EY Center for Board Matters

How board committee responsibilities and structures are changing

Shape the future with confidence

Technology and sustainability are key areas of strategic focus where boards are deepening their oversight at the committee level. Some large-cap boards have added technology or sustainability committees.

Many others have expanded the oversight responsibilities of the three core committees generally required by US stock exchanges (audit, compensation, and nominating and governance) to include topics such as cybersecurity, artificial intelligence (AI), human capital management, climate-related matters and more.

To support boards as they consider the effectiveness of their committee structures and mandates in a changing business environment, this report explores related changes at S&P 500 company boards from 2021 to 2024.

Using company proxy statements, our analysis included a review of how committees were named and how their oversight responsibilities were described. 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.

Key committee responsibilities expand

One approach boards are taking to strengthen oversight in key areas of strategy and risk is to broaden the purview of the three core committees – audit, compensation, and nominating and governance – to address technology and sustainability matters. These include cybersecurity, AI, climate and other environmental risks, human capital and culture (including diversity, equity and inclusion), and corporate political responsibility.

Audit committees expand oversight of nonfinancial risks, including sustainability, cybersecurity and AI

Sustainability oversight

While nominating and governance remains the primary committee overseeing sustainability matters, the percentage of companies mentioning environmental, social and governance (ESG) and sustainability in their audit committee descriptions has nearly quadrupled, from 6% in 2021 to 22% in 2024. Mentions of environmental and climate have doubled, from 7% in 2021 to 14% in 2024.

This momentum is likely connected to companies preparing to comply with various new global reporting standards, including the SEC's climate-related disclosure requirements.[1]

To that point, in many cases where audit committee descriptions include sustainability-related terms, the committees are overseeing matters pertaining to the reliability and adequacy of ESG disclosures, including related disclosure controls and procedures. The committees are also often specifically overseeing sustainability-related risks.

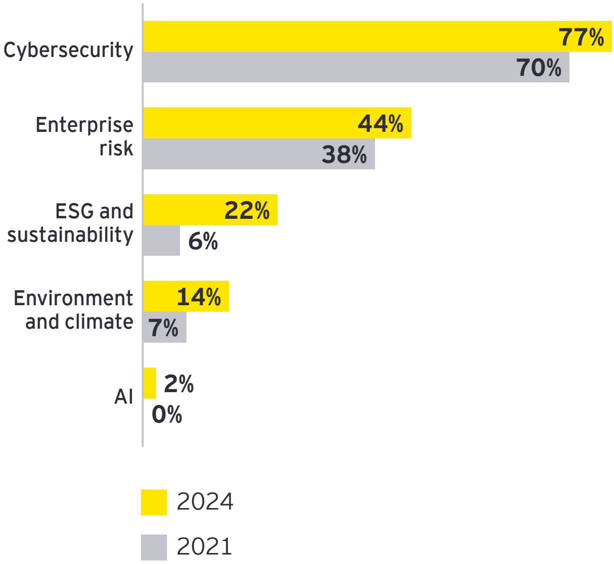
Cybersecurity oversight

Audit remains the primary committee overseeing cybersecurity risks. While the percentage of S&P 500 companies citing cybersecurity in their audit committee descriptions has increased since 2021 (from 70% to 77%), it is up significantly since 2019, when only a quarter of audit committees were charged with cybersecurity.

> "The percentage of companies mentioning ESG and sustainability in their audit committee descriptions has nearly quadrupled.

Topics in proxy statement descriptions of audit committee responsibilities

(% of S&P 500)



Source: Analysis by EY Center for Board Matters

[1] The SEC has voluntarily stayed implementation of the rules pending ongoing legal challenges.

Cybersecurity oversight responsibilities have seen a slight increase among non-audit committees in recent years, but audit committees have experienced significantly more growth. Additionally, more boards have specified committee-level oversight of cyber: Now only 5% of S&P 500 boards lack proxy disclosures assigning cybersecurity to a specific committee, down from 15% in 2021. This change was likely driven by the SEC's new rules on cybersecurity disclosures, under which companies must identify any board committee or subcommittee that oversees cybersecurity risk, if applicable.

