CDP Japan Financial Services Agency Code of Conduct Endorsement

About CDP
CDP's mission is to focus investors, companies, cities, and governments on measuring and acting on their environmental impacts to build a net-zero, nature-positive, globally equitable economy. A not-for-profit charity, CDP drives change to deliver our mission through our global, independent environmental disclosure system.

The CDP global group of organizations includes CDP Worldwide (a not-for-profit charity headquartered in the UK), and organizational entities in Japan, China, Singapore, Hong Kong, India, Germany, Brazil and the United States of America. Over the past 20 years we have created a system that has resulted in unparalleled engagement on environmental issues worldwide from companies, investors, cities, states and regions alike.

CDP's theory of change
Since our launch in 2000, CDP has been built on the fact that transparency and accountability drives positive change in the world of business and investment. Key to CDP's ability to drive change is that our cycle of interventions has been embedded by companies, subnational governments, and investors globally and our annual disclosure cycle has become a firm part of annual corporate reporting of major companies everywhere.

Sitting at the nexus of these key stakeholder groups, we utilize our disclosure mechanism and cycle of interventions to normalize environmental disclosure and action, continually pushing the boundaries of the disclosure landscape. We use our questionnaire, guidance and scoring to challenge reporting entities to shift towards best practice decision-making along a science-based sustainability journey.

CDP scores
As part of our disclosure process, CDP provides disclosing companies with an annual score: a snapshot of a company's environmental disclosure and performance. Our scoring methodology encourages responding organizations to measure and manage their environmental impacts, and to take steps along demonstrating the action that is urgently required by the world economy, markets, cities, states, regions and corporates to address the multiple, environmental crises facing global society. Our environmental data and insights help to drive this required step-change.

ESG Investing has grown rapidly over the past decade. Increasing numbers of investors are integrating ESG ratings, benchmarks and data products into their decision-making processes. In 2020 the amount of professionally managed portfolios that integrated key elements of ESG assessments exceeded $US 17.5 trillion globally, by some measures. In the same year, the growth of ESG-related traded investment products available to institutional and retail investors exceeded $US 1 trillion and continues to grow quickly across major financial markets. It is important that these tools are used to support the allocation of capital to sustainable activities and not to enable greenwashing. ESG ratings, benchmarks and data product providers must ensure that they align with science-based methodologies to fulfil global environmental agendas and goals. These include the Paris Agreement, the Global Biodiversity Framework, and the Sustainable Development Goals (SDGs).

ESG ratings and ESG benchmark indices have the potential to serve as a compass to guide capital allocation. However, shortcomings associated with the quality of the input data used in

these products, lack of transparency around their methodologies and potential conflicts of interest, have all led regulators to take a closer look into this market.
This new policy arena reflects the acknowledgment by regulators of the rapidly changing environment when it comes to the ESG disclosure ecosystem of operators. To guarantee the effectiveness of disclosure, it is crucial to ensure the data reported is of high quality.

As the availability and quality of ESG data grows, regulators such as the Japan Financial Services Agency ("**JFSA**") are asking how the disclosure ecosystem uses this data to drive more sustainable decision-making. They are requiring the providers of ESG ratings, scores, benchmarks and data products to adopt more robust governance and transparent methodologies. CDP believes this is vital for two main reasons:

1. To ensure these tools support an evidence-based transition to a net-zero, nature positive economy.
2. To prevent capital from being allocated towards greenwashing schemes and instead focused on supporting the goals and fulfilment of global environmental agendas.

As such CDP welcomes and endorses the JFSA Code of Conduct. CDP's response to each Principle of the Code of Conduct (and their associated Guidelines) on a "comply or explain" basis, are outlined below:

Principle 1 (SECURING QUALITY)
ESG evaluation and data providers should strive to ensure the quality of ESG evaluation and data they provide. The basic procedures necessary for this purpose should be established, including:

JFSA Guidelines:

1. formulating and providing ESG evaluation and data, establishing necessary procedures to analyse in detail information that can be reasonably obtained;
2. establishing cross-organizational and continuously applied methodologies to provide; high-quality ESG evaluation and data, and disclosing it while paying attention to confidentiality, intellectual property;
3. ensuring that the prescribed methodologies are applied consistently across the organization, disseminating them throughout the organization, as well as devising measures, such as horizontally reviewing under an appropriate system, or accumulating and sharing knowledge of evaluations to be provided; and
4. checking on a regular basis whether there would be any apparent discrepancy between the evaluation results and the service provision methodologies mentioned above, and updating methodologies as necessary (implementation of the PDCA cycle for evaluation).

