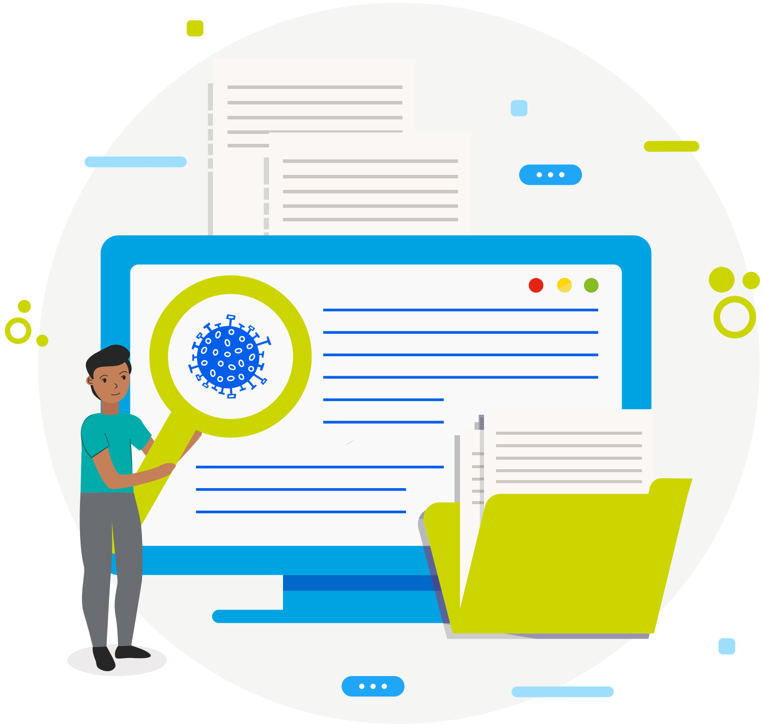
The Board's role in the COVID-19 crisis

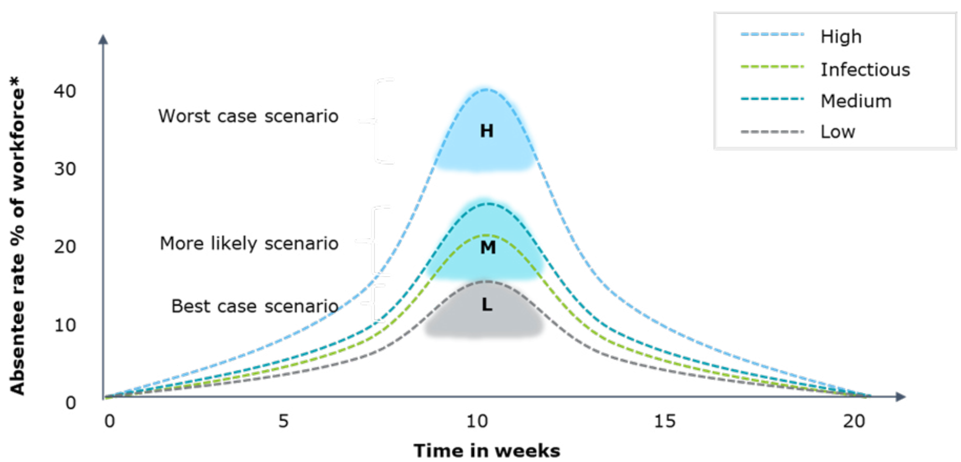
COVID-19 - a global human, societal and economic shock



COVID-19 has spread all over the world, with some countries slowly returning to business as usual, others that continue being impacted, and those that are only in the beginning stages of dealing with the global pandemic.

This represents a true crisis and unique challenge for nearly every Board of directors today; with the impact of strained supply chains, liquidity concern, financial strain, the move to remote working: the list of operating challenges seems endless.

None of us can predict the true impact of the pandemic on the global economy, but at this pivotal moment, there are clear choices to be made. The way in which Boards do their work at this time will be a critical factor in an organisation's ability to emerge from the current crisis and push forward into a new era of economic recovery and opportunity for the benefit of all stakeholders. Even though we have been in crisis mode for some time, in many respects we are only in the initial stages of COVID-19, dealing with a number of key uncertainties including the impact of measures the government will need to take to fight the virus and the degree to which organisations are resilient enough to weather the crisis. There is also uncertainty regarding the extent to which the workforce will be affected in the long term due to COVID-19. The diagram below depicts the correlation between the percentage of the workforce that will be absent from day-to-day duties in the typical organisation due to COVID-19 and the duration of this pandemic.



