IFC Board Toolkit

Specimen Charter –
Sustainability Committee

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**Sustainability Committee Charter
for Company ABC**

Date of Board Approval: DD/MM/YYYY

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# Objective

1. The Board of Directors (“Board”) of the Company has resolved to establish a Sustainability Committee (“Committee”), a Board-level committee established by resolution of the Board to assist the Board in overseeing sustainability matters, which encompass sustainable development, consumption, business, and investing; environmental, social, and governance (ESG) matters;[[1]](#footnote-1) climate impacts; and climate responses. The impacts of climate change are cross-cutting and do not just fall within sustainability. A firm’s or financial institution’s climate finance and climate risk management can be seen to sit fully within ESG.[[2]](#footnote-2)
2. Establishment of the Committee is incorporated into the Company’s [Corporate Charter, Articles of Association, Corporate Governance Policy, By-Laws]. The Board and Company management have established an environmental and social (E&S) and climate risk governance structure to manage major risks that the Company faces, oversee operation of the E&S and climate risk governance framework, and provide reasonable assurance that the Company’s key sustainability objectives will be achieved.
3. The primary responsibilities of the Committee are to assist the Board in:
	1. Overseeingdevelopment and reviewing sustainability policies and procedures annually for the Company, overseeing implementation of sustainability matters and the Company’s E&S risk and climate risk management framework, and overseeing and monitoring senior management’s performance;
	2. Ensuring compliance with the Company’s E&S and climate-related policies and procedures, Code of Conduct or Ethics and disclosure policy; and
	3. **Coordinating** an annual performance review.

# Membership

1. The Board shall designate one Committee member to act as its Chair who shall meet the independence requirements set out in the [source]. The Committee shall be appointed by a majority vote of the Board from among its members in consultation with the Chair. The Committee shall consist of no fewer than three members, the Board to determine the exact number from time to time, all of whom shall be nonexecutive directors [and the majority of whom shall meet the independence requirements set out in the [source]].[[3]](#footnote-3)
2. All Committee members shall have the necessary skills and knowledge of the Company’s risk management systems and practices and an understanding of E&S and climate-related risks. At least one Committee member shall have in-depth knowledge of the E&S risks, and another Committee member shall have in-depth knowledge of climate-related risks. Collectively, the Committee shall have sufficient knowledge of the Company’s major business areas and strategies and material E&S and climate risks associated with those business areas to assess the effectiveness of the Company’s E&S and climate risk management system, recommend improvements to the system, and provide recommendations on sustainability objectives to the Board.
3. The Chair, with input from the other members of the Committee, shall set the agenda for Committee meetings, which shall be distributed to the Board, and shall attend the Annual General Meeting of the Company to discuss with shareholders sustainability matters and material E&S, as well as climate-related risks within the responsibility of the Committee. If the Chair or their designee is unable to attend a Committee meeting, the remaining members present should elect one of their number to chair the meeting.
4. The Secretary of the Company or their designee shall act as Secretary to the Committee.
5. The Committee may request that any directors, officers, other employees of the Company, or any other persons whose advice and counsel the Committee seeks attend any Committee meeting and provide such pertinent information as the Committee requests. The Committee may exclude from its meetings any persons it deems appropriate.

# Authority and Responsibilities

The Committee assists the Board in providing oversight for the E&S and climate risk management framework and systems of the Company and ensures that, when relevant, material E&S and climate-related risks are included with key strategic risks and managed in accordance with the relevant policies and in line with the risk appetite level and risk tolerance limit that the Board determines (based on recommendations from the Committee). The Committee shall have such authority as it may require to perform its functions and obligations as may be stipulated in internal regulations of the Company or recommended or required of it by the [country Corporate Governance Code or listing rules], including to seek any information that it requires from any Company employee to perform its duties. All employees are directed to cooperate with any request from the Committee. In particular, and without limitation to the foregoing, the Committee shall have the following specific authority (in addition to any other authority that the Board may from time to time delegate to the Committee):

