2020 SHAREHOLDER MEETING AGENDA

BDO

Contents

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Responding to COVID-19

As the novel coronavirus pandemic continues to spread across the globe, boards are working closely with their management teams to understand the facts, evaluate risks and form meaningful responses. Their areas of focus are wide-ranging and consider the impacts of this crisis on employees, customers, operations, vendors, lenders and other stakeholders. Shareholders have heightened interest in how companies are handling significant challenges and risks being posed by COVID-19 and how executives are contingency-planning.

Boards can expect shareholder questions around the following:

- Plans to ensure the wellbeing of their professionals and customers
- Crisis management roles and responsibilities between the board and management team
- Risk assessment and response to disruptions in all phases of product procurement, development and delivery
- Financial management, liquidity and sustainability impacts
- Adequacy of financial reporting and disclosures to convey risk
- Increased cybersecurity and data privacy considerations as more individuals telework
- ESG opportunities and responsibilities during the crisis
- Considerations to modify executive pay plans as short-term responsive measures
- Ability to provide timely public financial information
- Industry-specific risk mitigation plans (e.g. contracts, supply chain, technology)

Shareholders will also be awaiting decisions on whether or not a company is abiding by social distancing and its impacts on annual meetings, whether virtual or in-person.

Boards—working alongside management, public relations, human resources and counsel—need to be thoughtful and proactive in issuing timely, robust and transparent communications with all of their stakeholders. This is particularly important as new developments arise and local, state, federal and international officials issue new guidance and mandates.

Securing the confidence of stakeholders, particularly during times of crisis, is paramount.

Introduction

U.S. capital markets are facing pressures from significant societal shifts and an increasing focus on ethical and environmental concerns. New generations of shareholders are emerging, bringing with them new and evolving expectations. Together, directors and management must address heightened demands for stronger principles, greater transparency and better corporate accountability.

Already well-versed in a company's financial health, shareholders will gather for annual meetings eager to weigh in on the issues directly impacted by a company's overall direction and vision. For today's shareholder, companies' abilities to exhibit a strong corporate culture and design business objectives and reward structures aligned with key environmental, social and governance (ESG) issues is as important as navigating regulatory changes and growth pursuits. In the upcoming proxy season, we anticipate that demonstrating leadership integrity and intent will be paramount for those charged with governance in earning the confidence of current and would-be investors.

BDO's Center for Corporate Governance and Financial Reporting weighs in on a variety of topics that corporate management and boards of directors are encouraged to consider in connection with their 2020 annual shareholder meetings.

Shifting Governance and Investing Landscape

CORPORATE EMBRACE OF BROAD STAKEHOLDERS, ESG AND EMERGING SHAREHOLDERS

The August 2019 Business Roundtable's (BRT) **Statement on the Purpose of a Corporation**, signed by 181 CEOs of leading U.S. companies, expands the purpose of a corporation from generating long-term value simply for its shareholders to committing to the betterment of its customers, employees, suppliers and communities. While this is a seemingly common-sense approach to business, it is a reminder for leaders to broaden how they view their companies, positions taken and communications around their corporate strategies.

At the same time, investor communities are increasingly emphasizing environmental, social and corporate governance issues. In line with the BRT, Black Rock CEO Larry Fink's **2020 letter to CEOs** underscores how companies should embrace stakeholders broadly. He also focuses on the impact of climate risk on our physical world and the global system that finances economic growth. Fink states simply that climate risk is investment risk, writing, *"Companies and countries that champion transparency and demonstrate their responsiveness to stakeholders, by contrast, will attract investment more effectively, including higher-quality, more patient capital."*

An **analysis from S&P Global** asserts that companies focused on ESG issues have proven higher employee productivity, reduced costs and lower risk potential.

As evidenced by certain **shareholder proposal trends in 2019**, captured by Sullivan and Cromwell, while "E" and "S" submitted proposals decreased overall, voted proposals sharply increased as a percentage to nearly half and received record levels of support averaging over 30%, signaling that investors continue to prioritize environmental and social issues. Of these proposals, it is interesting to note that 56% of human capital management proposals, including those covering workplace diversity and gender pay gap, went to a vote. "G" proposals that discuss governance issues including independent board chairs, board composition, supermajority thresholds and proxy access, were down from 2018 levels. Governance-related proposals also failed to reach the shareholder voting stage most frequently due to the SEC no-action process but will likely remain a notable part of the 2020 proxy season given updates to proxy advisor voting guidelines and sentiments expressed by institutional investors.

An additional force at play is the emergence of millennial investors and the estimated transfer of $30 trillion in wealth by 2030, according to Accenture. In a **study** by Fidelity, 77% of millennials indicated that they had made some form of impact investment–purposeful investments that help achieve social or environmental benefits while generating financial returns. A 2019 **MSCI study** of high net worth investors also shows that 95% of millennials are interested in sustainable investing.

SPOTLIGHT

Shareholder Proposals and Proxy Advisory: The Regulatory Tone and Current Status

As we dive into issues shareholders are keen on, we want to highlight the regulatory landscape that is shaping up in the U.S. with respect to shareholder proposal and proxy advisory guidance.