For more on what we're seeing in terms of cybersecurity oversight and disclosure practices, see *Cybersecurity disclosures: what companies shared about cyber risks in 2024*.

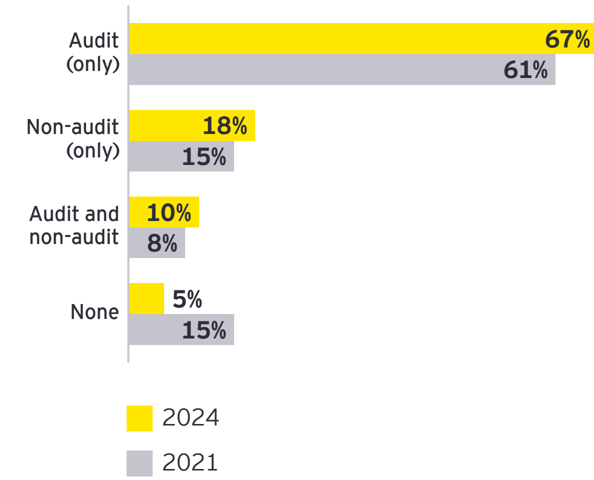
AI oversight

Companies are starting to disclose some level of AI oversight responsibilities, most commonly under the audit committee as part of risk oversight. However, disclosures vary with some only listing AI among a variety of specific risks, while others provide more in-depth information regarding their AI oversight responsibilities (e.g., oversight of issues emerging from AI's development, including impacts to data privacy, human rights and climate action). See our report on how boards can support the effective use of AI through their oversight, including questions for boards to consider regarding where AI oversight should reside.

> "Cybersecurity oversight responsibilities have seen a slight increase among non-audit committees in recent years, but audit committees have experienced significantly more growth.

Committee oversight of cybersecurity

(% of S&P 500)



Source: Analysis by EY Center for Board Matters

Compensation committees embrace oversight of human capital matters

Once focused primarily on compensation matters related to the CEO, C-suite, and equity incentive plans, compensation committees are now the primary committee overseeing human capital matters, including diversity, equity and inclusion (DEI). A majority (66%) of compensation committee descriptions now reference diversity, DEI or human capital management.

The change in recent years has been stark: Mentions of human capital more than doubled (from 25% in 2021 to 51% in 2024), and references to diversity or DEI have similarly jumped (from 33% to 52% over the same period).

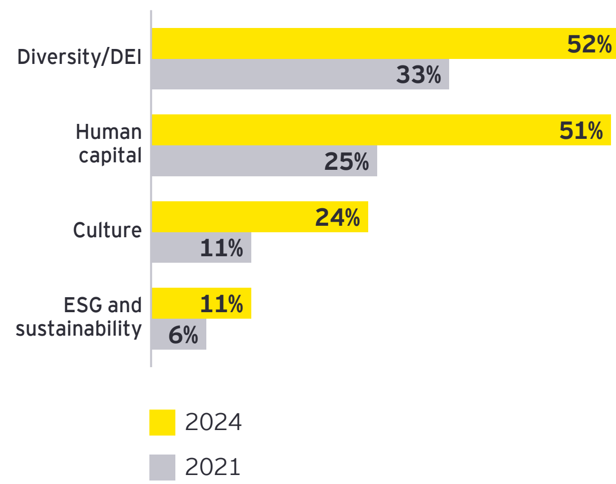
While some committee references to human capital management oversight are at a high level, others specify oversight of key strategies and programs, including those related to DEI; talent recruitment, development and retention; workplace safety and culture; health and wellness; and pay equity. Notably, references to culture more than doubled (from 11% in 2021 to 24% in 2024). These changes are significant and reflect the board's focus on the broader talent agenda and how it connects to the company's overall transformation and resilience goals.

