Chartered Governance Institute UK & Ireland

Guidance note

Terms of reference for the sustainability or ESG committee

January 2024

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Reviewed: January 2024 Date of next review: January 2026

Introduction

This guidance note proposes model terms of reference for a board-level sustainability or ESG committee of a company. Such a committee is not a requirement, but there are increasing numbers of them. This guidance note sets out how to ensure that this committee adopts good practice, in accordance with other committee recommendations under the UK Corporate Governance Code published in January 2024 (the Code). It draws on the experience of company secretaries and is based on good practice as carried out in a wide range of organisations, including some of the UK's largest listed companies. It is intended to be adaptable and flexible to meet the needs of a variety of company structures. The Code and related FRC Guidance to which it refers are available at www.frc.org.uk.

There is a wide range of activities which sustainability or ESG committees can oversee. The name chosen for the committee can have implications for what is covered in its remit. For example, an ESG committee may be more likely to look at many different elements of environmental, social and governance issues than a sustainability committee, which might focus more on the environmental. Less commonly, other names may be chosen including a corporate social responsibility (CSR) committee (although this is seen as outdated), a responsible business committee, a sustainability & ethics committee or an environments & communities committee. Whether a company chooses to have such a committee, and what it is called, is a matter for that company and its board to decide.

A sustainability or ESG committee assists the board in articulating and developing the company's ESG strategy and overseeing the company's ESG-related targets and practices. It provides a forum for in-depth discussion of the effectiveness of this strategy and resulting initiatives, and looks at how these are integrated into the overall business plan. It also serves to streamline the process of reporting against both external ESG (or non-financial) reporting standards and the company's own ESG targets and metrics. In addition, it supports the board in ensuring the company's compliance with applicable ESG-related regulation. Ultimately, it assists the board in overseeing the long-term, sustainable success of the business, particularly with regards to its environmental and social responsibility. By the end of April 2023, 37% of the UK's 150 largest listed companies had a board committee dedicated to ESG, sustainability or corporate social responsibility issues.[1]

These model terms of reference are intended as a good practice guide for companies to adapt to their own needs. They aim to capture a broad array of issues that may fall under the purview of such a committee. The most relevant and material ESG issues for each company will be specifically associated with its strategic and operational activities. It is therefore essential that the duties of the sustainability or ESG committee are tailored to the business needs and context of each company. The duties need to be agreed in close collaboration with the senior management team, in particular the chief sustainability officer, head of ESG, or equivalent, if the company has one.

It is important for the terms of reference for sustainability or ESG committees to be forward-facing and to allow flexibility in light of evolving regulatory, investor and stakeholder demands. Companies should aim for their terms of reference to be comprehensive and specific enough to be useful, whilst also allowing for emerging developments. Staying

[1] 2023 UK Spencer Stuart Board Index – Committees (available here: https://www.spencerstuart.com/research-and-insight/uk-board-index/committees), and 2023 UK Spencer Stuart Board Index – Sustainability (available here: https://www.spencerstuart.com/research-and-insight/uk-board-index/sustainability).

abreast of such developments is set out in these model terms as one of the duties of the committee.

When allocating responsibilities to the sustainability or ESG committee, it is important to recognise the links and overlap with other board committees. This helps to avoid discussions about ESG becoming separated from broader discussions about finance, strategy and operations. Each committee should have full knowledge of the deliberations of other committees through reports to the board. Ideally, at least one member of a committee should be appointed to each of the other committees where possible. The FRC's Guidance suggests that the designated non-executive director responsible for workforce engagement is one of the members of the sustainability or ESG committee.[2]

Some or all of the duties undertaken by a sustainability or ESG committee could be undertaken by either the audit, risk, and remuneration committees, or by the board itself. It is important to ensure that duties are not allocated to more than one committee and that there are no gaps. The precise allocation of responsibilities should be detailed in the terms of reference and should be agreed by the board.

