PAY FOR CLIMATE PERFORMANCE

Linking CEO Compensation to Emissions Reduction

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30 YEARS 1992 – 2022

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As You Sow

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EXECUTIVE SUMMARY

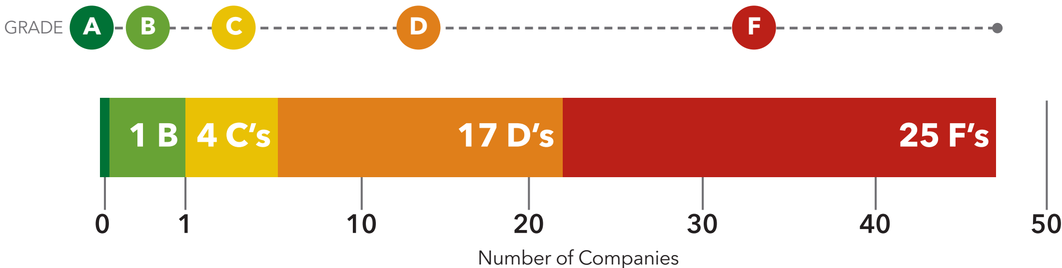
Linking greenhouse gas (GHG) emissions targets to compensation is one important means by which CEOs can be incentivized to achieve timely and systematic progress on climate. This report is a first step in assessing how effectively companies are currently linking GHG emissions reduction incentives to CEO pay. The percentage of companies integrating ESG goals in compensation is rising rapidly as investors push for climate progress.[1] In 2021, 52% of S&P 500 companies reported including ESG metrics in compensation while 69% of companies report they will be included in their 2022 compensation packages.[2] While this indicates some progress, such generalized linkages are generally insufficient to drive climate progress. As more companies begin to link GHG emissions reduction to compensation, it is important that it be done in the most transparent and impactful way.

This report provides investors with key criteria to evaluate the use of climate metrics in CEO pay. *As You Sow* analyzed the 2021 CEO compensation packages of the 47 U.S. companies included in the Climate Action 100+ (CA100+) Initiative. CA100+ is an investor-led initiative with $68 trillion in assets under management working to ensure that the world's largest corporate GHG emitters take action to reduce emissions. The CA100+ companies are responsible for 80% of corporate emissions and, thus, incentivization for emissions reduction performance in these companies is particularly timely.

The companies were assessed on three indicators:

- inclusion of a climate metric in the 2021 CEO pay package, with higher grades for incentives tied to emissions reductions and alignment with 1.5° C goals;
- inclusion of measurable climate metric and measurable pay; and,
- inclusion of climate metric in the long-term incentive plan.

We found the 47 U.S. companies assessed in this report either have no linkage between CEO pay and climate metrics or do not adequately tie CEO pay to climate performance metrics at the level of incentivization required to achieve alignment with global 1.5° C emissions reduction goals. While having a specific emissions reduction incentive is an important step for companies, not all emissions reduction metrics are equal. Investors should pay particular attention to the interaction of compensation design and the rigor of the climate metric.



Of 47 companies assessed, no companies received an A.
Only one company, Xcel Energy received a B.
42 of the 47 companies received D and F grades.

1. 2021 Global Benchmark Survey by ISS reports 87% of investors responding to the survey want ESG metrics in company incentive plans. Kathy Belyeu, Colleen Lloyd, Audrey Ramming, and Sarah Riggs, *2021 Global Benchmark Policy Survey: Summary of Results*, ISS Governance, October 1, 2021, **https://www.issgovernance.com/file/publications/2021-global-policy-survey-summary-of-results.pdf**, p. 9.
2. Ira T. Kay, Mike Kesner, and Joadi Oglesby, *ESG Incentives and Executives*, Harvard Law School Forum on Corporate Governance, May 24, 2022, **https://corpgov.law.harvard.edu/2022/05/24/esg-incentives-and-executives/**.

Key Findings

- **89% of the assessed companies received D or F grades for climate-related pay incentives.** 42 of the 47 assessed companies received D grades or lower for failing to include rigorous quantitative climate-related metrics with measurable payout or long-term incentive components. A summary of the climate incentive grades by company is given in Figure 1.

- **Of these 47 highest emitting U.S. companies, 25 have not explicitly linked any climate-related action to CEO pay.** Fifteen have some type of climate-related incentive tied to compensation. Six companies link a quantitative climate incentive to CEO compensation. Only one of the assessed companies has a GHG emissions reduction metric tied to compensation.

- **Xcel Energy received the highest score (B).** Xcel Energy received a B for linking CEO pay to emissions reduction performance in its long-term incentive plan, with a measurable amount of pay related to achievement of reduction goals.

- **None of the assessed companies received an A grade.** An A grade requires linking CEO compensation to a science-based, 1.5° C aligned, emissions reduction target across Scopes 1 (direct), 2 (purchased energy, and 3 (suppliers and consumer use).

- **Lack of transparent disclosure in company proxy statements makes it challenging to differentiate between effective CEO pay links and negligible or performative inclusions.** Companies can improve transparency by linking quantitative climate metrics to a measurable amount of pay, allowing investors to better assess emissions reduction impact and amount of incentivization.

- **Climate metrics are more commonly included in the annual bonus rather than long-term incentive structures, likely resulting in limited incentivization since annual bonus is generally a smaller portion of total compensation.** Of the 22 companies with any type of climate-related metric, only 23% included such metric in the long-term incentive plan.

- **The amount of pay tied to most climate metrics was negligible relative to overall compensation package size and thus generally inadequate to incentivize behavior.** The climate metric was often only one of many metrics used in determining annual bonus, which is typically dwarfed by equity awards.

FIGURE 1: Overall Grades

COMPANY NAME	POINTS	GRADES
Xcel Energy	9	B
American Electric Power	6	C
Southern Company	6	C
Valero Energy Corp	6	C
Marathon Petroleum	5	C-
Occidental Petroleum Corp	4	D+
Devon Energy Corp	4	D+
The AES Corp	2	D
Vistra Corp	1	D-
Phillips 66	1	D-
Bunge Ltd	1	D-
Trane Technologies PLC	1	D-
Chevron Corp	1	D-
ConocoPhillips	1	D-
Dow Inc	1	D-
Duke Energy	1	D-
General Motors Co	1	D-
Raytheon Technologies	1	D-
NextEra Energy Inc	1	D-
ExxonMobil Corp	1	D-
Procter & Gamble Co	1	D-
Weyerhaeuser Co	1	D-
American Airlines Group Inc	0	F
Berkshire Hathaway Inc	0	F