How CDP complies:

CDP reviews its scoring methodology on an annual basis and publishes it on our website before any entities are contacted inviting them to complete our questionnaires. CDP's processes for ensuring successful and consistent application of its methodology are assessed annually. We make it clear and transparent through our disclosure terms and conditions that confidential, private disclosure will not identify the disclosing entity and such data will be aggregated in such a manner as to make the submission anonymous. CDP further makes clear in disclosure terms and conditions that it is a licensee of the intellectual property contained in the submission. CDP obtains the consent of the disclosing entity at the point of entry into the terms and conditions, for a license (with the right to sub-license) to CDP. To facilitate environmental progress globally CDP makes disclosure data available to customers seeking environmental insights under data licenses reflecting these principles of confidentiality and protection of intellectual property rights.

A thorough evaluation of the entire disclosure and scoring cycle including testing scoring process outputs against the methodology is carried out annually to accompany ongoing monitoring throughout the year, with changes made accordingly. The internal function managing the evolution of prescribed methodologies operates globally and therefore, organisational consistency is maintained. Currently, disclosing entities only respond to our questionnaires once annually, in accordance with a prescribed timeline or cycle for disclosure, and disclosing entities would not normally be permitted to reopen their disclosure after a point in time in the cycle which is common to all disclosers for the questionnaires. If this were permitted in exceptional circumstances, CDP's policy position is that this would be publicly noted.

Principle 2 (HUMAN RESOURCES DEVELOPMENT)
ESG evaluation and data providers should secure necessary professional human resources to ensure the quality of the evaluation and data provision services they provide and should develop their own professional skills.

JFSA Guidelines:

1. Collecting and analysing information necessary to provide appropriate evaluation and data, and maintaining necessary professional resources and technologies to make relevant decisions.
2. Taking necessary measures to ensure personnel engaged in ESG evaluation and data would have professional knowledge and carry out their duties in good faith.
3. Considering the nature of personnel evaluations that would appropriately evaluate personnel who engages in professional evaluations and working for providing high-quality evaluations.
4. Recognizing, as top management of the institution, that securing and developing human resources is important element for continuously providing high quality evaluations, and taking actions as necessary.

How CDP complies:

To deliver disclosure and evaluation that match the needs of all users of its data and scores, CDP engages with its clients and stakeholders, as well as all bodies such as the International Sustainability Standards Board (ISSB) and the International Organization of Securities Commissions (IOSCO) among others. We employ colleagues with appropriate skills, knowledge, and experience and support ongoing learning. We bring in external expertise where necessary and invest in state-of-the art technology to support disclosure and evaluation.

CDP employs and develops staff to have the up-to-date skills and knowledge it needs and works closely with any outsourced partners to ensure any staff working on CDP's behalf have the knowledge and training they need. All staff are monitored for their performance and continued ability to carry out the tasks expected of them. We set out the expectations of staff working for outsourced providers in contracts and performance discussions. Our recruitment and retention policies and processes are owned by the Executive Leadership Team with updates to the Board.

Principle 3 (ENSURING INDEPENDENCE AND MANAGING CONFLICTS OF INTEREST)

ESG evaluation and data providers should establish effective policies so that they can independently make decisions and appropriately address conflicts of interest that may arise from their organization and ownership, business, investment and funding, and compensation for their officers and employees, etc.

With regard to conflicts of interest, providers should identify their own activities and situations that could undermine the independence, objectivity, and neutrality of their business, and avoid potential conflicts of interest or appropriately manage and reduce the risk of conflict of interest.

