EXCERPTS OF RECENT MEDIA COVERAGE

CORPORATE GOVERNANCE PRACTICE

A SAMPLING OF MEDIA COVERAGE FROM THE 2014 BDO BOARD SURVEY

WALL STREET JOURNAL

BOARD MEMBERS OF SMALL FIRMS WANT CONGRESS TO ACT ON INVERSIONS: SURVEY

October 21, 2014

A majority of board members of smaller public companies wants the U.S. Congress to act on so-called "tax inversions," and most feel the inversions are only to be expected given the U.S.'s relatively high corporate tax rate, according to a new survey to be released Tuesday.

The annual survey of corporate directors by accounting firm **BDO USA LLP** also shows increasing concerns about cyber security. More than half of directors surveyed say their board is paying more attention to cybersecurity issues now than it was a year ago, according to the survey.

The **BDO survey** polled 75 directors at public companies with revenues from $250 million to $1 billion. It found that even though the Treasury Department has begun to tighten the tax-inversion rules, 56% of those surveyed want Congress to pass legislation to address the issue of inversions, the practice of U.S. companies merging with overseas firms in order to get a lower tax rate in the other company's home country. With the U.S. 35% corporate tax rate, 79% of those surveyed felt that such inversions were "an expected outcome."

Of those who want Congress to act, 85% said any remedy should be part of broad-based reform of both corporate and personal income taxes, according to the **BDO survey**. Directors were split on whether they wanted to see corporate and personal income taxes replaced by a tax on consumption – 40% were in favor, 40% against and 20% were unsure.

On cyber security, 59% of directors surveyed said their board is more involved in cyber-security today than last year, **BDO** said. Also, 55% say their companies have increased investments in cyber security in the past year, with an average growth of 19%, and 71% say they're briefed on cyber security at least once a year. And 25% say they're briefed quarterly.

Boards "are becoming more proactive" on cyber security, said **Karen Schuler, a BDO Consulting managing director**, in the survey report. "It is certainly a positive that a majority of boards are becoming more involved and are increasing resources to combat this problem; however, it is troubling that more than a quarter of the board members report they are not briefed on information security at all."

Of the directors surveyed, 65% feel companies should always notify their customers, vendors and authorities of cyber breaches, regardless of any negative publicity. 72% said their company's management is "completely forthcoming" with them about any breaches....

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BDO USA CORPORATE GOVERNANCE PRACTICE

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

CORPORATE COUNSEL

BOARD MEMBERS SEEKING MORE SAY ON EXECUTIVE PAY

October 24, 2014

Regulators may insist on say-on-pay votes for executive compensation, but more than two out of three corporate directors in a recent survey favored giving the board more discretion in setting C-suite pay packages.

According to the "***2014 BDO Board Survey***," from consulting firm **BDO USA**, 71 percent of directors surveyed believe that boards should be able to use "a reasonable degree of discretion" in determining pay for executives.

But the report states that many directors believe that compensation practices have become uniform in order to please firms that advise institutional shareholders on proxy issues since the U.S. Securities and Exchange Commission started requiring say-on-pay votes in 2011.

"I think directors of public companies have felt like they've been herded to fit into a mold, a good governance template that outsiders think is a politically correct answer," said **Lance Froelich, a BDO senior director on compensation and benefits**.

"And now we are seeing a bit of resentment about that," **Froelich** told CorpCounsel.com Thursday. "They are realizing that they have sort of abdicated their responsibility as directors, and are not exercising good business judgment in some cases."

Froelich noted that most say-on-pay votes are garnering around 90 percent approval from shareholders, and he expects to see directors begin to exercise more discretion. "Some shareholders won't like this," he predicted, "but you can still get 80 percent say-on-pay approval, and that's OK."

He said if he were a general counsel, "I would advise the board's compensation committee that their job first and foremost is to exercise their business judgment in formulating programs in the best interest of their shareholders. And if that involves use of discretion, so be it."

One thing that the SEC rules achieved was to force boards to reevaluate how they operated, **Froelich** noted, and to adopt more structure in holding executives accountable for meeting goals. "And that's a good thing," he added.

The report says that beginning in 2016, companies will be required to disclose the ratio of median employee pay to CEO compensation. Because this new rule will apply to 2015 compensation, one-third of directors reported that their boards have already taken steps to comply.

Another new rule, this one from the Public Company Accounting Oversight Board, is scheduled to take effect in 2015. It would in part require auditors to more closely scrutinize executive pay and to identify inherent risks, such as incentives that might reward management for decisions that could be detrimental to shareholder interests. Of those directors in the survey familiar with the new rule, just one-third believed it would impact their governance of compensation programs.

The ***2014 BDO Board Survey*** was conducted by an independent research company in September for **BDO's corporate governance practice**. It examined 75 corporate directors of public companies, with revenues ranging from $250 million to $1 billion.