COMPANY NAME	POINTS	GRADES
Boeing Co	0	F
Caterpillar Inc	0	F
Coca-Cola Company	0	F
Colgate-Palmolive Co	0	F
Cummins Inc	0	F
Delta Air Lines Inc	0	F
Dominion Energy Inc	0	F
Exelon Corp	0	F
FirstEnergy Corp	0	F
Ford Motor Co	0	F
General Electric	0	F
International Paper Co	0	F
Kinder Morgan Inc	0	F
Lockheed Martin Corp	0	F
LyondellBasell Industries N.V.	0	F
Martin Marietta Materials Inc	0	F
NRG Energy Inc	0	F
PACCAR Inc	0	F
PepsiCo Inc	0	F
PPL Corp	0	F
United Airline Holdings Inc	0	F
Walmart Inc	0	F
WEC Energy Group Inc	0	F

INTRODUCTION

The physical impacts of climate change are already being felt globally, with increased frequency and severity of climate induced weather events creating social and financial havoc. In 2021, there were over 11,000 individual climate and weather induced disasters globally, causing more than two million deaths and $3.64 trillion in financial losses.[3]

Study after study has warned that inaction on climate change will have destabilizing financial impacts. A recently released report put the financial impacts of climate change in stark terms: Inaction on climate change is estimated to reduce Gross Domestic Product (GDP) by as much as $178 trillion over the next 50 years, whereas achieving net zero emissions in the same time period could increase GDP by $43 trillion.[4]

Scientific consensus is clear: to avoid catastrophic climate impacts, global warming must be limited to 1.5° C above pre-industrial levels. To accomplish this, we must achieve net zero emissions by 2050 and reduce roughly half of global emissions by 2030.[5] Yet, even with the 1.5° C warming limit clear and the financial rewards for achieving net zero emissions well-defined, we are still losing the race to stabilize the climate.

Investors have demonstrated growing concern about this collective failure to adequately reduce climate risk. Climate change is exposing corporations to material, climate-related business risk through physical risks to operations and supply chains, business related transition risks in a decarbonizing world, and reputational and liability risk. Investors, concerned about increasing climate risks to their companies and portfolios, look to emissions reduction targets and net zero climate transition plans to understand whether, and how, companies are mitigating climate risk and creating business strategies to generate value in a net zero economy.

In response, companies are increasingly touting net zero pledges. Many, however, are making insufficient progress in achieving such goals. As You Sow's 2022 report, The Road to Net Zero, provides an analysis demonstrating that many companies, even with established GHG emissions reduction targets, are not reducing their emissions in line with 1.5° C and are particularly behind on reducing Scope 3 emissions, often the largest sources of corporate climate impacts.

3. United Nations, "Climate and weather-related disasters surge five-fold over 50 years, but early warnings save lives – WMO Report," UN News, September 1, 2021.

4. Pradeep Philip, Cedric Hodges, and Claire Ibrahim, *The Turning Point: A Global Summary*, Deloitte, May 2022, **https://www2.deloitte.com/content/dam/Deloitte/global/Documents/gx-global-turning-point-report.pdf**.

5. IPCC, 2022: *Climate Change 2022: Mitigation of Climate Change. Contribution of Working Group III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change* [P.R. Shukla, J. Skea, R. Slade, A. Al Khourdajie, R. van Diemen, D. McCollum, M. Pathak, S. Some, P. Vyas, R. Fradera, M. Belkacemi, A. Hasija, G. Lisboa, S. Luz, J. Malley, (eds.)]. Cambridge University Press, Cambridge, UK and New York, NY, USA. doi: 10.1017/9781009157926

The CEOs making net zero by 2050 pledges will not be leading their companies when such pledges come due. Yet, they are responsible for developing and implementing the climate transition plans that will ensure achievement of net zero by 2050 goals. Holding incumbent CEOs accountable for accomplishing not only the short- and medium-term emissions reductions required for a credible climate transition plan, but also the investments and business changes necessary to achieve 2050 targets, is critical.

External pressure from investors and investor-led climate initiatives is helping to drive standards for the adoption of climate-related CEO incentives. The CA100+ Net Zero Benchmark, which sets forth the climate expectations of 700 signatory investors and asset managers, includes an expectation that companies will establish executive compensation incentives aligned with short, medium and long term science-based GHG reduction goals.[6] The CDP Climate Change Company Report[7] similarly asks companies to disclose the incentives provided for the management of climate-related issues and requires an incentive to be at the leadership level for its grading scale. Alliance Bernstein, a global asset management firm and a CA100+ member, states that, "Ultimately, we want issuers to include material, measurable ESG metrics in their executive compensation plans, explain how those metrics are incorporated and how progress is measured, and disclose performance against those metrics."[8]

With rising investor expectations for a link between climate performance and pay, companies are increasingly claiming they are incorporating climate targets into compensation packages.

Unfortunately, the many ways that climate metrics are being included in compensation are as complicated and varied as the compensation packages themselves, making it challenging to differentiate effective performance links from negligible performative inclusion. The goal of this report is twofold: first, to provide investors with key criteria for evaluating the use of climate metrics in CEO pay, and second, to assess how the 47 largest U.S. GHG emitting companies are incentivizing net zero GHG emissions reductions. This initial review of company compensation plans reveals that, while climate metrics are increasingly being included in compensation packages,[9] the vast majority of these targets are not adequate to effectively incentivize 1.5° C aligned emissions reductions.

6. Climate Action 100+, accessed August 19, 2022, **https://www.climateaction100.org**.

7. "CDP Climate Change 2022 Questionnaire," updated 2022, **https://guidance.cdp.net/en/guidance?cid=30&ctype=theme&idtype=ThemeID&incchild=1µsite=0&otype=Questionnaire&tags=TAG-646%2CTAG-605%2CTAG-600**.

8. AllianceBernstein, *2021 ESG Engagement Campaign: Executive Compensation, Climate Risk, Modern Slavery*, accessed July 31, 2022, **https://www.alliancebernstein.com/content/dam/corporate/corporate-pdfs/ab-2021-esg-engagement-campaign-report.pdf**.

9. In 2021, 52% of S&P 500 companies reported including ESG metrics in compensation while 69% of companies are reporting they will be included in their 2022 compensation packages. Ira T. Kay, Mike Kesner, and Joadi Oglesby, *ESG Incentives and Executives*, Harvard Law School Forum on Corporate Governance, May 24, 2022, **https://corpgov.law.harvard.edu/2022/05/24/esg-incentives-and-executives/**.

PART ONE: EVALUATING CLIMATE METRICS IN CEO PAY

Key Design Criteria

First, we identify key compensation and climate metric design criteria to help investors assess the caliber of a company's linkage of climate metrics to CEO pay. Such criteria include:

- [ ] Climate Metrics and Compensation Disclosures Are Transparent and Measurable
- [ ] Climate Metrics are included in the Long-Term Incentive Plan
- [ ] Payout Amounts Incentivize Achievement of Climate Metrics
- [ ] Climate-Related Targets are Quantitative
- [ ] Climate Incentives Are Aligned to 1.5° C Emission Reductions

Transparent Climate-Compensation Disclosures

Investors benefit from clearly worded and understandable compensation disclosures. In our assessment of companies' climate links to compensation, we found the greatest challenge was an overall lack of adequate disclosure in the proxy statement. Vaguely worded metrics, goals that are not measurable, and discretionary payouts lessen transparency. To evaluate effectiveness, investors need the level of disclosure of climate-related metrics to be on par with best practices for disclosure of financial metrics in compensation packages: in other words, well-defined and measurable targets, disclosed performance against the target, and pay amount associated with objective achievements. This necessary level of disclosure requires transparency in both climate metrics and the pay attached to achievement of the climate metric.

