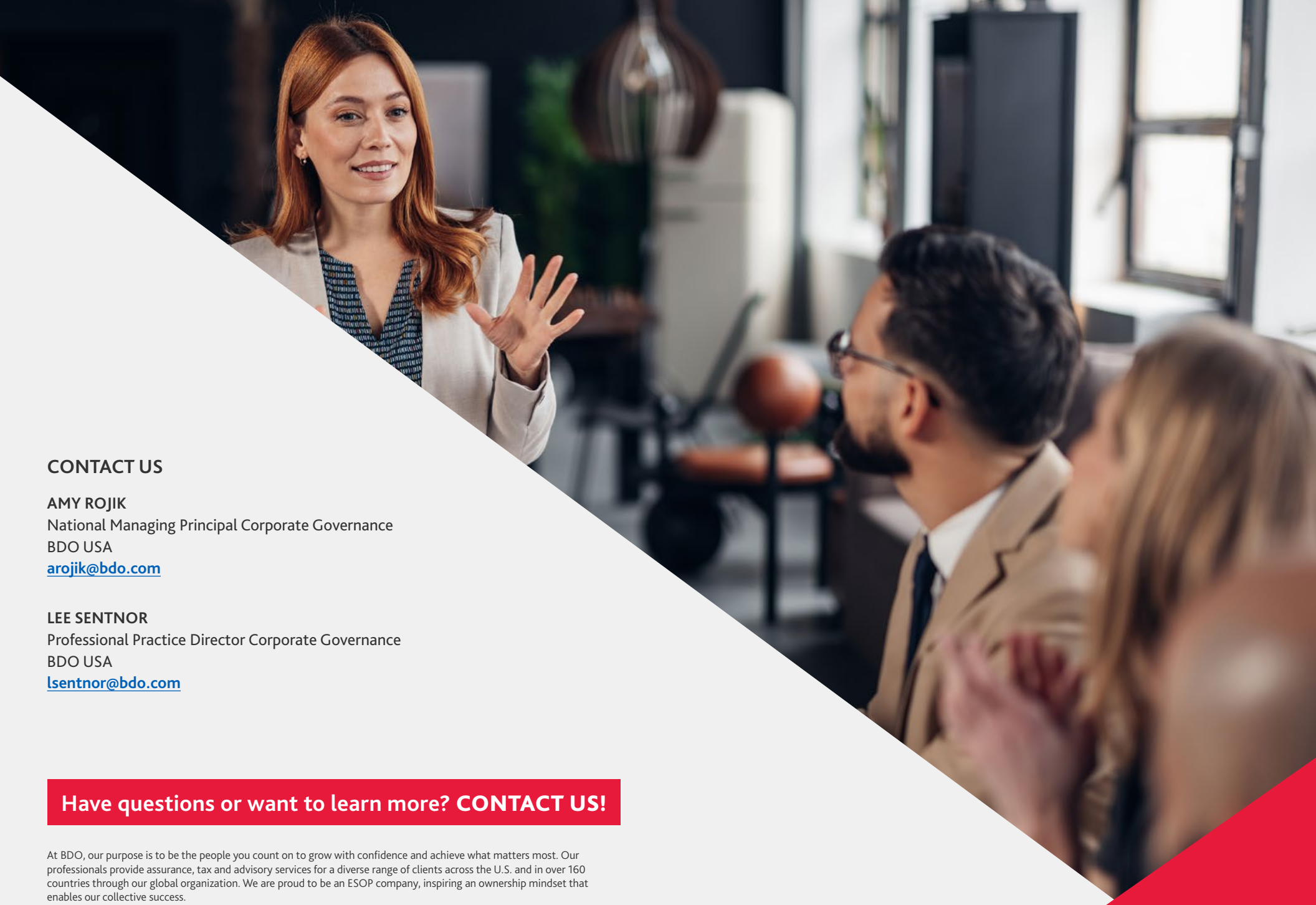
	Audit	Compensation	Nomination & Governance
General Oversight Responsibilities	**Core areas** ▶ Financial reporting and related disclosures including consideration of emerging financial reporting risks ▶ Risk management, controls, compliance with laws, regulations and ethics ▶ Independent auditor appointment, independence, and performance ▶ Internal audit oversight, performance, and reporting to the board ▶ Required disclosures	**Core areas** ▶ Compensation philosophy ▶ CEO, executive, and board director compensation ▶ Performance goals and pay alignment; performance assessment and payouts ▶ Benefit, incentive, and equity plans ▶ Required disclosures	**Core areas** ▶ Board and committee structure and composition ▶ Director candidate identification and nomination ▶ Governance framework, guidelines and practices ▶ Board and committee evaluation processes ▶ Required disclosures
Common/ Evolving Responsibilities[3]	▶ Enterprise Risk Management (ERM) framework and oversight ▶ Cybersecurity, data governance, and technology oversight	▶ Human Capital Oversight • Executive succession planning[4] • Leadership development • Pay equity • Culture • Technology integration and change management • Clawback controls and considerations	▶ CEO succession[4] ▶ Director oversight • Compensation • Evaluations • Succession and refreshment ▶ Sustainability ▶ Continuing board education
Processes	Annual **committee evaluation**, chair-led agenda setting, and regular reporting to the board. Consideration of continuing education.	Annual committee evaluation, chair-led agenda setting, and regular reporting to the board. Consideration of continuing education.	Annual evaluation oversight, chair-led agenda setting, and regular reporting to the board.