Among other findings in the report:

- Almost four-fifths (79 percent) believe the increased use of corporate tax inversions is an expected outcome of the high U.S. corporate tax rate; and 56 percent are in favor of Congress addressing the issue through legislation.
- Some 59 percent reported that their board is more involved in cyber-security today than it was 12 months ago, and a majority of directors say they have increased company investment in cyber-security during the past year. The average budget increase was 19 percent.
- Asked what topics they would like to spend more or less time on, a majority cited succession planning as one worth more time. Risk management, industry competitors and management evaluation were the next most desired topics....

INVESTOR'S BUSINESS DAILY

BOARDS BLAME U.S. TAX SYSTEM

October 21, 2014

Some 79% of public-company board members believe the rise of corporate tax inversions is to be expected, given the high American corporate tax rate, according to a **BDO USA** survey. Nearly two-thirds say that Congress should address the issue via legislation. The U.S. corporate tax system — about 39% federal and state — is the rich world's highest and one of the only systems to tax foreign earnings.

AICPA CPA LETTER DAILY

SURVEY: MORE CORPORATE BOARD DIRECTORS CONCERNED WITH CYBERSECURITY

October 27, 2014

A survey by **BDO USA**, a consulting firm, found that 59% of public company board directors said their boards are more involved with cybersecurity than they were a year ago, and 71% reported being briefed on cybersecurity at least once every 12 months. "It is troubling that more than a quarter of the board members report they are not briefed on information security at all," says **Karen Schuler, a managing director of forensic technology services at BDO Consulting**.

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ACCOUNTING TODAY

PUBLIC COMPANY BOARD DIRECTORS FAVOR CORPORATE TAX REFORM

October 21, 2014

A majority of board members at public companies want Congress to pass broad-based tax reform legislation to address corporate tax inversions, according to a new survey.

The survey, by the accounting and consulting firm **BDO USA**, found that almost four-fifths (79 percent) of public company board members believe the increased use of corporate tax inversions is an expected outcome given the U.S. high corporate tax rate. In an inversion, a U.S.-based corporation merges with a foreign company and moves its tax domicile abroad to lower its tax rate.

A 56 percent majority are in favor of Congress addressing the issue through legislation.

Of those in favor of legislative action, an 85 percent majority believe any remedy must be part of broad-based tax reform on both the corporate and personal level. Directors were evenly divided (40 percent for, 40 percent against, 20 percent unsure) when asked if they were in favor of replacing the corporate and personal income tax with a tax on consumption.

"After a wave of tax motivated mergers and acquisitions, the U.S. government has begun to crack down on the practice of tax inversions, but a majority of corporate board members believe Congress should address this issue further and they believe the solution should be part of broad-based tax reform legislation," said **Wendy Hambleton, a partner in the Corporate Governance Practice of BDO USA**, in a statement. "From a risk management perspective, this year's board survey clearly shows that boards are becoming more involved in their businesses' cyber-security programs and are increasing resources to defend against attacks. Directors also report some frustration with the move to uniformity in executive pay practices and an inclination to use more discretion in determining appropriate compensation."…..

Cyber-security Concerns

On the issue of cyber-security, a 59 percent majority of the directors surveyed reported that their board is more involved in cyber-security today than it was 12 months ago. More than two-thirds (71 percent) indicated that they are briefed on cyber-security at least once a year, including 25 percent who are briefed on a quarterly basis. A 55 percent majority said they have increased their company's investments in cyber-security within the past year. Among those reporting growth in their information security budgets, the average increase was 19 percent.

"There has been a plethora of well publicized data breaches in the media over the past year and boards of directors are becoming more proactive on this topic," said **Karen Schuler, managing director of Forensic Technology Services at BDO Consulting**. "It is certainly a positive that a majority of boards are becoming more involved and are increasing resources to combat this problem; however it is troubling that more than a quarter of the board members report they are not briefed on information security at all. Although certain sectors of the economy are more likely to be the target of cyber-attacks than others, all boards should be engaged in cyber-security regardless of the company's industry."

Despite the increased emphasis on cyber-security, only 39 percent of the directors indicate their businesses have a chief of cyber-security in place. Of the majority without a C-level officer for IT security, most (61 percent) rely on their chief financial officer for oversight of this function, while just over a third (35 percent) identified their chief information officer or chief technology officer for this responsibility.

When asked about internal and external disclosures of data breaches, almost three-quarters (72 percent) of board members believe their management is completely forthcoming with them on any breaches. Approximately two-thirds (65 percent) feel businesses should always notify customers, vendors and authorities of cyber breaches, regardless of any negative publicity.

