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Risk Intelligent Proxy Disclosures — 2013

Trending upward

The Securities and Exchange Commission (SEC) issued rules, effective on February 28, 2010, requiring disclosure in proxy statements about the board's role in risk. Since then, in 2010, 2011, and 2013, Deloitte has analyzed disclosures in proxy statements issued by the companies comprising the S&P 200 to identify risk governance and oversight practices. This document reports key findings of the 2013 analysis and sets them in the context of our previously reported 2011 and 2010 analyses.

Highlights of the 2013 findings for the S&P 200 companies that filed proxy statements between January 1 and May 31, 2013, include the following:

- Based on disclosures, risk oversight practices by boards continue to grow, with an increasing trend toward risk-related responsibilities being distributed among various board committees (audit committee, risk committee, etc.). However, the allocation of responsibilities and practices vary by industry.
- Disclosure of risk-related practices relating to management continues to trend gently upward as well, with slightly higher percentages of companies noting the presence of a chief risk officer (CRO) or a management risk committee than in 2011, but a slightly lower percentage disclosing whether the chief executive officer (CEO) is responsible for risk or specifically how the CEO is involved.
- Among our five industry groupings (financial services, telecommunications, media & technology, consumer & industrial products, life sciences & health care and energy & resources) financial services exhibited the most activity in terms of the percentages of companies either increasing or decreasing disclosure of specific risk-related practices. This would be expected given the highly regulated nature of this sector and the significant regulatory attention it has received in recent years.
- Thirty percent of companies separately addressed reputational risk, up from 25 percent in 2011 and 17 percent in 2010, reflecting growing concern among companies regarding this rapidly proliferating risk.

Before turning to the detailed findings, we provide the following background for readers seeing this analysis for the first time and for those who want to refresh their knowledge of Deloitte's point of view in this area.

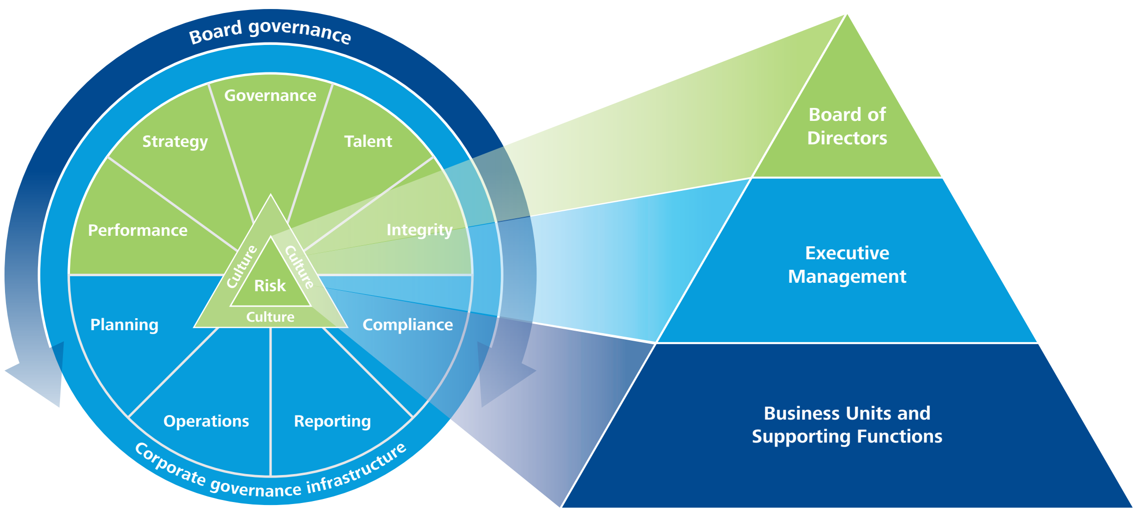
Background

Since the SEC's risk disclosures rule in proxy statements became effective in February 2010, risk governance and risk management have continued to hold high priority on board and senior executive agendas. Although the financial services industry (FSI) has perhaps been most affected by regulatory change in these areas, companies across industry groups have worked to improve their risk-related practices in recent years. Over that same period disclosures have evolved and improved, consistent with stakeholder expectations and the intent of the SEC rules.

