



# BoardroomDirect

The monthly newsletter for PwC's Center for Board Governance — December 2012

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## Worth reading

### Social Media And The Boardroom: Critical Questions Directors Need To Ask

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- *Fast Company*

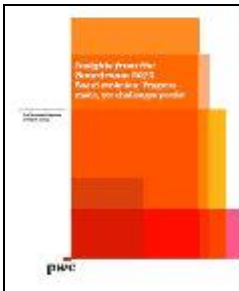
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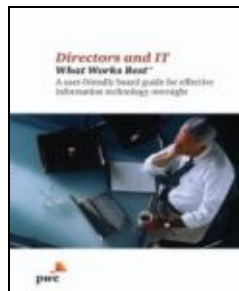
## Center for Board Governance Webcast

The January 16 quarterly webcast will focus on PwC's *Year-end questions for audit committees*. For more information and to view, click [here](#).

## Latest CBG publications



Directors are spending more time on board work and reconsidering their oversight approach, according to PwC's 2012 Annual Corporate Directors Survey.



Directors and IT — What Works Best™  
This comprehensive guide, was developed to help directors bridge the "IT confidence gap."

## NACD Board Leadership Conference

PwC Center for Board Governance Leader Mary Ann Cloyd discusses the takeaways from the NACD Blue Ribbon Commission report on boardroom diversity with Peter Gleason, NACD CFO and managing director. To watch, click [here](#).

## Contact us

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## Issue in focus

### IT oversight—Leveraging the CIO

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Many company directors and their chief information officers (CIOs) are struggling to understand each other's needs related to information technology. They are often challenged by IT's complexity and related technical language. CIOs aren't always sure which information the board wants or how to simplify the discussion.

The majority of directors acknowledge that investing in and leveraging IT for competitive advantage is a top priority for the future success of their company. IT is also an area that creates significant risks that need to be effectively mitigated. The CIO can play an integral part in helping directors sleep better at night by developing responsible and strategic IT investments and providing the board with regular updates.

So while directors understand the importance IT plays in business strategy and risk management, some may not be grasping the importance of the CIO relationship.

"Many boards should be asking, 'Why isn't my CIO my wingman?'" said Virginia Gambale, a former CIO who is now a director with JetBlue and two other companies. "For many companies and their boards that are trying to have a better relationship with customers and business partners, there is a technological element. So you have to wonder why the person who can give you the idea generation is not sitting there with you."

Carolyn Chin, chair and CEO of Health Wellness Solutions and a director with two other companies, reiterated the importance of the CIO to boards. She and Gambale sat on a panel on CIO optimization during the National Association of Corporate Directors (NACD) Board Leadership Conference in October.

"You can't think about a strategic change without including the CIO," Chin said. "They play an important part in the information flow processes that allow informed directors to ask educated questions."

Two recent research publications refer to the importance of the relationship between the CIO and the board in IT oversight.

The *Gartner-Forbes 2012 Board of Directors Survey: Stay in Balance* describes the desire for companies to increase IT spending over the next two years even during

uncertain economic times. A recent book by PwC (*Directors & IT — What Works Best<sup>TM</sup>*) provides a framework for directors to oversee IT. Both address the important role the CIO plays in helping boards understand IT risks and opportunities.

The *Gartner-Forbes survey* found that 86% of directors worldwide believe IT's strategic contribution to business will increase by 2014, with 18% saying the increase will be significant. Overall, IT was tied with sales as top investment priorities for boards. The survey also found a lot of exuberance for IT driving business and giving companies a competitive advantage. Sixty-six percent of directors agreed with the statement, "We start with people first, and IT provides the tools they need to compete." And half agreed with the statement, "In our industry, we see IT as a way to change the rules of competition."

In *Directors & IT — What Works Best<sup>TM</sup>*, PwC defines an "IT confidence gap" for board members as situations where directors want to better comprehend risks and opportunities related to IT, but they don't have an adequate understanding or the tools to be effective in their IT oversight role.

The PwC book describes various approaches to director and CIO communications. It cites the 2012 PwC *Annual Corporate Directors Survey* result that only 18% of boards are communicating with the CIO at every formal board meeting and that 14% aren't communicating at all. This may be contributing to the IT confidence gap along with several other factors:

- Many directors grew up in a predigital age; their average age is 62.
- Very few directors have IT backgrounds. (Less than 1% of Fortune 500 board members have been or are currently CIOs.)
- Board time is at a premium. (Almost 60% of directors responding to the PwC *Annual Corporate Directors Survey* would like their boards to devote more time to IT oversight; only half of current board members spend more than 5% of their time on it.)
- Technology is changing at a rapid pace.