Measurable Climate Metrics Disclosed

In our survey, multiple companies include "reduce emissions" as a climate "metric" without specific targets for how much emissions reduction would be required to receive a bonus. Others use "progress towards" or "demonstrate leadership to" emissions reduction without disclosed target levels. Others point to milestones achieved without having initially set measurable targets. None of the above is adequate. Backward looking milestone reflections in support of awards given are not equivalent to pre-determined metric targets. Compensation packages should include clear disclosure – ideally in chart form – that indicates the target levels set and details the threshold, target, and maximum performance required for payout. Clear information regarding prior year achievements, a baseline time period, and linking CEO pay directly to emission reduction targets in company climate transition plans can further clarify for investors whether the metrics set adequately drive climate-related progress. Some investors vote against CEO pay packages where future financial achievement is set below the actual achievement from the prior year and this practice could beneficially extend to climate metrics.

Measurable Pay Amount Disclosed

To assess likely financial impact of an incentive, investors need to be able to determine the amount of pay to be awarded if the climate metric is achieved. This requires a quantifiable climate metric with pay weighting that spells out pay percentages associated with achievement level. This is easiest to see with a standalone metric: a metric

that has an individual pay weight tied to metric achievement. However, many of the companies we reviewed included climate metrics as part of a scorecard – a practice that often does not provide adequate quantification or disclosure.

Transparent and effective pay packages detail the portion of payments associated with achieving specific climate metrics. This provides a direct connection from each metric to the incentive compensation to allow an investor to understand the amount of pay associated with achievement of each metric in the compensation scorecard. For example, Marathon Petroleum (Figure 2) includes an ESG performance category with four ESG measures in its annual bonus scorecard, which is weighted at 20% of the entire bonus. Each measure is equally weighted at 5%, targets are clearly stated, and associated payout for GHG intensity achievement is measurable.

FIGURE 2: Marathon Petroleum ESG Scorecard[11]

PERFORMANCE METRIC	TARGET WEIGHING	THRESHOLD 50% PAYOUT	TARGET 100% PAYOUT	MAXIMUM 200% PAYOUT	RESULT	PERFORMANCE ACHIEVED
20% ENVIRONMENTAL, SOCIAL & GOVERNANCE						
Greenhouse Gas Intensity	5%	24.0	23.4	22.5	23.1 (133.33% of target)	6.67%
Process Safety Events Rate	5%	0.50	0.33	0.25	0.41 (76.47% of target)	3.82%
Designated Environmental Incidents	5%	80	60	30	55 (116.67% of target)	5.83%
Diversity, Equity & Inclusion	5%	External hires are at least (Women / BIPOC): 28% / 27%	30% / 30%	34% / 34%	23% / 32% (75% of target)	3.75%

More often, however, we found scorecards lacked this level of transparency. For example, one company included the following metrics under Sustainability and Safety in the CEO annual bonus: "reduce greenhouse gas emissions, reduce waste generation, and reduce water usage." The Sustainability and Safety scorecard was awarded at 110% without explanation as to the weighting or achievement of each metric. This example does not provide sufficient information for investors to determine the targeted amount of GHG emissions reduction, the reduction actually achieved, or the amount of pay associated with achievement of each metric within the scorecard.

If using a scorecard, companies should limit the number of metrics incentivized as the number of metrics ultimately decreases the incentive for achievement of each metric. For example, one company included three energy transition metrics as 10% of the annual bonus in a scorecard of 13 metrics. As the annual bonus is 14% of total disclosed pay as reported in the summary compensation table for 2021, the incentive for achievement of the three energy metrics is dwarfed by other components of compensation.[11]

10. Marathon Petroleum, Form DEF 14A, March 14, 2022, **https://www.sec.gov/Archives/edgar/data/1510295/000151029522000023/a2022mpcproxystatement.htm**.
11. Chevron, Form DEF 14A, April 7, 2022, **https://www.sec.gov/Archives/edgar/data/93410/000119312522098301/d292137ddef14a.htm**.

Inclusion in Long-Term Incentive Plan to Achieve Climate Goals

CEO compensation packages generally include three distinct areas of compensation:

- **Base salary:** cash compensation awarded as a typical paycheck.
- **Annual bonus:** awarded yearly, typically a target and maximum payout based on percentage of base salary. A typical target is 200% of base salary, and a maximum can range from 300% to 500% of base salary. The annual bonus usually is a cash payment.
- **Long-term incentive plan (LTIP):** equity awards including performance shares, options, and restricted stock that are generally paid out over a three-year period and can make up 60% to 70% of CEO pay. For performance shares to be awarded at the end of the performance period, pre-determined performance metrics must be achieved. The equity award can also include time-based awards that vest if the employee is still employed at the end of the vesting period as well as stock options, which some consider to be performance-based as options only hold value if the stock price increases. Some companies continue to offer cash-based long-term incentives, but performance shares are the preferred practice.

Recent research by Glass Lewis found that almost 48% of the S&P 500 had some consideration of environmental and social practices in their annual bonuses while only 4% included it in their LTIP.[12] Our analysis also found a higher percentage of companies include climate incentives in the annual bonus than in the LTIP. Inclusion in the LTIP is a more favorable practice for the following reasons:

- The most compelling reason to include climate metrics in the LTIP is that most of the CEO compensation award, typically 60% to 70% of a total compensation package, is there. Thus, the amount of pay tied to emissions reduction will generally be larger and subsequently more incentivizing if metrics are linked to LTIP versus annual bonus.
- CEOs need to be incentivized to develop plans for emissions reduction over the long term. Achieving net zero goals by 2050 will require significant actions today, and it is important for companies to stay on track over the next two decades.
- Including emissions reduction actions only in the annual bonus allows a CEO to receive compensation without penalty even if the emissions increase drastically the next year. Inclusion in the LTIP alleviates the concern that climate metrics are included solely as a short-term win for the CEO and will not lead to steady, longer-term emissions reductions.

The LTIP does not accommodate the same degree of compensation committee discretion as does the annual bonus. Semler Brossy points out, “Accounting rules . . . dictate that LTIP goals are objective to ensure favorable accounting, limiting the ability to exercise discretion.”[13] In contrast, for annual incentive plans, a compensation committee may exercise discretion and, without explanation, change the amount of pay awarded even if targets are not met. Although shareholders are likely to vote against pay packages at a company that does this, votes generally occur only after executives have received their compensation, decreasing CEO accountability.