1. Corporate Governance Structure
	1. Consider and recommend any proposed amendments to the Company’s memorandum and articles of association, any standing procedures of the Board, and the terms of reference of the Company’s Board committees and to review and recommend any changes to other documents related to the sustainability performance of the Company;
	2. Review the Company’s policies in relation to sustainability and make recommendations to the Board in relation thereto;
	3. Review all legislative and regulatory E&S and climate developments that might affect the Company’s operations and make recommendations to the Board in relation thereto, always striving to ensure that the Company is at the forefront of best practice;
	4. Oversee implementation of the Company’s sustainability improvement action program, if any;
	5. Ensure that the ESG and climate-related standards and disclosures required in the [country Corporate Governance Code] are observed and reflected in disclosures made in the Company’s reports;
	6. Receive and consider reports on any views that shareholders, shareholder representative bodies, stakeholders, and other interested parties express in relation to E&S and climate change matters; and
	7. Receive regular reports from management regarding compliance with the Company’s ESG and climate-related policies and procedures, review requests for waivers from the policies and procedures, [and receive independent audits on the effectiveness of the company’s ESG and climate risk management systems and stakeholder engagement processes].
2. E&S Risk Governance
	1. Oversee the setting of policies and strategies to guide the company in meeting its business objectives while managing E&S risk effectively and oversee the development, implementation, and management of the E&S risk management framework to meet the Company’s objectives, legal requirements, and other external requirements and commitments [such as, include reference to applicable international standards];
	2. Review and recommend for Board approval E&S risk management policies and direct management to develop and implement additional policies relating to E&S risk management at the operations level;
	3. Review environmental, health, and safety compliance problems and incidents periodically to determine whether the Company is taking all necessary action with respect to those matters and whether the Company has been diligent in meetings its responsibilities and performing the necessary activities in that regard;
	4. Review results of operational, health, safety, and environmental audits and management’s activities to maintain appropriate internal and external health, safety, and environmental audits; identify the principal areas of health, safety, and environmental risks and impacts; and ensure that sufficient resources are allocated to address these;
	5. Ensure appropriate dialogue between the Company and key stakeholders and the effectiveness of the company’s external communications and grievance mechanism; and.
	6. Keep abreast of developments in international standards and best practices in E&S risk governance and risk management and make recommendations to the Board when changes are appropriate for the Company.
3. Climate Governance
	1. Ensure that there is a climate-specific function, relevant committee, or designated individual responsible for management of climate-related risks and opportunities at the executive level and ensure that such function, committee, or individual reports to the Committee;
	2. Ensure that management systems are in place to identify and manage climate risks, impacts, and opportunities;
	3. Review management’s assessment of the short-, medium-, and long-term materiality of climate-related impacts, risks, and opportunities for the Company on an ongoing basis; review the Company’s actions and responses to climate change; and determine whether they are proportionate to the materiality of climate change to the Company;
	4. Monitor progress against goals and targets for addressing climate-related challenges as part of the Company’s strategy and risk management;
	5. Consider that the Company has implemented an internal price on carbon to understand how climate change will affect the Company in the future;
	6. Enable a succession plan that ensures that there are always Board and Committee members and individuals in management with climate awareness and experience; and
	7. Keep abreast of developments in international standards and best practices in climate governance and climate risk management[[4]](#footnote-4) and make recommendations to the Board when changes are appropriate for the Company.
4. Committee and Management Appointments
	1. Identify Board members qualified to fill vacancies on the Sustainability Committee and recommend that the Board appoint the identified member or members to the relevant committee;
	2. Endorse the job description of the Chief Sustainability Officer (CSO) or E&S Manager; interview the final shortlisted candidates during selection of the CSO; and ensure that the CSO has adequate authority, resources, and support to fulfill their responsibilities, including unfettered access to the Committee. Appointment and dismissal of the CSO shall require approval from the Committee;
	3. Endorse the terms of reference of a climate-specific function, committee, or individual at the executive level with regard to climate change and ensure that such function, committee, or individual has adequate authority, resources, and support to fulfill their responsibilities, including unfettered access to the Committee.

