EY Center for Board Matters

How committees are evolving to meet changing oversight needs

Corporate boards continue to evolve in response to changes in the business environment. To help boards stay agile and meet changing oversight needs, this report explores some of the changes that have been made to the board committee structure of S&P 500 companies between 2019 and 2022.

Our analysis includes reviewing how committees — including and beyond the three core generally required by the US stock exchanges (audit, compensation and nominating governance committees) — are described and named in proxy statements. In addition, our findings reflect both an evolution of committee structure and responsibilities as well as enhanced communications around how boards are executing oversight of key areas of stakeholder interest.

In brief

- Board committee structures and responsibilities are evolving as boards adapt to changing oversight priorities.
- Boards are adding new committees or expanding the purview of key committees to deepen their strategic focus on areas such as talent, technology and sustainability.
- Committee structure should regularly be evaluated in the context of the company's mission-critical strategic and enterprise risk oversight needs.

Some boards are changing their committee structure to focus more on technology and sustainability

Overall, three-fourths of S&P 500 company boards now have at least one additional board committee beyond the core three regulatory committees, up from 73% in 2019.

This year, the percentage of S&P 500 company boards with a separate technology committee increased to 12%, up from 8% in 2019. This makes technology committees now slightly more common than risk committees, which 11% of S&P 500 company boards have. A majority of these boards charged their technology committee with oversight of cybersecurity (sometimes in coordination with the audit committee), but committee descriptions reflect that most of these committees also focus on strategic opportunities. Indeed, for 77% of technology committees, the descriptions in the proxy statement of their key responsibilities include the terms "innovation," "strategy," "transformation" or "investment." Most boards adding a technology committee are part of the health care, technology or financial sector.

Stand-alone corporate responsibility and sustainability committees are also on the rise. The percentage of S&P 500 company boards with a separate sustainability committee jumped to 11% in 2022, up from 7% in 2019. These committees are primarily focused on environmental, social and governance (ESG) risks and opportunities and what may broadly be described as corporate citizenship or stakeholder value matters. The most common sectors adding such committees are materials, energy and consumer staples.

While finance, executive and compliance committees remain the three most prevalent extra-regulatory committees, the percentage of S&P 500 company boards with those committees has ticked down in recent years.

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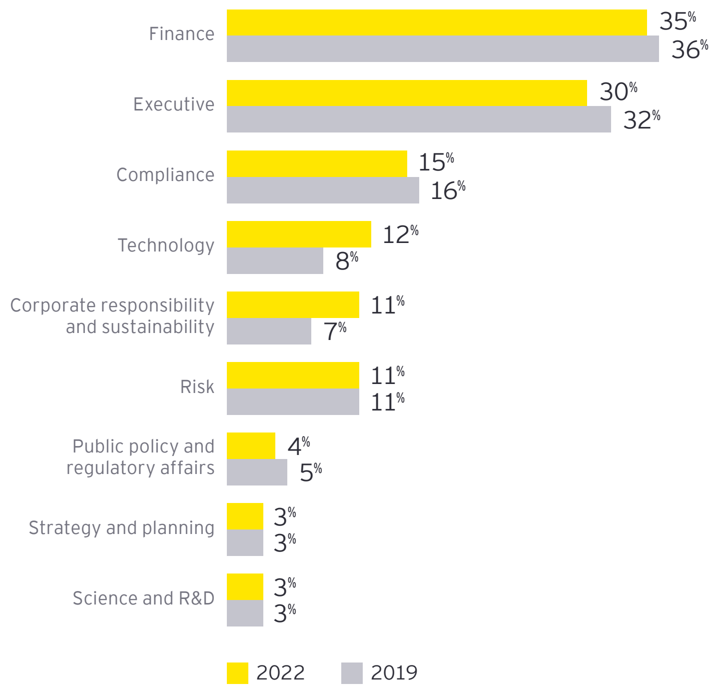
Prevalence of board committees beyond the core three