Some estimates suggest a nine-week epidemic period. However, 'delay' measures to reduce the peak infection rate may prolong the epidemic to 15-20 weeks, thereby dampening the curve.

Companies are currently doing everything possible to stabilise the situation – knowing that the actions taken now are critical and will define the recovery effort once the crisis fades. We believe that a typical crisis plays out over three time frames: **Respond** (how to react to the crisis); **Recover** (how to position for the rebound) and **Thrive** (how to ensure success in post COVID-19 world).

Respond
Manage continuity

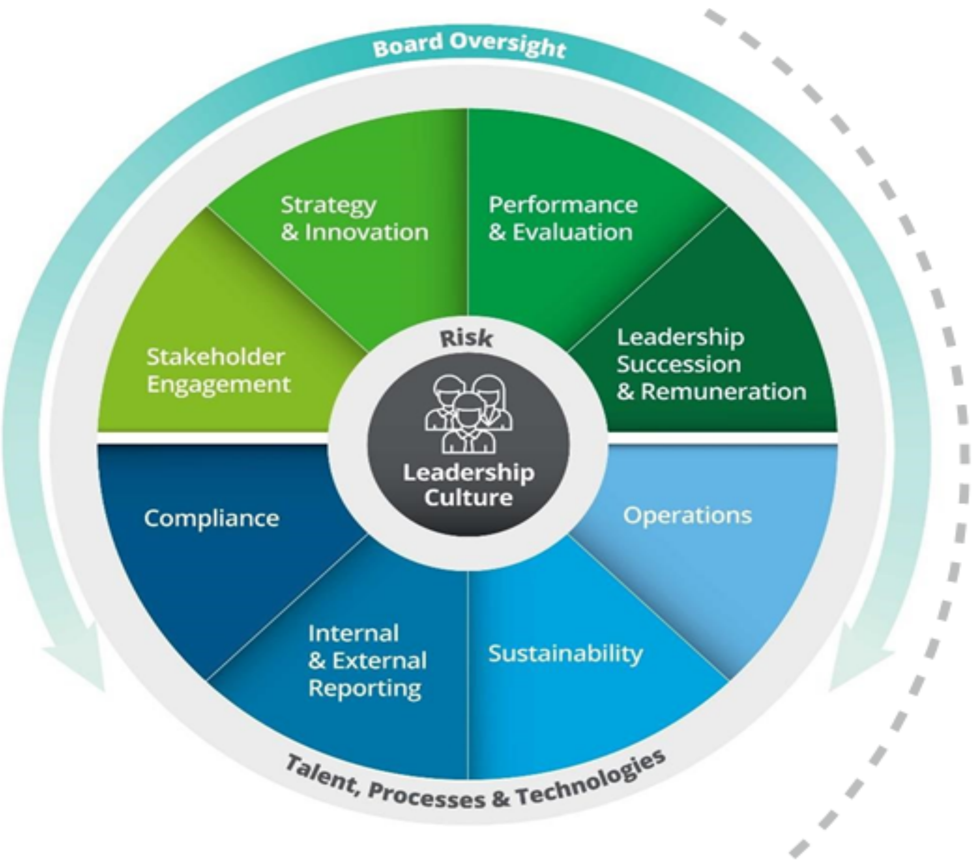
Recover
Learn and emerge stronger

Thrive
Prepare for the next normal

This document is designed to guide Board members regarding their expected roles over the next 6 to 18 months as the Respond timeframe emerges into Recover.

Boards have a critical role to play in directing and overseeing the organisations that they serve and, while maintaining appropriate separation from Management, should support executive leadership and share the burden. Boards should also acknowledge that there is no off-the-shelf playbook for the current situation, and that they must be flexible and pragmatic in how they govern their organisations.

Now, more than ever, the Corporate Governance Framework embedded within an organisation needs to support organisational resilience through effective leadership and oversight; enhanced stakeholder engagement and communications; clear and transparent decision making; continuous risk management, mitigation and control; and management of organisational performance – all key elements of an effective governance framework.



Leadership culture
Boards should oversee organisational culture and assist in setting the 'tone at the top' alongside management. Leadership Culture forms the core of the Framework as it is central and integral to each of the Framework dimensions.

Risk
Boards should oversee critical risks of organisations. Risk is found at the core of the Framework encircling Leadership Culture, underscoring their connectivity, and is embedded in each dimension of the Framework.