What's in a name?

Recent years have seen a trend of compensation committees renaming themselves to better represent their role in overseeing human capital. From 2021 to 2024, the percentage of S&P 500 compensation committees inserting "human capital" or "human resources" into their names increased to 21% from 11%, while those adding "talent" rose to 11% from 5%. Overall, 27% of compensation committees have adjusted their names to reflect these responsibilities since 2021.

> "Recent years have seen a trend of compensation committees renaming themselves to better represent their role in overseeing human capital.

Topics in proxy statement descriptions of compensation committee responsibilities
(% of S&P 500)



Source: Analysis by EY Center for Board Matters

Nominating and governance committees take the lead on sustainability oversight

Nominating and governance committees continue to hold the lead role in overseeing corporate sustainability and social matters. Most S&P 500 companies (68%) cited ESG or sustainability oversight in their description of the nominating and governance committee's responsibilities this year, up from 53% in 2021, and 48% cited environmental or climate topics, up from 41% in 2021.

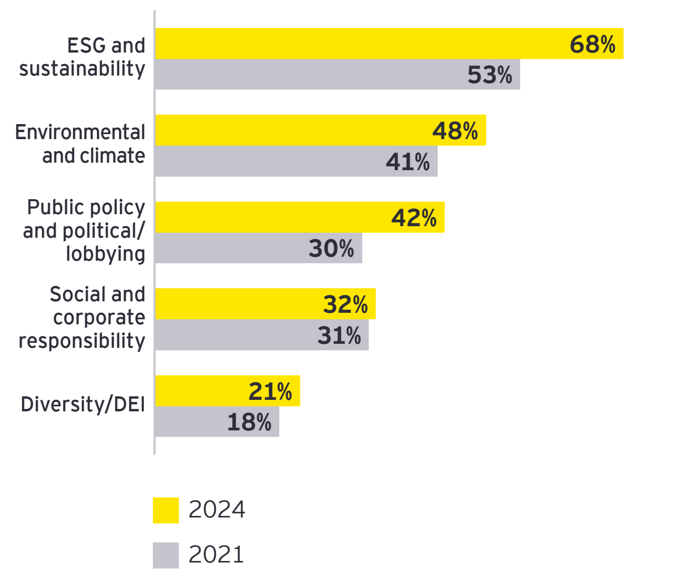
Other ESG-related terms cited in committee descriptions include public policy, political or lobbying expenditures (42%), social or corporate responsibility (32%), and diversity/DEI (21%). Some specific responsibilities commonly cited include overseeing environmental and social responsibility strategies, policies, procedures, initiatives, goals, risks, performance and disclosures.

This clarity around the governance of sustainability is something investors tell us they want to see. In our most recent investor outreach, 79% said that boards should demonstrate their expertise in areas such as climate and cybersecurity by communicating how their work reflects focused efforts in these areas.

This is also a subject of focus for regulators: The SEC's climate-related disclosure requirements mandate that companies identify any board members or committees responsible for the oversight of climate-related risks and the processes by which that oversight is conducted. Note, 18% of S&P 500 nominating and governance committee descriptions specify that the committee oversees climate-related matters (compared with 6% of audit committee descriptions).

While nominating and governance committees are providing primary oversight of sustainability policies and strategies, we are also observing many boards adopt a more integrated governance model whereby other committees are overseeing the aspects of ESG or sustainability most relevant to their purview (e.g., audit committees overseeing disclosure processes and controls for sustainability reporting, and compensation committees integrating ESG metrics with the executive pay program). More than a fourth (28%) of S&P 500 companies reference "ESG" or "sustainability" across the descriptions of more than one committee.