[3] In practice, certain common or evolving responsibilities may be allocated to the full-board or another standing or ad hoc/special committee of the board.

[4] CEO succession is ultimately a full-board responsibility, but in practice, the work is often guided by the committee best positioned to oversee the process — typically Nominating and Governance, Compensation, or a special committee of the board.

	Audit	Compensation	Nomination & Governance
Documentation	▶ Maintain a **written charter**, annually reviewed, addressing: • Committee's purpose and responsibilities • Committee member qualifications, appointment and removal • Committee operating and management principles ▶ Minimum number of meetings and any notice/quorum requirements. ▶ Procedures for maintaining minutes and records and reporting to the Board ▶ Authority to retain and compensate advisors (e.g., compensation consultants, independent legal counsel and other advisors) ▶ Prepare and/or review applicable disclosures	▶ Maintain a written charter, annually reviewed, addressing: • Committee's purpose and responsibilities • Committee member qualifications, appointment and removal • Committee operating and management principles ▶ Minimum number of meetings and any notice/quorum requirements. ▶ Procedures for maintaining minutes and records and reporting to the Board ▶ Authority to retain and compensate advisors (e.g., compensation consultants, independent legal counsel and other advisors) ▶ Prepare and/or review applicable disclosures	▶ Maintain a written charter, annually reviewed, addressing: • Committee's purpose and responsibilities • Committee member qualifications, appointment and removal • Committee operating and management principles ▶ Minimum number of meetings and any notice/quorum requirements. ▶ Procedures for maintaining minutes and records and reporting to the Board ▶ Authority to retain and compensate advisors (e.g., search firms to be used to identify director candidates, legal counsel and other advisors) ▶ Prepare and/or review applicable disclosures
Meeting Schedule	▶ Meet at a minimum quarterly, or more frequently, as necessary ▶ Host Executive Sessions - Meet separately and periodically with: • Management • Internal auditors (or other personnel responsible for the internal audit function) • Independent auditors	No required minimum but on average may meet 4+ times per years	No required minimum but on average may meet 3+ times per year

	Audit	Compensation	Nomination & Governance
Certain Authoritative References **(Not an all-inclusive list)**	▶ SEC Regulation S-K Non-Financial Requirements – Item 407 Corporate Governance ▶ SEC Exchange Act 1934 Regulation 14 – Solicitation of Proxies ▶ NYSE Listing Standards Section 303A. 06 Audit Committee ▶ NASDAQ Listing Standards 5605-2(c) Audit Committee Requirements ▶ PCAOB Auditing Standard 1301, *Communications with Audit Committees* ▶ PCAOB Auditing Standard 1305, *Communications About Control Deficiencies in an Audit of Financial Statements*	▶ SEC Regulation S-K Item 407 Corporate Governance ▶ SEC Regulation S-K Item 402 Executive Compensation ▶ SEC Regulation S-K Item 401 Director Nominee Disclosures ▶ SEC Exchange Act 1934 Regulation 14 – Solicitation of Proxies ▶ NYSE Listing Standards Section 303A.05 Compensation Committee ▶ NASDAQ Listing Standards Section 5605(d) Compensation Committee Requirements	▶ SEC Regulation S-K – Item 407 Corporate Governance ▶ SEC Exchange Act 1934 Regulation 14 – Solicitation of Proxies ▶ NYSE Listing Standards Section 303A.04 Nominating/Corporate Governance Committee ▶ NASDAQ Listing Standards Section 5605(e) Independent Director Oversight of Director Nominations
Other Resources	▶ **Audit Committee Requirements Practice Aid**	▶ Coming Soon	▶ Coming Soon



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Have questions or want to learn more? CONTACT US!

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