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Question: 1385

In confidential peer feedback, three directors rated a fellow board member “needs improvement” on collaboration because he routinely uses sarcastic humor to challenge management presentations. Select all appropriate uses of peer evaluation data.

- A. The lead director delivering the feedback privately with specific examples and expected behavior changes
- B. Including anonymized themes in the full board’s improvement plan without identifying the individual
- C. Requiring the director to work with an executive coach specializing in boardroom communication styles
- D. Using the feedback as one data point in the renomination decision for that director

Answer: A, B, C, D

Explanation: Modern peer evaluations are designed to drive behavioral change while preserving trust. Private delivery with examples, thematic disclosure, coached remediation, and linkage to renomination are all standard among Vanguard and BlackRock governance principles in 2026.

Question: 1386

During annual compliance review, directors must code a dashboard for real-time regulatory status by department. What essential function must the code contain?

- A. Limit dashboard access to compliance staff.
- B. Aggregate annual compliance status only.
- C. Department-tagged compliance alerts, accessible instantly by the board.
- D. Schedule biannual department compliance updates.

Answer: C

Explanation: Department-tagged, instantly accessible alerts provide granular oversight across the organization, enabling targeted and effective intervention.

Question: 1387

A company's D&O insurance policy is being updated in 2026 to address emerging risks, including environmental, social, and governance (ESG) litigation. The board seeks to understand the scope of coverage for ESG-related claims. Which of the following claims would likely be covered under Side C of the D&O policy?

- A. A shareholder lawsuit against directors for failing to oversee ESG compliance
- B. A securities class action against the company for misrepresenting ESG performance
- C. A regulatory fine against directors for non-indemnifiable ESG violations
- D. A derivative lawsuit against the company for losses due to ESG mismanagement

Answer: B

Explanation: Side C of a D&O insurance policy, also known as entity coverage, typically covers the company itself for securities-related claims, such as those arising from misstatements or omissions in public disclosures. A securities class action against the company for misrepresenting ESG performance falls under Side C, as it involves the company's liability for securities violations. Shareholder lawsuits against directors or derivative lawsuits targeting individual director oversight are typically covered under Side A or Side B, depending on indemnification. Regulatory fines against directors for non-indemnifiable violations fall under Side A, as they involve personal liability not covered by the company.

Question: 1388

A cryptocurrency exchange listed on NASDAQ receives concurrent 2026 actions from SEC (Division of Examinations sweep on proof-of-reserves), CFTC (manipulation inquiry), and FinCEN (AML program MOU). Which regulatory bodies and processes must the board monitor?

- A. SEC proof-of-reserves attestation expectations under 2024 staff guidance
- B. CFTC position limits and wash-sale enforcement in crypto derivatives
- C. FinCEN beneficial ownership reporting under Corporate Transparency Act for subsidiaries
- D. Potential NYDFS BitLicense revocation proceeding for custody violations
- E. International Organization of Securities Commissions (IOSCO) principles applicability

Answer: A, B, C, D

Explanation: SEC attestation expectations, CFTC market abuse rules, CTA reporting, and NYDFS licensing are directly applicable to U.S.-listed crypto entities. IOSCO principles are non-binding.

Question: 1389

You are assessing a fellow director's performance on a media company board. The director provides valuable marketing insights but misses half of the meetings. The NACD recommends objective peer reviews. Which steps should you take to assess this director's performance?

- A. Review attendance records through the governance committee
- B. Focus only on the director's marketing contributions

- C. Collect peer feedback on the director's overall engagement
- D. Ignore absenteeism, as marketing expertise is critical

Answer: A, C

Explanation: Objective assessment considers all contributions. Reviewing attendance records provides data on engagement. Collecting peer feedback ensures a holistic evaluation. Focusing only on marketing or ignoring absenteeism overlooks the director's overall effectiveness.

Question: 1390

The chief diversity officer reports that women now represent 52% of VP-and-above roles. Select all indicators that the DE&I program may be ineffective or unsustainable.

- A. Female promotion rates from director to VP declined 31% in the same period
- B. 89% of new female VPs were external hires rather than internal promotions
- C. Intersectional representation (women of color) at VP+ actually declined 11%
- D. Retention rate of women hired externally at VP level is 38% after 18 months

Answer: A, B, C, D

Explanation: All four metrics signal lack of genuine pipeline development, external hire dependency, intersectional regression, and integration failure—classic signs of performative rather than substantive progress in 2026 assessments.