[2] FRC Guidance 2024, paragraph 146

The UK Corporate Governance Code

The Code states that:

‘A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.’[3]

And that:

‘The board should assess the basis on which the company generates and preserves value over the long-term. It should describe in the annual report how opportunities and risks to the future success of the business have been considered and addressed, the sustainability of the company’s business model and how its governance contributes to the delivery of its strategy.’[4]

The Code does not make specific recommendations for the sustainability or ESG committee, but this guidance note draws upon the Code’s recommendations in respect of other board committees.

For the first time in 2024, sustainability committees were referenced in the FRC’s Guidance associated with the Code.[5] The Guidance states that:

‘Listed companies normally have, at least, nomination, audit, and remuneration committees, but there is increasing growth in other board level committees, such as risk and/or sustainability committees.’[6]

And that:

‘Despite the fact that the Code does not state that such committees are necessary, they may be required under other regulations and rules,’ and that companies ‘may find it helpful to form a sustainability committee to oversee these issues’.[7]

The Guidance suggests that:

‘Sustainability committees may consider having responsibility for developing, reviewing and/or monitoring sustainability reporting, including but not limited to environmental, social and governance disclosures, targets, key performance indicators and future plans.’[8]

It highlights that:

‘There is no one-size-fits-all strategy to these types of committees, and organisations will take different approaches given the increasing developments in this area. Companies ought to have clear lines of responsibility for each committee.’[9]

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[3] Code Principle A
[4] Code Provision 1
[5] FRC Guidance 2024, paragraphs 141 – 148
[6] FRC Guidance 2024, paragraph 86
[7] FRC Guidance 2024, paragraphs 8 and 141
[8] FRC Guidance 2024, paragraph 142
[9] FRC Guidance 2024, paragraph 148

It is important to clearly define the remit of the sustainability or ESG committee and to detail which areas of responsibility it will have for environmental, social and governance issues.[10] Its responsibilities and the authority delegated to it by the board should be set out in terms of reference and published on the company website.[11] As with all committees, the sustainability or ESG committee should report to the board on the nature and content of its discussion, on its recommendations, and on actions to be taken, and adequate time should be made available for discussion when necessary.[12]

The FRC's Guidance also reminds companies that:

'The board operates as a unitary function, and board committees play an important role in giving support to this unitary function. Companies should make every effort to ensure that their separate committees do not exist and act in isolation, from the board or other committees.'[13]

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[10] FRC Guidance 2024, paragraph 144
[11] Code Provision 14 and FRC Guidance 2024, paragraph 88
[12] FRC Guidance 2024, paragraph 95
[13] FRC Guidance 2024, paragraph 86

Model terms of reference

Note: The topics set out below under 'Remit' (below) and 'Duties' (section 8) are those which all sustainability or ESG committees could consider.

Companies may wish to modify this list to reflect the specific issues most closely associated with, or material to, their individual business. Companies should avoid overlap if these topics are covered by an alternative committee.

Throughout, square brackets contain recommendations which are in line with good practice, but which may need to be removed or altered to suit the circumstances of the particular company.

Remit[14]

ESG: Environmental, Social and Governance	
Environmental	*The company's impact on the natural environment and the environment's impact on the company, including climate change impacts, direct impacts (the company's own activities) and indirect impacts (throughout its value chain, including suppliers and customers or investments)*
	Greenhouse gas emissions
	Energy consumption
	Waste management and pollution
	Resource use (including chemicals and plastics), and circularity
	Land and water management and use (including deforestation)
	Biodiversity and nature loss
	Targets and disclosures
	Transition planning
Social	*Interactions with, responsibilities towards, and impact on stakeholders*
	Workforce: safety, physical and mental wellbeing, workplace policies such as whistleblowing, diversity and inclusion initiatives, fair pay (including gender / ethnic pay gap reporting), professional development, company culture
	Customers: fair competition, consumer duties
	Suppliers: ethical procurement, modern slavery risk, human rights violations
	Communities: social or community projects and partnerships, charitable giving
Governance	*Compliant and ethical conduct of the company's business, in line with its purpose and enabled through effective decision-making*
	Corporate governance framework and relevant Governance Codes
	Effective integration of ESG into company's strategy and operations
	Compliance policies, codes of conduct
	Due diligence, onboarding policies and procedures

[14] As ESG is a very broad area, companies may choose to include here a list of specific topics which fall under the committee's remit. This list is not exhaustive. It should be modified, added to and tailored according to which areas are most relevant to the company's business and needs. It will also evolve over time as the business changes and as ESG regulation and expectations shift. FRC Guidance 2024, paragraph 144, states that: 'the committee may wish to define what environmental, social and governance areas of responsibility may fall under this committee in the terms of reference.'

