

## Board committees evolve to address new challenges

Oversight responsibilities shouldered by boards are increasing in scope and complexity. Much of the pressure is a result of heightened regulatory requirements, shifting investor expectations and transformative global changes.

To better address evolving responsibilities, boards are increasingly creating additional committees – beyond the three key committees that oversee the critical board responsibilities of audit and financial reporting, executive compensation, and director nominations and board succession planning. The need for additional committees reflects changing board priorities and pressures, boardroom needs and company circumstances. For example, responsibilities such as strategy or risk may shift from one committee to another, be distributed among multiple committees or addressed by the full board.

The EY Center for Board Matters reviewed board structure at S&P 500 companies between 2013 and 2016 through the lens of the committee’s primary function and uncovered five observations about how S&P 500 boards are structuring committees to address oversight challenges:

### 1. More boards are adding additional committees

More than 75% of S&P 500 companies have at least one additional board committee, up from 61% in 2013.

Growth in use of additional committees, 2013-16		
Number of additional board committees	2013	2016
None	39%	24%
One	28%	34%
Two	20%	25%
Three or more	12%	16%
<b>Average number of additional committees</b>	<b>1.1</b>	<b>1.4</b>

The need for additional committees reflects changing board priorities and pressures, boardroom needs and company circumstances.

### 2. Executive committees are the most common type of additional committee

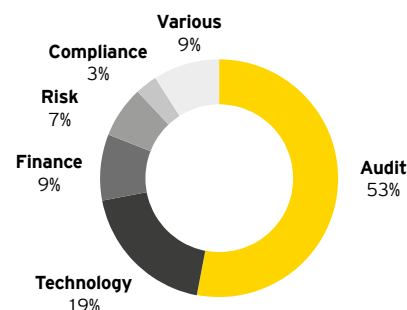
Executive committees tend to handle certain board-level responsibilities when the board is not in session. Finance, compliance and risk committees are also growing more common, reflecting the benefits to some boards of having specialist committees on these oversight areas.

Most common functions of additional committees	
Committee	Percentage of companies
Executive	37%
Finance	31%
Compliance	12%
Risk	11%
Corporate social responsibility	7%
Technology	6%
Public policy and regulatory affairs	5%
Strategy and planning	5%
Research and development	3%
Mergers and acquisitions	2%

### 3. Cyber, digital transformation and information technology are not only for the audit committee

Of the 15% of companies that disclosed a committee focus on these topics, over half assigned this responsibility to the audit committee – and a growing number to an additional committee. In the past year alone, the number of such committees grew by one-third.

Committees addressing cyber, digital transformation and information technology



#### 4. Compliance, risk and technology committees saw the most growth

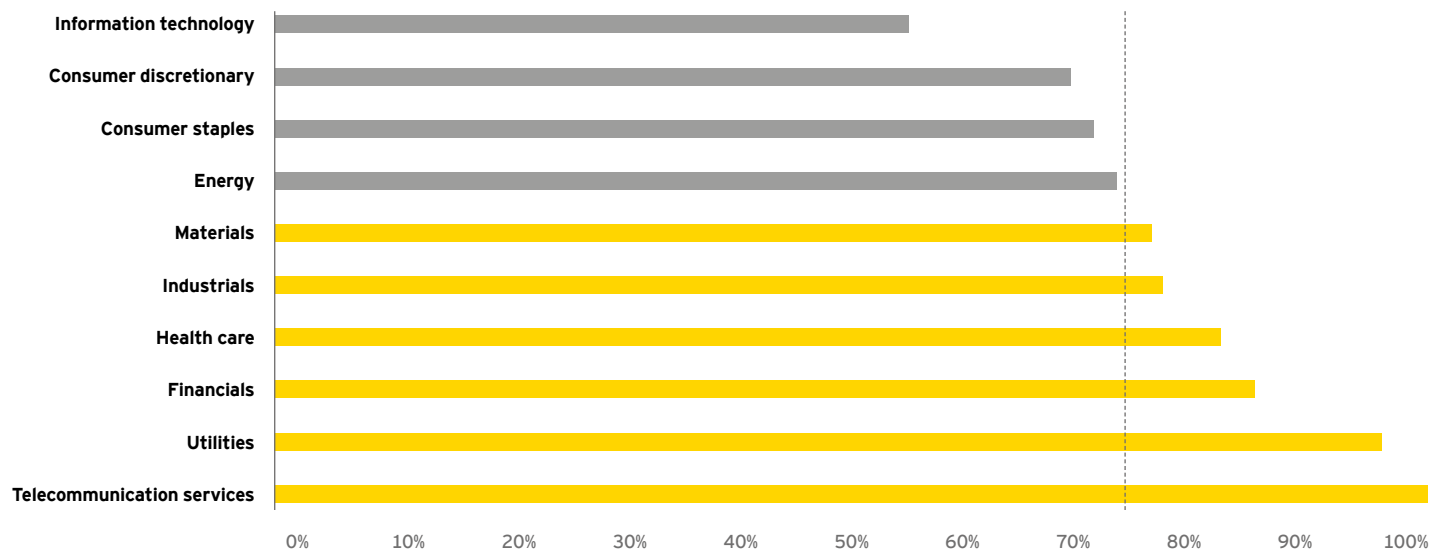
While executive committees still are the most common additional committee (see finding No. 2), several others have seen growth in the last three years. This trend suggests that some boards may be using additional committees to achieve a greater breadth and depth of focus on these complex business areas.