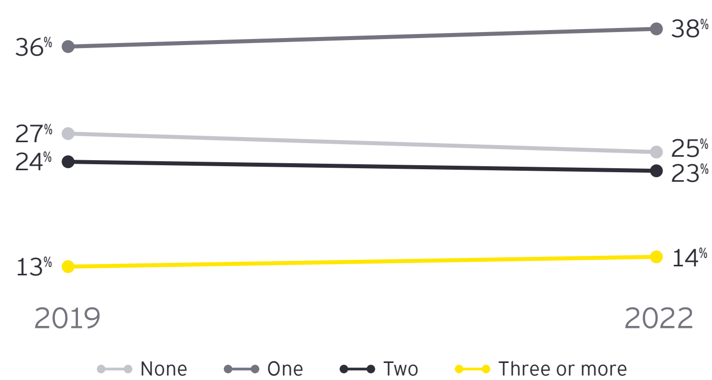
(% of S&P 500)



Source: analysis by EY Center for Board Matters

Percentage of committees beyond the core three

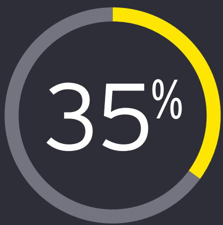
(% of S&P 500)



Source: analysis by EY Center for Board Matters

S&P 500 board committee structures by sector
(% companies with committee)

Finance committee



Top sectors
- 71% Utilities
- 48% Consumer staples
- 42% Financial

Executive committee

Top sectors
- 48% Consumer staples
- 46% Financial
- 43% Utilities

Compliance committee

Top sectors
- 57% Utilities
- 38% Energy
- 35% Health care

Technology committee

Top sectors
- 21% Health care
- 19% Technology
- 19% Financial
- 11% Utilities

Risk committee

Top sectors
- 63% Financial
- 11% Telecommunication
- 4% Consumer discretionary

Corporate social responsibility committee

Top sectors
- 30% Materials
- 24% Energy
- 22% Consumer staples

Public policy and regulatory affairs committee

Top sectors
- 24% Energy
- 11% Utilities
- 5% Health care

Strategy

Top sectors
- 13% Consumer staples
- 5% Financial
- 5% Industrials
- 3% Real estate
- 3% Consumer discretionary

R&D

Top sectors
- 19% Health care
- 4% Materials
- 3% Real estate

Key committees' mandates are expanding to accommodate new governance priorities

Another approach boards are taking to strengthen oversight is to broaden the purview of the three core committees — audit, compensation, and nominating and governance — to address oversight of talent and culture (including diversity, equity and inclusion (DEI)), environmental and social matters, and cybersecurity and digital trust.

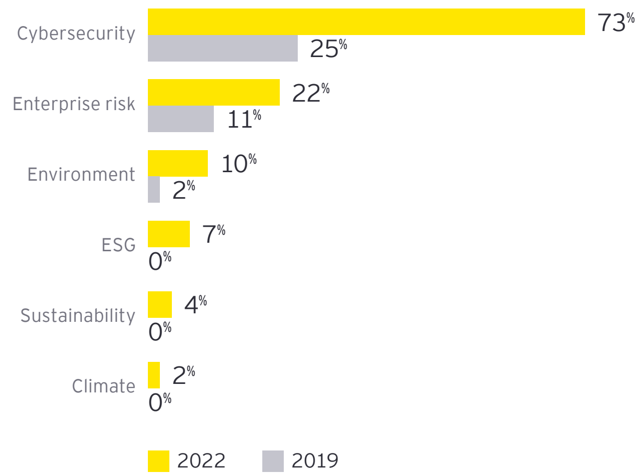
Audit committees expand oversight of cybersecurity and other nonfinancial risks

The audit committee has emerged as the primary committee overseeing cybersecurity. The percentage of S&P 500 companies citing cybersecurity in their descriptions of the audit committee's responsibilities in the proxy statement has nearly tripled since 2019, jumping from 25% then to 73% in 2022. This percentage may be poised to change even further in the near future. Under Securities and Exchange Commission (SEC) proposed rulemaking on cybersecurity, companies would need to disclose whether the entire board, specific members or a board committee is responsible for cybersecurity oversight.