Question: 1391

You are a director at a renewable energy company where the board is conducting a comprehensive performance evaluation. The company is under pressure to meet aggressive carbon reduction targets, but recent evaluations show that the board struggles to align its oversight with these goals. The evaluation process involves analyzing board meeting effectiveness, committee performance, and strategic alignment, as shown in Exhibit 1 below. According to NACD principles, which steps should the board prioritize to improve its performance?

Exhibit 1: Board Evaluation Metrics

Board meeting attendance: 85% average

Strategic discussions on carbon reduction: 20% of meeting time

Committee reports addressing ESG goals: 30% of reports

- A. Increase the time allocated to strategic discussions on carbon reduction during board meetings, targeting at least 40% of meeting time.
- B. Maintain current meeting structures, as attendance is sufficiently high to ensure effective oversight.
- C. Require committees to integrate ESG goals into at least 60% of their reports to enhance accountability.

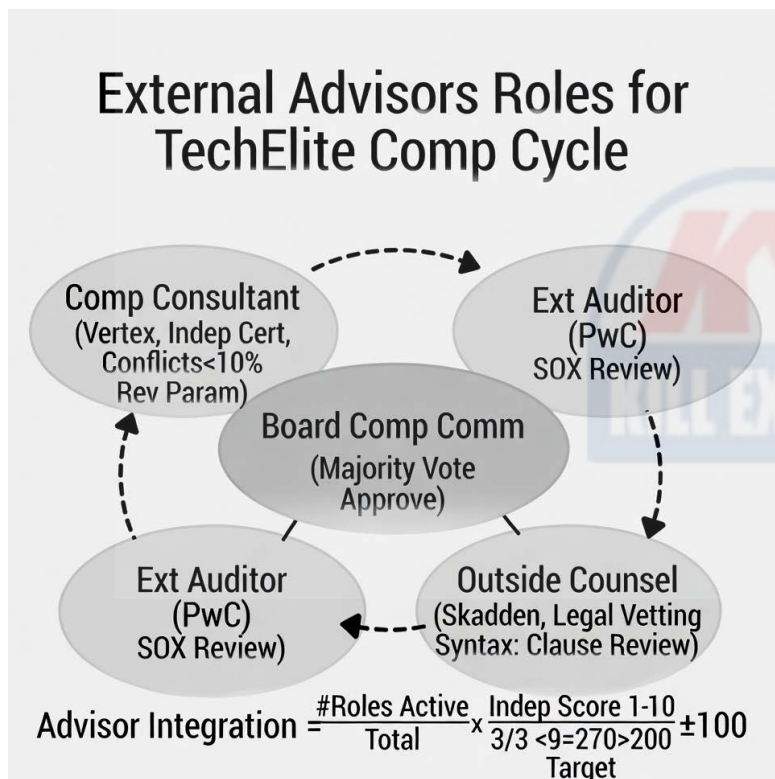
D. Rely on management to set carbon reduction priorities without increasing board-level strategic discussions.

Answer: A, C

Explanation: Improving board performance requires enhancing strategic focus and accountability. Increasing time for carbon reduction discussions ensures the board prioritizes critical goals, addressing the low 20% metric. Requiring committees to integrate ESG goals into 60% of reports strengthens oversight and accountability, tackling the 30% baseline. High attendance alone does not guarantee effective oversight, and relying solely on management diminishes the board's strategic role, contrary to NACD principles.

Question: 1392

Vertex Advisors consults on compensation for TechElite board. Roles via this role diagram, a cycle: "Compensation Consultant (Vertex: Independence Cert, Param: No Conflicts >10% Revenue)" → "External Auditor (PwC: SOX Review)" → "Outside Counsel (Skadden: Legal Vetting)" → back to Consultant, with oversight by "Board Comp Committee (Approval Vote)".



Per NACD's 2026 knowledge of advisor roles (e.g., independence >90%), which cycle enhancement best optimizes integration at 270 score, including parameters for counsel syntax review (e.g., 'IF Equity Grant >5% THEN Tax Implication Calc') and auditor rotation (every 5 years)?

- A. Eliminate consultant, using internal HR.
- B. Make approvals unanimous.

- C. Enhance Counsel with syntax ('IF Grant>5% THEN Calc Tax via IRC 83(b)'), Auditor rotation (5-year cycle), annual indep audits; update formula + (Enhancement Params Met % ×20), target >300.
- D. Ignore rotation.