Talent, processes and technologies
This overlay points to the Boards ever increasing oversight role of talent and technology within the organisation. It also covers the Board's oversight, and implementation of various governance processes related to all of the Framework dimensions. Talent, technology, and governance processes impact each of the dimensions of the Framework.

Board oversight
The level of the Board oversight in each Framework dimension is depicted by the 'Board oversight' overlay that encircles the Framework. The intensity of the 'board oversight' overlay decreases as it moves to the bottom half of the Framework.

Stakeholder engagement
An organisation's stakeholders can include, but not be limited to, its owners, investors, employees and contractors, customers and third-party vendors, government and regulatory bodies, and society at large. The Board should have a well-defined, two-way Stakeholder communication channel to cover the organisation's strategy, values and goals.

Strategy & innovation
The Board should oversee the corporate strategy arrived at by management, and provide any appropriate constructive challenge and final approval of management's strategic and innovation plans and goals.

Performance & evaluation
The Board should continuously aim to improve its own effectiveness – and that of senior management, via performance evaluations, and the setting of performance goals, targets, and objectives.

Leadership succession & remuneration
The board is responsible for establishing an effective and sustainable CEO succession plan, which should include the identification and development of successor candidates, as well as the ultimate selection of the CEO. Furthermore, the Board should conduct ongoing reviews of the CEO's performance and remuneration.

Guiding principles for Boards during COVID-19

As the COVID-19 pandemic continues to disrupt every aspect of life as we know it, the Board should play a supportive internal role, not a public facing role; it must retain its independence but also be prepared to intervene if the Management team is compromised, not available because, for example, they are ill from the virus, or if Management specifically requests assistance from the Board.

Boards must take on a highly active oversight role as companies work through the global pandemic. Expectations for Board oversight have increased as new risks continue to evolve rapidly and unpredictably. This has been strongly evidenced by the risks related to COVID-19, which have now risen to the very top of Board agendas. Now more than ever, Directors need to consider the needs and expectations of all organisational stakeholders, to support strategies and decisions that demonstrate responsible business and protect vulnerable stakeholders, while continuing to ensure organisational sustainability and resilience.

Based on our experience, and interactions with clients, we see five principles that strong Boards exemplify as the crisis unfolds:

Take care of each other
Boards are social constructs; chairs and their Board members must support each other and their executive teams during this time of extraordinary challenge. The tone from the top matters, and Boards are in a unique position to reinforce a culture of inclusive human concern for the mental and physical well-being of the organisation at a time when it’s needed more than ever.

Challenge the operating model of your Board
Revisit existing structures and be agile in considering what aspects of the standard Board agenda can be streamlined or deferred to create more time for Management to focus on the short-term challenges facing the organisation.

Leverage the skills and expertise of individual Board members – and their experiences elsewhere – to support Management’s specific set of near-term needs to enhance stability in the organisation.

Evaluate if new crisis-based working grounds could support the organisation in more successfully navigating urgent issues.
Help Management by reinforcing the concept that “perfect is the enemy of good.” Set expectations for interaction, communication and material production that respects the situation.

Be flexible in Board engagement

When thinking through engagement, Boards should remember that the average corporate director sits on more than one Board. In our experience, this is a double-edged sword: On the one hand, directors serving on multiple Boards at this moment are dealing with a myriad of challenges at the same time. They may have less time to give. On the other hand, this may be precisely the time that organisations might want to give directors who serve on other Boards the opportunity to share cross-Board insights of how other Boards are responding to the crisis.

Contingency planning that takes into account the health and well-being of current Board members and Management teams should be considered as it is a very real possibility that one Board member or executive may be unable to perform duties during overlapping periods. Issues related to illness, family caretaking duties, stress and bandwidth due to multiple Board seats, as well as Board members who have to return to their primary C-suite responsibilities, all need to be considered.

Take the long view

There is no question – the primary near-term responsibility of the Board is to support Management in navigating the repercussions of the pandemic. However, the Board must also keep a lens on two mutually inclusive issues: being the vehicle to hold an organisation to its societal purpose, and balancing decision-making between short-term need and long-term success. As studies of past volatile times have shown, the organisations that emerge as winners are those that strike the right balance between shorter- and longer-term strategies. Boards can support Management in near-term moves and actions by thinking through what the mid- and long-term impact will be. This includes reflecting on how decisions will impact all stakeholders and encouraging the consideration of diverse needs, including meeting the most pressing societal needs right now.