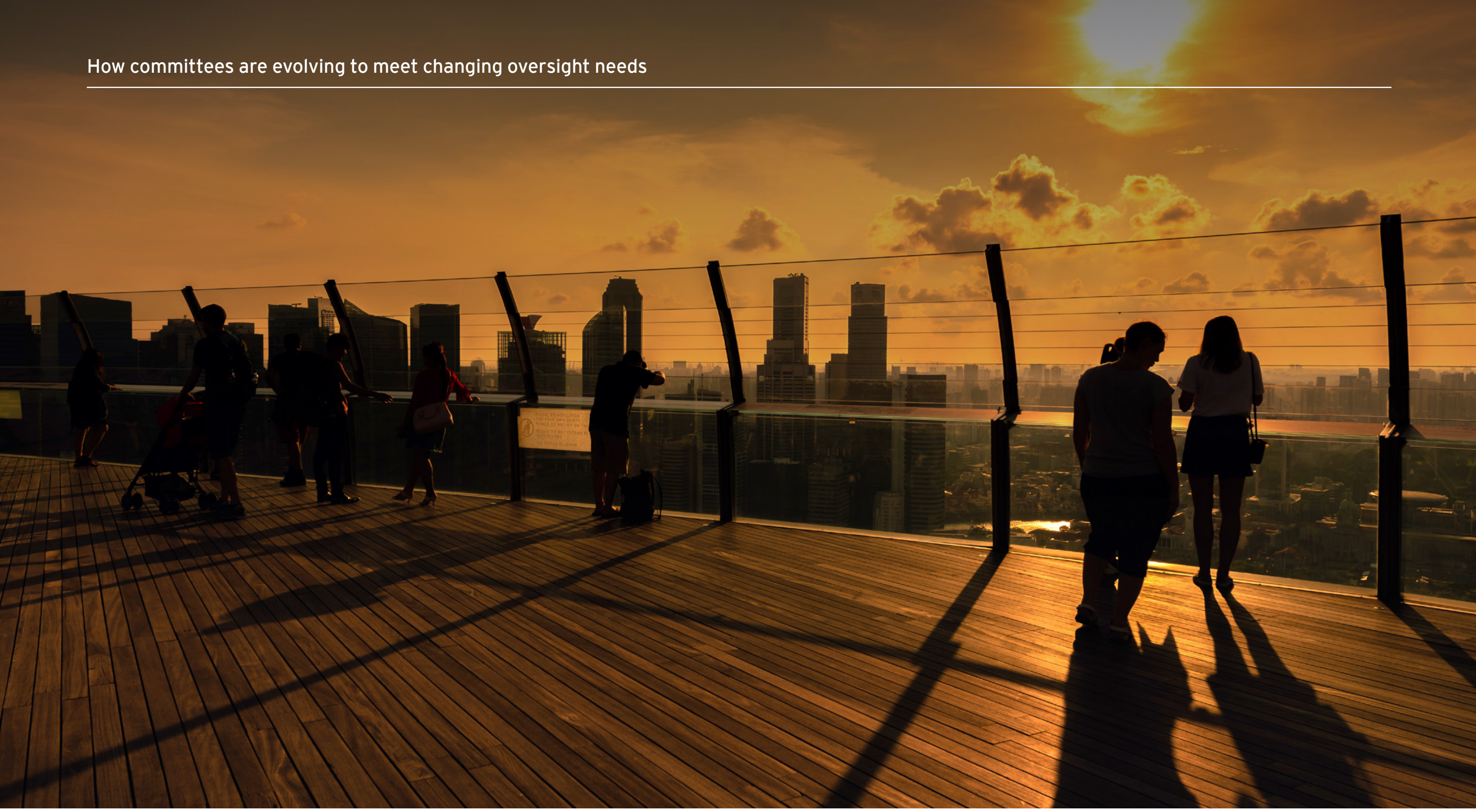
Beyond cyber, more audit committees are overseeing other nonfinancial risks. Notably, the environment, ESG, sustainability and climate are topics now appearing in the descriptions of audit committee oversight responsibilities for 13% of S&P 500 companies.

Topics in proxy statement descriptions of audit committee responsibilities

(% of S&P 500)



Source: analysis by EY Center for Board Matters



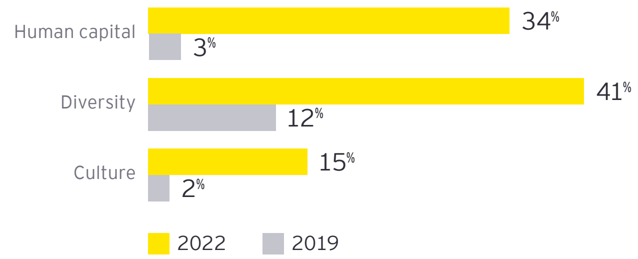
Compensation committees embrace oversight of talent matters

