



Center for Board Effectiveness

On the audit committee's agenda

Emerging trends in ESG governance for 2023

There's no one-size-fits-all solution to overseeing environmental, social, and governance (ESG) matters—and for good reason. Each company must navigate its own uniqueness related to its organizational structure, global reach, environmental impact, business circumstances, and industry requirements. Further, the broad constellation of topics comprising ESG often doesn't fit neatly into any one board committee's charge. As a result, companies increasingly are opting for ESG governance frameworks that allocate responsibilities to various combinations of board committees and the full board.

Amid this variability, many are focused on the regulatory landscape. Given the [proposed SEC rule](#) on climate risk disclosure, reporting could transition quickly from voluntary to required. In anticipation,

companies should get prepared to formally disclose, and ultimately obtain assurance on, their impact on climate as part of their 10-K financial filings.

While the proposed rule focuses on the "E" in ESG, companies should be thinking about the governance framework for their overall ESG strategy, as well as for each defined component, amid increasing political, regulatory, and stakeholder expectations. And given the major impact the proposed rule likely will have on financial reporting, audit committees should understand trends that are rapidly emerging in climate reporting and the broader ESG governance landscape. ➔

2022 proxy trends in ESG and climate risk

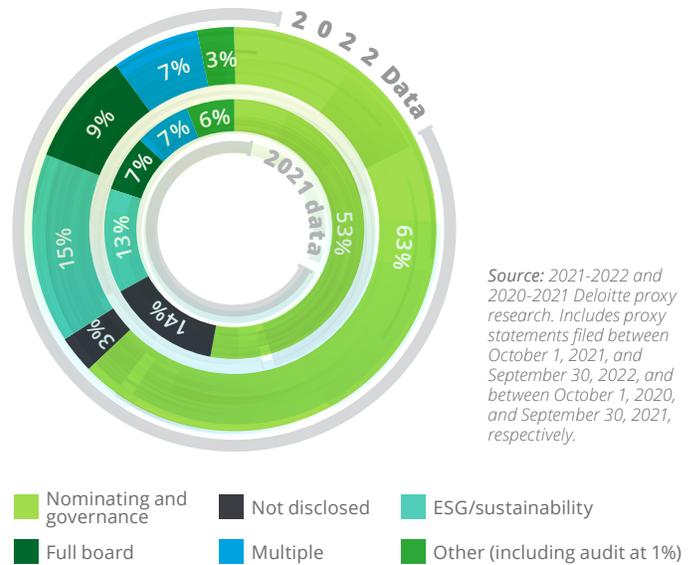
ESG nondisclosure nears extinction – Based on Deloitte's proxy research of S&P 500 companies, only 3% of companies did not disclose information about their overall ESG board governance approach in 2022, down sharply from 14% in 2021 and 28% in 2020 (figure 1). This likely is due to the continued maturation of ESG frameworks and capabilities, coupled with the anticipation of pending SEC rulemaking.

Trends in primary committee oversight of ESG – The nominating and governance committee remained the most common choice for sole or primary oversight of ESG (figure 1) at 63% of reporting companies, up from 53% last year. Fifteen percent of companies placed primary responsibility for ESG on a dedicated ESG/sustainability committee, similar to the 13% in 2021.

Multicommittee/board ESG frameworks on the rise – In prior years, Deloitte's proxy research focused on the primary committee overseeing ESG. This past year has been marked by significant enhancements in the depth and detail around ESG proxy disclosures and related governance frameworks. Based on our research of S&P 500 proxies, 51% of companies reported that either 1. the full board combined with a committee(s) or 2. multiple committees have responsibility for overseeing aspects of ESG activities. This multicommittee approach reflects a growing recognition that the complexities of ESG often overlap with numerous committees and that their responsibilities may best be addressed accordingly.