Risk-related practices have become increasingly important because of escalation in the type, number, and magnitude of risks and because investors (as well as regulators) have expressed growing concern about risk governance and oversight. The SEC rules, which apply to all public companies that issue proxy statements, are one example of regulatory interest in this area; the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) is another. Regulations, whether required by Dodd-Frank or otherwise, aim to provide greater visibility into risk governance and oversight.

Deloitte analyzed the proxy statements in much the same way as an investor or other stakeholder would, to evaluate each company's risk governance and oversight practices. The considerations for which we reviewed the proxy statements reflect our understanding of the intent of the SEC's amended rules and the tenets of the Risk Intelligent Enterprise™, which embodies Deloitte's philosophy of and approach to risk, and the risk-related responsibilities associated with Deloitte's governance framework (see Exhibit 1).

Exhibit 1. Deloitte's Governance Framework



Deloitte's governance framework (the circular diagram) broadly delineates the board's and management's risk-related responsibilities[i]. Those that are mainly the board's responsibilities, which relate to risk oversight, are shown in the top half of the circle and those that are mainly management's are in the lower half. The "pyramid" emanating from the triangle in the center depicts the board's and management's relative risk oversight and management roles.

For 2013, we analyzed the proxy statements of all S&P 200 companies that filed their proxy statements between January 1, 2013 and May 31, 2013 (a total of 170 companies), using 12 considerations as our guide. These considerations are consistently cited as key areas of interest by board members and senior executives in interactions with Deloitte. Specifically, Deloitte reviewed the proxy statements for language referring to each of the 12 considerations listed in Exhibit 2 (also see "Methodology" sidebar). In this third year of this review, we can also compare trends in risk-related practices.

Methodology

As follow-up to its 2011 and 2010 reviews of risk-related disclosures in corporate proxy statements, in 2013 Deloitte analyzed the risk disclosures in proxy statements filed by 170 S&P 200 companies between January 1, 2013 and May 31, 2013.

The SEC website, specifically the EDGAR[1] platform , was our source of proxy statements. We limited the analysis to the information included within the "board's role in risk oversight" (or similar) section or paragraphs of the proxy statement. If the statement did not include such a section, we analyzed the "board leadership" or "board structure" paragraphs within the proxy statement. If we could not identify the risk disclosure within these two sections, we assigned a "no" classification to that consideration even though a consideration may have been included elsewhere in the proxy statement. (See Exhibit 2 for the 12 considerations Deloitte used.) The goal of our analysis was to determine whether specific aspects of board-level risk oversight and senior executive-level risk management were covered in the organization's proxy disclosure.

Of the S&P companies that whose proxy statements were reviewed in 2013, 2011, and 2010, there were 132 companies common to the sample in each year. Those companies form the basis of the year-to-year comparisons in Exhibits 4 and 5.

[1] The SEC's Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system performs automated handling of filings submitted by companies to the SEC.

Key findings for entire sample

The results for all sample companies for the years 2013, 2011, and 2010 are shown in Exhibit 2.

Exhibit 2. Findings on risk proxy disclosure considerations (entire sample)

Select risk information in proxy filings	2013 (170)	2011 (170)	2010 (398)[2]
1. Does the disclosure note that the full board is responsible for risk?	91%	90%	86%
2. Is the audit committee noted as the primary committee responsible for risk?	64%	64%	58%
3. Are other board committees noted as being involved in risk oversight?	91%	89%	82%
4. Is the compensation committee disclosed as being responsible for overseeing risk in the compensation plans?	67%	62%	53%
5. Does the company have a separate board risk committee?	6%	6%	4%
6. Does the company disclose whether risk oversight/management are aligned with the company's strategy?	47%	47%	34%
7. Does the disclosure note whether the chief executive officer (CEO) is responsible for risk management or how the CEO is involved?	33%	35%	22%
8. Does the company have a chief risk officer (CRO)?	21%	21%	12%
9. Does the company have a risk management committee (at the management level)?	24%	23%	19%
10. Does the disclosure note how the board is involved with regard to the company's risk appetite?	13%	11%	11%
11. Does the disclosure note the board's oversight with regard to corporate culture?	8%	7%	5%
12. Does the disclosure separately address reputational risk?	30%	25%	17%

Note: Green highlighting indicates an increase from 2011; red indicates a decrease.