	Management of bribery, corruption and money laundering risk
	Data privacy and security
	Transparency and assurance of reporting
	Supply chain controls and management
	Application of company's values, culture and purpose
	Stewardship and proxy voting policies

1. Membership

1.1 The committee shall comprise at least [three] members, [all / the majority] of whom shall be independent non-executive directors.[15] [The designated non-executive director responsible for workforce engagement shall be a member.][16] The chair of the board may also serve on the committee as an additional member.

1.2 Appointments to the committee are made by the board and shall be for a period of up to three years which may be extended for up to two additional three-year periods, provided members (other than the chair of the board, if they are a member of the committee) continue to qualify for membership under these terms of reference.

1.3 Members should have the appropriate knowledge, skills and expertise to understand ESG-related strategy, targets and implementation, and shall undertake appropriate development of their skills as necessary.[17]

1.4 Only members of the committee have the right to attend committee meetings.[18] However, other individuals including the chair of the board (where not a member of the committee), chief executive, chief financial officer, chief sustainability officer, head of ESG or other ESG representatives, chief risk officer, chief of staff, head of human resources, senior managers, employees, contractors, external advisers and other stakeholders may be invited to attend for all or part of any meeting, as and when appropriate.[19]

1.5 The board shall appoint the committee chair who shall be an independent non-executive director. The chair of the board shall not be chair of the committee. In the absence of the committee chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting who would qualify under these terms of reference to be appointed to that position by the board.

2. Secretary

The company secretary or their nominee shall act as the secretary of the committee and will ensure that the committee receives information and papers in a timely manner to enable full and proper consideration to be given to the matters under discussion. The committee shall have access to the services of the company secretariat on all committee matters, including

[15] The number of members will differ according to the needs of the company. Generally, this requirement should be in line with the company's other board committees, although there may be exceptions. FRC Guidance 2024, paragraph 87, states that members of any board-level committee 'should' be independent non-executive directors. Executives can then be invited to attend as appropriate. However, some companies choose to include one or more executive directors as members of their sustainability or ESG committee – for example, the Chief Sustainability Officer.
[16] Where one exists. FRC Guidance 2024, paragraph 146
[17] Code Principle K and FRC Guidance 2024, paragraphs 65 (final bullet point), 89, 91 and 143
[18] FRC Guidance 2024, paragraph 92
[19] FRC Guidance 2024, paragraph 92

assisting the chair in planning the committee's work, drawing up meeting agendas, maintenance of minutes, and provision of any necessary practical support.[20]

3. Quorum

The quorum necessary for the transaction of business shall be [two], present in person or by electronic communication.

4. Frequency of meetings

The committee shall meet at least [four times] a year at appropriate intervals and otherwise as required.[21]

5. Notice of meetings

5.1 Meetings of the committee shall be called by the secretary of the committee at the request of the committee chair or any of its members.

5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be forwarded to each member of the committee and any other person required to attend no later than [five] working days before the date of the meeting. Supporting papers shall be sent to committee members and to other attendees, as appropriate, at the same time.

6. Minutes of meetings

6.1 The secretary shall minute the proceedings and resolutions of all committee meetings, including the names of those present and in attendance.

6.2 Draft minutes of committee meetings shall be circulated to all members of the committee. Once approved, minutes should be circulated to all other members of the board and the company secretary unless, exceptionally, it would be inappropriate to do so.[22]

7. Engagement with shareholders and stakeholders

The committee chair shall attend the annual general meeting to answer any shareholder questions on the committee's activities and responsibilities. In addition, the committee chair should seek engagement with shareholders, and other stakeholders where relevant, on significant matters related to the committee's areas of responsibility.[23]

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[20] FRC Guidance 2024, paragraphs 79 – 85 and 97

[21] The frequency and timing of meetings will differ according to the needs of the company and external regulatory requirements. According to the UK 2023 Spencer Stuart Board Index, the average sustainability or ESG committee meets four times per year (available here: https://www.spencerstuart.com/research-and-insight/uk-board-index/committees). To effectively discharge its responsibilities, it is recommended that a sustainability or ESG committee should not meet fewer than three times per year. Meetings should be organised so that attendance is maximised.