As an example, the proposed SEC rule on climate risk disclosure is of significant importance to audit committees given the direct connection to financial reporting, but the considerations encompass a broader range of topics. Measures such as decarbonization targets can have an impact enterprise-wide across strategy, finance, talent, governance, operations, risk, and compliance. Similarly, when defining the "S"—Social—in ESG, many companies note their goals regarding diversity, equity, and inclusion (DEI) initiatives. While DEI could be framed as a talent or culture matter, for many companies, it is a strategic objective—the talent pool needed to achieve a long-term strategic goal—and it also could be framed as a key imperative of human capital disclosures, or even considered a governance matter with regard to board diversity. This reinforces the importance of management and the board transparently articulating how the elements of ESG are defined for the organization from a strategic and value creation perspective. ➔

Figure 1. Primary committee responsible for ESG governance*



Source: 2021-2022 and 2020-2021 Deloitte proxy research. Includes proxy statements filed between October 1, 2021, and September 30, 2022, and between October 1, 2020, and September 30, 2021, respectively.

ESG reporting disclosure is evolving rapidly; as such, our methodology has been updated slightly since last year to most effectively capture ESG oversight delegation. If the 2021 data were recast for the updated methodology used in 2022, the Nom/gov category would have decreased by 1% and the Multiple category would have increased by 2%.

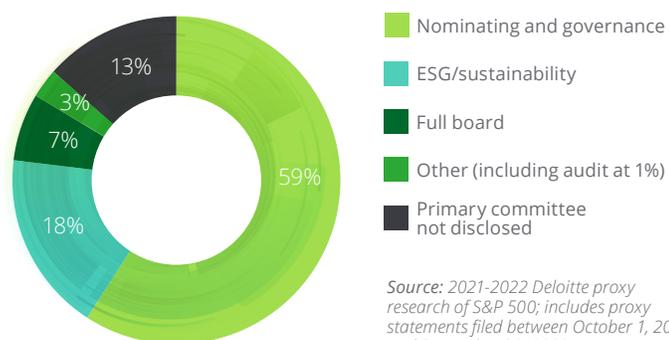
* Includes primary committee noted from companies with a multicommittee/board ESG framework (see figure 2)



Our 2022 proxy research found that for companies disclosing a multicommittee governance framework, the nominating and governance committee was the committee with primary responsibility 59% of the time, and an ESG/sustainability committee was indicated as the primary committee 18% of the time (figure 2). Our research also indicated that some boards created one or more new committees with hybrid responsibilities such as environmental, health, safety, and technology; innovation and sustainability; corporate responsibility and sustainability; and public policy and sustainability. Some companies have combined aspects of these committees with their nominating and governance committees.

Among those companies reporting the involvement of multiple committees in their ESG governance, the audit committee was included as part of that framework 52% of the time, though only 1% of those companies indicated that the audit committee had primary ESG oversight responsibility. Areas that audit committees often were tasked with overseeing included climate and sustainability disclosures, reporting, and assurance (where applicable); related financial reporting matters; ESG processes and controls; enterprise risk management; cybersecurity; environmental and safety matters; and corporate ethics and standards. ➔

Figure 2. Primary committee (or full board) responsible for ESG oversight among the 252 S&P 500 companies with multicommittee/board ESG frameworks



Source: 2021-2022 Deloitte proxy research of S&P 500; includes proxy statements filed between October 1, 2021, and September 30, 2022.



Within the categories of “nominating and corporate governance” and “ESG/sustainability,” there is considerable variation among companies in these committees’ names and areas of focus. The following are examples of committee names disclosed by S&P 500 companies in their most recent proxies. To the extent the nominating/governance committee added other responsibilities, they were still considered in the category of nominating/governance for research purposes.

Sample nominating and corporate governance committee names incorporating various ESG elements

- Nominating and environmental, social, and governance committee
- Nominating, governance, and social responsibility committee
- Corporate governance and responsibility committee
- Governance and public policy committee
- Corporate governance, public responsibility, and safety committee
- Governance, sustainability, and public responsibility committee
- Corporate governance and business ethics committee
- Governance and sustainability committee
- Governance, corporate sustainability, and nominating committee

Sample ESG/sustainability committee names

- Sustainability, innovation, and policy committee
- Environmental and social responsibility committee
- Safety, environmental, technology, and operations committee
- Sustainability and corporate social responsibility committee
- Sustainability, diversity, and public policy committee
- Public responsibilities committee
- Corporate responsibility, sustainability, and safety committee
- Social impact committee
- Science, technology, and sustainability committee
- Environmental, health, and safety committee
- Environmental sustainability and community committee

Examples of multicommittee ESG governance approaches from proxy statements

The structure of ESG governance varies significantly from company to company, particularly when combinations of multiple committees are involved. The following examples are not intended to be prescriptive but rather to illustrate the breadth of possibilities when it comes to allocating responsibility to appropriate committees based on industry, regulatory, and company-specific considerations. Boards and management should be deliberate in building out a framework that is responsive to the wide-ranging facets of "E," "S," and "G," particularly given the increasing prospects of required disclosure.