Impact of SEC Process Changes for No-Action Requests

Beginning this proxy season, the SEC's Division of Corporate Finance announced it would use its discretion for whether or not to respond to companies' no-action letter requests for shareholder proposals under Rule 14a-8. Should it choose to state a view, it may do so orally rather than in writing.

This change effectively removes the SEC as final decision-maker of whether shareholder proposals are included in companies' proxy season materials, leaving it to the companies themselves. If the SEC declines to weigh in on a no-action letter request, the company must consider the strength of its argument for exclusion and the potential repercussions of doing so, including the impact of resulting litigation.

BDO View: Without an official arbiter of these requests, shareholders may be concerned about the roadblocks to their proposals gaining traction and their voices being heard. To maintain support from key constituents, it's important for companies to engage with shareholders and work to address their desires on an ongoing basis, rather than waiting until the proposal stage.

SEC Guidance on Investment Advisor Proxy Voting

In August 2019, two interpretative guidance releases were issued regarding the SEC's oversight of proxy advisory firms: Commission Guidance Regarding Proxy Voting Responsibilities of Investment Advisers and Commission Interpretation and Guidance Regarding the Applicability of the Proxy Rules The first release essentially reminds proxy and investment advisors about their fiduciary responsibilities when an investment advisor relies on proxy advisory firm guidance. The second release reminds advisors that proxy voting advice is subject to anti-fraud solicitation rules under the Exchange Act Rule 14a-9. Both releases were passed by a 3-2 vote of the five commissioners.

In November 2019, the SEC proposed two rule amendments, expanding on its August interpretative guidance. The amendments impact proxy advisors and shareholder voting, and may be viewed as wins for company management if they move forward:

- **Proxy advisory solicitation:** Under the proposal, company management would be given the opportunity to look at shareholder proposals before they are distributed publicly. Proxy advisors would only be exempt from having to file full proxy statements if they let corporate executives review and respond to the shareholder recommendation.
- **Shareholder proposals:** The SEC is proposing to require that a shareholder own at least $2,000 worth of shares for at least three years, $15,000 for two years, or $25,000 for one year to be able to submit a proposal. Shareholders would also have to make themselves available to speak to the company within 30 days of submission.

However, the SEC filed a motion in mid-January 2020 to **hold** proxy advisor Institutional Shareholder Services' (ISS) related lawsuit until the earlier of January 1, 2021 or promulgation of final rules by the SEC. As a result, companies should not expect the SEC to enforce the aforementioned interpretative guidance during this proxy season. Much more to come on this as the SEC sorts through comment letters received and assesses the ISS litigation.

BDO View: Given the uncertainty around this interpretive guidance and its applicability during the 2020 cycle, we encourage boards, management and investor relations teams to thoroughly review current corporate policies and communications related to these issues. Companies would also be prudent to closely analyze their investor and stakeholder makeup to determine who is most influenced by proxy advisory firms and engage directly with shareholders to avoid potential surprises.

ESG Matters

Shareholders, along with institutional investors, are bought in on the ESG movement. Intelligize released their **2020 Playbook on ESG Shareholder Proposals** that examined nine recent ESG proposals related to sustainable packaging, political spending and compensation claw backs in light of the opioid crisis, which received strong shareholder support. The Playbook underscores that proponents of these proposals have become more sophisticated in their solicitations. It also signals that given the uncertainty around SEC no-action letters, companies need to deeply understand shareholder activist perspectives and be thoughtful in their preparation to respond.

According to Sullivan and Cromwell's look back on the 2019 Proxy Season, shareholders want to see changes in how companies are taking action on ESG issues. Although there was a drop in the total number of related proposals from the prior year, a higher proportion of submitted ESG proposals were voted on and passed at record levels.

Investors are also taking a stand when it comes to quantifying ESG efforts. For instance, State Street Global Advisors (SSGA) has launched the **R-Factor**—the "R" standing for Responsibility—to measure a company's business operations and governance as it relates to financially material and sector-specific ESG issues. In his own January letter to board members, SSGA's President and CEO Cyrus Taraporevala says the firm will continue its active engagement with boards on sustainability but will also use its proxy vote to press companies that are laggards or failing to engage.

BDO View: The Business Roundtable Statement of Purpose has been met with some skepticism, but signifies that high-profile companies are taking leadership positions on key cultural and societal issues that impact a broad variety of stakeholders—from the environment to equality—and stresses that others will suffer consequences when their brand's stated purpose is misaligned with their actions.

Many in management continue to believe that prioritizing ESG matters isn't mission critical for their organizations, which may be leading to continued inaction, or limited communication around action. In our **2019 BDO Board Survey** of 180 corporate directors of public company boards, just 17% said they use ESG disclosures. At the same time, 65% refute that sustainability and ESG disclosures help investors make informed decisions.