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



Source: Analysis by EY Center for Board Matters

In the spotlight

What to consider when evaluating committee roles and responsibilities

Many public companies conduct a governance review annually, typically including a review of board governance documents and committee charters in light of strategy and business factors, industry trends, 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 consultation with internal and external counsel. Considerations should include:

- **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 deep skills.
- **Does the committee have the bandwidth and resources to address different or expanded responsibilities?** In some cases, new responsibilities may be complementary and create more efficiency; in other cases, adding new responsibilities may cause overloaded committees 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 committee's 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.
- **Are charter language changes reflected in the committee's annual calendar and meeting agendas?** If a charter requires certain actions or review by the committee, it is important that the committee's annual calendar and meetings agendas reflect that work to demonstrate due care.

Board committee structure should be regularly revisited to drive greater focus on strategic and other mission-critical issues and avoid unnecessary overexpansion. There is no one-size-fits-all approach to board structure, and what works best for any given company may change over time.

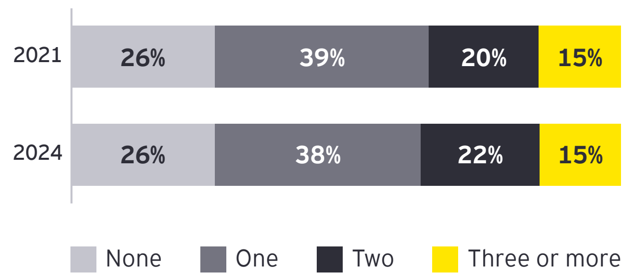
Boards continue to add sustainability and technology committees, but the pace is slow

Overall, around three-quarters of S&P 500 boards have at least one board committee beyond the core three regulatory committees, a figure generally consistent with prior years. Since 2021, the percentage of boards with two additional committees has increased to 22% from 20%.

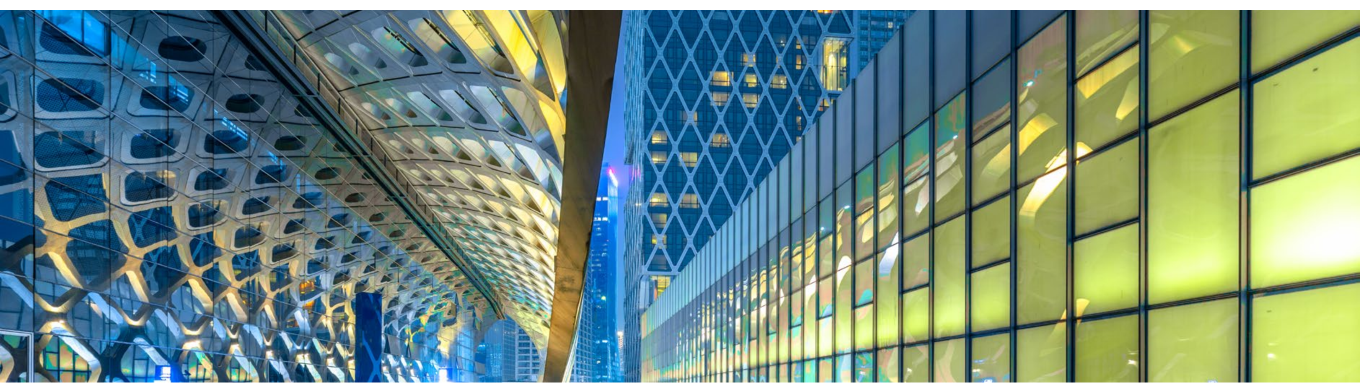
Across all additional board committees tracked, only two types of committees have seen a slight uptick in prevalence in the past three years: technology and sustainability. Currently, 13% of boards have technology committees, up from 11% in 2021, and 12% have sustainability committees, up from 10%. That exceeds the 11% of boards that have risk committees, a percentage that has stayed consistent over that same time period. While certain financial services company boards are mandated to establish a risk committee, outside the financial services sector, only 3% of S&P 500 companies have a risk committee.

Across all remaining committee types (e.g., finance, executive, compliance, risk), the percentage of boards with those committees has either declined or stayed the same over the past three years. Finance, executive and compliance remain the three most prevalent extra-regulatory committees.