Celanese Corporation

Celanese uses a model (figure 3) that divides responsibilities among the audit committee; compensation and management development committee; nominating and corporate governance committee; and environmental, health, safety, quality, and public policy committee, and also involves the overall board and the Celanese ESG Council, a management council that includes cross-functional and regional leaders. The involvement of senior leaders within the company across geographies as part of the ESG Council provides further input to inform the board's governance and track key performance indicators.

Figure 3. Celanese ESG oversight structure

Source: [sec.gov](#)

Citi

As detailed in figure 4, Citi's nomination, governance, and public affairs committee oversees many of the policies and activities associated with climate, sustainability, human rights, and other areas; the risk management committee focuses on the review of ESG risk policies; and the ethics, conduct, and culture committee oversees management's diversity and inclusion efforts and other talent matters. The full board monitors ESG priorities, and management provides strategic guidance through several teams and leadership groups. The areas of ESG expertise resident on the board also are highlighted in the disclosure.

Figure 4. Citi ESG oversight structure*

Source: [sec.gov](#)

**The names and responsibilities of some Citi committees have changed since the 2022 proxy was issued, and a new chart with the updated committee structure will be published in 2023.*

MetLife

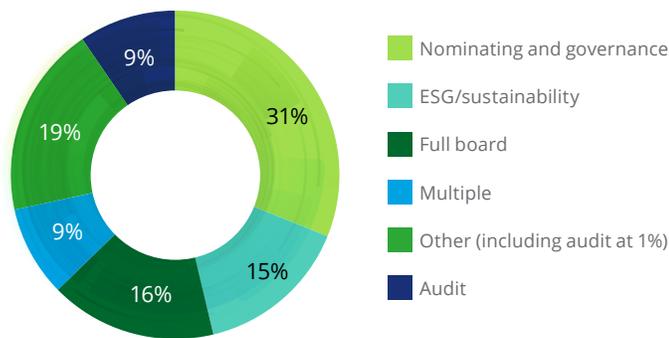
As shown in MetLife's 2022 [proxy](#), primary responsibility for sustainability/ESG strategy is held by the governance and corporate responsibility committee, with the finance and risk committee responsible for environmental risk and the audit committee handling disclosures and ethics and compliance matters (figure 5). MetLife also has a sustainability function that is led by a chief sustainability officer; its responsibilities include sustainability reporting, strategy, and target-setting and the establishment of key performance indicators. Additionally, the company has launched a global Climate Advisory Council chaired by the chief risk officer. The council focuses on climate risk governance across topics such as climate regulation and climate risk modeling and analysis. ➤

Figure 5. MetLife ESG oversight structure

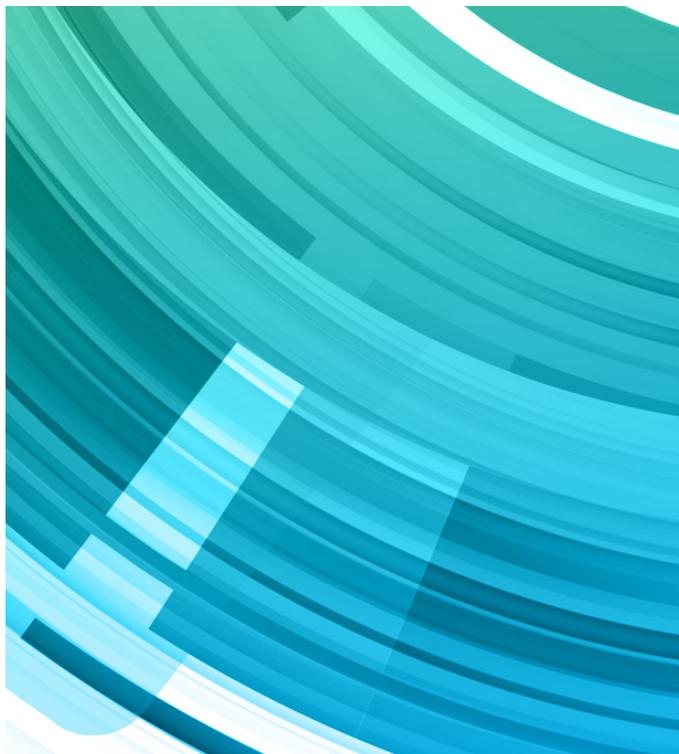
Source: [sec.gov](#)