Compensation committees are facing an exponential shift in their scope, reflecting a major committee change. Once focused primarily on compensation matters related to the CEO, C-suite, and equity incentive plans and succession planning, many compensation committees have expanded their oversight role. While some of the descriptions of human capital management oversight are high level, others specify that such matters include diversity, equity and inclusion; talent recruitment, development and retention; workplace environment and culture; health and wellness; pay equity; and employee engagement and external surveys. While only 3% of S&P 500 companies included "human capital" in their compensation committee descriptions in the proxy statement in 2019, a third do so now. Even more, 41%, include diversity or DEI among the committee's areas of oversight, 15% claim oversight of company culture, and 7% say they oversee employee engagement. These changes are significant and reflect the board's oversight and focus on the broader talent agenda.

Compensation committees are also changing their names to reflect this expanding oversight role, such as by expanding their titles to include "human capital" (from zero in 2019 to 7% in 2022), "talent" (from 1% in 2019 to 7% in 2022) or "human resources" (from 8% in 2019 to 10% in 2022). Overall, 33% of compensation committees have expanded their names from 2019 to 2022.

Topics in proxy statement descriptions of compensation committee responsibilities

(% of S&P 500)



Source: analysis by EY Center for Board Matters

This explicit inclusion of human capital in the work of compensation committees helps signal to stakeholders the importance of the issue to the board, and this is an area of increasing stakeholder focus. Workforce (and board) diversity as well as other strategic workforce issues were among the top three stewardship priorities investors shared with us for 2022.

> Compensation committees are also changing their names to reflect an expanding oversight role.

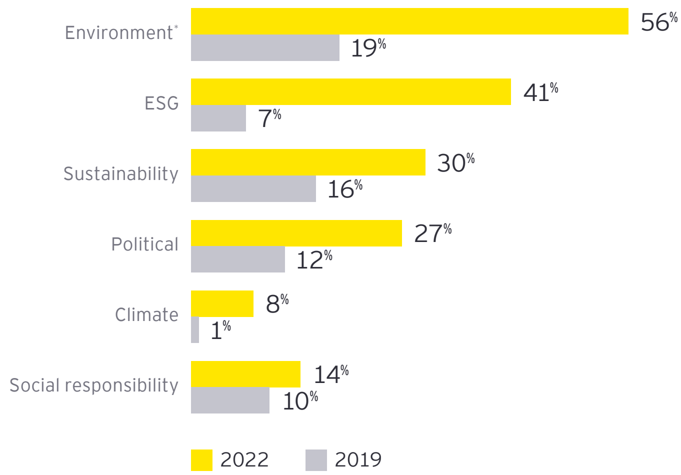
Nominating and governance committees broaden to incorporate ESG

Nominating and governance committees continue to hold the lead role in overseeing corporate environmental and social matters. A majority (56%) of S&P 500 companies cited environmental oversight in their description of the nominating and governance committee's responsibilities in the proxy statement in 2022, up from 19% in 2019, and 41% cited ESG as an area of responsibility, up from just 7% in 2019. Other ESG-related terms included among nominating and governance committee responsibility descriptions are sustainability, climate, social responsibility and political (with company political activities coming under closer scrutiny in relation to their ESG commitments and stated values). Some specific responsibilities commonly cited include overseeing environmental and social responsibility strategies, policies, procedures, initiatives, goals, performance and disclosures.

This clarity around the governance of ESG is something investors tell us they want to see. In our most recent investor outreach, a third of investors said that committee charters or other governing documents should disclose how ESG matters are included in the work of the board, specific committees and subcommittees. This is also a subject of focus for regulators. The SEC's proposed rulemaking on climate would require companies to identify any board members or committees responsible for the oversight of climate-related risks and the processes by which that oversight is conducted.

While nominating and governance committees are providing primary oversight of ESG, we are also observing many companies adopt a more integrated governance model whereby other committees are overseeing the aspects of ESG most relevant to their purview. For example, more companies are disclosing that their audit committees are overseeing disclosure processes and controls for sustainability reporting and that their compensation committees are overseeing DEI.

Topics in proxy statement descriptions of nominating and governance committee responsibilities
(% of S&P 500)



*References to the business environment are excluded.
Source: analysis by EY Center for Board Matters

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What to consider when evaluating committee roles and responsibilities

Public companies generally conduct a governance review annually, which includes a review of board governance documents and committee charters in the light of current business factors and governance practices. When companies decide to broaden or otherwise change a committee's roles and responsibilities or to change committee structure, boards should confirm that their changes will facilitate more effective oversight.