2013 to 2016: net growth in additional committees	
Committees	Percentage point change
Compliance	+3
Risk	+2
Technology	+2
Mergers and acquisitions	+1
Corporate social responsibility	0
Research and development	0
Strategy and planning	0
Executive	-1
Finance	-1
Public policy and regulatory affairs	-1

#### 5. Sector matters when it comes to additional committees

In 6 of 10 industry sectors, over 75% of the companies have at least one additional committee, likely due in part to the unique compliance, risk and operational challenges of these sectors.

Percentage of companies by sector with one or more additional committees



#### What about smaller company board structure?

A review of S&P SmallCap 600 board committee structure reveals the following:

- ▶ Today, 46% of smaller companies have at least one additional board committee.
- ▶ Top five additional committees at smaller companies are executive (18%), risk (7%), finance (7%), strategy (6%) and compliance (5%).
- ▶ Technology-focused committees are relatively uncommon (2%).
- ▶ Risk committees saw the most year-on-year growth (3 percentage points); other committees held steady.
- ▶ On a sector basis, utilities companies are the highest user of additional committees (82%), followed by financial services at a distant second (68%).

#### Questions for the board to consider

- ▶ Is the board's committee structure appropriate to current board priorities and company-specific needs?
- ▶ Is the board familiar with how peer companies are addressing board oversight responsibilities?
- ▶ Do assessments of board effectiveness reveal possible pressure points that might be resolved with changes in committee structure?

## Additional board committees at S&P 500 companies

Companies with this committee	Committees: function and common responsibilities	Top sectors with this committee
37%	<p><b>Executive</b></p> <ul style="list-style-type: none"> <li>▶ Exercises authority of the board when the board is not in session, except in cases where action of the entire board is required by charter, bylaws or applicable law</li> </ul>	<ul style="list-style-type: none"> <li>▶ Financial (26%)</li> <li>▶ Industrials (16%)</li> <li>▶ Consumer discretionary (15%)</li> </ul>
31%	<p><b>Finance</b></p> <ul style="list-style-type: none"> <li>▶ Oversees financial policies, strategies, capital structure, and annual operating and capital budget</li> <li>▶ May also oversee investments, dividend policy, credit and other market risks, share repurchases, and mergers and acquisitions</li> <li>▶ Functions may overlap with risk, strategy, mergers and acquisitions, and other committees that focus on specific finance-related elements</li> </ul>	<ul style="list-style-type: none"> <li>▶ Consumer discretionary (22%)</li> <li>▶ Industrials (16%)</li> <li>▶ Utilities (14%)</li> </ul>
12%	<p><b>Compliance</b></p> <ul style="list-style-type: none"> <li>▶ Oversees programs and performance related to legal and regulatory risks, as well as implementation and maintenance of the company's code of conduct and related matters</li> <li>▶ May focus specifically on compliance in a variety of areas, including environmental, health, safety and technology</li> <li>▶ Functions may overlap with risk, public policy and sustainability committees</li> </ul>	<ul style="list-style-type: none"> <li>▶ Health care (25%)</li> <li>▶ Energy (23%)</li> <li>▶ Financial (13%)</li> </ul>
11%	<p><b>Risk</b></p> <ul style="list-style-type: none"> <li>▶ Recommends the articulation and establishment of the company's overall risk tolerance and risk appetite</li> <li>▶ Oversees enterprise-wide risk management to identify, assess and address major risks facing the company, which may include credit, operational, compliance/regulatory, interest, liquidity, investment, funding, market, strategic, reputational, emerging and other risks</li> <li>▶ Reviews and discusses management's assessment of the company's enterprise-wide risk profile</li> <li>▶ Functions may overlap with finance and compliance committees</li> </ul>	<ul style="list-style-type: none"> <li>▶ Financial (73%)</li> <li>▶ Industrials (6%)</li> <li>▶ Utilities (4%)</li> <li>▶ Consumer discretionary (4%)</li> <li>▶ IT (4%)</li> <li>▶ Consumer staples (4%)</li> </ul>
7%	<p><b>Corporate social responsibility</b></p> <ul style="list-style-type: none"> <li>▶ Reviews policies and practices related to specific public issues of concern to shareholders, the company, employees, communities served and the general public, with oversight of corporate responsibility, environmental sustainability, diversity and inclusiveness, and/or brand management efforts</li> <li>▶ Functions may overlap with public policy and compliance committees</li> </ul>	<ul style="list-style-type: none"> <li>▶ Financial (26%)</li> <li>▶ Consumer discretionary (26%)</li> <li>▶ Materials (19%)</li> </ul>
6%	<p><b>Technology</b></p> <ul style="list-style-type: none"> <li>▶ Oversees and assesses the company's technology-related development and innovation strategies; makes recommendations regarding the scope, direction, quality and investment levels; and oversees the execution of technology strategies formulated by management</li> <li>▶ Reviews and discusses management's assessment of the company's technology profile</li> <li>▶ Addresses related risks and opportunities</li> <li>▶ Functions may overlap with risk and research and development</li> </ul>	<ul style="list-style-type: none"> <li>▶ Financial (25%)</li> <li>▶ Industrials (25%)</li> <li>▶ Materials (14%)</li> </ul>

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