However, while ESG drivers and reporting metrics are still being shaped, shareholders are holding leaders accountable for demonstrating integration of these matters in decision-making and increasingly, reporting related KPIs. We encourage companies to reassess their corporate purpose statement, financial reporting and shareholder communications to ensure they reflect an appropriate commitment to meeting applicable ESG goals. To better convey their companies' individual stories, they should also familiarize themselves with the market-adopted frameworks and methodologies used to rate companies and their disclosures via ESG scoring.

CLIMATE CHANGE AND TODAY'S BUSINESS ENVIRONMENT

What began as a series of grassroots movements is now a top priority among the world's foremost economic institutions, including the International Monetary Fund (IMF) and Organization for Economic Co-operation and Development (OECD), which have proposed policies to confront global environmental challenges. Meanwhile, the agenda of the World Economic Forum Annual Meeting in Davos, held in January 2020, centered entirely around climate change.

In a more urgent call to action, the Bank for International Settlements (BIS) recently released a **report** warning that climate-related risks include "potentially extremely financially disruptive events that could be behind the next systemic financial crisis." Some business leaders are responding to such calls with their own initiatives, evidenced by Jeff Bezos recently announcing the launch of the **Bezos Earth Fund**, a $10 billion commitment to fund scientists, activists and nongovernmental organizations dedicated to climate issues.

According to Sullivan & Cromwell, shareholder proposals this past year called for greater board oversight of environmental issues and reporting on specific environmental factors, including carbon emissions, deforestation, efforts to reduce plastic pellet pollution and pesticide management.

BDO View: Showing support of climate change policies doesn't qualify as taking action. Our 2019 BDO Board Survey reveals that just 23% of public company boards said their companies have or will develop a strategy to address the issue of sustainability and corporate stewardship and 6% said the same about climate change. This is despite the compelling evidence tying climate change to material financial risk that continues to amass.

The challenge lies in ensuring accountability when it comes to sustainability efforts. Without a universal framework for sustainability reporting, boards must be proactive in how they choose to communicate action around the issue.

The U.S. Sustainability Accounting Standards Board (SASB) provides a set of standards intended to serve as a guide for voluntary sustainability reporting, including capturing matters that are financially material and benchmarking performance against peers. The Task Force on Climate-Related Financial Disclosures (TCFD) has also developed recommendations for voluntary and consistent climate-related financial risk disclosures. Aligning with a commonly adopted framework can help meet demands for transparency by shareholders and investors.

It's also important for boards to demonstrate a deep understanding of the specific climate risks that have the potential to impact their bottom line, which vary significantly by business and industry. For example, contribution to land and air pollution might be a critical focus for a natural resource company, while sourcing and chemical use may be a bigger priority for an apparel manufacturer.

Companies should consider outlining realistic short-term steps to show progress in addition to setting longer-term goals and plans. Ceres, a leader in sustainability solutions, offers a practical tool for boards to help better understand the risks posed by ESG issues related to climate change, water scarcity, pollution and inequitable workplaces and how to help address them.

To learn more about sustainability reporting and why boards should take notice, refer to BDO's U.S. publication and our global reporting journey guide.

THE BUSINESS OF FUNDING POLITICAL AGENDAS

Political contributions and lobbying disclosures have historically represented a significant proportion of shareholder proposal topics. Specifically, shareholders are requesting disclosures related to companies' political spend, including donations to candidates and lobbyists.

Increasing demands for political transparency are a response to today's highly polarized environment and the reputational risk of any real or perceived contradiction between a company's mission and the campaigns or lobbying efforts it supports. Backing a cause that customers don't support could also lead to damaging media backlash. In the run up to 2020 elections, it's especially critical that corporate leaders ensure alignment between their stated purpose and any political activities.

The **2019 CPA-Zicklin Index of Corporate Political Disclosure of Accountability** indicates that there's an increasing percentage of S&P 500 companies with strong political disclosure and accountability policies. It's likely that demand for more transparency among all businesses will only continue to grow.

BDO View: We encourage boards to understand their current corporate policies with respect to lobbying and political spending, and reconcile how they align with corporate goals and market perceptions. It is further advisable to consider how such activities are being communicated to the public.

SPOTLIGHT ON HUMAN CAPITAL MANAGEMENT

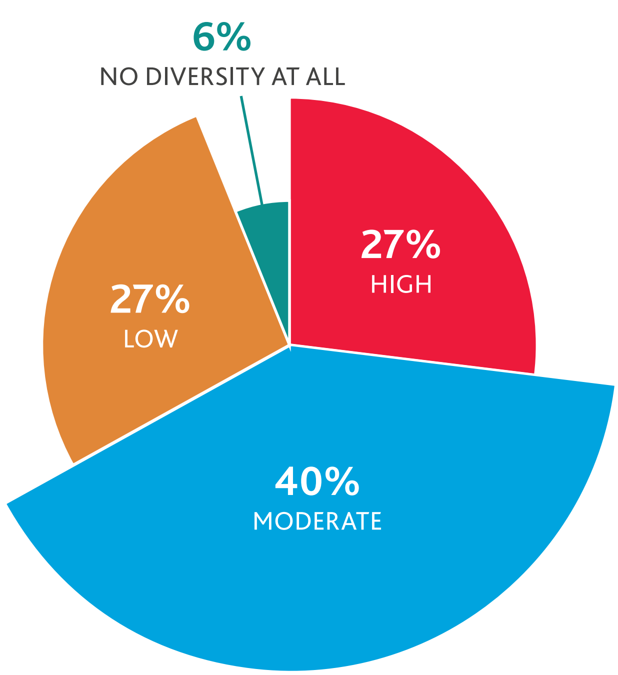
Social and stakeholder pressure—along with clear data of ROI—has helped affect change in workplace diversity, pay equality, sexual harassment and other human capital management issues.