As Exhibit 2 shows, the companies included in our analysis reported at least slight increases over 2011 percentages regarding seven of the 12 considerations and held steady on four of the remaining five considerations. On only one consideration — the percentage disclosing whether the chief executive officer (CEO) is responsible for risk management or how the CEO is involved — was there a slight decrease.

Note the steady increase in the percentage of companies separately addressing reputational risk (consideration #12). Deloitte has found reputational risk to be an increasing and highly significant concern among board members and senior executives. For instance, a separate strategic risk survey conducted by Deloitte in conjunction with Forbes Insights[ii] found that reputational risk was, in a set of 19 risks, the risk most often cited among the top five that "have the most impact on your business strategy today." Cited by 40 percent of all respondents in that survey, reputational risk was noted more frequently than business model risk (32 percent) or economic conditions/trends or competition (each 27 percent).

[2] The 2010 sample included all companies in the S&P 500 that filed proxy statements in the period studied. The 2011 and 2013 samples included all companies in the S&P 200 that had done so.

Findings for 2013 for all companies, by industry

The results for the entire sample of companies — and the industry breakdown[3] — for 2013 are shown in Exhibit 3.

Exhibit 3. S&P 200 and industry categories (entire sample, 2013)

Select risk information in proxy filings	S&P 200 (170)	FSI (26)	TMT (23)	C&IP (72)	LS&HC (18)	E&R (31)
1. Does the disclosure note that the full board is responsible for risk?	91%	88%	83%	93%	94%	90%
2. Is the audit committee noted as the primary committee responsible for risk?	64%	50%	52%	71%	67%	65%
3. Are other board committees noted as being involved in risk oversight?	91%	85%	87%	92%	94%	97%
4. Is the compensation committee disclosed as being responsible for overseeing risk in the compensation plans?	67%	65%	78%	67%	50%	71%
5. Does the company have a separate board risk committee?	6%	31%	4%	1%	0%	3%
6. Does the company disclose whether risk oversight/management are aligned with the company's strategy?	47%	31%	52%	51%	61%	39%
7. Does the disclosure note whether the chief executive officer (CEO) is responsible for risk management or how the CEO is involved?	33%	35%	35%	32%	28%	35%
8. Does the company have a chief risk officer (CRO)?	21%	69%	4%	8%	17%	23%
9. Does the company have a risk management committee (at the management level)?	24%	42%	22%	17%	17%	32%
10. Does the disclosure note how the board is involved with regard to the company's risk appetite?	13%	31%	9%	8%	22%	6%
11. Does the disclosure note the board's oversight with regard to corporate culture?	8%	23%	4%	4%	6%	6%
12. Does the disclosure separately address reputational risk?	30%	50%	17%	28%	33%	26%

Note: Green highlighting indicates highest percentage across industries for the respective consideration.

[3] The industry categories are: FSI = Financial Services Industry; TMT = Telecommunications, Media & Technology; C&IP = Consumer & Industrial Products; LS&HC = Life Sciences & Health Care; E&R = Energy & Resources

Among the industry groupings, FSI tends to have the highest percentage of companies reporting for most considerations (with a three-way tie regarding consideration #7). This is to be expected given the history of risk management in this industry, the highly regulated nature of this industry, and the regulatory attention it has received in recent years. A "first place" percentage on a given consideration for an industry is not the point, however, and this leads to a more important fact: every company should develop, implement, and disclose the risk-related practices best suited to its business, risks, and risk management approach.

Key trends among recurring companies

Exhibit 4 provides a view of changes in risk-related areas among the companies common to the sample in each of the three years studied. This provides a comparison among S&P 200 companies disclosing their practices over the period of analysis.

As the exhibit indicates, the trend in risk governance and risk management policies among these companies is mainly positive, although often marginally incremental. In 2013 as compared with 2011, these companies reported at least slight increases regarding nine of the 12 considerations. On two considerations (considerations #5 and #6), the percentages remained unchanged, and on one (consideration #11) there was a slight decrease. This follows the generally positive trend established in 2011 as compared with 2010.

As noted above, of particular interest is the relatively large increase in companies whose disclosures separately addressed reputational risk (consideration #12) — to 33 percent in 2013 versus 28 percent in 2011 and 24 percent in 2010.

