



## ICD.D Designation Written Examination Sample Questions

The Institute of Corporate Directors (ICD) written examination evaluates knowledge-based competencies deemed necessary to be an effective director. The examination consists of 50 multiple choice and true/false questions.

To assist you in preparing for the ICD written examination, we have included a cross-section of possible questions for your review. Thank you.

### Sample Question 1.

**True or false? A complete set of financial statements for a publicly traded Canadian company includes only the following: income statement, balance sheet, and statement of cash flows.**

- A True
- B False

Answer: B

Explanation: In addition to those items listed above, a set of financial statements also includes a statement of stockholders' equity or statement of retained earnings. Notes should accompany the statements.

### Sample Question 2.

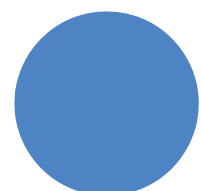
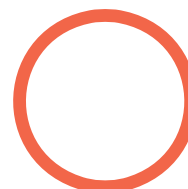
**When should the Board begin the CEO succession planning process?**

- A As soon as the new CEO comes into position
- B 4-6 years before the current CEO is expected to leave
- C 2-3 years before the current CEO is expected to leave
- D Immediately after the CEO and the Board agree on the expected departure date of the current CEO
- E 18 months before the expected departure of the current CEO

Answer: A

Explanation:

The CEO succession planning process should be an on-going process, not an episodic one. Very soon after a new CEO comes into position, the CEO and Board should begin to have discussions about how possible successors are going to be developed.





### Sample Question 3.

**CSA Corporate Governance Guidelines recommend that Boards, prior to nominating new directors:**

- A consider the competencies and skills the Board should possess
- B assess the competencies and skills possessed by existing directors
- C establish a Nominations Committee composed of independent directors
- D all of the above
- E only (A) and (C)

Answer: D

Explanation:

The new guidelines recommend that Nominating Committees go through a rigorous process of determining required skills, including assessing the skills of existing directors.

### Sample Question 4.

**Organizations that pursue operational effectiveness but not strategic innovation are less likely to maximize their return on capital over the long term.**

- A True
- B False

Answer: A

Explanation: Finding a unique value proposition means that competitors do not compete on price and/or adding more costly services that are easily imitated and therefore generate greater shareholder returns on average.

### Sample Question 5.

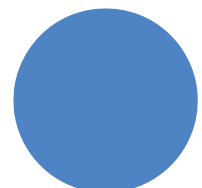
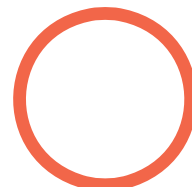
**Anchoring and adjustment refers to the way that people often estimate:**

- A The value of things when that value is uncertain.
- B How much to pay in corporate transactions.
- C Appropriate levels of compensation.
- D All of the above.
- E None of the above.

Answer: D

Difficulty: 3

Explanation: Anchoring and adjustment refers in general to the way that people typically estimate the value of something when that value is uncertain or ambiguous. Answer A is consistent with this definition, and answers B and C refer specifically to the kinds of estimates that would reflect anchoring and adjustment.





### Sample Question 6.

**To whom do directors in Canada owe their fiduciary responsibilities?**

- A Shareholders
- B Creditors
- C All stakeholders
- D The corporation
- E All of the above

Answer: D

### Sample Question 7.

**What are “red flags” when participating in the possible acquisition of another company?**

- A the bid price relies heavily on synergies that will reduce future overhead costs
- B synergy estimates change as the bidding escalates
- C there is no detailed study of what the post-merger integration process will be and the costs thereof
- D all of the above
- E B and C

ANSWER: D

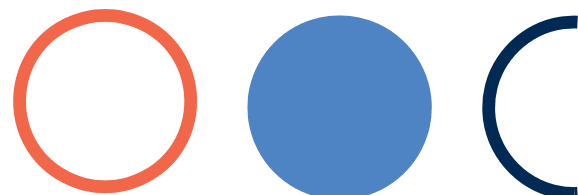
Explanation: To the extent that the market is fairly valuing a stock, the only justification for paying a premium to the market price lies in potential synergies, so synergies themselves are not a cause for significant concern. But research has shown that synergistic values are often incorrect, in that they overestimate the potential savings. Dramatic changes in the value of synergies as the bidding escalates (in the absence of new information) is a sign of a lack of a rigorous process to maintain discipline. Likewise, lack of discussion of integration costs and a plan for dealing with them is a process that is prone to lead to overbidding.