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12. Eric Shostal and Krishna Shah, “E & S Metrics and Executive Compensation,” Harvard Law School Forum on Corporate Governance, March 23, 2022, **https://corpgov.law.harvard.edu/2022/03/23/es-metrics-and-executive-compensation/#more-144041**.
13. Blair Jones, Kathryn Neel, and Olivia Tay, “Integration of ESG into Compensation,” May 3, 2022, **https://semlerbrossy.com/insights/integration-of-esg-into-compensation/**.

In reviewing proxy statements, we found that many annual bonus packages included metrics that appeared to serve little purpose other than providing CEOs with additional compensation. For example, one company awarded pay to their CEO for two questionable metrics in the annual plan: “environmental sustainability whereby 95% of leaders and employees participated in a town hall focused on sustainability initiatives and the importance of such initiatives and tracking and root cause analysis of the company’s reportable environmental events.”[14]

In contrast, climate metrics in the LTIP provide the necessary structure and incentivization to ensure accountability for achievement of quantitative, long-term GHG emissions reduction goals.

Payout Amount Must be Sufficiently High to Incentivize Achievement

If executives are going to be motivated to achieve climate goals, then the payout from these achievements must stand up to the payouts from other financial metrics. Where climate incentives are dwarfed by financial performance metrics, emissions reductions will not be a priority.

Investors should also consider if CEO pay packages include contradictory financial metrics that would require doing the opposite of lowering emissions. In this scenario, even if the percentage of pay associated with a climate metric appears reasonable, it is unlikely to incentivize if a contradictory and higher weighted financial metric is part of the pay package. Ultimately, we believe that markets will reward companies that most capably handle energy transitions, so companies with rigorous equity retention and holding requirements would see their executives rewarded. Yet, too often we are now seeing “long-term” awards cashed in as soon as they are vested. When executives own less stock over time despite gargantuan awards, the idea of pay linked to long-term performance has been severed.

With companies only recently adding climate metrics to compensation packages, there is limited preliminary data available to determine whether including climate metrics makes it more likely that companies will achieve their strategic emissions reduction goals. Nor is there sufficient information about what amount of pay will impact behavior. The complexity of compensation practices makes it difficult to define a threshold weighting at which compensation linkage will incentivize action.

Emissions Reduction Targets Are Quantitative

Climate incentives should be framed as quantitative metrics such as “reduce GHG emissions by 30% by 2030 over a 2021 baseline” instead of qualitative measures such as “progress efforts in support of the energy transition.”[15] Quantitative metrics provide the information necessary for investors to both assess the quality of a metric and determine its achievement. Another clear example of a quantitative metric is a company including a specific portion of CEO pay linked to reducing Scope 1 emissions by 40% by 2024 from a 2015 baseline. In this example, the scope of the metric, the percentage of emissions reduction necessary for achievement, and the year by which the reduction must be made are clearly stated. While quantitative emissions reduction metrics are preferred, quantitative metrics can also take other forms. For example, in its 2021 sustainability goals, Dow makes a commitment that it will “…obtain 750 MW of its power demand from renewable sources by 2025,”[16] a concrete commitment that can be linked to a compensation award.

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14. Dominion Energy, Form DEF 14A, March 25, 2022, **https://www.sec.gov/Archives/edgar/data/715957/000120677422000855/d3985601-def14a.htm**.
15. Phillips 66, Form DEF 14A, March 31, 2022,
https://www.sec.gov/Archives/edgar/data/1534701/000120677422000928/psx3965551_def14a.htm#b_004.
16. Dow, “Measuring Our Progress,” accessed June 6, 2022,
https://corporate.dow.com/en-us/science-and-sustainability/2025-goals/natural-resource-efficiency.html.

Word choice greatly affects the usefulness of climate metrics, and we found many instances of wording either intentionally or unintentionally shifting a metric from a quantitative to a qualitative category. For example, Duke Energy's 2022 climate-related metric requires NEOs (Named Executive Officers, those whose compensation is publicly disclosed) to:

> Demonstrate leadership to advance our Climate Strategy to cost effectively reduce our carbon footprint from electricity generation by at least 50% by 2030 and net-zero by 2050, advocating for public policy related to our climate strategy, and investing in clean energy, including renewables, as well as grid capacity and capabilities to support higher levels of carbon-free generation.[17]

The inclusion of the terms "demonstrate leadership" and "advance our Climate Strategy" changes what could have been a quantifiable metric into a subjective metric lacking objective, quantitative, emissions reduction targets. Despite the reference to the company's 50% by 2030 and net-zero goals, achieving such goals is not required to earn incentives. Additionally, undefined and unquantified terms such as "investing in clean energy, including renewables . . . and capabilities to support higher levels of carbon-free generation" also add ambiguity into this climate metric. Thus, we did not give Duke points for a quantitative metric. The company lists worthy goals, including some that appear quantitative, but the action being incentivized is leadership, which can be very broadly defined.

Climate Incentives Are 1.5° C Aligned across Scope 1, 2 and 3 Emissions

After ensuring the compensation structure is set up to successfully link compensation to quantitative emissions reduction measures, investors must also know that management is working toward rigorous science-based climate goals. Quantitative emission reduction goals that are not 1.5° C aligned across all Scopes require investors to tease out the legitimacy of the target to achieve necessary emissions reduction and decrease investors' climate risk.

A seemingly well-designed quantitative emissions reduction goal that has measurable metrics and measurable pay disclosed in the LTIP may cover only a small amount of a company's emissions if not 1.5° C aligned across all three emissions Scopes. For example, oil and gas companies that create CEO financial incentives for Scope 1 operational emissions are not incentivizing their companies to reduce emissions at the necessary Scope because product emissions, which are the vast majority of their emissions, are not included. Companies must take responsibility for their full range of emissions to align with 1.5° C goals. A company that has already created a 1.5° C aligned climate transition plan incorporating emissions targets on all material Scopes and committed to a net zero target by 2050 should align its CEO compensation with progress toward this goal to demonstrate the importance a company places on reaching the goal.

17. Duke Energy, Form DEF 14A, March 21, 2022, https://www.sec.gov/Archives/edgar/data/1326160/000110465922036004/tm221429-1_def14a.htm#tCDAA.