Exhibit 4. Trend analysis (132 recurring companies)

Select risk information in proxy filings	2013	2011	2010
1. Does the disclosure note that the full board is responsible for risk?	89%	87%	86%
2. Is the audit committee noted as the primary committee responsible for risk?	66%	63%	64%
3. Are other board committees noted as being involved in risk oversight?	90%	87%	82%
4. Is the compensation committee disclosed as being responsible for overseeing risk in the compensation plans?	67%	60%	53%
5. Does the company have a separate board risk committee?	7%	7%	5%
6. Does the company disclose whether risk oversight/management are aligned with the company's strategy?	45%	45%	39%
7. Does the disclosure note whether the chief executive officer (CEO) is responsible for risk management or how the CEO is involved?	36%	33%	28%
8. Does the company have a chief risk officer (CRO)?	22%	20%	18%
9. Does the company have a risk management committee (at the management level)?	24%	21%	20%
10. Does the disclosure note how the board is involved with regard to the company's risk appetite?	12%	11%	8%
11. Does the disclosure note the board's oversight with regard to corporate culture?	6%	7%	5%
12. Does the disclosure separately address reputational risk?	33%	28%	24%

Note: Green highlighting indicates an increase from 2011

As the 2013 to 2011 comparisons in Exhibit 4 (and Exhibit 2) indicate, change is largely incremental among these major companies with regard to most of these considerations. However, for certain considerations, a comparison of 2013 recurring sample results with those for 2010 indicates more significant change. For example, in the three-year period, more substantial percentages of these companies have begun noting that other board committees are involved in risk oversight (consideration #3, rising to 90 percent in 2013 from 82 percent in 2010), disclosing that the compensation committee is responsible for overseeing risk in the compensation plans (consideration #4, rising to 67 percent from 53 percent), and, again, addressing reputational risk separately (consideration #12, rising to 33 percent from 24 percent).

Examining these considerations, we can tie them back to the tenets of the Risk Intelligent Enterprise and the "pyramid" in Exhibit 1: considerations #1 through #5 focus on risk-related responsibilities associated mainly with the board, considerations #6 through #9 focus on those associated more with management, and considerations #10 through #12 may be thought of as "leading practices" that are foundational to the Risk Intelligent Enterprise.

Further, it may be useful to view these considerations and the percentages in Exhibit 4 in the following context:

- **Board risk-related responsibilities:** On these five considerations, companies generally tended to rank more highly than on the other considerations, likely as a result of the SEC Rule requirements. About nine in ten disclosed that the full board is responsible for risk (consideration #1) and that other board committees (that is, other than the audit committee) are involved in risk oversight (consideration #3). Over 60 percent disclosed that the audit committee is the primary committee responsible for risk (consideration #2) and that the compensation committee is responsible for overseeing risk in the compensation plans (consideration #4). However, only 7 percent reported having a board-level risk committee; these companies were primarily found in the financial services industry.
- **Management's risk-related responsibilities:** The results for these considerations revealed generally lower percentages of companies disclosing use of these practices than of those related to the board's risk-related responsibilities. However, almost half disclosed whether risk oversight/management are aligned with the company's strategy (consideration #6) and about a third disclosed the CEO's responsibility for, or involvement in, risk management (consideration #7). About a quarter disclosed having a management risk committee (consideration #9), although this is an increasing trend in formalizing the risk management infrastructure.
- **"Leading practices":** Only 12 percent disclosed the board's involvement risk appetite (consideration #10), which can be difficult to define, particularly in non-financial companies, and only 6 percent noted the board's oversight regarding corporate culture (consideration #11). Yet one-third disclosed separately addressing reputational risk (consideration #12).

The generally upward trend among these companies demonstrates gradual adoption or disclosure of the practices underlying each of these considerations. This trend is also evident in the entire sample of companies.

In addition, certain industry-specific results and trends occurring among the companies common to all three years reviewed are of particular interest (see Exhibit 5).