Answer: C

Explanation: TechElite's 270 score indicates strong roles, but NACD 2026 stresses syntax and rotation for bias-free advice (e.g., DOL fiduciary rules). Counsel enhancement ('IF Equity>5% THEN IRC 83(b) Election Calc: Fair Market Value - Amount Paid') ensures vetted grants, preventing IRS issues. 5-year auditor rotation (per SOX 207) maintains objectivity (indep score 9→10). Annual indep audits verify <10% conflicts. Formula update (e.g., 100% met ×20= +20, total 290>300) tracks. Elimination risks bias; unanimous slows; ignoring rotation stale, per NACD best practices.

Question: 1393

You are a board member of PharmaCorp, a pharmaceutical company considering an acquisition of BioGenix, a biotech firm with a promising drug pipeline. The due diligence report projects a 25% increase in combined R&D productivity but flags potential cultural clashes due to differing innovation philosophies. Using NACD Directorship Certification principles for assessing M&A synergy, which of the following should you prioritize?

- A. Develop a cultural integration plan to align innovation approaches
- B. Quantify R&D productivity gains through patent output projections
- C. Assess BioGenix's regulatory compliance history
- D. Approve the acquisition based on projected R&D gains alone

Answer: A, B, C

Explanation: Cultural integration is critical to realize R&D synergies, as misaligned innovation philosophies can hinder collaboration. Quantifying productivity gains through patent output provides measurable synergy metrics. Assessing regulatory compliance history mitigates risks that could derail the acquisition. Approving without addressing these factors overlooks critical synergy drivers.

Question: 1394

Your self-assessment shows you have never disagreed with a board recommendation in five years. Select all objective conclusions.

- A. You may be exhibiting excessive deference or groupthink
- B. The board possibly lacks sufficient debate and challenge
- C. You should intentionally prepare at least one contrarian view for major decisions
- D. Complete consensus can be a sign of highly effective board dynamics

Answer: A, B, C

Explanation: Perpetual agreement is a red flag for independent thinking.

Question: 1395

The board of an automotive company is monitoring the CEO's stakeholder engagement during a transition to electric vehicles (EVs). The CEO has engaged with shareholders and suppliers but not with environmental groups or regulators. A 2024 NACD report notes that 75% of directors view environmental stakeholder engagement as critical for ESG goals. Which actions should the board take to enhance engagement?

- A. Direct the CEO to engage with environmental groups to align EV strategy with ESG goals
- B. Approve the current engagement plan and request monthly updates
- C. Require the CEO to meet with regulators to discuss EV compliance requirements
- D. Recommend outsourcing ESG engagement to a sustainability consultant

Answer: A, C

Explanation: Enhancing engagement requires addressing key ESG stakeholders. Engaging with environmental groups aligns the EV strategy with ESG goals, as emphasized by NACD) Meeting with regulators ensures compliance with EV standards, critical for market entry. Approving the current plan without addressing these stakeholders misses critical gaps, and outsourcing ESG engagement may reduce accountability.

Question: 1396

During a CEO recruitment process, the board receives recommendations that lack diversity in industry backgrounds. What is the most effective step to ensure proper succession planning?

- A. Accept recommendations without further review
- B. Expand the criteria to include candidates from relevant industries and diverse backgrounds
- C. Focus exclusively on internal candidates
- D. Fast-track hiring to avoid process delays

Answer: B

Explanation: Broadened criteria provide access to innovative perspectives and skills, strengthening succession outcomes.

Question: 1397

At a strategic review session for Nebula Retail, a publicly traded company, the board seeks to improve board-management dialogue after a pricing scandal. The governance committee proposes requiring management to present pricing risk analyses and allowing directors to consult external market analysts. Which of the following measures should the board adopt to foster open communication?

- A. Require pricing risk analyses from management
- B. Allow directors to consult external market analysts
- C. Limit pricing discussions to pre-submitted materials
- D. Establish an anonymous feedback mechanism for directors

Answer: A, B, D

Explanation: Pricing risk analyses provide a structured evaluation of market and regulatory risks, ensuring transparency. External market analysts offer independent insights, enhancing oversight. An anonymous feedback mechanism encourages directors to raise concerns freely, fostering openness. Limiting discussions to pre-submitted materials stifles dynamic debate, critical for addressing pricing risks.

Question: 1398

A board is evaluating a CEO recommendation to restructure the sales team based primarily on the company's history of high performance, without additional data. What action best fulfills board responsibilities?