Climate risk disclosures lag behind – In contrast to the near universality of disclosing the overall ESG oversight structure, 62% of companies did not specify the oversight structure for climate risk. The proposed SEC rule would require disclosure of the specific board member(s) or board committee(s) responsible for overseeing climate-related risks, so there could be a rapid shift in this reporting paradigm within the next couple of years if the rule is adopted. Of the 190 S&P 500 companies disclosing their climate risk governance approach, 18 (9%) reported that its governance was the responsibility of the audit committee (figure 6). This is in contrast to only 1% of companies putting all their overall ESG governance “eggs” in the audit committee’s basket.

Figure 6. Oversight responsibility for climate risk among companies disclosing governance structure

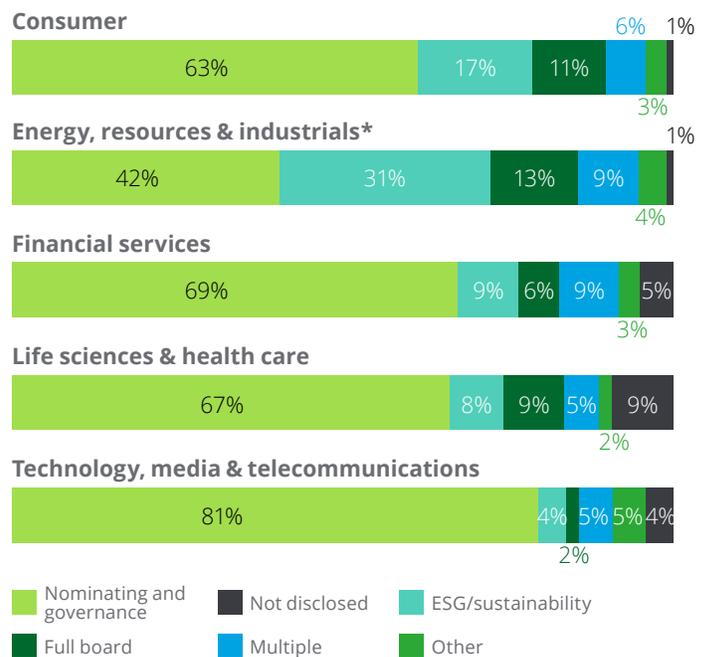


Source: 2021-2022 Deloitte S&P 500 proxy research
 Note: Due to rounding, percentages may not total to 100%



Industry trends – The overall trends in ESG oversight were largely mirrored across industries (figure 7). Energy, resources, and industrials (ER&I) companies had the highest frequency of the full board or an ESG/sustainability committee being the primary committee. Only 1% of ER&I companies did not disclose their ESG governance structure. These results likely are a function of ER&I’s longstanding focus on environmental, climate, and other ESG matters and recognition of increasing complexities in the industry context. Conversely, technology, media, and telecommunications (TMT) companies were the most likely to have the nominating and governance committee serve as the primary committee. ➔

Figure 7. ESG primary committee oversight by industry



Source: 2021-2022 Deloitte S&P 500 proxy research
 *Constellation Energy Corp was new to the S&P 500 this year but did not have a proxy.
 Note: Due to rounding, percentages may not total to 100%