Ask deliberate questions

Be thoughtful about avoiding questions out of personal curiosity. Focus instead on the critical issues facing the organisation in the short term, and those that will chart its future course. Continuous dialogue including constructive challenging, can create a healthy tension that should be seen as positive and necessary to get to the best decisions.

The Board's role in crisis management

Boards are responsible for safeguarding the governance and viability of the organisation. Therefore, effective crisis management during the respond and recover phases of the crisis should be a central focus for Boards of every organisation, small or large, local or global.

A good crisis response is about fixing what can be fixed to the fullest extent possible. Boards should play an active oversight role related to crisis management, and engage and discuss:

- Management's risk assessments in the midst of COVID-19
- Business continuity plans
- Organisational resilience
- Developing new digital strategies
- Enabling the digital workforce
- Communication plans with both internal and external stakeholders.

The role of the Board in a crisis can be supportive of Management in a few other ways, too:

- The Board can set the tone of the organisation for the response, and to make sure Management's actions and communications are effective
- The Board can balance support and challenge the executive during this difficult time; executives will need both in strong measure
- The Board has perspective and more time to help think through dilemmas, to support Management – and it can push Management to make difficult decisions if there is hesitancy. The can consider difficult "what if?" questions on a range of issues that Management may be reluctant or too busy in the day-to-day crisis to ask
- The Board can ensure that it has its own situational awareness of the bigger picture. This is the Board's true strength in a crisis: the diversity of experience that many directors bring to the boardroom table.

The ability of the Board to fulfil this role relies on its strength of relationship and exchange of information with Management. This is often about having a strong and respected process that sets out how situation updates are provided, who will they be given to and how often.

Strategy and scenario planning

The Board has a crucial role in supporting a forward-looking agenda and in making sure that the company aligns strategically with the new normal that will follow after this high-impact event, identifying opportunities for the organisation to thrive.

There is no question – the primary near-term responsibility of the Board is to support Management in navigating the repercussions of the pandemic. In this regard, the Board plays a crucial role in challenging the impact of scenarios and forecasts, together with the taking of key strategic decisions. However, the Board must also keep a lens on two mutually inclusive issues: being the vehicle to hold an organisation to its societal purpose, and balancing decision-making between the short-term need and long-term success.

In light of the unprecedented uncertainty that we are facing, we have developed three plausible scenarios, each outlining a potential path for the South African and global economies, depending on how the pandemic evolves. These scenarios are as follows:

- **Scenario 1** is a scenario where pandemic containment efforts prove successful, but manifest in a dramatic but short-lived economic contraction that is followed by a gradual recover reflecting the long-lasting legacies of the economic plunge. This outcome results in a drop in GDP of more than 1.5 times what we saw during the Great Recession of 2008-09
- **In Scenario 2** the pandemic lasts longer with waves of infection lasting through mid-year and into the third quarter of this year. There is also a resurgence of the virus into 2021. In this scenario, the South African economy is faced with a prolonged shutdown extending into the beginning of 2021
- **Scenario 3** models a worst-case scenario. In this scenario, containment of the virus fails as the virus continues to mutate, preventing the development of a successful vaccine. The global and South African economies experience a long-lasting decline in GDP (i.e. depression).

The organisations that emerge as winners are those that strike the right balance between shorter- and longer-term strategies.

Boards can support Management in near-term moves and actions by thinking through what the mid- and long-term impact will be. This includes reflecting on how decisions will impact all stakeholders and encouraging the consideration of diverse needs, including meeting the most pressing societal needs right now.

The questions that Board members should be asking in this regard are as follows:

- How do we recalibrate KPIs and strategic goals?
- Where are our opportunities going forward?
- What is society's "new normal"?
- Has the crisis impacted our reputation?
- What are the implications of COVID-19 on our talent and workforce?
- Is there a comprehensive view of the new risk landscape?
- What are the lessons learnt from this pandemic?

Building resilient leadership in management teams and executing on succession plans

We recognise that organisations are in differing phases of dealing with the outbreak. However, regardless of the extent of the virus's impact on an organisation, we believe there are five fundamental qualities of resilient leadership that Boards should encourage within the organisation's leadership. These qualities distinguish successful leaders as they guide their enterprises through the COVID-19 crisis:

– *Design from the heart...and the Head*
  In crisis, the hardest things can be the softest things. Resilient leaders are genuinely, sincerely empathetic, walking compassionately in the shoes of employees, customers and their broader ecosystems. Yet resilient leaders must simultaneously take a hard, rationale line to protect financial performance from the invariable softness that accompanies such disruptions.