Don Keller, a partner in PwC's Center for Board Governance who was the chief architect of the *Directors & IT* book, and a panel of experts at the NACD Board Leadership Conference all emphasized the importance of the CIO using appropriate IT oversight metrics to report to the board. Keller also pointed out that directors and CIOs have to prioritize the IT issues most relevant to the company.

"There are a lot of areas to consider, including data security, mobile computing, data privacy, social media, streamlining business processes with digital means, and cloud services," Keller said. "But not all of them may be equally important to a particular company."

Keller was referring to the third step in the six-step PwC IT Oversight Framework. The framework is a process boards can use to provide a structured approach for IT oversight, including oversight practices to facilitate those all-important discussions with the CIO. Those steps include:

- **Assessment:** Evaluate the company's current IT situation, while considering various factors, and conclude how critical IT is to the company's current and future success.
- **Approach:** Agree on the board's IT oversight approach including who is responsible (the full board, the audit committee, a risk committee, etc.), how often to discuss IT, and when to talk with the CIO.
- **Prioritization:** Identify the IT subjects most relevant to the company and focus oversight efforts on those areas.
- **Strategy:** "Bake" IT initiatives into the board's oversight of overall company strategy based on the importance of IT to the company.
- **Risk:** Include IT risks as part of the board's risk management oversight process.
- **Monitoring:** Adopt a continuous IT oversight process, regularly revisit the efficacy of that process, and measure results.

Such a framework can only work if a board is committed to understanding the role IT plays in the company and the opportunities and risks that are most relevant.

#### **What directors should know about IT risk oversight:**

- Fifty-six percent of directors believe the effective use of IT in creating long-term shareholder value is critical or very important and another 33% believe it is somewhat important. (*Annual Corporate Directors Survey*)
- Nearly 60% of directors would like to devote more board time to IT. (*Annual Corporate Directors Survey*)
- Directors may have an IT confidence gap, which can be attributed to a variety of factors but can be overcome with a solid process for oversight. Historically, there have not been a lot of tools for boards to use.
- Understanding the company's current IT environment is an essential starting point for deciding on an appropriate process.
- Make sure to prioritize the most important IT areas for oversight.
- The IT oversight process should be continuous and provide the board with adequate information for effective monitoring.

## Issues in brief

### Our 2012 focus on audit quality report

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PwC recently released its 2012 report, *Our focus on audit quality*.

As noted in the report, during our fiscal year ended June 30, 2012, we continued to make improvements designed to support our commitment to audit quality. Some examples of these improvements include almost tripling the amount of time partners in our Chief Auditor Network have committed to spend on activities supporting audit teams, and enhancing both our audit processes and learning and development programs.

The report includes our 2012 Transparency Report, which meets the requirements of Article 45(5)(e) of the European Union's Directive on Statutory Audit 2006/43/EC.

Read the complete report [here](#).

### Corporate disclosure, financials lead 2012 whistleblower tips

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The highest number of whistleblower tips made in 2012 — the first full year of the SEC's whistleblower program — related to corporate disclosure and financials.

Of the 3,001 tips, complaints, and referrals made to the SEC in the year ended September 30, 2012, 18%, or 547, were in that category, followed by 16% related to offering fraud, and 15% related to market manipulation. However, there was only one financial award paid out this year. It was \$50,000 to a whistleblower whose tip led to a \$1 million court order in sanctions. In that case, the tipster received 30% of the \$150,000 that had been collected. There were 143 enforcement judgments and orders issued during fiscal year 2012 that potentially qualify as being eligible for a whistleblower award. **[Read the SEC press release [here](#) and the whistleblower report [here](#).]**

For background on the SEC whistleblower program, read [\*To the point — Summer 2011: How to prepare for whistleblower investigations\*](#).

## **Spencer Stuart: Directors getting older, staying longer**

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Directors at S&P 500 companies are getting older and staying longer. More boards are setting a mandatory retirement age and those that have such a requirement are raising it to 75 years or older, according to the [2012 Spencer Stuart US Board Index](#).

The annual survey of corporate secretaries and general counsel found that S&P 500 boards elected 291 new directors in 2012, the smallest number of new appointees since 2001. Also, the average age of independent directors on S&P 500 boards rose to 62.6 from 61 five years ago. A decade ago, 39% of boards had an average age of 59 or younger, compared with 16% today. And more new directors are retired executives (38% vs. 29% in 2007).

In 2012, 73% of all S&P 500 boards set a mandatory retirement age, up from 55% in 2002. Twenty-two percent set mandatory retirement at 75 years or older and 54% put it at 72. Ten years ago, just 2% of 268 boards had a retirement age of 75 or older and 59% had it at 70.

The PwC 2012 [Annual Corporate Directors Survey](#) found that 35% of respondents have been on their current board for more than 10 years. Also, nearly one-third of survey participants responded that a fellow director should be replaced.