Embracing Diversity and Inclusion

Embracing diversity across backgrounds, experiences and perspectives has clear ties to higher levels of innovation, greater resilience and better problem solving. Research from the Boston Consulting Group found that companies that report above average diversity on their management teams also report 19% higher innovation-driven revenue.

At the board level, focus continues to be on member composition. This summer, gender parity in the boardroom reached a new milestone when all companies in the S&P 500 announced inclusion of at least one female board member. This marked a significant step forward in leadership diversity at the largest U.S. companies, but looking at the universe of publicly-traded companies, the S&P 500 represents only a small fraction. The percentage of women directors among the Russell 3000, for instance, recently reached just 20%. In the BDO 2019 Board Survey, just over one-fourth of directors reported high levels of diversity on their boards.

HOW WOULD YOU DESCRIBE THE LEVEL OF DIVERSITY ON YOUR BOARD?



To address the issue, 46% of directors surveyed reported conducting diversity reviews as a board refreshment tool, up from 33% the year prior. More than one-third (34%) say their company currently includes diversity disclosures in their proxy and SEC filings, following mounting pressure and punctuated by SEC 2019 C&DI guidance.

In a move to hold pre-IPO businesses accountable, Goldman Sachs CEO David Solomon **announced** in early 2020 that his investment bank wouldn't help take companies public *"unless there's at least one diverse board candidate, with a focus on women."*

The world's largest proxy advisory firms, ISS and Glass Lewis, both have specific policies within their proxy voting guidelines for the 2020 proxy season related to board gender diversity. ISS's updated policy says it will generally issue recommendations to vote against committee chair nominees—and potentially other directors—at Russell 3000 or S&P 500 companies that don't have female directors.

Glass Lewis closely reviews board composition for representation of diverse director candidates and will generally recommend voting against the nominating committee chair of a board that has no female members. Depending on other factors, including the company's size, industry, headquarter state and governance profile, they may extend this recommendation to vote against other nominating committee members. However, after careful review of a company's diversity consideration disclosures, it may refrain from recommending shareholders vote against directors of companies outside the Russell 3000 index, or those that provide a sufficient rationale for their lack of female board members. This rationale may include, but is not limited to, a disclosed timetable for addressing the lack of diversity on the board and any notable restrictions in place regarding the board's composition, such as director nomination agreements with significant investors.

BDO View: The push for board diversity has led some states to take legal action. Beginning December 2019, California law requires all boards of publicly-traded companies headquartered in the state to have at least one female director. By 2021, boards with five members must have two female directors and those with six or more members must have three.

While further regulation is likely, the push for board diversity shouldn't require enforcement. It also shouldn't be treated as a metric or pursued for the purposes of optics—it's a valuable business asset that's becoming table stakes. Shareholders may want to see how companies are embracing diversity and any related performance results.

It's also important for boards to consider diversity beyond gender, spanning varying experiences, backgrounds and perspectives. This will be increasingly critical in attracting and retaining future talent, particularly as millennials begin to comprise a growing percentage of leadership roles. To demonstrate proper tone at the top and be responsive to market optics, boards should prioritize transparency into their refreshment approaches and disclose their use of skill matrices and director qualification assessments in identifying new director appointments.

Refer to a recent **article** published by Corporate Board Member to read more about BDO's views on diversity and board refreshment practices.

Combatting Workplace Misconduct

New York State recently **passed legislation** that strengthened protections against discrimination and harassment under the New York State Human Rights Law, and effective in August 2020, the statute of limitations for filing a sexual harassment complaint with the Division of Human Rights will be extended from one year to three. Meanwhile, at least 16 states have introduced bills to reduce the enforceability of non-disclosure agreements related to workplace misconduct.

In line with legislation targeting sexual harassment prevention and employee protection, shareholders are calling for action in their proposals. They're specifically pushing for voluntary reporting on sexual harassment and stronger prevention policies.

The #MeToo movement has led to a 14% increase in sexual harassment complaints received by the **Equal Employment Opportunity Commission**, potentially signaling higher levels of trust among victims that their employers will take necessary action to protect them. Efforts to foster safer workplaces are underway, but there's still a great deal of work to be done.

BDO View: Beyond the risk of reputational damages, companies have posted significant losses in market capitalization as a result of sexual misconduct accusations, drawing lawsuits from some shareholders.

It's the duty of corporate leaders to set the tone of intolerance. Shareholders may want to hear about policies and controls in place to combat sexual harassment, assess the fairness of nondisclosure agreements and hold individuals—regardless of tenure or position—accountable for misconduct. Overall, management and the board should be prepared to articulate their commitment to protecting the integrity of their workplace.

