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NACD Directorship Certification

NACD

National Association of Certified Directors Exam - 2025

Question: 749

According to the NACD's Principles of Governance, which of the following is a key responsibility of the board in the area of succession planning?

A. Overseeing the development of the organization's talent pipeline
B. Approving the CEO's compensation and incentive structures
C. Evaluating the board's own composition and diversity
D. All of the above

Answer: D

Explanation: According to the NACD's Principles of Governance, the board's key responsibilities in the area of succession planning include overseeing the development of the organization's talent pipeline, approving the CEO's compensation and incentive structures, and evaluating the board's own composition and diversity. These elements are all considered essential for ensuring effective leadership continuity and organizational sustainability.

Question: 750

What is the purpose of the "Householding of Proxy Materials" section in a proxy statement?

A. To explain the company's environmental initiatives
B. To disclose the company's political contributions
C. To provide information about the company's dividend policy
D. To explain the practice of "householding" proxy materials sent to shareholders

Answer: D

Explanation: The "Householding of Proxy Materials" section is designed to explain the practice of "householding," where a company sends a single set of proxy materials to households with multiple shareholders, rather than sending separate copies to each individual shareholder.

Question: 751

Which of the following is an example of a leading practice for improving board diversity?

A. Requiring all new director nominees to be women
B. Maintaining a board that reflects the demographics of the local community
C. Establishing a "Rooney Rule" to interview at least one underrepresented candidate
D. Limiting board service to a maximum of two terms

Answer: C

Explanation: The "Rooney Rule", which requires interviewing at least one candidate from an underrepresented group for every open board seat, helps expand the pool of diverse, qualified director nominees considered. This is a more effective practice than rigid quotas or term limits.

Question: 752

Which of the following is a common risk management strategy in the face of emerging risks?

A. Risk avoidance
B. Risk acceptance
C. Risk transfer
D. Continuous risk monitoring

Answer: D

Explanation: A common risk management strategy in the face of emerging risks is continuous risk monitoring. This involves regularly reviewing and updating the organization's risk profile to identify and address new risks as they arise, allowing for a more proactive and adaptive approach to risk management.

Question: 753

Which of the following is not a key responsibility of the board's technology committee?

A. Overseeing the organization's cybersecurity and data privacy measures
B. Reviewing the organization's technology strategy and investment plans
C. Approving the organization's annual IT budget
D. Determining the organization's technology staffing and hiring needs

Answer: D

Explanation: Determining the organization's technology staffing and hiring needs is not a key responsibility of the board's technology committee. The technology committee's responsibilities typically include overseeing the organization's cybersecurity and data privacy measures, reviewing the organization's technology strategy and investment plans, and approving the organization's annual IT budget.

Question: 754

A company's cash conversion cycle has increased significantly over the past year. This trend most likely indicates:

A. Improved working capital management
B. Increased production efficiency
C. Weakening customer demand
D. Ineffective inventory management

Answer: D

Explanation: The cash conversion cycle measures the time it takes for a company to convert its investments in inventory and other resources into cash from sales. An increase in this cycle suggests inefficient inventory management and/or issues with accounts receivable collection.

Question: 755

Which of the following is a best practice for the board when evaluating the CEO's performance?

A. Relying solely on the CEO's self-assessment and input
B. Considering feedback from the company's major shareholders
C. Basing the evaluation primarily on the company's stock price performance
D. Conducting the evaluation in a closed-door session without the CEO present

Answer: B

Explanation: A best practice for the board when evaluating the CEO's performance is to consider feedback from the company's major shareholders. Shareholder input can provide valuable outside perspective on the CEO's leadership and the company's overall performance. Relying solely on the CEO's self-assessment, basing the evaluation primarily on stock price, or conducting the evaluation without the CEO present would not represent best practices for a thorough and objective performance review.

Question: 756

The board is considering a major capital investment project. Which of the following factors should be the most important in the board's decision-making process?

A. The project's internal rate of return (IRR)
B. The project's potential impact on the company's brand and reputation
C. The project's alignment with the company's long-term strategic plan
D. The project's potential to disrupt the company's existing operations

Answer: C

Explanation: The most important factor in the board's decision-making process for a major capital investment project should be the project's alignment with the company's long-term strategic plan. The strategic alignment of the project is crucial, as it ensures that the investment will support and advance the company's overall business objectives and create long-term value for shareholders. While factors such as the project's IRR, impact on brand and reputation, and potential for disruption are also important considerations, the board should prioritize the project's strategic fit as the primary driver of its decision-making.

Question: 757

Which of the following is considered a best practice for director tenure?

A. Mandatory retirement at age 72

B. Maximum tenure limit of 10-15 years
C. No set term limits, with annual re-election
D. Staggered board terms of 3-5 years

Answer: B

Explanation: Establishing a maximum director tenure limit of 10-15 years is considered a best practice for corporate governance. This helps introduce fresh perspectives, skills, and independence to the board over time, while also retaining institutional knowledge and continuity. Overly long tenures can compromise director independence and lead to entrenched leadership, which can be detrimental to shareholder interests.

Question: 758

Which COSO ERM component is responsible for communicating risk information to relevant stakeholders and ensuring that the organization's risk management practices are understood throughout the organization?

A. Information and communication
B. Monitoring
C. Risk assessment
D. Risk response

Answer: A

Explanation: The "Information and Communication" component of the COSO ERM framework is responsible for communicating risk information to relevant stakeholders and ensuring that the organization's risk management practices are understood throughout the organization.

