RBC Net-Zero Engagement Policy: A Promising Start That Falls Short on Key Element

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February 2024
Key Findings

In a policy document released in October 2023, RBC outlined a formalized engagement framework to assess the transition plans of its clients and the actions it intends to take in response. In important ways, RBC’s policy falls short.

Several sectors are exempt from this policy, including the midstream oil and gas industry, which plays a significant role in emissions and climate issues globally.

RBC’s maturity scale – a key assessment tool in the framework – lacks clarity and transparency.

RBC hints at the existence of an exclusion clause targeted at uncooperative clients but fails to provide adequate details on criteria and timelines for this critical element of the plan.
Introduction

The Royal Bank of Canada (RBC) has committed to a climate plan that seeks to assist its clients as they transition to net zero while also holding itself accountable for emissions generated from its lending and day-to-day operations.

RBC is collecting a wide range of data from various sources to help it in this process, including from its customer base, the bank’s most important source of information. RBC notes that since engagement is a key part of its climate strategy, the quality of the bank’s engagement with its clients is critical to meeting its climate goals and maintaining a competitive edge within the industry.

In a policy document released in October 2023, RBC outlined a formalized engagement framework to assess the transition plans of its clients and the actions it intends to take in response.¹ But in important ways, RBC’s policy falls short.

RBC Client Engagement Approach

RBC has designated its capital markets arm (RBC CM) to implement its engagement plan. RBC CM closed on more than $1 trillion in investment banking deals last year and has a client base of 21,000 businesses worldwide.² RBC’s engagement policy is initially restricted to the energy sector, which includes oil, gas and power generation clients. However, clients in sectors not covered under its 2030 interim targets including midstream oil and gas companies, which collectively represent a material source of the banks’ financed emissions, are currently exempt from its plan.³

RBC CM aims to assess the soundness of client climate commitments and emission targets, as well as the usefulness of actions made towards realizing their goals. The policy calls for weighing the priority clients attach to climate planning within their business and the completeness of their climate metrics reporting. RBC ranks clients on a maturity scale, with varying bands reflecting the levels of sophistication of their plans and the likelihood that a client’s plan is capable of successfully transitioning the business to net zero by a sector-specific target date.

¹ RBC. Client engagement approach on climate. October 2023.
³ Ibid., p.3.
These criteria are further customizable to account for varying industry landscapes and operational conditions.

RBC plans to use insights from its assessment to support the improvement and execution of client transition plans, including providing dedicated capital and transaction advisory services.

Organizations classified as “non-committed” do not have any plans or have not communicated their plans to RBC CM.

**RBCs Maturity Scale Lacks Transparency and Clarity**

RBC fails to delineate clear criteria and detailed distinctions among the various client grades on its maturity scale. This omission leaves room for ambiguity and could hinder a transparent and comprehensive evaluation process. RBC should also consider publishing individual client rankings and offering insight into what advanced-ranked clients are doing well and what others need to do to improve their planning and progress to the next stage. The advanced grade could also benefit from improved specificity by including language that a 1.5°C aligned transition plan entails, such as a commitment to the phase out of high-emitting assets and transitioning to renewable energy sources.
RBC Framework Falls Short on Exclusionary Criteria

A notable feature of RBC’s policy is its position on client exclusion. In a warning to non-compliant clients, RBC states:

“RBC CM is prepared to make difficult business decisions and ultimately step away if a client, after repeated engagement, does not demonstrate sufficient planning for the energy transition…this could include reducing or eliminating available credit and other products and services.”

While this may be commendable, RBC fails to provide clear criteria and timelines that would lead to a client’s access to the bank’s products and services being denied or revoked.

The UN-backed Glasgow Financial Alliance for Net-Zero (GFANZ), which includes RBC, provides guidance on transition planning for financial institutions and states that “an escalation process with consistent and transparent criteria that are communicated to the client and portfolio companies should be a critical part of an engagement strategy.”

As an example, GFANZ also cites the case of AXA Investment Management, a global asset manager, that has a “three-strikes-and-you’re-out” policy. If three years of engagement prove unfruitful, AXA investment management will divest from recalcitrant companies.

In its fossil fuel finance position paper, the Science-Based Targets Initiative (SBTi) also provides guidance on effective exclusionary policy by stating:

“For the engagement of fossil fuel companies receiving existing financial flows, financial institutions shall phase out at the latest after two years if engagement efforts fail to bring the project/company into alignment …”

RBC only hints that organizations classified as non-committed may be at risk of being cut off. Qualifying criteria such as thresholds for escalation, timelines and reporting metrics are either ambiguous or non-existent in the disclosed framework.

The option to exclude or stop doing business with certain clients or projects is especially important when engaging the energy sector on climate matters. IEEFA notes that transition requirements in the fossil fuel industry transcend mere operational adjustments; they entail the realignment of core business models and pivotal shifts in capital allocation.

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6 Ibid., p.65.
8 RBC, op. cit., p. 13.
These disruptions to business-as-usual are likely to be met with significant resistance, so the possibility of divestment or exclusion becomes a key negotiating tactic. Recent incidences of backtracking on climate pledges in the energy industry lend credence to this concern and are proof that vanilla engagement alone may be insufficient to drive the structural shifts required to achieve ambitious, critical climate goals.\(^\text{10}\)

### Conclusion

RBC can use its influence to guide companies towards the net-zero transition while establishing itself as a model for sustainable practices and encouraging broader adoption within the Canadian banking industry. While engagement is key, it is important to note that RBCs broader climate goals require a comprehensive multi-faceted approach. Initiatives such as extending the scope of its exclusion policy to include critical geographies and fossil sources, increasing the ratio of financing granted to clean vs. carbon-intensive energy and reducing the carbon footprint of its investment portfolios via divestment are equally pivotal in steering itself and its clients towards a more sustainable net-zero future.

RBC’s engagement plan is a step in the right direction but there is room for improvement. The policy should apply across board to the various industries with which RBC conducts business. It should not exclude key sectors such as midstream oil and gas which plays a significant role in emissions and climate issues globally through its extensive network of pipelines, storage facilities and transportation infrastructure. Also, the absence of explicit requirements for each grade on its maturity scale leaves stakeholders including clients in the dark regarding specific benchmarks for progress.

RBC should also clearly spell out the exclusionary criteria guiding its policy. This would send a clear message to clients about the need to take climate planning seriously, while also providing some transparency to allow the bank to be held accountable on policy implementation. Such an action could also help ease long-held stakeholder concerns that when it comes to climate matters, RBC says the right things but might not always intend to follow through.\(^\text{11}\)

RBC affirms that its engagement plan will be reviewed at least every two years to expand its scope and improve its effectiveness.\(^\text{12}\) The bank should act sooner rather than later to strengthen its net-zero strategies. The clock is ticking, and RBC should become a climate transition leader.

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\(^{10}\) CBC. *Suncor has been too focused on energy transition must get back to fundamentals: CEO*, August 15, 2023. Also see: Grist. *Why are BP, Shell and Exxon suddenly backing off their climate promises?* February 16, 2023.

\(^{11}\) IEEFA. *The Royal Bank of Canada’s Climate Policy has come under close scrutiny from its stakeholders*, October 05, 2023.

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