– *Put the mission first*
  Resilient leaders are skilled at triage, able to stabilise their organisations to meet the crisis at hand while finding opportunities amid difficult constraints.

– *Aim for speed over elegance*
  Resilient leaders take decisive action – with courage – based on imperfect information, knowing that expediency is essential.

– *Own the narrative*
  Resilient leaders seize the narrative at the outset, being transparent about current realities – including what they do not know – while also painting a compelling picture of the future that inspires others to persevere.

– *Embrace the long view*
Resilient leaders stay focused on the horizon, anticipating the new business models that are likely to emerge and sparking the innovations that will inspire tomorrow.

For Boards, COVID-19 is a challenge to existing emergency succession planning. The Board can prompt new work around succession planning, broaching questions with Management about contingency plans, should key leaders be taken out of their normal working routine, or should the CEO or his leadership team not be available. The Board is ultimately responsible for CEO succession and it must provide oversight of Management's succession planning for the other key roles.

Stakeholder engagement and communications

We are often asked whether, and when, the Board should have a public role and act as spokesperson for the organisation. This is a challenging question for many Boards, because in some countries, the Chair often does plays an important role in speaking with shareholders and other stakeholders. In organisations with this history, there will be a temptation to extend this role to leading communications with stakeholders, regulators and others, particularly if the CEO and the executive team is wholly focused on managing the crisis. Our advice remains that this should be avoided. Unless confidence in the capability of the leadership teams is in question, or unless the leadership team asks for the Board's involvement, the best default position is that the Board is there to support and guide Management, ensure that they are thinking about the widest range of stakeholders in their communications and responses, and to bring the full scope of the Board's external experiences to bear.

Boards and Management must work together to decide how to best communicate their crisis response to their stakeholders. While Management will take the lead in this outreach and related communications, the Board must oversee that the right level of engagement and disclosure is provided. In addition, Boards and Management should decide on how best to carry out their annual general meeting (AGM) due to COVID-19-with the current restrictions on meeting capacity, many organisations will be turning to virtual shareholder meetings.

Maintaining Board effectiveness

Cadence of the Board

The COVID-19 virus will challenge Boards in how they meet and operate. We have reached the point where most Board members do not wish to travel or cannot travel to Board meetings, or where the organisation itself has restricted travel. Under these circumstances, how Boards should meet is a new and urgent question. Many Boards already organise regular meetings by phone or video conference, and the virus is occasioning many more Boards to meet on a weekly basis by phone or video conference, or more frequently, as required.

The role of the Chair

Meeting remotely in this way will place more weight on the shoulders of the Chair, to make sure all directors participate and are heard. The Chair is in a unique position in a crisis: He or she has to understand the mood and dynamics of the other Board members more than ever, and be quick to respond when needed. The Chair has to ensure that the Board and its committees continue to meet, and at a cadence that corresponds to the gravity of the crisis. Good Chairs will call directors between Board meetings, to elicit concerns or points of view that prove more difficult to raise on a group call. Times like these may mean such Chair-Board member check-ins are more important than ever.

In addition, the Chair has a role as a sounding board to the CEO during the crisis. Being the CEO of an organisation in a crisis can be a lonely place. Having the confidence and counsel of the Board can be vital, and the Chair of the Board is likely to be a crucial relationship to navigating the crisis successfully and is well placed to be a "critical friend" in these difficult hours, days and months after the crisis strikes.

The Board's involvement in operations

Leadership in a crisis like that of COVID-19 is not the same as in business as usual: ways of working must be adapted, process simplified and authority delegated. Directors should resist the urge to jump in and blur the lines between those of Management and the Board. Doing so could take up executive time, the scarcest resource in a crisis; at worst, it could hinder Management's ability to do an already difficult job.

The Board should play a supportive internal role, not a public-facing one, it must retain its independence but must also be prepared to intervene if the management team is compromised, not available because for example, they are ill from the virus or if management specifically requests help from the Board.

The design and implementation of a fit-for purpose Delegation of Authority, in terms of which the Board delegates identified authorities to Management, is a key mechanism to optimise the effectiveness of decision-making within an organisation-within the broader context of a changing operational environment. As organisations address their changed environments amid COVID-19, the Board must consider the extent to which delegations as contained in the Delegation of Authority require review and/or enhancement to ensure that delegations are agile enough to ensure Management is fully equipped to make the day-to-day decisions that the pandemic warrants, while ensuring the Board retains overall accountability for decisions that affect the organisation.