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Executive Compensation
As businesses seek shareholder approval of compensation practices through “Say-on-Pay” votes mandated under the Dodd-Frank Act, many believe executive pay practices have become much more uniform in order to achieve positive recommendations from firms that advise institutional shareholders on proxy issues. When asked for their opinion on this trend, more than two-thirds (71 percent) of the directors polled said they believe this is a negative development, believing boards should be open to the use of a reasonable degree of discretion in determining appropriate compensation for executives. A 29 percent minority took a contrary view, believing the uniformity of compensation practices sets the standard for shareholder-friendly pay practices and makes peer comparisons easier.

“The advent of ‘say-on-pay votes’ has led to a homogenization of executive compensation in order to elicit favorable recommendations from proxy advisory firms,” said **Andrew Gibson, a partner on compensation in the Corporate Governance Practice of BDO USA**. “But boards are starting to push back against this trend as they feel they have abdicated their responsibilities and need to exercise more discretion in structuring senior compensation.”...

A 69 percent majority of board members said their own compensation is commensurate with their workload. However, 31 percent of the directors polled admitted they were dissatisfied with their compensation, even though they vote on their own compensation....

▶COMPLIANCE WEEK

BOARDS SHOW MORE INTEREST IN CYBER-SECURITY THREATS

October 28, 2014

Even among smaller to mid-sized public companies, boards are getting more engaged on cyber-security, with nearly 60 percent of board members in a recent **BDO USA** survey saying they are more involved in the discussion now than even a year earlier.

Nearly three-fourths of the 75 board members in the survey said they are briefed on cyber-security at least once a year, and 25 percent said they are briefed quarterly. More than half said their companies had increased the investment in cyber-security in the past year, with the average increase in IT budget reaching 19 percent.

BDO conducted the survey of board members for companies in the revenue range of $250 million to $1 billion to gauge how those companies in that size range are viewing and coping with various issues and trends. Public company boards are not facing any specific regulatory requirement to take up an examination of cyber-security threats, but they are wise to pay closer attention, says **Wendy Hambleton, partner in corporate governance at BDO USA**.

“From a fiduciary perspective, considering best practices and corporate governance responsibilities, companies and boards need to understand at least where the risks and vulnerabilities are,” says **Hambleton**. “Practically every week someone else is coming out with a major cyber-security breach. There are a lot of factors around cyber-security that board members would want to know in terms of how this could affect the company, both the reputation aspects and the dollars and cents.”...

On the tax front, nearly 80 percent of public companies are sympathetic to their counterparts that are reincorporating overseas to avoid U.S. corporate tax rates, and a majority believe Congress should address the issue with legislation, according to the survey.

“The survey tells us there’s an issue,” says **Hambleton**. “Companies are saying Congress needs to look at it, but not just one aspect of it. They need to look holistically and not try to put a bandage on one piece.”

▶WALL STREET JOURNAL

SURVEY ROUNDUP: GETTING ON BOARD WITH CYBERSECURITY

October 24, 2014

Boards Get Into Cyber: A survey of 75 directors of public company boards by consulting firm **BDO USA** found 59% of directors say their board is more involved in cybersecurity today than it was 12 months ago. More than two-thirds (71%) say they are briefed on cybersecurity at least once a year, and this includes 25% who are briefed on a quarterly basis.

“It is certainly a positive that a majority of boards are becoming more involved and are increasing resources to combat this

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problem; however, it is troubling that more than a quarter of the board members report they are not briefed on information security at all," said **Karen Schuler, a managing director of forensic technology services at BDO Consulting**.

▶ACCOUNTING WEB

BDO USA: PUBLIC COMPANY BOARD MEMBERS FAVOR BROAD TAX REFORM TO REIN IN TAX INVERSIONS

October 23, 2014

According to a new study by Chicago-based accounting firm **BDO USA LLP**, 79 percent of public company board members believe the increased use of corporate tax inversions is an expected outcome given the high US corporate tax rate, and 56 percent are in favor of Congress addressing the issue through legislation. Of those in favor of legislative action, 85 percent believe any remedy must be part of broad-based tax reform on both the corporate and personal level.

Directors were evenly divided (40 percent for, 40 percent against, 20 percent unsure) when asked if they were in favor of replacing the corporate and personal income tax with a tax on consumption.

"After a wave of tax-motivated mergers and acquisitions, the US government has begun to crack down on the practice of tax inversions, but a majority of corporate board members believe Congress should address this issue further, and they believe the solution should be part of broad-based tax reform legislation," **Wendy Hambleton, a partner in the Corporate Governance practice of BDO USA**, said in a written statement.

In addition, the study found that 52 percent of board members said they have been briefed by management on how their companies will adopt the Financial Accounting Standards Board's new revenue recognition standard, which will significantly impact contracts, policies, systems, and disclosures. When asked to identify the most challenging aspect of the new revenue recognition standard, the most commonly cited were updating systems and policies (28 percent), revising existing revenue contracts with customers (25 percent), and revising debt covenant agreements with banks/financial institutions (17 percent)....

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