JFSA Guidelines:

1. Identifying potential conflicts of interest that may affect the assessment and analysis conducted by the provider or its employees with respect to the services provided, and then establishing and disclosing effective policies to avoid, or appropriately manage and reduce the risk of, the conflict of interest.
2. Taking appropriate measures to ensure that other business relationship with a company subject to ESG evaluation or data does not affect the ESG evaluation or data, such as establishing a firewall between sales and evaluation divisions.
3. In cases evaluations are developed through questionnaire, paying attention to the contents and structure of service and questionnaire, so that there would principally be no such situation where the content of the questionnaire is unreasonably too complicated or difficult to understand and effectively respond without using the provider's paid services.
4. Taking appropriate steps to prevent their employees from engaging in securities or derivatives transactions that could create conflicts of interest with ESG evaluation and data provision services.
5. Developing appropriate work and compensation structures for its own employees, and avoiding, or appropriately managing and reducing the risk of, potential conflicts of interest related to ESG evaluation and data provision services. For example, as necessary, assigning a staff member to conduct evaluation, separate from the staff member responsible for sales of ESG evaluation and data services.
6. Establishing measures to ensure that existing business relationship with companies subject to ESG evaluation and data provision does not affect the evaluation to the companies.
7. For the issuer pay model where compensation is received from the company subject to the evaluation, implementing detailed procedures to avoid conflicts of interests.
8. In cases where the same provider provides both the-subscriber-pay-model businesses and the-issuer-pay-model businesses, taking appropriate measures to prevent conflicts of interest in this regards.

How CDP complies:

CDP has a conflicts of interest policy, oversight of evaluation processes to ensure impartiality, an internal audit function, and a Scoring Steering Committee. Firewalls are to be implemented between those teams dealing with ESG evaluation versus teams dealing with data provision services, following a scheduled evaluation exercise with all relevant functions in Summer and Autumn 2023.

We are developing a much more targeted conflicts of interest management policy and procedures, as well as the compliance measures to be able to more readily evidence compliance with our current zero tolerance approach to impartiality and the potential for conflicts of interest. CDP reviews its scoring methodology on an annual basis and publishes it on our website before any entities are contacted inviting them to complete our questionnaires. CDP's processes for ensuring successful and consistent application of its methodology are assessed annually.

In terms of Guideline 4, all successful candidates for roles must declare links to other organisations or shareholdings over 5%. Staff and trustees then make an annual update to their declaration. We shall examine the introduction of measures around securities and derivatives transactions.

Principle 4 (ENSURING TRANSPARENCY)

ESG evaluation and data providers should recognize that ensuring transparency is an essential and prioritized issue, and publicly clarify their basic approach in providing services, such as the purpose and basic methodology of evaluations. Methodologies and processes for formulating services should be sufficiently disclosed.

JFSA Guidelines:

1. While giving necessary consideration to intellectual property, etc., ensuring the transparency of their services by recognizing that it is an essential and prioritized issue.
2. In order for users of ESG evaluation and data provision services to understand the basic content of the services, including what the evaluation aims to capture and how this is measured, disclosing the basic approach for providing services, including the purpose and basic methodology of evaluation.
3. In order to enable users and companies subject to evaluation to understand the basic structure of the evaluation, disclosing sufficient information on the methodologies and processes for formulating the evaluation, including any major updates on them, if any. When inquiries are received from companies subject to evaluation through a contact point, providing careful explanations to the extent practically possible.
4. Disclosing the sources of information that are used in the development of ESG evaluation and data. In particular, if estimated data is used, disclosing this fact and the basic methodology of estimation. If data sources and/or items are diverse or of great numbers, doing these in a reasonable scope and manner, such as by consolidating or limiting the scope, reflecting their importance and usefulness.
5. Disclosing, in an easy-to-understand manner, the purpose, concept, and basic methodology of the evaluation; doing this in a reasonable scope and manner, such as by consolidating or limiting the scope, taking into consideration a provider’s situation and the importance and relevance of individual items. The items are for example the following:

a. Purpose, approach, and intent of formulation of ESG evaluation and data
b. Specific contents of evaluation methodologies (specific evaluation criteria, important indicators and weights in evaluation, businesses and companies subject to evaluation, and other contents of methodologies that can lead to significant differences in evaluation results)
c. Evaluation process (evaluation procedures and steps, checks and monitoring, etc.)
d. Contact point where the evaluation results can be explained in detail
e. Sources of information on which the evaluation is based, policy and status of estimated data usage, the update timings and estimation methodologies of data that is particularly important to the overall assessment
f. With respect to the overall evaluation, the timing of evaluation and the timing of data creation, use, and update
g. Changes made when the evaluation methodology is updated. Especially if any items are improved through the PDCA cycle, this fact and reasons for it.