# Procedures for Meetings

1. The Committee shall meet as often as it deems necessary but at least three times a year at such times and places as the Committee Chair determines, with further meetings to occur or actions to be taken by unanimous written consent when the Committee or its Chair deems it necessary or desirable. Special meetings may be convened upon the request of the Board and CEO. The Committee shall develop and approve the annual calendar of its meetings.
2. Meetings of the Committee may be conducted with the members physically present or in video or audio conferences.
3. Notice and details of meetings shall be given to Committee members at least 5 working days in advance, unless otherwise agreed.
4. Two members of the Committee shall constitute a quorum.[[5]](#footnote-5) When more than two members are present, the act of a majority of such members at a meeting at which a quorum exists shall be the act of the Committee, and when only two members are present, the unanimous vote of the two members shall constitute the act of the Committee. The Committee may also act at any time by unanimous written consent.
5. The Committee shall keep minutes of its meetings, which shall be circulated to members for objections and approval. If no objection is lodged within 5 business days, the minutes shall be approved. Once approved, such minutes shall be provided to the Board.
6. Except as expressly provided in this Charter, the Committee shall set its own rules of procedure.

# Access to Advisors and Training

1. The Committee shall have its own budget and the authority to engage and obtain advice and assistance from internal or external legal counsel, E&S or climate risk management advisors, or other advisors as it deems necessary in performance of its duties without having to seek Board approval and at the Company’s expense.
2. The Committee shall make determinations with respect to payment of external advisors that the Committee retains.
3. Committee members shall receive appropriate training on E&S risk generally and for the industry upon taking office and on an ongoing and timely basis to ensure that they can perform their functions.

# Relationship with Other Board Committees

1. The Committee Chair shall work with the Audit Committee and Risk Management Committee chairs to ensure that the work of the three committees is complementary. The Committee shall rely on the Audit Committee to ensure that internal controls in relation to each of the key risks are established, maintained, and monitored and that adequate internal audit and compliance functions are established.
2. The Committee shall rely upon the Risk Management Committee to ensure that a risk management framework is established, maintained, and monitored. [In instances in which there is no Audit Committee or Risk Management Committee, modify the language to provide that the Board shall ensure that these activities are performed.]

# Reporting Obligations

1. The Committee shall maintain minutes of its meetings and give regular reports to the Board, including on the Committee’s actions, conclusions, and recommendations and such other matters as the Board shall from time to time specify. Reports to the Board may take the form of oral reports by the Committee Chair or any Committee member that the Committee designates.
2. The Committee shall submit an Annual Report to the Board on the Committee’s activities during the year that describes the status of the Company’s E&S and climate risk management performance, areas requiring improvement, and Committee recommendations for addressing areas requiring improvement.
3. In addition to the above, the Committee shall prepare a report describing the Committee’s work in discharging its responsibilities to be included in the Company’s Annual Report or special sustainability or climate reports (Task Force on Climate-Related Financial Disclosures).
4. These terms, as may be amended from time to time, shall be posted on the Company website.

# Committee Performance Evaluation

The Committee shall review its own performance, reassess the adequacy of these terms of reference at least annually in such manner as it deems appropriate, and submit such evaluation, including any recommendations for change, to the Board for review, discussion, and approval.

# Compensation

No Committee member may receive, directly or indirectly, any compensation from the Company other than any fees paid to directors for service on the Board, additional fees paid to directors for service on a committee of the Board (including the Committee) or as Chair of any committee, and a pension or other deferred compensation for prior service that is not contingent on future service on the Board as long as it does not compromise the Committee member’s independence.

# Other

The Committee shall give due consideration to laws and regulations, the provisions of the [country Corporate Governance Code], and the listing rules, as appropriate.

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1. See the International Finance Corporation’s definition of ESG (https://www.ifc.org/wps/wcm/connect/topics\_ext\_content/ifc\_external\_corporate\_site/sustainability-at-ifc/environmental\_social\_and\_governance). [↑](#footnote-ref-1)
2. “Sustainability” is used herein as a broad term encompassing all aspects of ESG and climate risk management; “E&S” or “climate” is used when referring specifically to underlying environmental or social risks or risks related to climate change. ”G” in ESG refers to structures and processes by which companies are directed and controlled (e.g., board structure and diversity, ethical conduct, risk management, disclosure and transparency), which include the governance of key E&S policies and procedures. [↑](#footnote-ref-2)
3. Good practice requires at least one independent member, better chaired by an independent, Better practice requires a majority of independent directors, best all independent directors. [↑](#footnote-ref-3)
4. This part can also be assigned to a separate risk management committee at the Board level. [↑](#footnote-ref-4)
5. If an independent director is appointed, they shall be present to constitute a quorum. [↑](#footnote-ref-5)