BC ESG EXECUTIVE BLUEPRINT

Quick Field Card • Board Oversight & ESG-Linked Executive Compensation (Post 940)

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Update history: bcesg.org/board-oversight-esg-linked-executive-compensation/

CORE GOVERNANCE RULE: DISCIPLINE, DISCLOSURE & RECOMPUTABILITY

Neither ISS nor Glass Lewis requires companies to adopt ESG pay metrics. When a Compensation Committee *chooses* ESG metrics, advisors and institutional stewards (BlackRock, Vanguard, State Street) grade them against the exact same standard as financial metrics: **a stated weight, a quantified target, and an outcome shareholders can recompute.** Discretionary or unverified payouts invite immediate proxy scrutiny and reputational blowback.

1. INCENTIVE VEHICLE WEIGHT BANDS & 10–25% ALLOCATION RULE

Short-Term Incentives (STI)

10% – 15%

Annual Cash Bonus Pool: Governs near-term execution and operational readiness — data integration pipelines, Tier-1 supplier onboarding, and baseline audit/compliance milestones. Prevents lagging drift.

Long-Term Incentives (LTI)

15% – 25%

Performance Share Units (3–5 Yr): Governs cumulative multi-year capital deployment — Scope 1+2 decarbonization, portfolio transformation, and permanent elimination of statutory municipal penalty exposure.

Total Variable Pay Allocation

10% – 25%

Balanced Governance Floor: Allocating between 10% and 25% of total variable pay gives ESG targets genuine executive weight while preventing single-metric distortion across the enterprise scorecard.

2. FORMULAIC PAYOUT GATES: THE 50 / 100 / 150 PERFORMANCE GRID

Threshold Gate — 50% Payout

Minimum Hurdle Floor: Strictly zero payout below threshold. Requires minimum verified operational milestone (e.g. baseline pipeline verified or partial supplier cohort).

Target Gate — 100% Payout

Budgeted Operating Objective: Full achievement of disclosed target (e.g. exactly >80% Tier-1 onboarding, CSRD matrix complete, or 6.5% Scope 1+2 reduction).

Stretch Cap Gate — 150% Payout Cap

Hard Incentive Ceiling: Maximum compensation realization for extraordinary certified performance. Prevents runaway windfalls and windfall litigation risk.

3. THE 4-METRIC BENCHMARK REFERENCE TABLE (PUBLISHED BLUEPRINT)

Indicator	Focus Area & Metric	Practical Target Benchmark	Incentive Vehicle	Verification Standard
LEADING	**Vendor data integration & supply-chain mapping**	Onboard >80% of Tier-1 suppliers into the enterprise vendor carbon reporting system	STI BONUS 5–10% weight	ISO 14064-3 data audit & vendor portal system logs
LEADING	**Audit readiness & reporting frameworks**	Complete the CSRD double materiality matrix; align baseline disclosures with IFRS S1 and S2	STI BONUS 5% weight	Independent legal & external auditor attestation
LAGGING	**Operational GHG emissions reduction**	Achieve a certified 6.5% annual reduction in combined Scope 1 and 2 emissions (1.5°C SBTi alignment)	LTI 3-YR PSU 10–15% weight	Third-party limited / reasonable assurance (ISAE 3000)
LAGGING	**Real-estate energy intensity & fine avoidance**	Zero statutory fine exposure across holdings under NYC Local Law 97 ($268/ton penalty)	LTI 3-YR PSU 5–10% weight	Certified Energy Star & engineering energy audit reports

4. THE ISS & GLASS LEWIS 4-POINT DISCLOSURE AUDIT TEST

- ☐ **1. Stated Weight:** Discrete, published percentage weighting within the STI/LTI scorecard. No bundled, vague, or undefined "composite" buckets without explicit weightings.
- ☐ **2. Quantified Target:** Pre-set, objective numerical benchmark (e.g. 6.5% reduction, >80% onboarding). Soft subjective scoring or discretionary assessments draw negative voting recommendations.
- ☐ **3. Recomputable Outcome:** Disclosed formula enables shareholders and proxy advisory analysts to independently recompute performance against targets using published operational data.
- ☐ **4. Payout-Follows-Design:** Compensation committee strictly enforces pre-set 50/100/150 gates without upward ex-post discretionary overrides or unearned adjustments.

5. THE STATUTORY DISCLOSURE FLOOR UNDERNEATH THE DESIGN

EU CSRD & ESRS 2 (GOV-3)

Requires formal disclosure of whether and how sustainability performance is taken into account in executive incentive schemes. Grounded in double materiality assessments and mandatory governance disclosures.

California SB 253 & SB 261

Enterprise-wide Scope 1, 2, and 3 GHG reporting (SB 253) and climate financial risk disclosure (SB 261) on hard regulatory filing deadlines for companies exceeding revenue thresholds in California.

NYC Local Law 97 ($268/Ton)

Municipal building carbon intensity caps backed by recurring statutory fines of $268 per metric ton of CO2e over limits. Lands directly in real-estate valuations and executive bonus scorecards.

6. COMMITTEE JURISDICTIONS & THREE STRUCTURAL SAFEGUARDS

Committee Boundaries

• **Compensation Committee:** Primary jurisdiction over incentive plan design, weightings, threshold approvals, metric calculation formulas, clawback enforcement, and final payout authorization.
• **Sustainability & Governance Committee:** Oversees double materiality determinations, evaluates carbon accounting methodologies, aligns metrics to corporate risk register, monitors regulations.

Anti-Greenwashing Safeguards

• **Mandatory 3rd-Party Verification:** Zero vesting or payout without prior independent assurance (ISAE 3000 / ISO 14064-3) from a certified external auditor.
• **Clawback & Malus Clauses:** Mandatory recovery triggers if carbon accounting data is restated, found fraudulent, or if regulatory non-compliance penalties occur.
• **Auditable Data Trail:** Verifiable lineage from primary operational data (meters, utility bills) directly to scorecard metrics.

7. THE 2026 BOARD ROADMAP: FIVE-STEP QUARTERLY TIMELINE

Quarter	Phase & Action Item	Load-Bearing Governance Mandate	Key Committee Deliverables
Q1 2026	**Materiality Audit & Baseline**	Run double materiality review; identify core ESG risks; establish audited base-year data for all target metrics.	Audited baseline data file; materiality matrix signed off by Sustainability & Governance Committee.
Q2 2026	**Framework & Weighting Design**	Establish STI (10–15%) and LTI (15–25%) allocation bands; define formulaic 50% / 100% / 150% payout gates.	Approved incentive scorecard grid; CD&A term sheet approved by Compensation Committee.
Q3 2026	**Safeguards & Clawbacks**	Draft clawback, malus, and data-restatement clauses into compensation agreements; establish ISAE 3000 condition.	Executed executive agreements with recovery triggers; external auditor assurance engagement letter.
Q4 2026	**Proxy Disclosure & Engagement**	Draft Compensation Discussion & Analysis (CD&A) for DEF 14A; proactively engage proxy advisors & stewards.	Final CD&A disclosure section; investor engagement briefing deck for BlackRock, Vanguard, State Street.
Year-End	**Verification & Certification**	Receive certified assurance reports; Compensation Committee certifies achievement against formula; authorize vesting.	Formal committee certification resolution; auditor assurance statement; final payroll authorization.