- A. Agreeing with the CEO due to prior success
- B. Mandating the restructuring without additional input
- C. Waiting for one year to reassess the impact
- D. Requesting detailed performance scenarios from management

Answer: D

Explanation: The board's responsibility is to challenge management's assumptions and ensure that decisions are data-driven. Simply agreeing or delaying is abdicating oversight, and mandating changes without input exceeds the proper boundary of oversight vs. management.

Question: 1399

The board seeks to enhance the CEO's skills in navigating regulatory compliance, critical for an upcoming IPO. Which development strategy is most effective?

- A. Enroll the CEO in a 6-week regulatory compliance course.
- B. Facilitate a mentorship with a CEO experienced in IPOs.

- C. Assign the CEO to lead a compliance audit with legal support.
- D. Recommend attending a regulatory compliance seminar.

Answer: B

Explanation: Regulatory compliance for an IPO requires seasoned guidance. A mentorship with an IPO-experienced CEO provides tailored, practical insights, ideal for high-stakes preparation. A course is theoretical, leading an audit risks inexperience, and a seminar lacks depth.

Question: 1400

Multiple executives report the CEO explodes in rage when challenged in leadership meetings. Select all indicators of inappropriate behavior.

- A. Behavior documented in 360 reviews for past four years
- B. Three high-potential successors have cited this as reason for departure
- C. CEO refuses to participate in anger-management coaching
- D. No formal complaints filed with HR

Answer: A, B

Explanation: Pattern over time and talent flight are sufficient for action; refusal to remediate escalates but absence of formal complaints does not negate.

Question: 1401

A scenario shows the crisis plan's communication network fails when primary channels are down. Which mitigation step should the board recommend?

- A. Trust that primary systems will never fail
- B. Develop backup communication systems and protocols for redundancy
- C. Use informal communications only during crises
- D. Avoid documentation of communication plans

Answer: B

Explanation: Backups are essential to maintain coordination under crisis conditions.

Question: 1402

At a board meeting for Nu Energy, the CFO proposes a \$600 million capital expenditure for a new gas plant. The board pack includes a projected NPV of \$50 million, using a 6% discount rate, but flags environmental regulatory risks. Which questions should you raise?

- A. How do the environmental regulatory risks affect the NPV?
- B. Should the board approve the expenditure due to the positive NPV?
- C. How does the gas plant align with the company's sustainability strategy?
- D. What is the sensitivity of the NPV to changes in the discount rate?

Answer: A, C, D

Explanation: Assessing environmental regulatory risks ensures the NPV reflects potential costs. Aligning the gas plant with sustainability strategy is critical for stakeholder trust. Evaluating NPV sensitivity to discount rate changes tests the project's robustness. Approving the expenditure based only on NPV ignores risks and strategic fit, which directors must evaluate.

Question: 1403

During a 2026 compensation committee meeting, management proposes new KPIs for 2026: Strategic Transformation Index (composite of cloud migration and AI adoption milestones), Customer Effort Score, and Human Capital ROI. Which board responsibilities are triggered when assessing, benchmarking, approving, and monitoring these proposed KPIs?

- A. Challenge measurability and verifiability of the Strategic Transformation Index components
- B. Require third-party benchmarking of proposed weightings against Russell 3000 peer practices
- C. Ensure line-of-sight exists between individual executive actions and proposed metrics
- D. Confirm that Human Capital ROI calculation methodology aligns with ISO 30414 where applicable
- E. Automatically reject Customer Effort Score because it is leading rather than lagging

Answer: A, B, C, D

Explanation: The board must rigorously test objectivity, auditability, line-of-sight, and alignment with emerging standards. Leading indicators such as Customer Effort Score are increasingly accepted in incentive plans when balanced appropriately.

Question: 1404

A food and beverage company's board is alerted to a product recall due to contamination, with a projected \$50 million reputational and financial impact. The crisis plan (Exhibit T: Recall Response Steps) proposes a product withdrawal but lacks a consumer communication strategy. Per NACD reputation management guidelines, which actions should the board prioritize?

- A. Approve the product withdrawal as presented
- B. Direct management to develop a consumer communication strategy

- C. Engage a crisis management firm to oversee the recall
- D. Commission a supply chain audit to identify contamination sources

Answer: B, C, D

Explanation: Reputational recovery requires comprehensive action. A consumer communication strategy ensures transparent recall messaging, mitigating the \$50 million impact. A crisis management firm enhances recall execution, ensuring credibility. A supply chain audit identifies contamination sources, preventing recurrence. Approving the withdrawal alone ignores the need for consumer trust and root cause analysis.