In a recent EY Center for Board Matters webcast, *How changing board oversight of talent, strategy and risk can lead to long-term value*, our director panelists shared some of their thoughts around how boards can approach such changes. Some of the considerations they shared, as well as some insights from our own experiences working with boards on committee structure, were:

- **Where does this topic fit in the context of the company's strategy and enterprise risk management? Is it a mission-critical matter?** Specific risks and opportunities can look different based on the company's sector, strategy and risk profile. Based on the company's specific context, boards can consider whether the matter is actually ripe for the board and, if so, where the new or different oversight function is best addressed and the depth of attention appropriate.
- **Are the board's emerging oversight needs a temporary or more permanent situation?** Before creating a new committee, boards should consider whether their needs could be met through existing standing committees or temporary special or ad hoc committees.
- **Does the committee have the expertise it needs to expand its oversight?** Boards should strategically allocate member talent across committees and consider how to build committee capacity — through ongoing training with outside experts and/or adding new directors — to address changing oversight needs. Boards should proceed with caution when considering bringing in a member with narrow and deep skills.
- **Does the committee have the bandwidth and resources to address different or expanded responsibilities?** While in some cases new responsibilities may be complementary and create more efficiency, in other cases adding new responsibilities to existing committees may cause overload and create unintended challenges. In those cases, if the issue is truly mission critical, boards may look to other solutions, such as an ad hoc or new committee.
- **Do the committee's new responsibilities overlap with the scope of other committees?** The board and its committees need to make clear each committee's areas of responsibilities and provide for intra-committee coordination and communication as needed.
- **Does the charter clarify the scope of the committees new responsibilities?** Formalizing the committee's responsibilities in the charter can provide clarity, both for the committee's work and for stakeholders who are seeking confirmation of the board's oversight approach on key issues.

Board committee structure should be regularly revisited to drive greater focus on strategic and other mission-critical issues and avoid unnecessary overexpansion.

The EY Center for Board Matters has developed a comprehensive framework for understanding and enhancing board effectiveness. Go here to learn more.

Going forward

Boards are more effective when they can delegate authority to well-run and well-functioning committees that have clarity on their roles and responsibilities. Committees play a critical role in allowing boards to meet evolving oversight responsibilities relating to strategy, risk, talent, culture, compliance, technology, cybersecurity and climate change. There is no one-size-fits-all best practice for board committee structures or division of oversight responsibilities. Boards need to regularly evaluate what works best for them to meet changing priorities and needs.

Questions for the board to consider

- How does the board currently identify and execute oversight of mission-critical issues? Would changes to the committee structure or responsibilities allow the board to address these issues more effectively?
- How can allocating work to board committees enable the board to spend more time focused on higher-level discussions on strategy and the company's long-term value?
- Do the board's committees have the expertise and resources needed to fulfill their mandates?
- When board committee structure or roles and responsibilities change, do the board and its committees make corresponding changes to the information infrastructure that allows them to provide relevant insight and foresight and exercise effective oversight?
- Does the board and each committee check to ensure that its various roles and responsibilities are understood and that (i) related areas of focus are aligned at the board level and (ii) work is not unnecessarily duplicated or even missed because of misunderstandings?
- Does board and committee leadership coordinate on agenda development and meeting materials to drive efficiencies and better ensure effective coordination and oversight?
- Is the board familiar with how peer companies are addressing key board oversight responsibilities?
- Do board assessments reveal possible pressure points that might be resolved with adjustments to committee structure?
- Do board and committee governing documents make clear to stakeholders how mission-critical issues are addressed?

Looking for more?

Access additional information and thought leadership from the EY Center for Board Matters at ey.com/us/boardmatters.

About the EY Center for Board Matters
Effective corporate governance is an important element in building a better working world. The EY Center for Board Matters supports boards, committees and directors in their oversight role by providing content, insights and education to help them address complex boardroom issues. Using our professional competencies, relationships and proprietary corporate governance database, we are able to identify trends and emerging governance issues. This allows us to deliver timely and balanced insights, data-rich content, and practical tools and analysis for directors, institutional investors and other governance stakeholders.

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