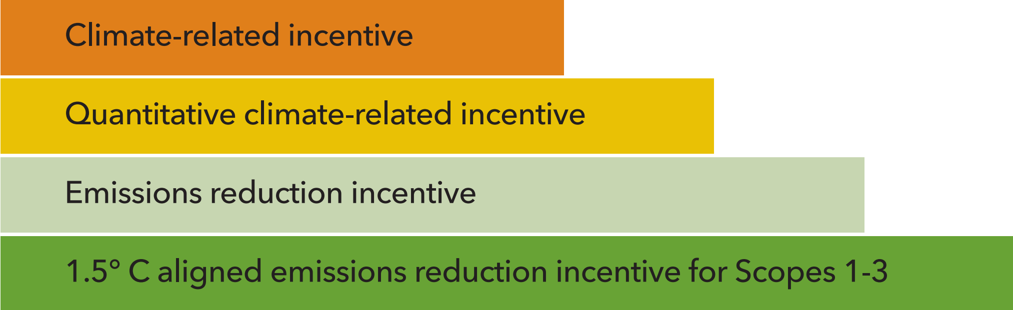
PART TWO: COMPANY ASSESSMENTS OF CLIMATE METRICS IN COMPENSATION PACKAGES

METHODOLOGY

This report scores the 47 largest GHG emitting U.S. companies on their linkage of climate metrics to CEO pay. These companies constitute the U.S. companies within the CA100+ Initiative's list of the largest corporate emitters around the world. The CA100+, an investor-led initiative created to ensure the world's largest corporate GHG emitters take necessary action on climate change, has developed a set of investor expectations aligned with the global goal of limiting warming to 1.5° C, including that companies' executive remuneration arrangements will incorporate climate change performance elements.[18]

We reviewed the companies' most recently filed Proxy Statements, also known as Securities and Exchange Commission (SEC) Schedules DEF 14A, and relevant corporate webpages to assess 2021 CEO compensation packages. We did not consider forward-looking statements disclosing new metrics companies plan to introduce in the 2022 CEO compensation packages.

We evaluated each climate metric to determine its placement in one of four progressively more stringent climate tiers (see Figure 3 below), with scores increasing accordingly (see Figure 4 below):



If a company had multiple climate-related metrics falling into different climate tiers, only the highest tier climate metric was further evaluated and scored on compensation design indicators. We also scored the climate metric on the quality of its design, assigning one point for each of the following design components:

1) Climate metric is established in compensation package
2) Compensation award is measurable
3) Climate metric is in LTIP

18. Climate Action 100+, *Climate Action 100+ Net Zero Company Benchmark v1.1: March 2022*, updated February 2022, **https://www.climateaction100.org/wp-content/uploads/2021/10/V1.1-Disclosure-Framework-assessment-methodology-Oct21.pdf**.

A more thorough discussion of each category is provided in Section X below. For purposes of company scoring, in cases where a company had more than one climate-related compensation metric, we applied our climate criteria to the most rigorous climate metric.

As shown below in Figure X, scores ranged from a total of 12 points to 0 points, with 12 points corresponding to an "A" grade and 0 points earning an "F" grade.

The full scoring methodology and climate tier definitions are included as Appendix A.

FIGURE 4: COMPANY SCORING METHODOLOGY

CLIMATE INCENTIVE TYPES	POINTS	GRADE
1.5° C Scope 1, 2, 3 Reduction Incentive (Measurable and in LTIP)	12	A
1.5° C Scope 1, 2, 3 Reduction Incentive (Measurable or in LTIP)	11	A-
1.5° C Scope 1, 2, 3 Emission Reduction Incentive Established	10	B+
Emission Reduction Incentive (Measurable and in LTIP)	9	B
Emission Reduction Incentive (Measurable or in LTIP)	8	B-
Emission Reduction Incentive Established	7	C+
Quantitative Climate Metric (Measurable and in LTIP)	6	C
Quantitative Climate Metric (Measurable or in LTIP)	5	C-
Quantitative Climate Metric Established	4	D+
Climate-Related Incentive (Measurable and in LTIP)	3	D
Climate-Related Incentive (Measurable or in LTIP)	2	D
Climate-Related Incentive Established	1	D-
No Climate Incentive	0	F

AGGREGATED COMPANY RESULTS BY CATEGORY

FIGURE 5: NUMBER OF COMPANIES BY CLIMATE TIER

CLIMATE INCENTIVE TYPES	COMPANIES
1.5° C Scope 1, 2, 3 Reduction Incentive (Measurable and in LTIP)	0
1.5° C Scope 1, 2, 3 Reduction Incentive (Measurable or in LTIP)	0
1.5° C Scope 1, 2, 3 Emission Reduction Incentive Established	0
Emission Reduction Incentive (Measurable and in LTIP)	1
Emission Reduction Incentive (Measurable or in LTIP)	0
Emission Reduction Incentive Established	0
Quantitative Climate Metric (Measurable and in LTIP)	3
Quantitative Climate Metric (Measurable or in LTIP)	1
Quantitative Climate Metric Established	2
Climate-Related Incentive (Measurable and in LTIP)	0
Climate-Related Incentive (Measurable or in LTIP)	1
Climate-Related Incentive Established	14
No Climate Incentive	25

Climate-Related Incentive Tier

The Climate-Related Incentive Tier assesses whether a climate metric in the CEO pay package includes initiatives or projects that are intended to reduce GHG emissions. Metrics included in this tier are qualitative or subjective goals covering a wide range of climate-related initiatives. This tier does not require that compensation is tied to quantitative emissions reductions. Examples would include non-specific emissions reductions goals, financing future emissions reduction technologies, or setting emissions reduction targets (rather than meeting emissions reduction targets). In this tier, companies might have vague metrics, employ discretion to shift the amount of pay received, and include climate metrics in multi-element compensation scorecards that generally result in a pay incentive of a negligible amount.

Fifteen companies have established a climate-related incentive. Only one of those companies, The AES Corporation, incorporated climate-related incentives in the LTIP (as a modifier to performance shares). None of the companies disclosed a measurable metric with measurable pay. Scores for this category range from 1 point to 2 points based on compensation design indicators.

Companies in the climate-related incentive tier can improve incentivization by ensuring that metrics, targets, and pay achievement levels are clearly defined. Metrics such as "improve GHG emissions reduction targets"[19] and "reduce greenhouse gas emissions"[20] do not provide adequate incentive or clarity for management or sufficient information to investors on compensated progress. Without a quantitative target, a CEO could potentially earn an award for a very small reduction in GHG emissions and investors would be unaware of the lack of accomplishment.

19. ConocoPhillips, Form DEF 14A, March 28, 2022, https://www.sec.gov/Archives/edgar/data/0001163165/000120677422000879/cop3949151def14a.htm#compensation_discussion.
20. Raytheon Technologies, Form DEF 14A, March 14, 2022, https://www.sec.gov/Archives/edgar/data/101829/000120677422000689/rtx3925001-def14a.htm.

To ensure investors that pay for climate performance is clearly linked to achievement of a substantive climate metric, compensation committees should limit use of discretion in metrics. Discretion is rarely used to alter CEO pay for financial metrics and the same rigor should be applied to climate metrics. For example, a provision that provides a climate metric followed by language such as “in conjunction with the Committee’s holistic review of the Company’s key accomplishments and actions taken during the year to advance [the metric]”[21] introduces an unnecessary and unacceptable layer of discretion. Companies can assure investors that pay is measurable by solely linking pay to metric achievement.

