

Board Refreshment: More than a Compliance Exercise

July 8, 2026

As companies navigate increasingly complex strategic, operational, and regulatory challenges, boards should regularly evaluate whether they have the right mix of skills, experience, and perspectives to provide effective oversight. Refreshment is not about replacing directors for the sake of change; it is about ensuring that board composition aligns with the company's evolving needs and brings fresh perspectives to the boardroom.

There is no one-size-fits-all approach to refreshment. While formal mechanisms such as tenure limits and mandatory retirement ages can impose opportunities for renewal, most companies do not rely on these. We believe companies are well served by a regular focus on board composition, using board and individual director evaluations, skills matrices, and succession planning to help identify future needs and inform recruitment efforts.

The following are several considerations for boards, nominating and governance committees, and management teams seeking to build an effective board refreshment strategy.

Start with Succession Planning. Rather than reacting to vacancies as they arise, boards should establish an ongoing process for evaluating future leadership needs and preparing for expected and unexpected director departures. Responsibility for overseeing succession planning typically rests with the nominating and governance committee, with clearly defined roles for both the full board and management. Boards should consider making succession planning a recurring agenda item, periodically reviewing anticipated retirements and discussing directors' longer-term plans. Documented succession procedures help to ensure that transitions occur efficiently and with minimal disruption.

Succession planning also provides an opportunity for boards to look beyond anticipated vacancies and consider what expertise may be needed over the coming years. Regular discussions about future strategies, emerging risks, and changing regulatory expectations help to identify the skills and experiences that would help future directors

add value to the boardroom. Boards should also consider creating a culture of refreshment (even without formal term limits) in which directors understand that after some period of time, it is expected that they will step down to allow for new directors to be added.

Use Board Evaluations to Inform Refreshment Decisions. Effective evaluations provide boards with an opportunity to assess not only how well the board functions but also whether its composition and the composition of its committees meet the company's current and future needs. Evaluations can identify gaps in expertise, uncover opportunities to strengthen board dynamics, and suggest areas where additional perspectives would improve oversight. They help boards to determine whether committees remain appropriately structured and whether director succession should become a near-term priority.

Board evaluations may also be required under applicable listing standards. For example, Section 303A.09 of the NYSE Listed Company Manual requires NYSE-listed companies to adopt and disclose corporate governance guidelines that address annual board performance evaluations.

Periodically Assess Board Composition. Effective board refreshment requires a board to periodically assess whether its overall composition remains aligned with the company's strategic priorities and risk profile. Relevant considerations may include industry knowledge, financial and operational expertise, prior leadership experience, board tenure, age, and diversity of backgrounds and perspectives. Many boards use skills matrices to evaluate how directors' experiences align with their company's needs and to identify areas where additional expertise may be beneficial.

While prior public company board experience remains valuable, companies increasingly recognize that effective directors can develop familiarity with board processes over time. As a result, boards often prioritize complementary skills, strategic judgment, and independence over prior public company service alone.

Maintain a Pipeline of Director Candidates. Maintaining an active candidate pipeline allows a board to respond more quickly to unexpected departures while also recruiting directors whose backgrounds align with the company's long-term strategic objectives. Independent advisers can provide objective assessments of board composition, expand the pool of qualified candidates, and help boards identify individuals with diverse experiences and perspectives.

Final Thoughts. Boards that approach refreshment as an ongoing strategic priority—rather than simply a compliance exercise—will be better positioned to maintain the expertise, independence, and diversity of perspectives necessary to provide effective

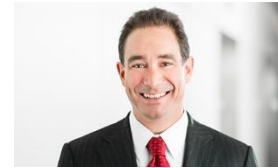
oversight in an increasingly dynamic business environment. Succession planning, board evaluations, periodic assessments of board composition, and thoughtful recruitment are all important components of that process.



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