In year-to-year comparisons for companies in the recurring sample, the following industry-specific points are noteworthy:

- Financial Services Industry (FSI): In 2013 versus 2011, a smaller percentage of financial institutions disclosed the audit committee as the board committee primarily responsible for risk (consideration #2) while the percentage disclosing that they had board-level risk committees (consideration #5) remain unchanged. However, these are substantially offset by increases in the percentages disclosing that other board committees are responsible for risk (consideration #3) and that the compensation committee is responsible for risk in the compensation plans (consideration #4). Perhaps more anomalous are the lower percentages disclosing the CEO's role in risk management (consideration #7) and the board's role in the corporate culture (consideration #11). These findings may, however, be offset by higher percentages having a CRO (consideration #8) and having a risk committee at the management level (consideration #9). In addition, many financial institutions are awaiting certain of the final rules regarding implementation of Dodd-Frank, which when passed will trigger an increase in some of these areas, including having a separate board-level risk committee.
- Technology, Media & Telecommunications (TMT): TMT companies disclosing risk-related practices revealed increases in the percentages of companies noting four of the practices in 2013 versus 2011 and unchanged percentages regarding the other practices. Greater percentages have the audit committee as the primary committee responsible for risk (consideration #2), the compensation committee responsible for risk in compensation plans (consideration #4), and a risk committee at the management level (consideration #9). None has a separate board-level risk committee.
- Consumer & Industrial Products (C&IP): Results for companies in this industry revealed increased percentages in seven of the 12 considerations, and there were no decreases. Though the increases in percentages were often incremental, the trend and breadth of activity appears to indicate that some boards and executives at S&P 200 C&IP companies may be reconsidering their roles in risk governance and management and are making adjustments. Also note the 31 percent with disclosures separately addressing reputational risk (consideration #12), a concern for any company with a strong brand identity, which many C&IP companies have cultivated and rely upon.
- Life Sciences & Health Care (LS&HC): This industry exhibited the least amount of change in 2013 versus 2011. Higher percentages noted that other board committees (that is, other than the audit committee) are involved in risk oversight (consideration #3) and that the company has a management risk committee (consideration #9). A lower percentage noted having a CRO (consideration #8). As in 2011 and 2010, while there was no change in the number of companies disclosing that they are addressing reputational risk (consideration #12), the percentage of companies in LS&HC that address it is second only to that of FSI in each of the three years reviewed.
- Energy & Resources (E&R): As in FSI and C&IP, companies in this industry were among the more active in 2013 versus 2011, registering gains in the percentages regarding five of the 12 considerations. Most notable were the larger percentages noting that the audit committee is the primary committee responsible for risk (consideration #2), that risk oversight is aligned with the company's strategy (consideration #6), and that the CEO is responsible for risk management or otherwise involved in risk management (consideration #7). Of note is that there were no considerations within the E&R industry that registered a lower percentage in 2013. Also, this group was the only one reporting an increase in the percentage noting whether risk oversight/management is aligned with the company's strategy (consideration #6).

Exhibit 5. S&P 200 and industry trends (total S&P 200 sample of 132 recurring companies)

Select risk information in proxy filings	S&P 200			FSI			TMT			C&IP			LS&HC			E&R		
	2013	2011	2010	2013	2011	2010	2013	2011	2010	2013	2011	2010	2013	2011	2010	2013	2011	2010
1. Does the disclosure note that the full board is responsible for risk?	89%	87%	86%	86%	86%	82%	81%	81%	75%	91%	87%	87%	93%	93%	93%	88%	88%	88%
2. Is the audit committee noted as the primary committee responsible for risk?	66%	63%	64%	50%	55%	59%	56%	50%	44%	75%	71%	75%	73%	73%	73%	63%	54%	54%
3. Are other board committees noted as being involved in risk oversight?	90%	87%	82%	82%	77%	73%	88%	88%	81%	91%	87%	82%	93%	87%	80%	96%	96%	92%
4. Is the compensation committee disclosed as being responsible for overseeing risk in the compensation plans?	67%	60%	53%	68%	59%	59%	75%	63%	56%	69%	60%	51%	47%	47%	40%	67%	67%	58%
5. Does the company have a separate board risk committee?	7%	7%	5%	32%	32%	23%	0%	0%	0%	2%	2%	0%	0%	0%	0%	4%	4%	4%
6. Does the company disclose whether risk oversight/ management are aligned with the company's strategy?	45%	45%	39%	36%	41%	41%	44%	44%	44%	51%	51%	44%	60%	60%	53%	33%	25%	17%
7. Does the disclosure note whether the chief executive officer (CEO) is responsible for risk management or how the CEO is involved?	36%	33%	28%	36%	41%	27%	31%	31%	31%	38%	33%	27%	33%	33%	40%	33%	25%	21%
8. Does the company have a chief risk officer (CRO)?	22%	20%	18%	64%	55%	45%	6%	0%	0%	9%	9%	9%	20%	27%	20%	25%	25%	25%
9. Does the company have a risk management committee (at the management level)?	24%	21%	20%	36%	32%	32%	25%	19%	13%	18%	18%	18%	20%	13%	13%	29%	25%	21%
10. Does the disclosure note how the board is involved with regard to the company's risk appetite?	12%	11%	8%	27%	27%	14%	13%	13%	13%	7%	5%	4%	20%	20%	20%	4%	4%	4%
11. Does the disclosure note the board's oversight with regard to corporate culture?	6%	7%	5%	18%	23%	14%	6%	6%	0%	2%	2%	2%	7%	7%	7%	4%	4%	4%
12. Does the disclosure separately address reputational risk?	33%	28%	24%	55%	41%	41%	19%	19%	6%	31%	25%	22%	40%	40%	40%	25%	21%	17%