Quantitative Climate Incentive Tier

This tier assesses whether there is a quantitative climate-related incentive in the CEO pay package but no specific reduction goal. Metrics included in this tier include clean energy capacity, methane flaring intensity reductions, and eliminating a set amount of high bleed pneumatic controllers to reduce methane emissions. In this tier, climate-related metrics are quantifiable and focus on metrics that can lead to emissions reductions but do not require actual emissions reduction for compensation.

Six companies included a quantitative climate incentive in their CEO pay packages. Four of the companies disclosed measurable pay: American Electric Power, Southern Company, Valero Energy, and Marathon Petroleum. American Electric Power, Southern Company, and Valero Company disclose measurable metrics and pay and include the incentive in their LTIP. Southern Company expresses its climate metric in changes in megawatts instead of a percentage decrease in emissions. Southern Company states the megawatt target is currently in line with the trajectory necessary to reduce emissions 50% by 2030. The use of megawatts is an example of a rigorous input-focused metric – a foundational step in achieving the emissions reduction necessary for decarbonization – but does not measure and reward for specific emissions reductions. In this instance, the CEO could technically still be rewarded for metric achievement while building fossil gas plants and keeping coal plants online. For companies to best incentivize decarbonization performance, an emissions reduction metric is preferred.

Six companies included a quantitative climate incentive in their CEO pay packages.

21. Trane Technologies, Form DEF 14A, April 22, 2022, **https://www.sec.gov/Archives/edgar/data/1466258/000120677422001183/tt3960881-def14a.htm#execcompensation**.

Emissions Reduction Incentive Tier

This tier assesses whether there are company-wide emissions reduction incentives in the CEO pay package for at least one or more Scopes of emissions. The metric can be absolute or intensity based but must specify what quantity of emissions reduction are required, without offsets, to earn the incentive.

Only one of the 47 companies assessed has an emissions reduction incentive tied to compensation and earned full points in this tier for including a measurable emissions reduction metric in its LTIP

Only one of the 47 companies assessed, Xcel Energy, has an emissions reduction incentive tied to compensation. Xcel Energy, a utility holding company, earns full points in this tier for including a measurable emissions reduction metric in its LTIP. For 2021-2023, Xcel tied 30% of performance shares in its LTIP to "the achievement of a specified reduction in carbon dioxide emissions in 2023 below 2005 levels associated with electric service." The target emissions reduction of 55% by 2023 would reduce the company's Scope 1 emissions year-on-year by 3.27%. The Science Based Target initiative (SBTi), a leading coalition providing science-based emissions reduction guidance, requires a year-on-year absolute emission reduction of 4.2% (with the baseline set at a minimum of five years and a maximum of 10 years from the emissions target) to be 1.5° C aligned. Although Xcel's target does not qualify as 1.5° C aligned across all Scopes, it is the highest quality link of emissions reduction to CEO pay of the companies assessed. Additionally, Xcel's 30% of performance share units in the LTIP creates the strongest link of assessed companies between CEO pay and emissions reduction.

1.5° C Aligned Across Scopes 1, 2, and 3 Emissions Reduction Incentive Tier

The 1.5° C Aligned Emissions Reduction Incentive category assesses whether a company has an incentive for achieving 1.5° C aligned GHG emissions reductions (4.2% absolute reductions or 7.2% intensity reduction year over year) ***and*** covers all relevant emission Scopes 1, 2, and 3.

None of the assessed companies linked CEO pay to a 1.5° C aligned emissions reductions target for Scope 1, 2, and 3 emissions. Thus, no companies earned points for this highest tier.

CONCLUSIONS

This report assesses how 47 major emitting U.S. companies are incentivizing climate-related action and finds that the vast majority of the assessed companies have yet to tie compensation to meaningful GHG reductions. Only Xcel Energy, American Electric Power, Southern Company, Valero Energy, and Marathon Petroleum (11%) established quantitative climate metrics with defined, measurable goals. Just one company (2%) – the electric utility Xcel – established a goal explicitly tied to GHG reductions. None of the companies incentivizes GHG reductions aligned with achieving 1.5° C emissions reduction.

When considering the quality of compensation and climate links, *As You Sow* has identified certain best practices, as well as areas for improvement in creating corporate climate-related incentives. We note that the many ways that climate metrics are being included in compensation are as complicated and varied as the compensation packages themselves, making it challenging to differentiate effective performance links from negligible performative inclusion. Our goal in writing this report is to assist companies in setting effective climate compensation links and achieving science-aligned GHG emissions reductions while clarifying investor expectations.

We suggest that investors, in addition to engaging with companies to improve climate-related pay incentives, also vote accordingly and consider publishing Proxy Voting Guidelines to guide advisory votes on compensation.

These are summarized below:

- **Climate incentives should be clear, measurable, and objective:** Proxy statements include a range of oversimplification, over complexification, highly subjective measures, and insufficient quantitative criteria to drive climate action efficiently and accountably. As work on climate-related metrics continues, compensation committees and companies must focus on greater transparency and disclosure.
- **Climate-related metrics should have a specific payout for achieving measurable results:** The presence of a number does not make a metric quantitative. Milestones listed retroactively in support of awards are not the same as metrics that have been pre-determined with clearly disclosed targets. In this scenario, CEO pay is not based on quantitative metrics, but rather justified through a backward-looking discretionary process. Executive compensation may be inflated without changing behavior, a lose/lose proposition for shareholders.
- **Establishing climate-metrics in the LTIP:** A climate metric in the annual incentive plan is not adequate. Too often we found a single climate metric amidst many metrics in annual pay plans, where all the combined elements added up to represent only a minor component of overall target pay. In addition, LTIP provide a better time horizon for measurable emissions reduction action.

- **Prioritizing actual emissions reductions:** At this stage of the climate crisis, companies need to incentive emissions reductions rather than actions that may or may not lead to real or sufficient reductions. General climate reduction ambitions are no longer sufficient if they do not translate into actual emissions reductions. In our scoring methodology, we rated output metrics higher than input metrics such as the necessary steps of a climate transition plan. While plans and targets are important, emissions reduction performance is the measure to which CEOs should be awarded pay.

Investors play a critical role in moving companies to adopt meaningful climate incentives and through Say on Pay voting and corporate dialogues. Key dimensions for investors to consider prior to supporting corporate incentives packages include:

- **Meaningful Metrics with Meaningful Payout:** Investors should be skeptical about the efficacy of unmeasurable, unquantifiable climate metrics or metrics with limited impacts on CEOs' overall payout as they may be exercises in box checking rather than effective incentives to action. Also, rigorous climate metrics are not enough if paired with too little pay associated in the LTIP or the annual bonus. Even with quality climate metrics set, a substantive portion of pay is needed for achievement incentivization.
- **Using Incentives to Work Toward 1.5° C Net Zero Climate Transition Plans:** Current CEOs are broadcasting company net zero goals, but climate transition plans that work toward and incentive achievement on the path to net zero are vital. Incentives that directly related to progress towards the 2050 goal will ensure that the necessary progress is front of mind.
- **Ensuring Climate Incentives Are For Meaningful Climate Action and Avoid Overpaying CEOs:** A company should not add easily obtainable/less rigorous climate metrics are added into the LTIP as insurance of achievable payouts that occur when financial metrics are not likely to be met. In this scenario, the metric might pad CEO pay without any climate progress.