Percentage of committees beyond the core three
(% of S&P 500)



Total percentages exceed 100% due to rounding.
Source: Analysis by EY Center for Board Matters



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A closer look at the committees that have increased in prevalence

Technology

While the percentage of companies with a separate technology committee had increased over time, that growth plateaued at 13% in 2023, staying consistent over the past year.

These committees appear to be focused on both strategic opportunity and risk, with 78% of technology committee descriptions stating that they review technology strategy, and 70% charging them with oversight of cybersecurity matters (sometimes in coordination with the audit committee). Their attention to cybersecurity may be growing: Nearly a third now have "cybersecurity" in their name, up from 22% in 2021. That change could also reflect the impact of the SEC's new rules on cybersecurity disclosures, under which companies must identify any board committee or subcommittee that oversees cybersecurity risk.

AI is also starting to emerge as an area of committee focus, with 13% of technology committee descriptions mentioning it. In all, 5% of S&P 500 companies mention AI in a board committee description, with the list including technology, audit, risk, compliance, nominating and governance, and public policy committees. Most mentioned oversight of AI-related risks and some said they were reviewing trends that may affect strategy, overseeing AI-related policies and standards, assessing the alignment of AI initiatives with business objectives and strategies, and overseeing the development process. Other topics commonly mentioned in technology committee descriptions include innovation and emerging technology.

Most boards with an established technology committee are in financial services; 21% of companies in the sector include such a committee. Most of these boards also have a risk committee, and in their descriptions a few mention coordination between the two on cybersecurity.

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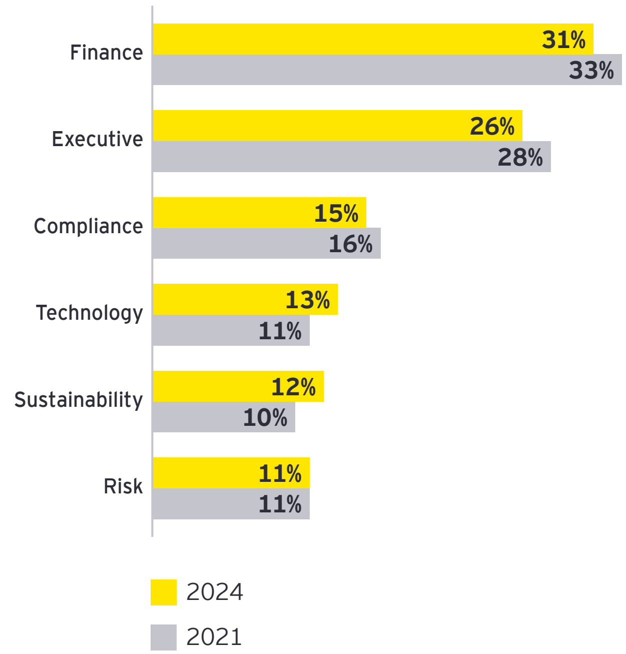
Most prevalent additional board committees beyond the core three
(% of S&P 500)



Source: Analysis by EY Center for Board Matters

Sustainability

Stand-alone sustainability committees, most commonly named “sustainability” or “public responsibility” committees, have also increased in prevalence, from 10% in 2021 to 12% in 2024.

However, as with technology committees, the pace at which boards were adding these committees has slowed and has remained static since 2023. These committees are primarily focused on overseeing policies, strategies, goals and activities related to sustainability and corporate responsibility matters.

Attention paid by these committees to climate matters may be increasing, or at least getting more disclosure, in the wake of the [SEC’s release of its climate-related disclosure requirements](), which require companies to identify any board committee or subcommittee that oversees climate-related risks, if applicable.[2] Sustainability committee descriptions specifically referencing “climate” have doubled since 2021. Now two-thirds of sustainability committee descriptions do, with many adding it under their definition of what is included in oversight of ESG.

Sustainability committees are most common in the materials sector, where nearly 40% of companies have one.