Question: 759
A company is considering two mutually exclusive investment projects, Project

A and Project B. The relevant information is as follows:

Project A:
Initial investment: $50,000
Expected annual cash inflows: $15,000 for 5 years
Discount rate: 10%

Project B:
Initial investment: $100,000
Expected annual cash inflows: $25,000 for 5 years
Discount rate: 10%

Which project should the company choose if the objective is to maximize the net present value (NPV)?

A. Project A
B. Project B
C. Both projects have the same NPV
D. Cannot determine without more information

Answer: B

Explanation:
To calculate the NPV, we can use the formula:
NPV = -Initial Investment + Î£ (Annual Cash Inflows / (1 + Discount Rate)^t)
where t represents the year.

For Project A:
NPV = -$50,000 + ($15,000 / 1.1) + ($15,000 / 1.21) + ($15,000 / 1.331) + ($15,000 / 1.4641) + ($15,000 / 1.61051) = $3,636.36

For Project B:
NPV = -$100,000 + ($25,000 / 1.1) + ($25,000 / 1.21) + ($25,000 / 1.331) +

($25,000 / 1.4641) + ($25,000 / 1.61051) = $36,363.64

Since Project B has a higher NPV, the company should choose Project B.

Question: 760

What is the board's role in overseeing the company's mergers and acquisitions strategy?

A. Approving the overall M&A strategy and investment parameters
B. Reviewing and approving individual acquisition or divestiture proposals
C. Monitoring the post-merger integration and synergy capture process
D. All of the above

Answer: D

Explanation: The board's role in overseeing the company's mergers and acquisitions strategy includes approving the overall M&A strategy and investment parameters, reviewing and approving individual acquisition or divestiture proposals, and monitoring the post-merger integration and synergy capture process. The board must provide strategic oversight across the entire M&A lifecycle to ensure alignment with the company's long-term objectives.

Question: 761
An organization is considering investing in a new manufacturing facility. The initial investment required is $10 million, and the expected annual cash flows from the facility are:
Year 1: $2 million
Year 2: $2.5 million
Year 3: $3 million
Year 4: $2.5 million
Year 5: $2 million
What is the ROI of this investment?

A. 20%
B. 30%
C. 40%
D. 50%

Answer: C

Explanation:
To calculate the ROI, we need to find the net profit and divide it by the initial investment.

Net Profit = $2 million + $2.5 million + $3 million + $2.5 million + $2 million = $12 million

ROI = (Net Profit - Initial Investment) / Initial Investment x 100
ROI = ($12 million - $10 million) / $10 million x 100 = 20%

Therefore, the ROI of this investment is 20%.

Question: 762

The board is reviewing the company's financial planning and budgeting processes. Which of the following would be the most significant concern for the board?

A. Lack of alignment between the company's strategic plan and the financial plan
B. Insufficient involvement of the board in the financial planning process
C. Inadequate monitoring and reporting of financial performance against budget
D. Lack of detailed and comprehensive financial projections beyond the current fiscal year

Answer: A

Explanation: The most significant concern for the board in reviewing the company's financial planning and budgeting processes would be the lack of alignment between the company's strategic plan and the financial plan. The financial plan should be a direct translation of the strategic plan, ensuring that the company's financial resources are allocated to support the achievement of its long-term strategic objectives. If there is a disconnect between the strategic and financial plans, it can undermine the company's ability to execute its strategy and achieve its desired financial outcomes. The other factors, such as board involvement, performance monitoring, and financial projections, are also important, but the alignment between the strategic and financial plans is the critical issue that the board should address.

Question: 763

Which COSO ERM component is responsible for monitoring the effectiveness of risk management practices and making necessary adjustments?

A. Control activities
B. Information and communication
C. Monitoring
D. Risk assessment

Answer: C

Explanation: The "Monitoring" component of the COSO ERM framework is responsible for continuously monitoring the effectiveness of risk management practices and making any necessary adjustments to ensure that the organization's risk management strategy remains effective over time.

Question: 764

Which of the following is not a typical requirement for the disclosure of executive compensation in a proxy statement?

A. The total compensation for the company's CEO and other named executive officers
B. The criteria used to determine executive compensation
C. The target and actual performance metrics used to determine incentive pay
D. The specific salaries and bonuses of all the company's employees

Answer: D

Explanation: The proxy statement is required to disclose the total compensation for the company's CEO and other named executive officers, as well as the criteria and performance metrics used to determine their compensation. However, the disclosure of specific salaries and bonuses for all employees is not a typical requirement.

Question: 765

Which of the following is a key responsibility of the board's mergers and acquisitions (M&A) committee?

A. To oversee the organization's compliance with antitrust and competition regulations
B. To monitor and evaluate the organization's due diligence process for potential transactions
C. To identify and assess the organization's strategic growth opportunities through M&A
D. To ensure the effectiveness of the organization's internal controls and reporting processes related to M&A activities

Answer: B

Explanation: A key responsibility of the board's mergers and acquisitions (M&A) committee is to monitor and evaluate the organization's due diligence process for potential transactions. This includes reviewing the financial, operational, and strategic implications of proposed acquisitions or divestitures, and ensuring that appropriate risk assessment and mitigation measures are in place. The other options, while important, are not the primary focus of this committee.

Question: 766

Which of the following is not a typical activity within the "Recovery Planning" category of the "Recover" function?

A. Developing recovery strategies and plans.
B. Implementing maintenance and testing procedures for recovery plans.
C. Coordinating with internal and external stakeholders during recovery efforts.
D. Analyzing the root causes of the cybersecurity incident.

Answer: D

Explanation: Analyzing the root causes of a cybersecurity incident is not a typical activity within the "Recovery Planning" category. That would fall under the "Improvements" category or the "Respond" function of the NIST Cybersecurity Framework.