Even in a crisis like COVID-19 where Board members are likely to be meeting with Management more frequently and where Management may seek input and insight from the Board it is important to remember Boards are there not to run the business but to provide guidance, perspective and oversight.

There are, however, a few, rare times when the Board may need to play a greater role in a crisis like this: when Management is unable to provide the necessary leadership. The biggest role a Board can play, and usually its last resort in a crisis, is to take the reins from Management and step into an executive role. For many, this remains a low probability event – if this is even a remote possibility, however, Boards should plan as much as possible in advance and agree their roles and responsibilities, so that crucial time is not lost working this out only when it is needed. The Chair can play a role in planning, working with the Board to set out who would assume which roles, what committees and/or working groups should be established, how decisions would be made, and what external support would be called upon.

The role of the committees

COVID-19 may also force a re-think of the Board's committees. Some committees may seek to meet in conjunction with the risk committee, if they have not done so before. More directors may wish to attend meetings of more Board committees, even those they are not members of. Some Boards may form an ad hoc COVID-19 committee to work on issues most needed by management; others will define the entire Board as the crisis or COVID-19 committee; while yet others may see Board committee Chairs support functional leads in a crisis; for example, the audit committee Chair with the Chief Financial Officer, the compensation committee Chair with the Chief Human Resources Officer. We believe Boards' working approaches are idiosyncratic and will likely differ according to the size of the Board and individual needs. We have set out below key considerations for each of the Board committees in Appendix A.

A world remade by COVID-19

No leader wants to face something like COVID-19. However, when looking back after the crisis is over, a critical event like this can enable a transformation in the organisation. The "new normal" for the organisation might look very different – in governance, strategy and ways of working. What strategies, decisions and directions are now on the table for discussion that perhaps were not before? The Board should be ready to support change, and direct change, or even be part of the change. For some organisations, there will be a possibility to learn from the current crisis and to emerge from it as a stronger, more resilient organisation. Shaping strategies can become a significant source of new value creation emerging from unanticipated crises. The market shapers – those that shape the future of their industry rather than adapt to it – will emerge stronger. Companies emerging from this crisis and shifting into the "thrive" time frame will take part in this reinvention, either by identifying and solving for new opportunities, aligning themselves with the future-shapers of their industry, or actually becoming the nexus of the next ecosystem while their competitors focus on the crisis.

Closing Reflections

This pandemic and its aftermath will test the stamina or organisations to preserve, to ensure, to be resilient. Boards can play an outsized role in providing the ultimate pressure test of an organisation's position and purpose, as what is decided today will define the future. A crisis response to COVID-19 remains firmly in the domain of the executive, requiring executive direction and hands-on operational intervention to make, implement and communicate decisions under these toughest of circumstances. Paying attention to the possible blurring of lines, while talking openly with Management about the risks and opportunities of Board involvement during this unsettling time, will not only help the executive, it will also help the Board be the most effective it can possibly be.

Appendix A: Key Considerations for Board Committees

As COVID-19 continues to spread, CFOs and Audit Committees are considering its impact on accounting conclusions and disclosures and the resulting impact on financial reporting and communication to the market.

The Audit Committee should also look behind the numbers, including the basis of preparation, key assumptions, significant estimates and judgements. This involves active oversight and challenge of Management's risk assessments, including business continuity plans, scenario planning, likelihoods of financial impact and the expected duration of the COVID-19 crisis.

We recommend that the CFO and the Audit Committee Chair consider the need for an extraordinary Audit Committee virtual meeting and get involved in accounting analyses and the impacts of COVID-19 on financial reporting and communication to the market.

The Audit Committee's active oversight role in crisis management and resilience
Companies need to provide investors with insights regarding their assessment of, and plans for, addressing material risks to their business and operations resulting from COVID-19 to the fullest extent practicable to keep investors and markets informed of material developments.

Companies must work with their audit committees and auditors to ensure that their financial reporting, auditing and review processes are as robust as practicable in light of the circumstances in meeting the applicable requirements, including also maintaining the level of internal controls over financial reporting during a period with absences.

CFOs and audit committees are looking into the impact of COVID-19 on accounting conclusions and disclosures related to, but not limited to:

- Impairment of non-financial assets (including goodwill)
- Valuation of inventories
- Allowance for expected credit losses
- Fair value measurements
- Onerous contracts provisions
- Restructuring plans etc.
- Tax considerations (in particular recoverability of deferred tax assets).