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[2] The SEC has voluntarily stayed implementation of the rules pending ongoing legal challenges.

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 key dimensions of strategy and risk. Decisions about board committee structure or the division of oversight responsibilities are heavily dependent on company facts and circumstances. Leading practice is for boards to conduct regular and thoughtful reviews of how their oversight responsibilities are allocated, to establish that such allocation remains fit for purpose. Boards should regularly evaluate what works best for them to meet changing priorities and needs.

For more insights and considerations regarding board operations, see *How to achieve enduring board effectiveness*.

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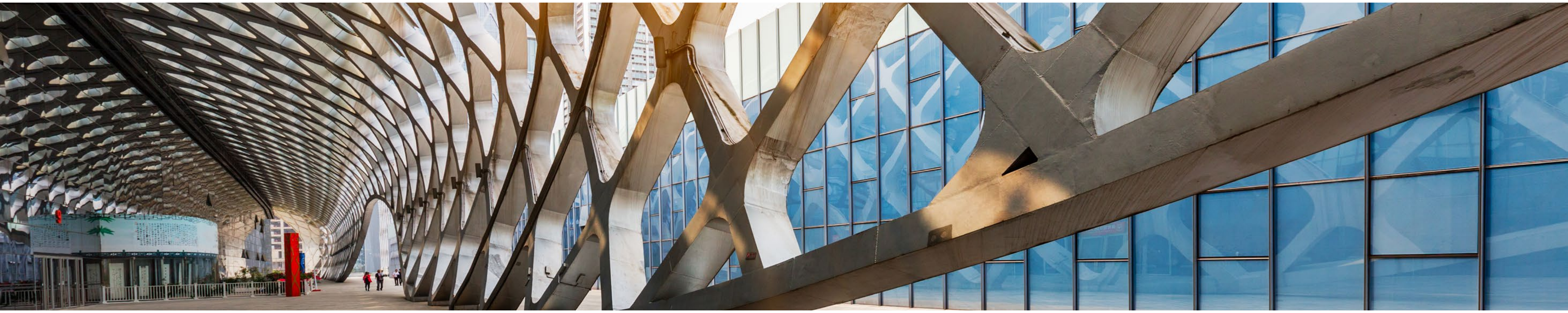


Questions for the board to consider

- How does the board oversee enterprise-level risks and strategic opportunities, and could modifying committee responsibilities or structures enhance this oversight?
- Do board and committee governing documents make clear to internal and external stakeholders how mission-critical issues are addressed, monitored and managed?
- How can allocating work to a board committee enable more robust and comprehensive discussions on strategy, risk and the company's long-term value?
- Do the board's committees have the necessary expertise, resources and bandwidth to expand their oversight?
- When changes are made to board committee responsibilities and/or structure, how is the information infrastructure (e.g., management reporting to the board, meeting materials, information escalation protocols, external data sources) updated to maintain effective insight, foresight and oversight?
- How do the board and its committees verify that their roles and responsibilities are clear, to achieve alignment and prevent confusion leading to overlap or omissions?
- Does board and committee leadership coordinate on creating agendas and meeting materials to drive efficiencies and enable effective coordination and oversight?
- Is the board aware of how peer companies manage their oversight responsibilities?
- Do board assessments uncover areas of concern that might benefit from adjustments to committee structure?