CAPACITY TO EXECUTE BOARD OVERSIGHT GOVERNANCE

Top focus areas of governance-related shareholder proposals include issues related to "overboarding" and independent board chairs, both of which seek to ensure optimal board composition and oversight.

During the 2019 proxy season, overboarding reportedly led to the highest level of director election opposition since 2011, **according to ISS analytics**, and is an issue expected to persist this year. As board roles and responsibilities evolve, shareholders are concerned that serving on too many boards limits a director's ability to adequately fulfill their duties. Among others, the world's second-largest asset manager, **Vanguard Group**, decided to take a stance when it announced it would vote against corporate executives running for two or more public company board seats in addition to any current seats. One-third of public company board directors in our 2019 Board Survey share concerns of overboarding, saying their organization places limits on the number of boards upon which a director can serve.

In addition to ensuring board members aren't stretched too thin, shareholders are also concerned about issues of independence on the board. Many companies—including **53% of S&P 500 companies**, up from 30% in 2005—have instituted policies to separate the roles of chairman and CEO out of concern that having one individual serve both could lead to an overexertion of influence. In 2020, ISS updated their existing policy on voting for independent chair proposals to identify factors that indicate reliance on a weak or poorly-defined lead independent director role, or failure of directors to oversee materials risks facing the company or adequately respond to shareholders' concerns.

BDO View: Intense public scrutiny on corporate culture and human capital issues puts companies' efforts to strengthen board oversight at the top of shareholders agendas. When it comes to setting limits on the number of boards a director can serve on, the thresholds that are considered acceptable may vary on a case-by-case basis. However, heading into proxy season, leaders should be aware that reduced support may be received from certain shareholders for director nominees if they are deemed to be at capacity.

Similarly, the question of whether or not to have an independent chair isn't necessarily black and white. Some argue that combining the roles of CEO and board chair hasn't proven to negatively impact performance, a stance supported by **research** from the Rock Center for Corporate Governance at Stanford University. Potential inefficiencies caused by separation for currently combined roles and other considerations play a part in companies' policies on board chair independence. With this issue top of mind for shareholders, management should be prepared to discuss the safeguards they have in place to prevent conflicts of interest on the board.

Pay Practices Remain in Focus

Inequality in the workplace isn't just an issue of hiring, it's also one of compensation. While the gender pay gap has steadily narrowed since the 1980s, women still earned just 85% of what men earned as recently as 2018, according to the latest Pew Research data, and the gaps are much wider for women of color. Additionally, companies are facing increased pressure from regulators and shareholders to voluntarily disclose their pay gap data.

As part of their annual policy guideline updates, Glass Lewis has clarified their approach to shareholder proposals that request companies provide more disclosure on the steps being taken to ensure equal pay, which will be reviewed on a case-by-case basis. In instances where companies have provided sufficient information on their diversity initiatives, as well as efforts to ensure equal pay for equal work, Glass Lewis says they will generally recommend against these resolutions.

At the start of this year, Citigroup disclosed a 27% unadjusted gap between average female and male employees for 2019, prompting it to raise wages accordingly. The bank became the first to voluntarily release its pay gap data in all locations following a 2018 UK law requiring corporations to disclose their unadjusted pay gap figures.

When it comes to executive compensation, mandatory say-on-pay votes—when shareholders vote on executive pay—as well as CEO pay ratio disclosures, have eased shareholder concerns related to traditional executive compensation issues. Compensation-related proposals today focus more on ensuring accountability for an organization's stated objectives, such as linking executive compensation to societal areas of concern. For instance, a report issued by the Investors for Opioid Accountability cited the use of shareholder proposals as a means to encourage companies to share compliance findings and scrutinize the compensation of relevant executives in light of the opioid crisis. Half of the 52 proposals were settled before going to a vote. Similarly, calls are being made for pharmaceutical companies to integrate drug pricing risks into their compensation plans.

Pearl Meyer has put forth a valuable reminder to companies for how to enhance their Compensation Discussion & Analysis (CD&A) narrative by "telling a more robust story about your organization's shareholder engagement process." This becomes particularly important when shareholder support for say-on-pay drops below 70% and proxy advisors weigh in.

As a reminder, new for this year is an SEC rule under the Dodd-Frank Act requiring most public companies to disclose their hedging policies for equity securities granted as part of compensation or held directly by employees, officers and directors. Smaller reporting and emerging growth companies have until 2021 to comply. Note, proxy advisors ISS and Glass Lewis, along with institutional investors, are generally supportive of anti-hedging policies.

BDO View: According to BDO's 2019 Board Survey, sourcing workforce talent is cited as the third most-discussed issue in the boardroom. Transparency around pay equality, efforts to reduce the CEO pay ratio and broadly designing pay practices that foster employee growth, will help improve recruitment and retention.

While additional compensation-related regulations could be on the horizon, management and the board have an opportunity to proactively demonstrate their commitment to equality and inclusion when it comes to closing the pay gap. They should consider including data on race and ethnicity, in addition to gender, in pay gap reporting.

