Conflict of Interest: Risks and mitigants

CDP maintains a comprehensive Conflicts of Interest ("COI") framework supported by a Conflicts of Interest and Independence policy, procedures, and controls. A core component of this framework is the Conflicts of Interest Risk Register.

The COI Risk Register captures potential, and perceived conflicts of interest, including the parties involved, the nature of the conflict, the inherent risk level, the mitigating measures in place, and the residual risk post mitigation.

Based on completing this COI risk assessment process, CDP has identified what it considers are the 'main' risks of conflicts of interest, which are summarised below together with the steps taken to mitigate them.

Potential conflicts

- Investor relationships
  Where investors of CDP are also disclosers to CDP, or have related entities that are rated by CDP, this may create a perceived or actual expectation that the investment relationship could influence rating outcomes.
- Commercial relationships
  Where an entity has both rated activities and other commercial interactions with CDP, this may create perceived or actual pressure on rating outcomes.
- Staff personal interests / relationships
  Where staff have personal, financial or professional interests related to entities, there is a risk that these interests may influence, or be perceived to influence, the ratings process.
- Admin fee tiers
  Where disclosing entities pay differing fee tiers, this may create a perceived or actual expectation that the fee arrangement could influence rating outcomes
- Consulting Services
  Where consulting services are provided to rated entities, there is a risk that these services may influence, or be perceived to influence, the ratings process.

Mitigants

- Conflicts of interest policy and framework
  CDP has in place an overarching Conflicts of Interest and Independence policy and framework in place that outlines how CDP identifies, assesses, discloses, mitigates, and manages conflicts of interest.
- Governance arrangements
  CDP has in place a formal governance framework for its ESG ratings activities. Business-line Steering Committees oversee the development and production of ESG Rating products, while an Oversight Committee provides independent challenge over the effectiveness of processes, controls, and regulatory compliance, including the EU ESG Ratings Regulation.
- Independent oversight function

An independent Oversight function provides periodic monitoring of conflicts of interest risks and the effectiveness of associated controls, with escalation and reporting to senior governance forums where appropriate.

- Consulting entity separation and segregation of duties
  Clear organisational separation and segregation of duties are maintained between CDP teams involved in the provision of ESG ratings and CDP Consulting Co to minimise the risk of undue influence.
- Appeals and complaints governance
  Appeals and complaints are managed through established, independent processes, with outcomes subject to formal governance approval and reviewed by the oversight function.
- Methodology governance
  CDP Regulated Scoring methodology changes are subject to a structured review and approval process, including formal governance sign-off prior to implementation. Methodologies are publicly available and transparently documented.
- Staff annual attestation
  Employees are required to declare, and periodically attest to potential conflicts of interest, which are assessed and managed in accordance with internal policies. This includes compliance with trading prohibitions.
- Admin fee tiers
  CDP teams involved in the provision of ESG ratings are not made aware of the disclosing fee tiers that a specific client has selected. All disclosers are scored irrespective of this.

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