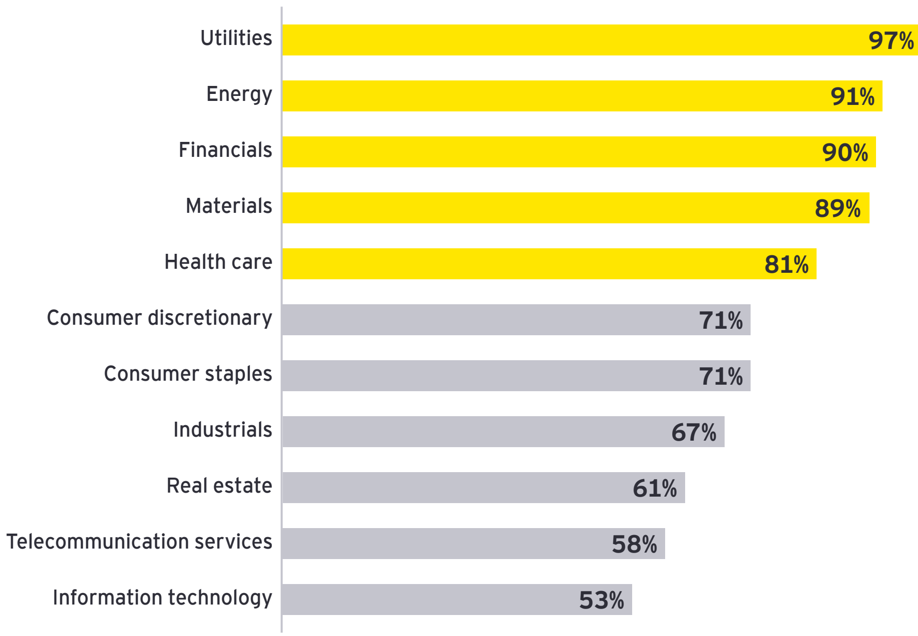
"How do the board and its committees verify that their roles and responsibilities are clear, to achieve alignment and prevent confusion leading to overlap or omissions?

A closer look at sectors in 2024

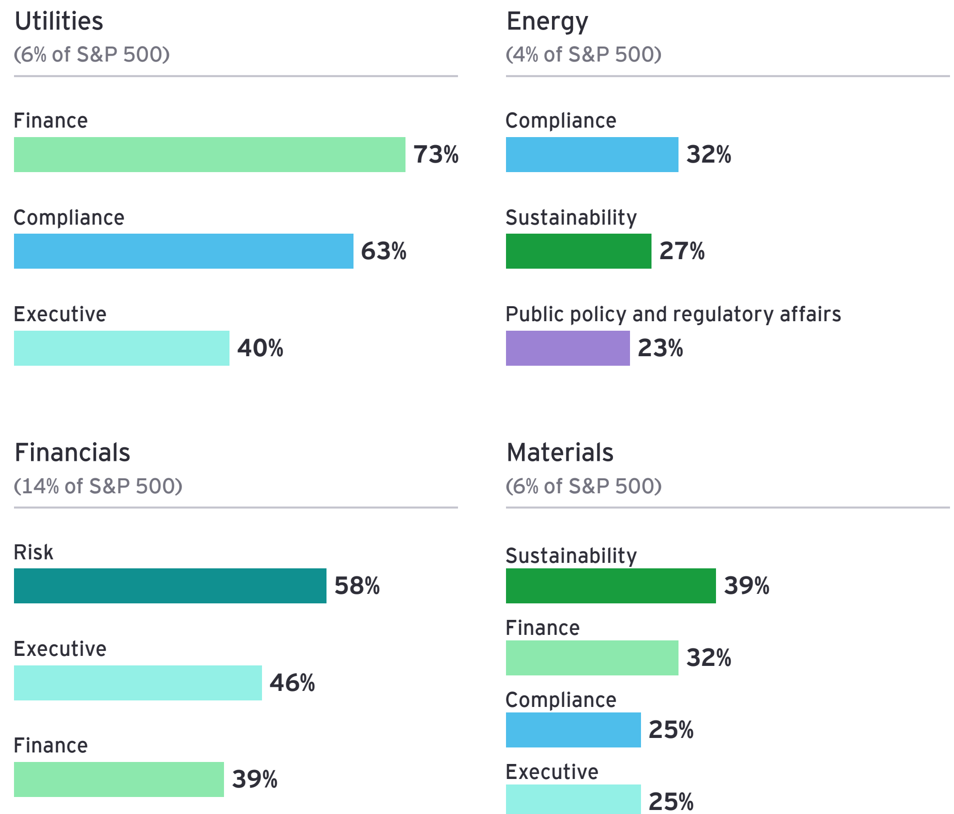
In 5 of 11 industry sectors, over 75% of companies have at least one additional committee, likely due in part to the unique compliance, risk and operational challenges of these sectors.