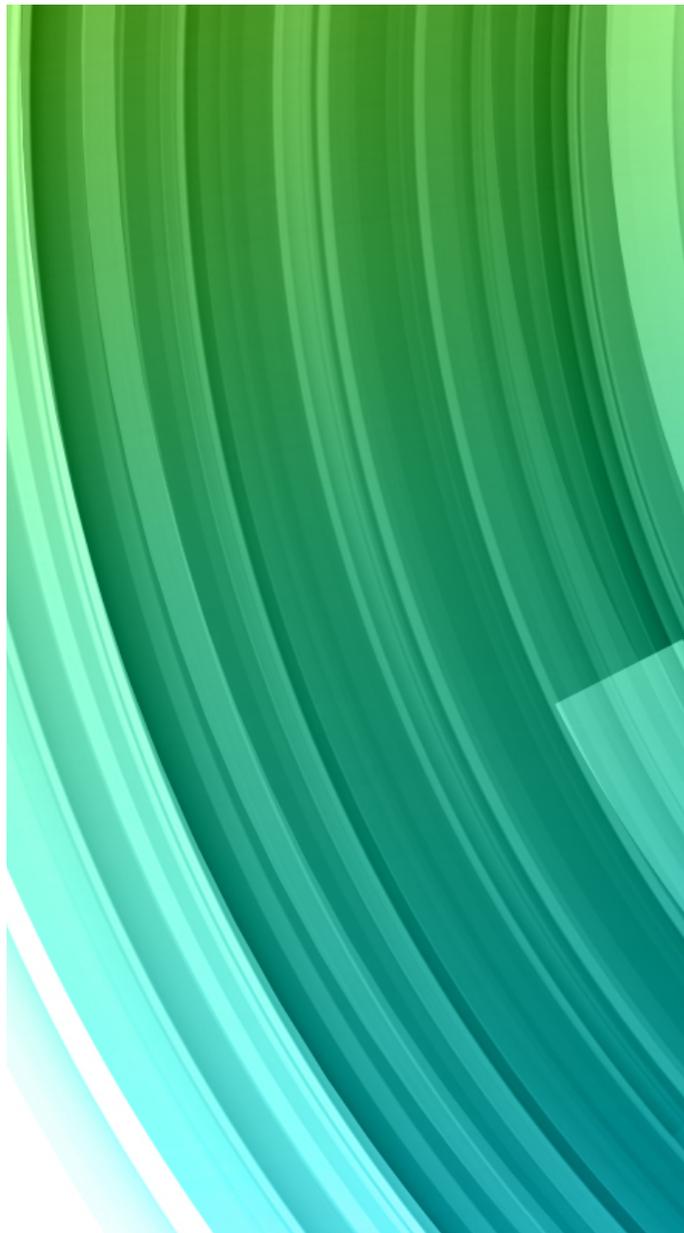
Conclusion

While the expectations around ESG reporting continue to rapidly evolve, the overall trend toward defined structure, disclosure, and increasing involvement on the part of multiple committees and company functions is clear. Companies may need to adapt quickly to advance their climate data measurement and reporting and to drive decision-making regarding the allocation of resources. Whether or not the audit committee has direct oversight responsibility for climate risk or other ESG disclosures, the committee will play an important role. As disclosures move from voluntary to required and become further aligned with annual financial reporting, the audit committee should have an understanding of the related data and measurement controls in place and the oversight structure across the “E,” “S,” and “G” to monitor and address related risks.



Questions for audit committees to consider

1. Have management and the board agreed on what ESG means for the organization?
2. How is ESG defined and how is the board's governance structure aligned around ESG from a strategic perspective?
3. Is there a clear division of responsibilities among the board and its committees regarding the various components of ESG?
4. What framework is in place for coordinating ESG activities across geographies and business units and avoiding the siloing of potential topics?
5. If a single committee currently is charged with overseeing ESG, will it be able to handle the wide-reaching complexities of ESG components and disclosures as reporting transitions from voluntary to mandatory?
6. How often are ESG topics on the agenda of the appropriate board committee(s), and what level of information is being presented?
7. Is the company prepared to disclose the oversight structure for climate risks?
8. Who on the board has experience in climate risk matters? Is the audit committee equipped to review climate risk and other ESG disclosures effectively?
9. Does management's presentation and reporting of ESG-related information meet the board's and audit committee's requirements to understand the company's related risks and opportunities?
10. To what extent is the finance organization involved in building and strengthening the control environment for climate disclosures?
11. What adjustments, if any, will be needed to align greenhouse gas emissions reporting and other reporting with the 10-K?



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