Key questions that the Audit Committee must be asking are as follows:

- How have social distancing restrictions impacted the financial close process?
- What was the impact of remote work arrangements on internal controls?
- What were the most significant financial reporting issues you have dealt with as a result of COVID-19?
- How have you ensured the impacts of COVID-19 reflected within your financial statements and MD&A are consistent with other communications from the company on its COVID-19 exposure and response?
- Are there any information sources that you have historically relied upon to prepare financial statements that are no longer available/less reliable in the current environment?
- Has the external auditor's risk assessment changed – overall or for particular accounts and disclosures?
- Have lower financial prospects had an impact on the external auditor's materiality threshold?
- Has the external auditor identified any significant deficiencies in light of changes in controls resulting from a "virtual" close and remote working"?
- If audit procedures have been performed in the current quarter, has the nature of the evidence relied upon by the auditor changed?
- Has internal audit's approach or audit plan changed?
- Has internal audit reassessed or identified new risks?
- Has internal audit had any difficulties in its ability to execute testing?

Considerations with respect to financial reporting
As the outbreak continues to evolve, it is challenging to predict the full extent and duration of its business and economic impact. Consequently, these circumstances present entities with challenges when preparing their financial statements. We set out below the key considerations with regard to reporting issues, events after the reporting period and going concern considerations, however there are other financial reporting impacts that could be considered.

Financial reporting issues could relate to, but are not limited to, the following:

- Events after the reporting period
- Impairment
- Fair value measurement
- Going concern
- Expected credit loss assessment
- Valuation of inventories
- Restructuring plans
- Classification of liabilities as current vs non-current
- Liquidity risk management
- Hedging relationships
- Employment termination benefits
- Contingent consideration in contractual arrangements
- Modifications of contractual arrangements
- Tax considerations (in particular, recoverability of deferred tax assets)
- Onerous contract provisions
- Revenue estimates
- Government grants
- Accounting estimates
- Disclosures

Events after the reporting period

Events after the reporting period are those events that occur between the end of the reporting period and when the financial statements are authorised for issue. Below we have listed a non-exhaustive listing of examples of events that companies could consider including in the annual report:

- An order from public authorities, or a decision, not to carry out specific activities
- Reduced employee capacity due to quarantines, illness, childcare, etc.
- Order, or decision, to shut down production facilities, sales locations, etc.
- Deliveries of goods from suppliers are significantly delayed
- Impairment in markets for financial instruments and other assets
- Generally declining revenue, productivity or earnings
- Breach of terms in loan agreements, e.g. loan covenants
- Economic support and other relief measures from governments, lenders, regulators, etc.

Going concern

Going concern assessments need to be performed up to the date on which the financial statements are authorised for issue. Companies need to revisit significant judgements and continuously update their assessments as the outbreak evolves.
The degree of consideration required, the conclusion reached, and the required level of disclosure will depend on the facts and circumstances on an entity-by-entity basis, because all companies will also be affected differently by COVID-19. Significant judgements and continual updates to the assessments up to the date of issuance of the financial statements may be required given the evolving nature of the outbreak and the uncertainties involved.

Considerations for the Risk Committee

Most organisations are struggling to maintain a continuously updated assessment of risks. Some are doing traditional risk exercises while others are implementing cognitive risk sensing to ensure intelligence on key competitors, clients and suppliers. Common for all is the need to develop different crisis scenarios, assess risks against them and decide on mitigating actions.

Key questions that the Risk Committee must be asking are as follows:

- Have you evaluated the impact of COVID-19 in the entity's risks?
- Have you identified any new risks or determined that existing risks are outside of previously established tolerances?
- Has management stress tested forecasted scenarios supporting risk conclusions?
- Have any key contracts been terminated or modified? How is management monitoring counterparty exposure?
- Have you assessed the risk of working remotely on your cyber-security and IT environment?
- Have there been any changes in liquidity risks or limitations on your ability to monitor these risks?
- Have you, or do you expect to change the timing of any transactions to preserve cash or obtain better pricing?
- How is management monitoring and disclosing changes in counterparty credit risk?
- How is management monitoring changes in risks within investees?

Considerations for the Remunerations Committee

While workforce health and well-being is of paramount focus during the COVID-19 crisis, companies are also considering the impact of business performance on rewards across the organisation – with a number of 'hard hit' organisations issuing a public response around workforce policies such as reduced working hours, pay reductions and unpaid leave as well as applications for government aid packages to compensate for salaries and fixed costs etc.