Similarly, tying executive compensation to KPIs could help meet shareholder demands for accountability related to identified business risks and goals.

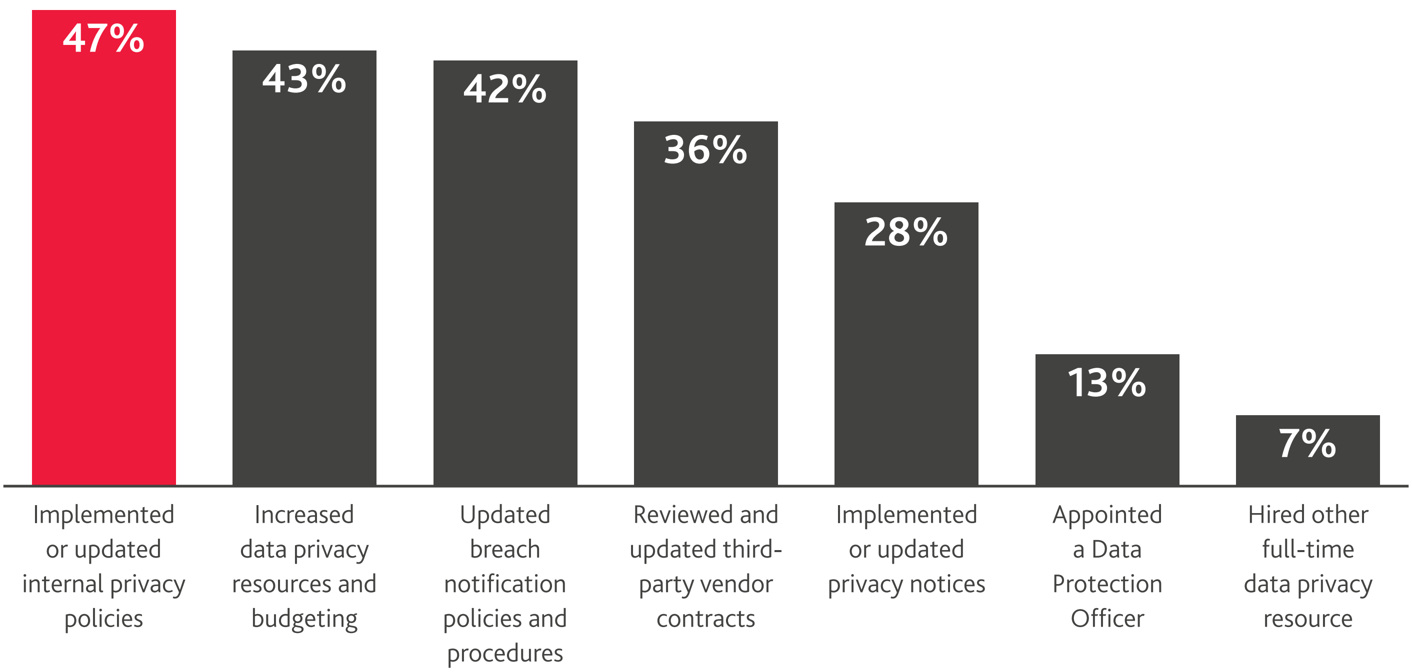
BDO compiles two annual reports examining the compensation practices and trends of 600 mid-market public companies: The **BDO 600 - 2019 Study of Board Compensation Practices** and the **BDO 600 - 2018 Study of CEO and CFO Compensation Practices**. Pay practice trends are further explored in a recent archived **webinar**.

To learn more about the issue of the SEC's hedging policies rule, refer to law firm Mintz's **recent advisory**.

Data Privacy and Protection Concerns

As the world's connectivity through digital platforms and emerging technologies continues to grow, new data privacy risks and protection regulations bring high demands to organizations of all sizes. Emerging privacy laws are unchartered waters in the U.S, despite various industry-driven privacy regulations. Until recently, U.S.-based companies have been required to comply with global privacy regulations, such as GDPR, but no U.S. jurisdictional regulations. Today, there are approximately 11 state data privacy laws in various stages of approval, and the U.S.' first major privacy law, the California Consumer Privacy Act, became effective on January 1, 2020.

In light of these regulations, data privacy remains a key concern for boards. According to our 2019 board survey, nearly half of respondents (46%) said they are briefed at least quarterly on data governance. In response to current and emerging data privacy regulation, public company board directors said their companies were taking the following actions:



BDO View: Just as the digital environment becomes more sophisticated, so too do bad cyber actors. Companies must be able to respond to concerns and articulate how they are safeguarding consumer, supplier and employee data. More broadly, they also need to communicate how they are protecting the company from risks due to lost productivity, diminished reputation and buyer trust, along with lawsuits, when systems inevitably experience a breach.

Prudent companies remain current on the evolving cyber threat and data privacy landscapes and design customized governance, risk and compliance strategies to address the latest developments.