Climate-incentives represent a major aspect of a company's plan to achieve net zero but are also one of many climate-related policies. The CA100+ Initiative has other indicators that evaluate strategies and progress on climate that should be used in conjunction with this scorecard. Similarly, As You Sow's 2022 Net Zero Report provides a comprehensive view of company disclosure, targets, and success in reducing GHG emissions. Companies linking CEO Pay to performance in the most rigorous climate tier in our report, 1.5° C Scopes 1, 2, and 3 aligned emissions reductions, provide a holistic view of those companies' commitment to and progress toward achieving 1.5° C aligned emissions reductions to assist investors in assessing how companies are performing on a net zero transition.

When considering the quality of the compensation and climate link, investors need to concurrently consider the quality of the company climate transition plan and its alignment with CEO pay. Investors should also pay particular attention to the interaction of compensation design and the rigor of the climate metric. A facile understanding of the nuances of compensation or the company-specific transition plan can result in the addition of a metric intended to appease shareholders that inflates pay and nothing more. The situation is urgent. We must use every tool in our toolbox – incentive compensation is one such tool – but the tools must be used correctly.

APPENDIX A: METHODOLOGY

The CA100+ Company Selection Methodology

- The most recent proxy statements (SEC Schedules DEF14 A) and relevant corporate webpages of CA100+ companies listed in U.S. stock markets were assessed.
- The metrics indicated in the compensation of the 2021 CEO pay packages were assessed. Metrics in other NEOs pay packages were not assessed.
- For each compensation indicator a company met, one point was assigned.
- The definitions and methodology used in the compensation indicators are provided below.

We reviewed each company's proxy statement for the inclusion of any climate-related metric in the CEO compensation plan. We evaluated each climate metric to determine its placement in one of four progressively more stringent climate tiers:

- Climate-related incentive
- Quantitative climate incentive
- Emissions reduction incentive
- 1.5° C aligned Scopes 1, 2, and 3 emissions reduction incentive

Climate Tier Criteria

1. **Climate-Related Incentive**
   - Assesses whether any climate metric is established in the compensation package. Qualitative or subjective metrics that are foundational projects or initiatives to reduce GHG emissions are included. Examples include setting of emission reduction targets, qualitative emissions reduction mentions, or financing future emission reduction technology.
   - In this category, a climate-related metric is credited even though the company's absolute or intensity-based GHG emissions can continue to rise while the climate metric is met.
2. **Quantitative Climate Incentive**
   - Assesses whether the climate metric is quantitative rather than qualitative in nature. The metric must include a quantifiable or numerical metric related to climate progress and disclose targets and performance. Examples include flaring intensity reductions and megawatt carbon free capacity development.
   - In this category, a quantitative climate metric is credited even though the company's absolute or intensity-based GHG emission can continue to rise while the climate metric is met.
3. **Emission Reduction Incentive**
   - Assesses whether the climate metric is an enterprise-wide **quantitative** emissions reduction target for at least one or more Scopes of emissions. An enterprise-wide reduction target must cover all segments of the company.
   - This metric must measure quantitative progress in reducing emissions. The proxy statement must disclose quantitative targets and the quantitative performance achievement. Climate metrics can be absolute emissions reduction metrics or intensity-based metrics under this climate indicator but cannot be achieved through offsets.

4. **1.5° C Aligned Scopes 1-3 Emissions Reduction Incentive**
   - Assesses whether a metric is 1.5° C degree aligned using the methodologies of the SBTi's cross-sector 1.5° C degree requirements.[22] The requirement of 1.5° C degree alignment is 4.2% absolute reduction or 7.2% intensity reduction year over year in the short-term.
   - To earn credit, reported GHG reduction targets must address the company's enterprise-wide Scope 1, 2, and 3 emissions.

If a company includes multiple climate-related metrics falling into different tiers, only the highest tier climate metric was further evaluated and scored on compensation design indicators. For each compensation design indicator, a company received one point for fulfilling the requirements of the compensation indicator. Because the climate tiers are progressively harder to achieve and more impactful, we awarded increasing points to each compensation indicator based on tier placement.

Compensation Design Indicators

1) **Climate metric established:** This indicator is met if a climate-related metric is established in any part of the CEO pay package.
2) **Measurable pay:** This indicator was met if the climate-rated metric is objective and the percentage of CEO pay for achieving the climate metric is designated. A climate metric listed individually, or a climate metric included in a scorecard, received a point if the specific climate metric had a through line between achievement of the objective climate metric and the amount of pay given for climate metric achievement. A climate metric included within an ESG scorecard that does not specify the percentage of pay associated with the specific climate metric would not receive a point.
3) **Climate metric in LTIP:** This indicator was met if the climate metric was included in the LTIP. The climate metric could be a percentage of or a modifier to the LTIP.

Scoring Methodology

CLIMATE INCENTIVE TYPES	POINTS	GRADE
1.5° C Scope 1, 2, 3 Reduction Incentive (Measurable and in LTIP)	12	A
1.5° C Scope 1, 2, 3 Reduction Incentive (Measurable or in LTIP)	11	A-
1.5° C Scope 1, 2, 3 Emission Reduction Incentive Established	10	B+
Emission Reduction Incentive (Measurable and in LTIP)	9	B
Emission Reduction Incentive (Measurable or in LTIP)	8	B-
Emission Reduction Incentive Established	7	C+
Quantitative Climate Metric (Measurable and in LTIP)	6	C
Quantitative Climate Metric (Measurable or in LTIP)	5	C-
Quantitative Climate Metric Established	4	D+
Climate-Related Incentive (Measurable and in LTIP)	3	D
Climate-Related Incentive (Measurable or in LTIP)	2	D
Climate-Related Incentive Established	1	D-
No Climate Incentive	0	F

22. Science Based Targets Initiative, *Net-Zero Standard*, October 2021, **https://sciencebasedtargets.org/resources/files/Net-Zero-Standard.pdf**, p. 27.