CDP reviews its scoring methodology on an annual basis and makes it publicly available on our website before any entities are contacted inviting them to complete our questionnaires. CDP's processes for ensuring successful and consistent application of its methodology is assessed annually. All potential or actual disclosing companies can contact CDP for clarification on questions on methodology. All scores are based on information self-reported to CDP by disclosing entities which is made clear in our published methodology.

Principle 5 (CONFIDENTIALITY)
ESG evaluation and data providers should establish policies and procedures to appropriately protect non-public information obtained in the course of business.

JFSA Guidelines:
1. Establishing, disclosing and implementing the policies and procedures to protect information provided as confidential in the course of ESG evaluation and data services.
2. Establishing, disclosing, and implementing the policies and procedures so that such confidential information will be used in accordance with the purpose of provision and not for the purposes other than ESG evaluation and data services, unless otherwise agreed.

How CDP complies:
CDP has policies, procedures, and systems for the protection of both personal and disclosed environmental data. These have not previously been published and are currently being reviewed in the light of regulatory requirements but will be published in due course. In addition, CDP has an established Data Governance function to manage its custodianship of personal and ESG data. CDP provides disclosure data to third parties under legally binding contracts that prohibit certain use cases (particularly commercial uses other than ESG evaluation) unless otherwise agreed.

Principle 6 (COMMUNICATION WITH COMPANIES)
ESG evaluation and data providers should devise and improve the way they gather information from companies so that the process becomes efficient for both service providers and companies or necessary information can be sufficiently obtained. When important or reasonable issues related to information source are raised by companies subject to evaluation, ESG evaluation and data providers should appropriately respond to the issues.

JFSA Guidelines:

1. When and if collecting information through surveys from a company subject to evaluation, notifying the company of the collection period sufficiently in advance. If available and where appropriate, entering, prior to the request, information that is already known to the providers, such as those publicly disclosed or submitted in the past, then seeking verification by the company in question.
2. Establishing a dedicated contact point where companies can send inquiries and raise issues regarding ESG evaluation and data provision, and informing the companies concerned or posting it in an easy-to-find manner.
3. When disclosing ESG evaluation and data, subject to the institution's evaluation methodologies and customer service policies, to the extent practically possible, expeditiously notifying or communicating to a company of the essential information sources of the evaluation and data, thereby allowing time for the company to check whether there are any significant deficiencies in the sources, such as factual errors.
4. When a company subject to evaluation raises important or reasonable issues about the information source of evaluation and data, subject to its own evaluation methodologies and customer service policies, taking timely and appropriate measures such as allowing the company to at least assess the accuracy of the underlying important data and correcting errors if any.
5. As an ESG evaluation and data provider, disclosing a "procedures of engagement" regarding how it normally interacts with companies to be evaluated with respect to the evaluation and data it provides. The procedures would include elements such as when it requests information from companies, when and what companies could check with, how they could raise issues if any, and how the provider would be able to respond to such issues.
6. Subject to providers' evaluation methods and customer service policies, considering the necessity of managing conflict of interest, and to the extent practically possible, conducting constructive dialogue with companies to be evaluated (for example, by providing feedback on evaluation results)

How CDP complies:

CDP transparently communicates the window during which disclosers can respond to CDP's questionnaires. Disclosers can log in and see or download their previous responses ahead of preparing their responses for the current year. We have a contact system for all disclosers who send enquiries, where questions are answered separate to any sales contacts. All scores are based on information self-reported to CDP by disclosers, which is made clear in our published methodology. The questionnaires, instructions, and how to raise issues is set out on CDP's website. Potential disclosing entities are provided with the location of this information at the point that they are invited to disclose. CDP welcomes discussion with disclosing entities and regularly seeks feedback from organisations that disclose, and those that choose not to. We will remain open to suggestions for enhancements in this area.