Some other major findings from the Spencer Stuart Board Index include:

- More boards are limiting the number of other corporate directorships for their directors (74% in 2012 vs. 55% in 2007).
- While fewer than 4% of S&P 500 companies report a formal policy to separate the chair/CEO role, 43% actually split those roles, compared to 25% that did so in 2002.
- The pace of change toward a more diverse board has been "discouraging" in the U.S., with women accounting for just over 17% of independent directors, up from 16% in 2007 and 12% in 2002.

## **Audit committee issues**

### **SEC Chair Schapiro steps down**

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As Mary Schapiro leaves the SEC this month, it is not known who will be the long-term successor or when the commission will have five members again.

Elisse Walter, a commissioner who has stayed on past the June 2012 expiration of her five-year term, was named by President Obama to take over as chair. Walter is allowed by law to remain on the commission 18 months after her term expires (December 2013) or until she is renominated. She is considered to be among the candidates for the chair position on a more long-term basis. **[[Read the SEC press release and Bruce Carton's Compliance Week blog post for more on Schapiro's resignation.](#)]**

"I want to express my deep gratitude to Mary Schapiro for her steadfast leadership at the SEC," President Obama said in a November 26 statement. "When Mary agreed to serve nearly four years ago, she was fully aware of the difficulties facing the SEC and our economy as a whole. But she accepted the challenge, and today, the SEC is stronger and our financial system is safer and better able to serve the American people."

According to an SEC press release, during her tenure, Schapiro worked to bolster the SEC's enforcement and examination programs, among others. As a result of a series of reforms, the agency is more adept at pursuing tips and complaints provided by outsiders, better able to identify wrongdoers through vastly upgraded market intelligence capabilities, and more strategic, innovative and risk-focused in the way it inspects financial firms, according to the release.

In another development, Meredith Cross, the director of the Division of Corporation Finance under Schapiro, announced she is leaving as of December 31. According to an SEC press release, Cross, who has served in that position since 2009, will return to the private sector.

### **FCPA resource guide released**

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The SEC and U.S. Department of Justice recently released *A Resource Guide to the U.S. Foreign Corrupt Practices Act*. **[[Read the press release here.](#)]**

The 120-page guide addresses a wide variety of topics covered by the FCPA's anti-bribery and accounting provisions, including the definition of a foreign official; what

constitutes proper and improper gifts, travel, and entertainment expenses; facilitating payments; and how successor liability applies in mergers and acquisitions. It also includes hypotheticals, examples of enforcement actions, matters that the SEC and DOJ declined to pursue, and summaries of case law and opinion releases.

"The guide is an important illustration of our transparency and a useful reference for companies and individuals who wish to act responsibly and in compliance with the law," said Assistant Attorney General Lanny A. Breuer of the Department of Justice's Criminal Division.

Fraud risk is among boards' top concerns, according to the PwC 2012 *Annual Corporate Directors Survey*. Boards have taken such actions as discussing tone at the top (46%), increasing time spent on board discussions of risks embedded in compensation plans (38%), and interacting more with members of management below the executive level (31%).

### **Resources, webcasts, and events**

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***Directors and IT — What Works Best™***: This comprehensive guide was developed to help directors bridge the "IT confidence gap." Part 1 of the guide outlines a structured and efficient six-step oversight process that should help directors decide on and execute their approach to IT oversight. Part 2 provides background information, potential rewards and risks, and board considerations about various IT subjects that may be relevant to a company. **To learn more about the *Directors and IT — What Works Best™* guide, click [here](#).**

***Insights from the Boardroom 2012 (PwC's Annual Corporate Directors Survey)***: Our latest corporate directors survey found that corporate governance is undergoing significant change, which means directors across the country are spending more time on board work and reconsidering their oversight approach. Directors want to devote more time to risk management, strategy, and IT oversight. Explore our 2012 *Annual Corporate Directors Survey* for a deeper look into directors' views on these and other topics. **To learn more, click [here](#).**

**Center for Board Governance Webcast**: The January 16 quarterly webcast will focus on PwC's *Year-end questions for audit committees*. It will be moderated by Mary Ann Cloyd, PwC Center for Board Governance Leader. **For more information and to view, click [here](#).**

**NACD BoardVision (Key Takeaways from Diversity Blue Ribbon Commission panel at Board Leadership Conference):** NACD Managing Director and CFO Peter Gleason interviews PwC's Mary Ann Cloyd following the diversity panel at NACD's Annual Board Leadership Conference in October. **To watch, click [here](#).**

**Board Governance Series, Vol. 22:** This issue of the Corporate Board Member magazine series includes an interview with Mary Ann Cloyd, PwC Center for Board Governance Leader, on what directors need to know about conflict minerals. Other articles in this volume include interviews with other corporate governance leaders on such topics as compensation committee basics and dealing with cyber risk. **To read, click [here](#).**

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