[22] FRC Guidance 2024, paragraph 96

[23] Code Provision 3 and FRC Guidance 2024, paragraph 101, relate to engagement with shareholders. Due to the nature of sustainability or ESG committees, many companies choose to also include a reference to other types of stakeholders.

8. Duties

[The committee should carry out the duties below for the parent company, major subsidiary undertakings, and the group as a whole, as appropriate.]

The committee shall

ESG strategy or framework

8.1 Oversee the development of, advise the board regarding, and recommend for approval by the board, the company's ESG strategy. Ensure that this strategy is effective, aligned with prevailing regulations and good practice, and integrated with the company's business plan, values and objectives, in order to support the company's long-term sustainable success.

8.2 Oversee the execution of the ESG strategy and approve implementation projects developed in response to the strategy. Review the effectiveness of the teams, governance and processes in place to ensure the outcomes of the ESG strategy are delivered. Advise on the risks and opportunities for the company's operations and reputation in relation to the execution of its ESG strategy.

Goals and metrics

8.3 Advise on, and recommend for approval by the board, appropriate ESG strategic goals, short- and long-term [science-based] targets, and key ESG metrics.[24] Monitor annual and long-term progress against previously set ESG objectives, including compliance with public commitments on ESG issues. Oversee the ongoing measurement and reporting of performance against key ESG metrics.

Reporting

8.4 Review the content, integrity and completeness of external statements and disclosures about ESG activity, targets and progress.[25] Review ESG-related reporting prior to board approval, including the annual sustainability report (where one exists), information to be included in the annual report, and mandatory or voluntary disclosures in line with recommended practice and regulatory requirements.[26] Evaluate the extent and effectiveness of external reporting on ESG performance and participation in external benchmarking indices.

8.5 [Review regularly the requirement for [internal and] external assurance of ESG-related matters, and as necessary, appoint external parties to provide assurance on relevant reporting.] [Review and approve the qualifications, independence, engagement, compensation and performance of the external party chosen to provide assurance on such reporting.][27]

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[24] FRC Guidance 2024, paragraph 142

[25] FRC Guidance 2024, paragraph 142

[26] Some or all of the oversight of reporting may (also) fall to the audit committee. Roles should be clearly defined to avoid duplication of work.

[27] FRC Guidance 2024, paragraph 147. Where assurance is necessary, a company may choose for the sustainability or ESG committee to oversee the assurance (internal and external) of ESG-related reporting, or it may choose for this to be the responsibility of the audit committee. Whichever option is chosen, the committees should collaborate to align their work and to ensure ESG-related reporting is adequately assured, as is detailed in 8.10.

Horizon scanning

8.6 Identify current and emerging ESG-related issues, standards, good practice, and regulatory or legislative developments, at the sectoral, national and international level. This includes sourcing or undertaking relevant training and development opportunities, both for the committee members and for company employees as appropriate. Evaluate which issues and developments are likely to impact the company's strategy, operations and reputation. Determine, therefore, whether and how these should be reflected in the company's ESG objectives, policies and reporting.

Policies and procedures

8.7 Monitor the establishment of appropriate ESG-related policies, procedures for incident reporting, codes of practice, and standards of business conduct. Where these exist, review their adequacy and ongoing relevance and effectiveness. Where necessary, ensure they are updated to remain in compliance with relevant national and international standards. [Review any serious incidents which breach the company's ESG-related policies, codes, standards and procedures.]

