2014 BDO **BOARD SURVEY**

Each year, the demands on corporate directors at publicly traded companies seem to grow greater. Being educated on the latest regulatory changes, assessing the impact of new financial reporting requirements, addressing the growing risk of cyber attacks and managing executive compensation are a just a few of the issues that corporate boards are dealing with in 2014.

According to a new study by the Corporate Governance Practice of BDO USA, almost four-fifths (79%) of public company board members believe the increased use of corporate tax inversions is an expected outcome given the high U.S. corporate tax rate and a majority (56%) are in favor of Congress addressing the issue through legislation. Of those in favor of legislative action, the vast majority (85%) believe any remedy must be part of broad-based tax reform on both the corporate and personal level. Directors were evenly divided (40% for, 40% against, 20% unsure) when asked if they were in favor of replacing the corporate and personal income tax with a tax on consumption.

These are the findings of The ***2014 BDO Board Survey***, conducted by the Corporate Governance Practice of BDO USA, which examined the opinions of 75 corporate directors of public company boards, with revenues ranging from $250 million to $1 billion, regarding financial reporting and corporate governance issues. The survey was conducted in September of 2014 by Market Measurement, an independent market research firm, on behalf of BDO.

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.

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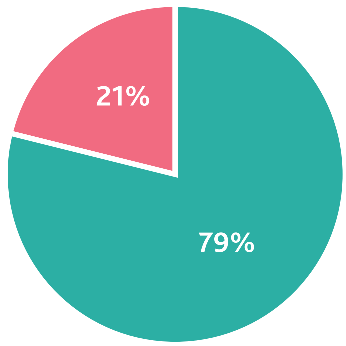
"After a wave of mergers and acquisitions impacting the taxation of large U.S. companies, the U.S. Treasury Department has begun to tighten rules to deter businesses from moving their legal headquarters to lower-tax countries; however, a majority of corporate board members believe Congress should address the issue of tax inversions further and they believe the solution should be part of broad-based tax reform legislation," said **Matt Becker, managing partner of the National Tax Office of BDO USA**. "There is much less agreement among directors when it comes to the idea of replacing the income tax with a tax on consumption. Such a move would align the U.S. tax system much more closely with other G7 nations, but based on the response from board members, it may be too drastic a departure from the current system to succeed."

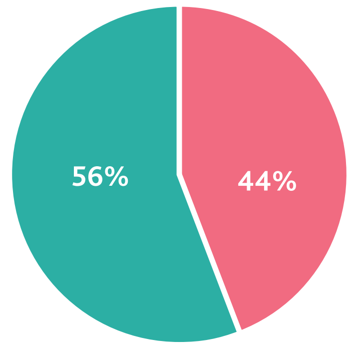
What is your opinion about corporate tax inversions, the practice of U.S. businesses reincorporating overseas to avoid U.S. taxes by merging with a smaller company in a more tax friendly location?



- This is an expected outcome given that the U.S. has the highest corporate tax rate in the developed world.
- These businesses are dodging their obligations to their country and U.S. taxpayers

Source: 2014 BDO Board Survey

Do you think Congress should address the issue of corporate tax inversions through legislation?



- Yes
- No

Source: 2014 BDO Board Survey

CYBER CONCERNS

A majority (59%) of directors report that their board is more involved in cyber-security today than it was 12 months ago. More than two-thirds (71%) indicate that they are briefed on cyber-security at least once a year – this includes 25 percent who are briefed on a quarterly basis – and a majority (55%) say they have increased company investments in cyber-security during the past year. Among those reporting growth in their information security budgets, the average increase was 19 percent.

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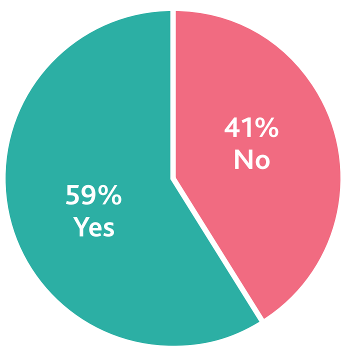
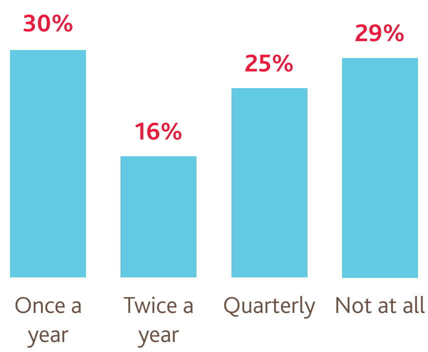
"There has been a plethora of well-publicized data breaches in the media over the past year and boards of directors are becoming more proactive on this topic. It is certainly a positive that a majority of boards are becoming more involved and are increasing resources to combat this problem; however, it is troubling that more than a quarter of the board members report they are not briefed on information security at all," said **Karen Schuler, a Managing Director of Forensic Technology Services at BDO Consulting**. "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."