APPENDIX B: COMPANY SCORES

COMPANY NAME	GRADE	TOTAL POINTS	CLIMATE INCENTIVE
Xcel Energy	B	9	Emissions Reduction Incentive (Measurable and in LTIP)
American Electric Power	C	6	Quantitative Climate Metric (Measurable and in LTIP)
Southern Company	C	6	Quantitative Climate Metric (Measurable and in LTIP)
Valero Energy Corp	C	6	Quantitative Climate Metric (Measurable and in LTIP)
Marathon Petroleum	C-	5	Quantitative Climate Metric (Measurable or in LTIP)
Occidental Petroleum Corp	D+	4	Quantitative Climate Metric Established
Devon Energy Corp	D+	4	Quantitative Climate Metric Established
The AES Corp	D	2	Climate-Related Incentive (Measurable or in LTIP)
Vistra Corp	D-	1	Climate-Related Incentive Established
Phillips 66	D-	1	Climate-Related Incentive Established
Bunge Ltd	D-	1	Climate-Related Incentive Established
Trane Technologies PLC	D-	1	Climate-Related Incentive Established
Chevron Corp	D-	1	Climate-Related Incentive Established
ConocoPhillips	D-	1	Climate-Related Incentive Established
Dow Inc	D-	1	Climate-Related Incentive Established
Duke Energy	D-	1	Climate-Related Incentive Established
General Motors Co	D-	1	Climate-Related Incentive Established
Raytheon Technologies	D-	1	Climate-Related Incentive Established
NextEra Energy Inc	D-	1	Climate-Related Incentive Established
ExxonMobil Corp	D-	1	Climate-Related Incentive Established
Procter & Gamble Co	D-	1	Climate-Related Incentive Established
Weyerhaeuser Co	D-	1	Climate-Related Incentive Established
American Airlines Group Inc	F	0	No Climate Incentive
Berkshire Hathaway Inc	F	0	No Climate Incentive
Boeing Co	F	0	No Climate Incentive
Caterpillar Inc	F	0	No Climate Incentive
Coca-Cola Company	F	0	No Climate Incentive
Colgate-Palmolive Co	F	0	No Climate Incentive
Cummins Inc	F	0	No Climate Incentive
Delta Air Lines Inc	F	0	No Climate Incentive
Dominion Energy Inc	F	0	No Climate Incentive
Exelon Corp	F	0	No Climate Incentive

(Continued on next page.)

COMPANY NAME	GRADE	TOTAL POINTS	CLIMATE INCENTIVE
FirstEnergy Corp	F	0	No Climate Incentive
Ford Motor Co	F	0	No Climate Incentive
General Electric	F	0	No Climate Incentive
International Paper Co	F	0	No Climate Incentive
Kinder Morgan Inc	F	0	No Climate Incentive
Lockheed Martin Corp	F	0	No Climate Incentive
LyondellBasell Industries N.V.	F	0	No Climate Incentive
Martin Marietta Materials Inc	F	0	No Climate Incentive
NRG Energy Inc	F	0	No Climate Incentive
PACCAR Inc	F	0	No Climate Incentive
PepsiCo Inc	F	0	No Climate Incentive
PPL Corp	F	0	No Climate Incentive
United Airline Holdings Inc	F	0	No Climate Incentive
Walmart Inc	F	0	No Climate Incentive
WEC Energy Group Inc	F	0	No Climate Incentive

APPENDIX C: GLOSSARY

Climate-Related Definitions

CA100+ Initiative: An investor-led initiative with 700 signatory investors with 68 trillion dollars in assets under management who have committed to engage on emissions reduction with the world's largest emitters.

CA100+ Net Zero Benchmark: "The Climate Action 100+ Net Zero Company Benchmark was launched in March 2021 to assess the performance of focus companies against the initiative's three **high-level goals**: emissions reduction, governance, and disclosure. The Benchmark presents a key measure of corporate progress on climate action and the move to achieve net zero emissions by 2050 or sooner. It defines key success indicators for business alignment with the goals of the Paris Agreement to limit global temperature rise to 1.5° C."[23]

GHG Scope 1: Scope 1 emissions cover direct emissions from company-owned or controlled sources and operations, including emissions from power sources; physical or chemical processing; transportation, including movement of materials, products, and waste; and fugitive emissions.

GHG Scope 2: Scope 2 emissions include indirect emissions generated through the purchase of electricity and energy consumption. This Scope can be calculated though a "location-based" or "market-based" approach. Renewable energy credits and virtual power purchase agreements can reduce Scope 2 emissions.

GHG Scope 3: Scope 3 emissions are all other emissions sources within the company's value chain that are not encompassed within Scopes 1 and 2. Scope 3 emissions cover a wide range of emissions, from upstream emissions in energy production, to use of products sold (such as gas, vehicles, and building heating), to supplier emissions and emissions associate with investments, company travel, and employee commuting. The GHG Protocol identifies 15 categories of Scope 3 emissions upon which companies are expected to either report or state the category is *de minimis* or non-relevant to their business.

Net Zero: "The process by which countries, individuals or other entities aim to achieve zero fossil carbon existence. Typically refers to a reduction of the carbon emissions associated with electricity, industry and transport."[24]

1.5° C Goal: The 1.5 °C target is the goal of the Paris Agreement calling for countries to take climate action to reduce GHG emissions in order to limit global warming to 1.5 °C above pre-industrial levels.

Science Based Target Initiative (SBTi): "The SBTi defines and promotes best practice in science-based target setting. Offering a range of target-setting resources and guidance, the SBTi independently assesses and approves companies' targets in line with its strict criteria."[25]

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23. Climate Action 100+, *Climate Action 100+ Net Zero Company Benchmark*, **https://www.climateaction100.org/net-zero-company-benchmark/**.
24. IPCC, 2018: Annex I: Glossary [Matthews, J.B.R. (ed.)]. In: *Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty* [V. Masson-Delmotte, , P. Zhai, H.-O. Pörtner, D. Roberts, J. Skea, P.R. Shukla, A. Pirani, W. Moufouma-Okia, C. Péan, R. Pidcock, S. Connors, J. B. R. Matthews, Y. Chen, X. Zhou, M. I. Gomis, E. Lonnoy, T. Maycock, M. Tignor, and T. Waterfield (eds.)]. Cambridge University Press, Cambridge, UK and New York, NY, USA, pp. 541-562, doi:**10.1017/9781009157940.008**.
25. Science Based Targets, "Ambitious Corporate Climate Action," **https://sciencebasedtargets.org**.

Compensation Related Definitions

Base salary: a cash compensation awarded as a typical paycheck.

Annual bonus: awarded yearly, typically set with a target and maximum payout based on percentage of base salary. A typical target is 200% of base salary, and a maximum can range from 300% to 500% of base salary. The annual bonus usually is a cash payment.

Long-term incentive plan (LTIP): equity awards including performance shares, options, and restricted stock that are general paid out over a three period and can make up 60% to 70% of CEO pay. For performance shares to be awarded at the end of the performance period, pre-determined performance metrics must be achieved. The equity award can also include time-based awards that vest if the employee is still employed at the end of the vesting period, as well as stock options, which some consider to be performance-based as options only hold value if the stock price increases. Some companies continue to offer cash-based long-term incentives, but performance shares are the preferred best practice.

Modifier: based on a performance measure, a modifier is applied to increase or decrease the overall award payout that has already been determined in either the LTIP or the annual bonus by a specified percentage amount.

Measurable Pay: the metric is clearly defined with specified achievement levels required to meet the pay amount associated. The pay amount must clearly state the pay associated with target achievement and threshold and maximum requirements.

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