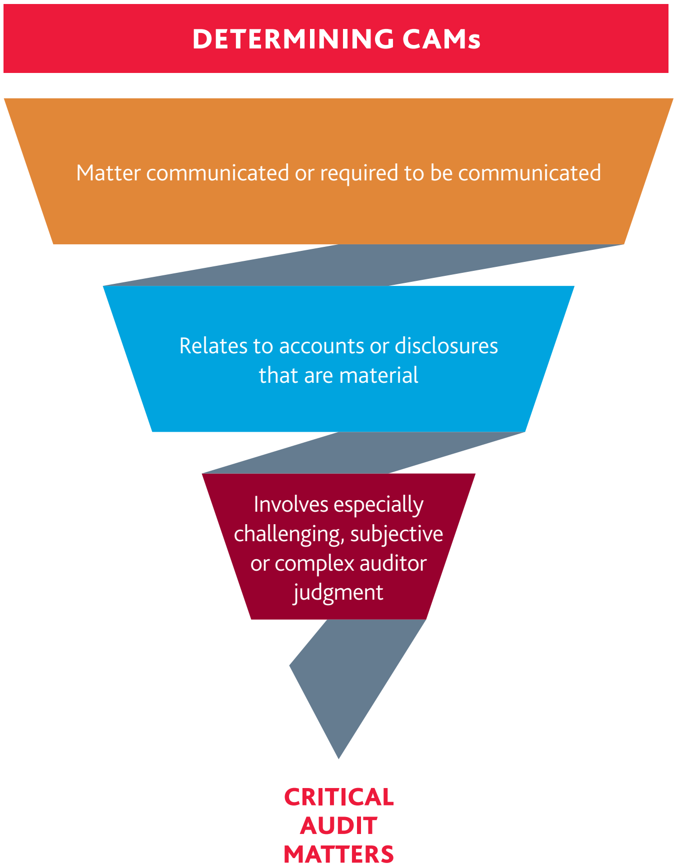
Boards and management teams should be thinking about the ethical obligations they have to protect the data they are generating and collecting. They should not only be prepared to comply with current and developing data privacy and data protection regulations, but they should also be implementing a holistic data ethics program with a framework guiding data ownership, transparency, consent, privacy and financial value.

Refer to BDO's **Building a Holistic Privacy Program** in the New Age of U.S. Data Privacy Law to learn more.

Understanding CAM

During this year's shareholder meeting cycle, shareholders of large accelerated filers (LAFs) will be reviewing auditors' reports that contain **Critical Audit Matters** (CAM), as determined by the auditor and how each was addressed in the audit. PCAOB Auditing Standard 3101 became effective for LAFs in 2019 and will be effective for other public companies (non-LAFs) beginning in 2021. A CAM is any matter arising from the audit of financial statements that was communicated or required to be communicated to the audit committee and that:

- Relates to accounts or disclosures that are material to the financial statements; and
- Involves especially challenging, subjective, or complex auditor judgment.



LAF filings to date have shown an average of nearly two CAMs per company being disclosed in the auditor's report, with the type of CAM unique to each company's facts and circumstances. Shareholders will likely want to understand certain elements of the new auditor's report disclosures, including the principal considerations that led the auditor to determine the matter is a CAM and how it was addressed in the audit. Specifically, they may want to understand how management describes the relevant financial statement account or disclosures within the company's financial statements.

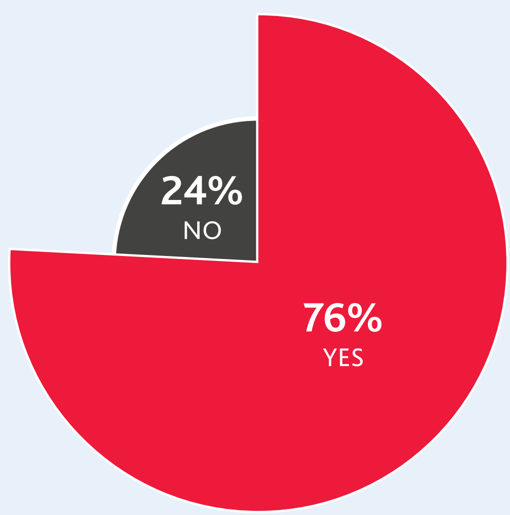
BDO View: CAM is a significant reporting area providing rich information for investors and an additional layer of transparency for trust in the markets. The PCAOB and SEC remain active in their oversight, and the PCAOB continues to issue **guidance** to auditors, management and audit committees to ensure adherence to the standard.

As was done for LAFs, auditors of non-LAFs are conducting dry-runs with management teams and audit committees to keep them apprised of the process and the type of CAMs being considered. These dialogues provide significant opportunity for companies to be timely in assessing their own disclosures, policies and controls related to certain matters that the auditor finds especially challenging, subjective or requires complex auditor judgment.

One particular area of focus for companies and investors is reconciling that while CAM often relates to matters that are identified as significant risks by management, it's not a one-to-one relationship. Similarly, matters other than those deemed as significant risks may rise to a CAM, such as non-recurring transactions.

