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RBC Incorporates Climate Priorities into Executive Incentive Compensation Plans

April 21, 2023

By Sara Bussiere
Special Counsel | Global Litigation

The Royal Bank of Canada announced that this year it will begin incorporating ESG considerations into incentive compensation plans for the bank's CEO and other top executives. In particular, the bank plans to take ESG considerations into account as part of its mid-term incentive (MTI) and long-term incentive (LTI) programs for senior executives, according to the bank's **2022 Climate Report** released on March 6.

The 2022 Climate Report summarizes the progress RBC made last year in implementing its climate strategy, known as the **RBC Climate Blueprint**, which outlines the bank's commitments to achieving its stated climate priorities. These priorities include:

- Working with clients to understand and support their transition plans and facilitate $500 billion in sustainable financing by 2025
- Reducing greenhouse gas emissions by 70% by 2025
- Achieving net-zero emissions in lending by 2050, with interim targets aligned with clients' plans and Net-Zero Banking Alliance commitments
- Producing research on climate issues and policies, and convening stakeholders to create meaningful actions and incentives for progress

Adding ESG-related considerations to the executive compensation program will increase leadership accountability for advancing RBC's climate priorities, the bank says in the Climate Report. The new climate-focused incentive assessment is intended to accelerate RBC's progress in achieving its short- medium- and long-term net-zero goals while maintaining flexibility to modify executives' MTI and LTI awards, says RBC.

Taking the Temperature: RBC's decision to incorporate climate-related priorities into its executive incentive program comes just ahead of the March 7 release by Canada's Office

of the Superintendent of Financial Institutions (OSFI) of its guidance for banks and financial institutions on managing climate-related risk. Guideline B-15: Climate Risk Management, which outlines the regulator's expectations for governance, risk management and reporting around climate-related risks, advises that covered federally regulated financial institutions (FRFIs) should contemplate incorporating climate-related risk considerations into senior management compensation policies, but does not expressly require RFSIs, including RBC, to do so.

We have discussed recent reporting that companies and shareholders broadly support linking climate goals to executive compensation plans. In addition, like certain other financial institutions, in its 2022 ESG Report, which reviews the bank's performance across its ESG strategic priorities and focus areas, RBC highlighted the importance of governance structures to "deliver on ESG strategic priorities." RBC has formed several committees dedicated to these issues, such as a climate steering committee, a climate performance and reporting forum, a diversity leadership council, an RBC Foundation board, a reputation risk oversight committee, and an ESG disclosure council. As we have explained, strong corporate governance structures and policies are important for boards of directors and management to effectively assess risks and opportunities arising from sustainability issues and to mitigate the risk of legal challenges from shareholder or regulators in connection with climate challenges.