In the context of wider business impact, more than ever remuneration committees will be expected to use judgement and discretion to make appropriate decisions around the implementation of senior executive reward policies. Discussions and views on this topic will certainly evolve, as the full scale of the impact becomes clearer.

Consider the impact of COVID-19 on workforce policies, corporate governance, valuation, accounting, and legal, employment law and taxation.

Workforce policies

Companies are considering the impact of COVID-19 on total remuneration strategies, including the impact of business performance on rewards across the organisation and how it will affect workforce policies over the coming weeks and months.

Corporate Governance

Remuneration committees are considering salary freezes/cuts, deferrals of share awards and whether to cancel/modify share-based incentive programmes for senior executives etc. due to financial distress and the declining and highly volatile stock market. Remuneration committees must also react to the views of investors and employees.

Valuation

Equity market volatility is at the highest level since the global financial crisis. Lower share prices will impact share-based incentive programmes, including determining the number of shares at grant, the valuation of new grants and on ongoing valuations of cash-settled programmes for accounting and reporting purposes.

Accounting

IFRS 2 has accounting requirements for modifications, cancellations and settlements of existing share-based incentive programmes, which could result in an additional expense in the income statement if not considered carefully. For example, the cancellation or settlement of equity instruments is accounted for as an acceleration of the vesting period and therefore any amount unrecognised that would otherwise have been charged must be recognised immediately in the income statement.

Legal, employment law and taxation

It is also important to consider any legal, employment law and tax implications of any changes to share-based inventive programmes and to other parts of pay. These include pay reductions, unpaid leave, salary compensation from the South African government and redundancies. Detailed consequence analyses need to be prepared before decisions are made. Granting share-based payment programmes for all or certain key employees may be worth considering to reduce cash outflows and ensure retention of key employees for certain companies.

Remuneration committees are considering senior executive rewards in the context of fairness, keeping in mind employees, government support, and the shareholder experience. Detailed considerations include, but are not limited to:

- Salary freezes/cuts
- Earned bonuses
- Deferred share awards
- Vesting of long-term incentive programmes
- Policy changes or reductions
- Assessing performance
- Deferral/waiver of awards
- Determining the number of shares at grant
- Target setting
- Use of discretion
- Annual general meeting approvals.

Considerations for the Nomination Committee

The virus may make it more likely that leaders at many levels of the organisation could fall sick or be absent, recovering for a few weeks at a time. For Boards (and specifically the Nomination Committee), time spent on succession planning during a crisis like COVID-19 which may build over time and in waves is likely time well spent.

Boards should discuss succession risks of particular positions openly, with management informed by their views and again in executive sessions. The Board should do this with a risk lens:

- Vacancy risk: What is the risk that a particular position becomes vacant for whatever reason
- Availability risk: how available are internal candidates to take over a position should it become vacant
- Readiness risk: the risk that the person planned to step into the vacant position does not have the right set of skills to take over
- Disruption risk: the potential for disruption to the larger organisation when an executive moves from his or her current position to a new position
- Control risk: the risk that the absence of individuals renders control frameworks ineffective and business processes fall behind.

For each of these risks, we urge Boards to engage with Management and with Human Resources teams in particular:

- Do we review our succession planning process? Do we review it regularly?
- How prepared would we be if our CEO were not available for sustained periods of time? The CFO?
- Have we asked our CEO how Covid-19 is affecting his or her view on talent and future plans?

Considerations for the Social & Ethics Committee

We find that Boards in a crisis often play a key role in reinforcing the purpose of the organisation with management, reminding leaders of societal obligations and making sure that even in the depths of the crisis, the organisation's responses serve the heart of the organisation. Particularly in a crisis like that of COVID-19 that so intimately threatens people's health and well-being, the Board can play a role ensuring that the business is demonstrating to employees, customers, communities and the organisation's broader ecosystem that the organisation has their best interests at heart.

Boards are social constructs; chairs and their board members must support each other and their executive teams during this time of extraordinary challenge. The tone from the top matters, and boards are also in a unique position to reinforce a culture of inclusive human concern for the mental and physical well-being of the entire organisation at a time when it is needed more than ever.

Members of the Social and Ethics Committee may ask the following questions:

- How are you maintaining the "tone at the top" to ensure compliance with ethics and legal frameworks in this new business environment?
- What areas might be at increased risk for fraudulent financial reporting or other frauds given the current environment?
- Have you confirmed the whistle blower and other ethics hotlines continue to operate?
- Have there been any changes to the way in which complaints are addressed?

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