Percentage of companies by sector with one or more additional committees

(S&P 500)



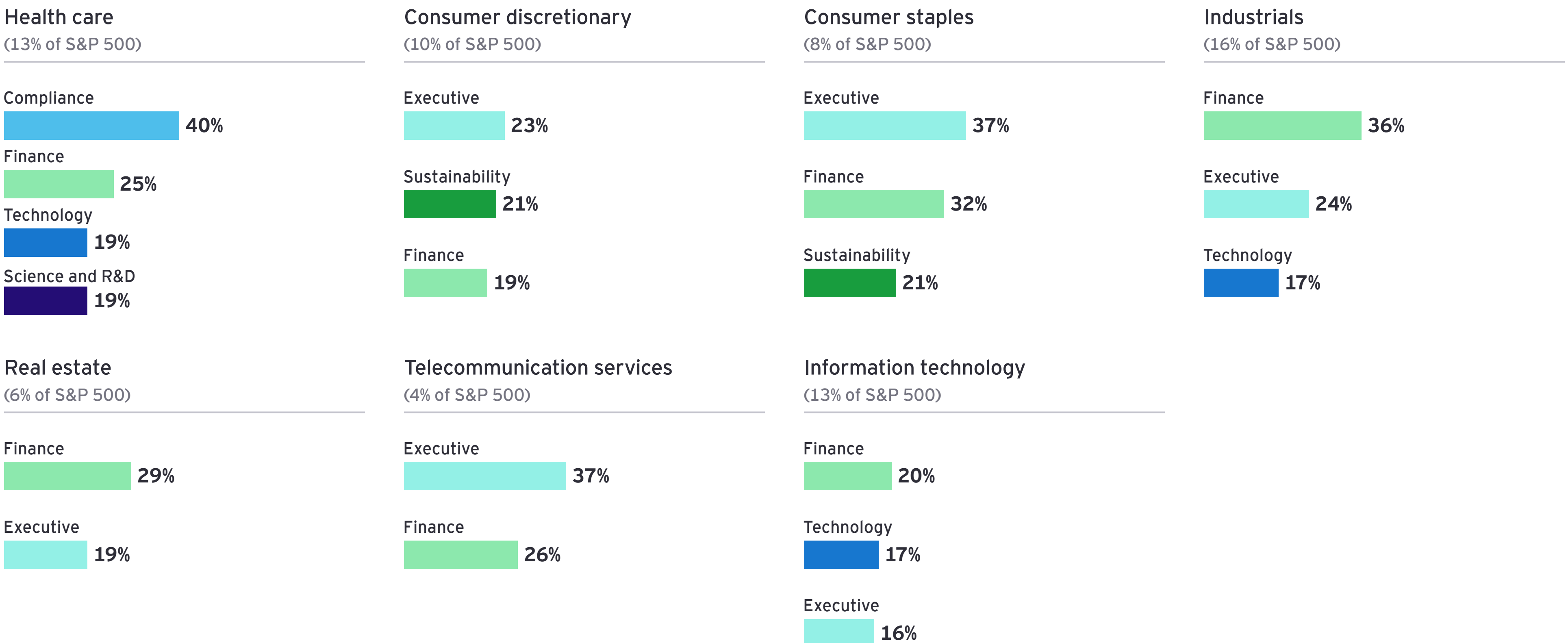
Top three additional committees by sector[3]



Source for all charts: Analysis by EY Center for Board Matters

[3] In the top three additional committees by sector, at least 10% of the sector has the said committee.

Top three additional committees by sector[3]



Source for all charts: Analysis by EY Center for Board Matters

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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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