Is your board and/or risk committee more involved with cyber-security than it was 12 months ago?



Source: 2014 BDO Board Survey

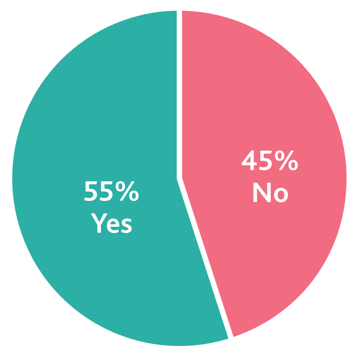
How often is your board briefed on cyber-security?



***More than two-thirds briefed at least once per year.**

Source: 2014 BDO Board Survey

Have you increased your investment in cyber-security during the past 12 months?

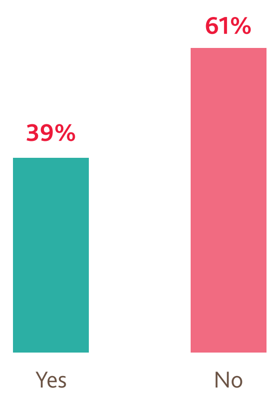


Source: 2014 BDO Board Survey

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, a majority (61%) rely on their Chief Financial Officer for oversight of this function, while just over a third (35%) identified their Chief Information Officer or Chief Technology Officer for this responsibility.

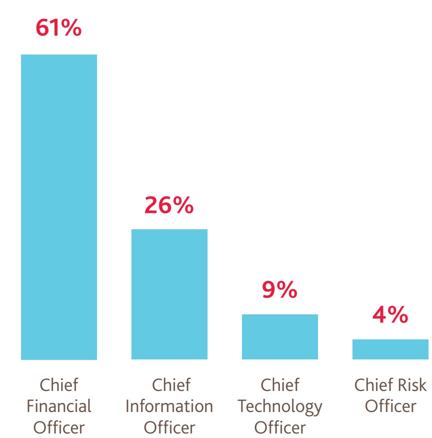
When asked about internal and external disclosures of data breaches, almost three-quarters (72%) of board members believe their management is completely forthcoming with them on any breaches and approximately two-thirds (65%) feel businesses should always notify customers, vendors and authorities of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

Do you have a Chief Cyber-Security or Chief Information Security Officer?



Source: 2014 BDO Board Survey

In lieu of a chief of cyber-security, what executive is MOST INVOLVED in managing your cyber-security function?



Source: 2014 BDO Board Survey

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▶ TIME MANAGEMENT

When asked what topics they would like their board to spend more or less time on, a majority of the directors cite succession planning (52%) as a topic they wish to devote more time to. Sizable minorities expressed an interest in spending more time on risk management (49%), industry competitors (40%) and evaluating management (37%). Perhaps most revealing is how small a percentage of the board members expressed an interest in spending less time in any of these areas of responsibility.

▶ EXECUTIVE COMPENSATION

As businesses seek shareholder approval of compensation practices through "Say-on-Pay" votes mandated under Dodd-Frank, many believe executive pay practices have become much more uniform in order to achieve "yes" recommendations from firms that advise institutional shareholders on proxy issues. When asked their opinion on this trend, more than two-thirds (71%) of directors 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 minority (29%) take a contrary view, believing the uniformity of compensation practices sets the standard for shareholder-friendly pay practices and makes peer comparisons easier.