Note: Green highlighting indicates an increase from 2011; red indicates a decrease.

Readers interested in the effects of specific industries' percentages on the overall picture are invited to compare industry percentages in each year and the year-to-year movements of percentages in industries in the recurring sample in 2013, 2011, and 2010. For instance, the small increase in the overall percentage of companies disclosing that the audit committee is the primary committee responsible for risk (consideration #2) was due to increases in three industries — TMT, C&IP, and E&R — offset by the decrease in FSI. The increase in the percentage disclosing that other board committees are involved in risk oversight is also due to three industries: FSI, C&IP, and LS&HC.

Bear in mind that these percentages are not presented as representative of all public companies. That said, risk-related disclosures in proxy statements are indicative of board and management risk-related practices, as intended by the SEC rules, which apply to all public companies, and by the companies providing the disclosures.

What to do, and why to do it?

In the prevailing business, economic, investment, and regulatory environment, risk governance and risk management remain high priorities for boards, executives, investors, regulators, and other stakeholders in public companies. The number and variety of demands, however, can make identifying and ordering priorities a challenge.

From that standpoint, the 12 considerations Deloitte analyzed can serve as a good starting point. They can frame major decisions, such as whether or not to have a board-level risk committee, a CRO, or management risk committee, and thus assist the board and management in thinking through those issues. The considerations can also highlight areas in which "drilling down" and more detailed decisions and initiatives are in order. For instance, if there is — or isn't — a board-level risk committee, how is risk oversight distributed across other committees? What is the relationship among board committees, such as the audit, compensation, and nominating committees, regarding risk? Is there a mechanism in place through committee charters or other means to ensure that coverage of risk across board committees is complete without "gaps"? More broadly, how can the board best define and execute its risk-related responsibilities?

The latter question leads to issues that underlie those noted in the risk-related disclosures. They center on the governance framework, corporate culture, board and management committee charters, and business and operating models — the means by which risk governance and risk management are implemented throughout the organization. Disclosures thus play a valuable, two-fold role for companies and their stakeholders, first, by focusing board and management attention on key issues in risk governance and oversight and, second, by disclosing risk-related practices to stakeholders.

So in terms of *what* to do, we offer the following suggestions:

- Determine which risk-related practices best suit the organization, given its objectives, drivers of shareholder value, risks, and stakeholder expectations.
- Keep risk and risk disclosures on the board and management agenda and monitor risk-related disclosures in the proxy statements of peers, competitors, customers, and suppliers and use their practices as benchmarks, goals, or starting points.
- Educate the board and management continually regarding risk, risk governance, and risk management and leading practices.
- Ensure that your disclosures and other communications fully and accurately present your practices to stakeholders and that your practices continually evolve to meet the evolving risks in the environment and evolving regulatory requirements.

As to *why* to improve your organization's disclosures, stakeholders such as investors, regulators, customers, suppliers, and strategic partners are increasingly focused on companies' risk-related practices. As risks continue to evolve, their interest will continue and may intensify. Organizations that achieve and maintain excellence in risk governance and risk management and tell their story fully, accurately, and effectively may gain competitive advantage and will certainly have taken steps to protect and enhance shareholder value .

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Endnotes

i Framing the future of corporate governance: Deloitte Governance Framework
ii Exploring Strategic Risk: 300 executives around the world say their view of strategic risk is changing www.deloitte.com/strategicrisksurvey