Our BDO 2019 Board Survey indicated that the large majority of audit committees are working with their auditors to better understand the potential impact of CAM on financial reporting. In our engagement with directors–both our clients and via public forums–we find that boards that engage early in the process with auditors are much more informed and in better positions to respond to questions from users of financial statements.

HAS YOUR AUDIT COMMITTEE WORKED WITH YOUR AUDITORS TO BETTER UNDERSTAND THE POTENTIAL IMPACT OF CAM ON FINANCIAL REPORTING?



BDO maintains a **CAM resource center** to help keep clients and contacts current on developments in this area.

Controlling the Narrative

The board's responsibilities are more complex and under greater scrutiny than ever before. Shareholders—along with regulators, watchdogs and the public—demand unprecedented levels of accountability and transparency. Heading into the upcoming proxy season and shareholder meetings, it's critical for boards and executive leaders to be prepared to discuss how they are addressing key issues impacting their shareholders and stakeholders.

A look back at proxy trends from prior years, along with informed foresight, will serve boards and management teams well. Directors should be diligent and pay close attention to the information being shared by the company, comparing it to the materials and insights requested by shareholders and those who influence them. It's important that boards and management teams scrutinize their existing policies and disclosures to uncover any gaps and assess how they may be perceived by shareholders.

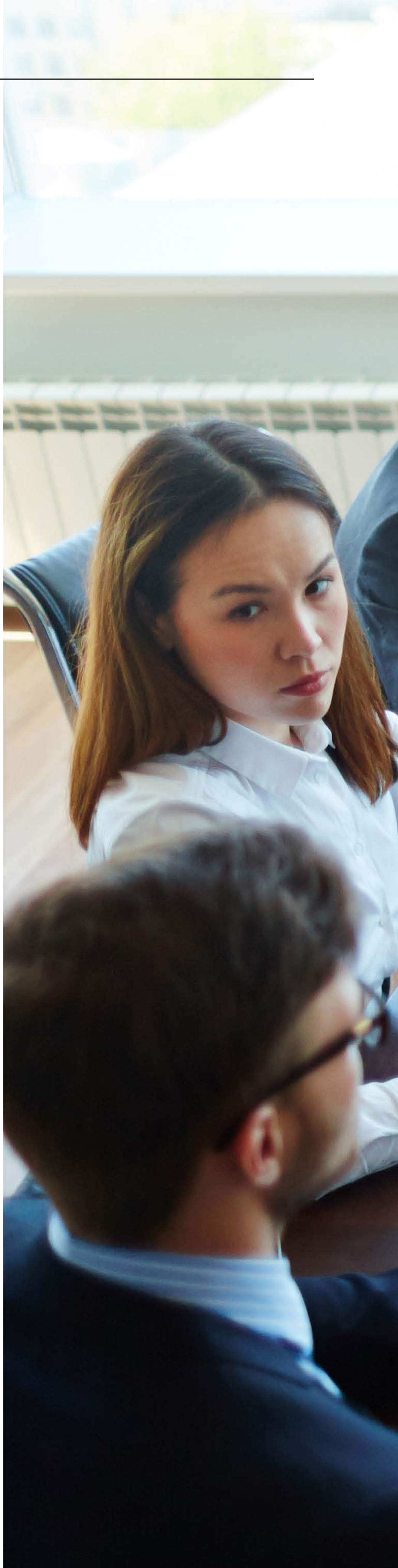
Additionally, direct engagement with shareholders can be highly effective to understand their concerns and potentially resolve issues proactively. This is evidenced by the many shareholder proposals that have not advanced to a vote or been withdrawn following direct dialogues with companies.

Companies and directors that take a lackadaisical approach and do not prioritize transparency or shareholder engagement risk losing control of their company's narrative and the confidence of the market.

We have only scratched the surface on the many issues that are important to shareholders and other stakeholders. To learn more, please join us and our seasoned panels—drawn from proxy advisors, institutional investors, attorneys and governance specialists—for our upcoming two-part webinar series:

- **What's on the Minds of Shareholders? (Part 1)**
  March 17, 2020 at 12PM ET
- **What's on the Minds of Shareholders? (Part 2)**
  March 24, 2020 at 12PM ET

In addition, BDO has compiled its annual **Year End Audit Committee Agenda**, a resource primarily designed for audit committees and management teams. It may also interest shareholders who want to better understand the underlying corporate considerations with respect to financial reporting, along with other governance issues.



Through our Center for Corporate Governance and Financial Reporting, BDO commits significant resources to keep our clients and contacts up to date on current and evolving technical, governance, industry, and reporting developments. Our thought leadership consists of timely alerts, publications, surveys, practice aids, and tools that span a broad spectrum of topics that impact financial reporting, as well as corporate governance. Our focus is not simply to announce changes in technical guidance, regulations, or emerging business trends, but rather to expound on how such changes may impact our clients' businesses. Through our various webinar offerings, we reach a broad audience and provide brief, engaging, just-in-time training that we make available in a variety of ways to meet the needs of your busy schedule.

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Europe
North America
South America
Q3

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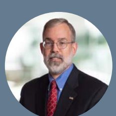

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