### Sample Question 8.

**Typically, the AGM includes the appointment of the external auditor by the:**

- A Shareholders
- B Management
- C Board of Directors
- D Internal auditor
- E None of the above

Answer: A





### Sample Question 9.

**A set of correlated financial measures creates well defined measures of performance? True or False?**

- A True
- B False

Answer: B

Explanation: A set of correlated financial measures creates well identified measures that will be manipulated

### Sample Question 10.

**In M&A transactions, where a targeted company has only one bid to consider, what steps should their board take in evaluating the bid, if any?**

- A Nothing is required if the bid exceeds the volume weighted share price in the previous 20 days
- B Canvass the market
- C Get a fairness opinion
- D B and C

ANSWER: D

Explanation: Boards must demonstrate that they have exercised their business judgment in order to fulfill their duty of care and get protection of the business judgment rule. This requires a process to evaluate the bid so looking just at the price is clearly inadequate. Canvassing the market place and getting fairness opinions are advised practices. This material is covered in the Osler, Hoskin & Harcourt handout on M&A distributed in class.

### Sample Question 11.

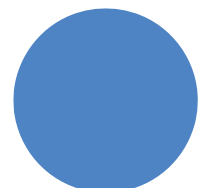
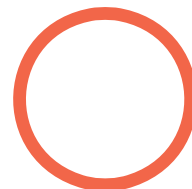
**CSA Corporate Governance Guidelines make a number of recommendations around job descriptions for Chair, CEO and committee chairs.**

- A True
- B False

Answer: A

Explanation: Chair and committee chair position descriptions are recommended because of the significant effect these roles can have on the Board's agenda and overall effectiveness. Clarifying the CEO position description helps establish Board vs. management responsibility, and help the Board make its expectations of the CEO clear.

### Sample Question 12.





**In a takeover bid, the acquirer has a choice of payment – stock, cash or a combination of the two. What factors should directors consider when evaluating these payment options?**

- a. With shares, the value your shareholders receive is more secure.
- b. This bid will be slower if it involves shares, as it is likely to require approval from the acquirer company's shareholders.
- c. If payment involves stock, your company's shareholders will bear some of the risk associated with synergies in the acquisition.

- A a and b
- B a and c
- C b and c
- D All of the above

Answer: C

Explanation:

With a fixed rate of exchange, you pre-specify the number of shares of the acquirer to be exchanged for target shares. Since the share price of the acquirer is affected by the announcement of the bid (on average the announcement effect is negative in fact), the dollar value of the bid is different after the announcement than calculated before. Therefore (a) is false, as with a cash bid, the bid value remains fixed in dollar terms. The rest of the outcomes are likely with a fixed exchange offer: a share exchange requires shareholder approval where as cash bids can often be made without such approval; so long as target shareholders accept the exchange and do not immediately sell their shares, they will bear the risk that the synergies touted in the deal do not materialize.

### Sample Question 13.

**As a director, you find yourself questioning the efficiency of your Board meetings. Which of the following suggestions would help reduce time spent on minor or routine matters and allow more focus on substantive board issues.**

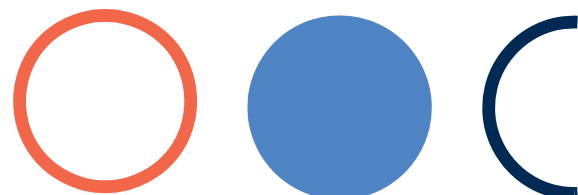
- A Split the CEO and Chair positions
- B Create a lead director position
- C Create a consent agenda for routine tasks
- D Distribute board materials the day before board meetings

Answer: C

Explanation: A consent agenda moves all the routine items (e.g., approval of minutes) "off-line" so that the board can spend meeting time on issues of substance.

### Sample Question 14.

**Despite the existence of a lawyer on the board, the board may still choose independent**





**counsel, as opposed to in-house counsel in which of the following scenarios?**

- A Every time the board makes a decision
- B If the board is not confident it is getting appropriate advice from company's counsel
- C If the board needs legal advice in connection with a matter in which management has an interest
- D Never – it's a waste of money

- A A and B
- B B and C
- C A and C
- D A, B and C

Answer: B

### **Sample Question 15.**

**Regular evaluations of the board, committees and directors are recognized as best practices in both the profit and not-for-profit sectors.**

- A True
- B False

Answer: A

Explanation: We measure what we value. If Boards, Board committees and individual directors are expected to add value, then we should measure effectiveness in an attempt to improve effectiveness.