Social issues

8.8 Oversee the company's interactions with and responsibilities towards its stakeholders in relation to ESG-issues, most notably its employees, customers, suppliers, and the communities in which it operates. Support the board in monitoring the culture of the company, the safety and wellbeing of its workforce, and the adequacy of its supply chain controls in relation to modern slavery and human rights risk.[28]

Risk

8.9 [Advise the board on the company's appetite and tolerance with respect to environmental and social risk. Identify material ESG-related risks and ensure that these are appropriately captured in the company's risk profile and risk management framework.][29]

Collaboration with other committees

8.10 Work and liaise as necessary with other board committees, ensuring the interaction between committees and with the board is reviewed regularly.[30] This may include:

> [8.10.1 Work in conjunction with the remuneration committee regarding appropriate ESG-related performance objectives and incentives for executive leaders, to ensure that ESG matters are appropriately considered when setting the overall remuneration policy.][31]

[28] Certain companies choose to reserve diversity, equality and inclusion as a matter for the full board. The full board has ultimate responsibility for company culture under Code Principle B and Provision 2.
[29] A company may choose for the sustainability or ESG committee to oversee risks related to ESG matters, or it may choose for this to be the responsibility of another committee, such as the audit or risk committee. Whichever option is chosen, the committees should collaborate to align their work and to ensure ESG-related risks are fully understood and appropriately managed, as is detailed in 8.10.
[30] FRC Guidance 2024, paragraphs 90 and 148
[31] FRC Guidance 2024, paragraphs 145 and 148

[8.10.2 Work in conjunction with the audit committee to review regularly the requirement for [internal and] external assurance of ESG-related matters. Monitor the role and effectiveness of the internal audit function with regards to assurance on ESG-related disclosures. As necessary, appoint external parties to provide assurance on relevant reporting.][32]

[8.10.3 Work in conjunction with the [audit] [risk] committee to advise the board on the company's appetite and tolerance with respect to environmental and social risk, to identify material ESG-related risks and to ensure these are appropriately captured in the company's risk profile and risk management framework.][33]

[8.10.4 Work in conjunction with the nomination committee to support the oversight of a diverse pipeline for appointments at board level.][34]

Resourcing ESG projects

8.11 [Make recommendations to the board in relation to the required resourcing and funding of ESG-related activities, and on behalf of the board, oversee the deployment and control of any resources and funds.][35]

9. Reporting responsibilities

9.1 The committee shall report to the board after each meeting on the nature and content of its discussion, recommendations and action to be taken.[36]

9.2 The committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed, and adequate time should be available for board discussion when necessary.[37]

9.3 The committee shall oversee the production of an annual [sustainability report] [summary of the company's ESG strategy, policies and practices, which will form part of the company's annual report].

9.4 The committee shall compile a report of its activities to be included in the company's annual report, including identification of any external advisers.[38]

10. Other matters

The committee shall

10.1 Have access to sufficient resources in order to carry out its duties, including access to the company secretariat for advice and assistance as required.[39]

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32 FRC Guidance 2024, paragraphs 147 and 148
33 Whether this is appropriate depends on the remit of the audit or risk committee.
34 Code Provision 17 relates to the nomination committee's responsibility for this. In some cases, it may be beneficial for the sustainability or ESG committee to support with this work.
35 Certain companies choose to include such a clause in their terms of reference, whilst others do not. This largely depends on the extent of a company's ESG programmes and on the degree of delegation from the board.
36 FRC Guidance 2024, paragraph 95
37 FRC Guidance 2024, paragraph 95
38 Code Provision 14
39 Code Provision 16 and FRC Guidance 2024, paragraph 97

10.2 Be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.[40]

10.3 Give due consideration to all relevant laws and regulations, the provisions of the Code and published guidelines or recommendations as appropriate.

10.4 Ensure that a periodic evaluation of the committee's own performance is carried out.[41]

10.5 At least annually, review its terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board for approval.

11. Authority

The committee is authorised by the board to

11.1 Seek any information, including reports, that it requires from any employee of the company in order to perform its duties.

11.2 Obtain, at the company's expense, outside legal or other professional advice on any matters within its terms of reference.[42]

11.3 Establish and oversee any sub-committees or working groups which may be relevant to support the committee's work.

[40] FRC Guidance 2024, paragraphs 91 and 143
[41] Code Provision 21
[42] FRC Guidance 2024, paragraph 143