Question: 1405

The 61-year-old founder-CEO has delivered 28% annualized TSR over 15 years but has repeatedly refused to identify or develop an internal successor and has overridden the board on two acquisitions that destroyed \$11 billion in value. Select all conditions that justify immediate CEO termination in 2026 governance practice.

- A. The company's dual-class structure expires in 14 months, converting to one-share-one-vote
- B. Three independent directors have received credible whistleblower allegations of options backdating
- C. The CEO has unilaterally extended his own employment agreement by five years without board approval
- D. Latest 360-feedback shows the CEO scores in the bottom decile on succession planning and coachability among Russell 3000 CEOs

Answer: A, C

Explanation: Unilateral contract extension is a clear breach of Delaware law and NYSE/Nasdaq governance requirements; the impending dual-class sunset removes structural protection and creates a closing window for action. Performance history and poor 360 scores alone do not justify termination absent breach, and unverified whistleblower claims require investigation before action.

Question: 1406

As a director of TechTrend, you oversee a transition to a functional structure to streamline operations. The shift risks siloed innovation. Per NACD Directorship Certification, which steps mitigate this?

- A. Foster cross-functional innovation task forces
- B. Define department-specific performance metrics
- C. Conduct regular innovation audits across functions
- D. Revert to a matrix structure

Answer: A, B, C

Explanation: Cross-functional task forces promote collaborative innovation. Department-specific metrics ensure accountability without silos. Innovation audits identify siloed risks. Reverting to a matrix structure contradicts the streamlining goal.

Question: 1407

The CEO deliberately ignores whistleblowing complaints and evidence of inappropriate behavior in operations. What is the board's legal duty?

- A. Rely on CEO's judgment in disciplinary matters
- B. Initiate a formal investigation and enforce ethical standards immediately
- C. Delay response to avoid friction
- D. Address issues only if media reports surface

Answer: B

Explanation: Boards must act decisively against violations to prevent legal exposure and reputational harm.

Question: 1408

You serve on the board of a transportation company evaluating its risk appetite for a \$400 million high-speed rail project. The project has a 13% chance of cost overruns exceeding \$80 million. The risk appetite allows for projects with up to 15% risk if mitigated. Which of the following actions should the board take to align with the risk appetite?

- A. Proceed with the project, supported by a cost monitoring plan.
- B. Conduct a detailed cost estimation review to reduce overrun risks below 13%.
- C. Abandon the project, as the \$80 million overrun exceeds acceptable risk levels.
- D. Perform a sensitivity analysis to assess the financial impact of overruns.

Answer: A, D

Explanation: The 13% risk of cost overruns is within the 15% risk appetite, allowing the project to proceed with mitigation. A cost monitoring plan mitigates overrun risks, aligning with the risk appetite. Sensitivity analysis assesses the financial impact, ensuring informed decision-making. A cost estimation review may be beneficial but is not required, as the risk is within limits. Abandoning the project is overly cautious, given the acceptable risk level and mitigation options.

Question: 1409

The leadership pipeline review reveals all ready-now successors report to the current CEO's longest-tenured loyalist. Select all governance risks.

- A. Potential for biased development feedback and blocked exposure
- B. Succession process effectively controlled by one individual
- C. High risk of groupthink in next-generation leadership
- D. Violation of NYSE independence requirements for succession oversight

Answer: A, B, C

Explanation: Concentration of control, biased feedback, and groupthink risk are severe; no direct NYSE violation exists.

Question: 1410

At a board meeting of Pinnacle Pharma, a publicly traded company, the general counsel proposes revising the directors and officers (D&O) insurance policy due to patent litigation risks. The current policy has a \$70 million limit, a \$3 million SIR, and excludes coverage for intellectual property claims. The proposal includes adding an IP claim endorsement and updating indemnification agreements to cover defense costs. Which of the following actions should the board prioritize?

- A. Add an IP claim endorsement to the D&O policy
- B. Update indemnification agreements to cover IP defense costs
- C. Increase the D&O policy limit to \$90 million
- D. Reduce the SIR to \$2 million

Answer: A, B

Explanation: An IP claim endorsement is critical to cover patent litigation risks, a key concern for pharmaceutical companies. Updating indemnification agreements to include defense costs ensures director protection. Increasing the policy limit is less urgent if the current limit is adequate, and reducing the SIR may increase premiums.

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