▶ BOARD COMPENSATION

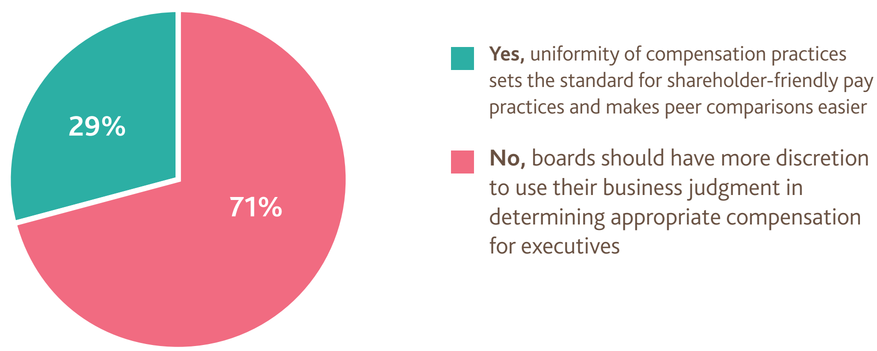
When it comes to their own pay, most board members (69%) say their compensation is commensurate with their workload. However, when you consider this is a group that votes on its own compensation, it is somewhat surprising that almost one-third (31%) of directors said they were dissatisfied with their compensation.

TIME MANAGEMENT
Would you like your board to spend more or less time on each of the following topics?

Topic	More	Less	Same
Succession planning	52%	4%	44%
Risk management	49%	4%	47%
Industry competitors	40%	5%	55%
Management performance	37%	3%	60%
Compliance and regulatory issues	24%	16%	60%
Executive compensation	9%	11%	80%

Source: 2014 BDO Board Survey

As businesses seek shareholder approval of compensation practices through "Say-on-Pay" votes mandated under Dodd-Frank, many believe executive pay practices have become much more uniform in order to achieve "yes" recommendations from proxy advisory firms that advise shareholders. Is this a positive development?



Source: 2014 BDO Board Survey

"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. 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," said **Andrew Gibson, a Partner on Compensation in the Corporate Governance Practice of BDO USA.**

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▶NEW RULES

Board members were queried on their attitude toward a few new or pending accounting rules and standards:

Revenue Recognition

More than half (52%) of board members say they have been briefed by management on how their companies will adopt the Financial Accounting Standards Board's new revenue recognition standard that can 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%), revising existing revenue contracts with customers (25%) and revising debt covenant agreements with banks/financial institutions (17%).

Related Party & Unusual Transaction Disclosures

Only one-quarter of board members have been briefed on the Public Company Accounting Oversight Board's new rule (Auditing Standard 18) focused on related parties and unusual transactions. Scheduled to take effect in 2015, the new standard, in part, requires auditors to more closely scrutinize executive pay and identify inherent risks, such as incentives that have the potential to reward management for decisions that could prove detrimental to shareholders' interests. Of those familiar with the new rule, just one-third believe it will impact their governance of compensation programs moving forward. Companies have already had to disclose risk associated with their compensation programs; this new standard simply takes these disclosures to a new level.

CEO/Median Employee Pay Ratio

Although final rules have yet to be issued, beginning in 2016 companies will be required to disclose the ratio of median employee pay to CEO compensation. As this new requirement will apply to 2015 compensation, one-third (33%) of directors report that their boards have already taken steps to comply with this calculation. More than a quarter (28%) of board members say they have yet to take any action to comply with the rule, while sizable proportions were either unfamiliar with the pending requirement (23%) or unsure (16%) about any actions taken.

When asked their main concern with the pending CEO/median employee disclosure requirement, directors cited unfair comparisons to other companies due to vague guidance (38%), internal and external reaction to perceived high ratios (29%) and a feeling that the ratio doesn't take into account contributing factors such as location and cost of living (25%). Only 8 percent of board members cited the difficulty of identifying median employee pay as their main concern.

"Since final rules on the CEO/median employee ratio have yet to be issued, it is impressive that one-third of the board members report that they are already taking steps to comply with this calculation. These boards are wise to tackle this requirement early given the challenges of determining a median employee from a worldwide staff roster and then converting that employee's pay to a structure that can be appropriately compared with the CEO's reported compensation," said **Lance Froelich, a Senior Director on Compensation in the Corporate Governance Practice of BDO USA.** "Before the proposed regulations on CEO/median employee ratio were issued, there were broad concerns that compliance would be impossible due to a myriad of challenges. However, since the SEC has been reasonably flexible in allowing companies to determine how best to identify their median employee, most boards are past complaining about the difficulty of complying with this new requirement. Instead their concern has shifted to how their ratio will be perceived by both internal and external audiences. Further, it will not be surprising if this ratio becomes one more tool used by proxy advisors in developing their say-on-pay recommendations."

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ABOUT THE SURVEY

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