

Gavin Power

Deputy Director
United Nations Global Compact;
Head, CEO Water Mandate

Jason Morrison

Program Director
Pacific Institute;
Technical Director, CEO Water Mandate

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Dear Gavin and Jason,

Many thanks for your letter and your continued support of CDP. We acknowledge the concerns expressed in your letter and welcome the opportunity to address them.

Key messages regarding scoring implementation

- ▼ CDP will **test** our water scoring methodology on a **confidential basis** with Global 500 respondents only in 2014 (i.e. a company's score will only be made available to that company) and we will engage with each respondent to obtain feedback on the methodology.
- ▼ CEO Water Mandate endorsers who are not part of the Global 500¹ will also be formally invited to participate in this process.
- ▼ We will work with a wide range of stakeholders, including all Mandate endorsers, throughout 2014 to test and refine the methodology.
- ▼ Feedback will be used to refine the methodology during 2014 which will then be fully implemented across all respondents in the 2015 disclosure cycle.
- ▼ During 2014 we will develop an investor communications plan specifically focused on scoring to ensure investors have a clear understanding of what the scores mean.

Key messages regarding scoring methodology

- ▼ We will not be attempting to score the water risk exposure nor the efficacy and appropriateness of the company's risk mitigation responses.
- ▼ We will be attempting to score the comprehensiveness of a risk assessment; the levels of accountability for water within the company; the way in which water is factored into business planning; and the comprehensiveness of water policies, strategies or plans.

Below we provide further insight into these key points and hope that this additional clarity will help allay concerns about the speed with which our performance scoring methodology is being delivered and the approach we are taking.

We would like to start by addressing the concern that CDP is rushing into water performance scoring in 2014 without a solid scoring methodology at hand.

¹ Global 500 companies are the largest companies by market capitalization as listed on the FTSE Global Equity Index.

It has been our intention to score responses to our water questionnaire ever since the program began in 2010. We have therefore been considering and planning for this for the past 4 years. In October 2012, we committed to develop a water scoring methodology that would drive greater disclosure and incentivize corporate action on water stewardship. This work began in earnest in early 2013 with the refinement of our questionnaire.

We have consulted with a wide range of stakeholders including Mandate endorsers, investors, academics, members of CDP's Water Advisory Council² and NGOs over the past 10 months via email, telephone and in-person meetings. In addition we also held a 2-day intensive questionnaire development workshop in New York City in June to which a number of Mandate endorsers were invited. All feedback has driven the development of the questionnaire as well as early thinking on the disclosure and performance elements of the scoring methodology. The latter is still under development and is not yet ready for consultation but it will be made publicly available via our website before the 2014 disclosure cycle begins.

As indicated above, it has also been our intention to use the 2014 disclosure cycle to pilot or beta test the methodology on a **confidential basis** with Global 500 respondents only (i.e. a company's score will only be made available to that company). We chose these companies because many have been disclosing to us since the program began and we feel that they are ready to work with us to develop a robust water scoring methodology that moves the market beyond where it would ordinarily be.

In light of the concerns expressed by Mandate endorsers who do not fall within our Global 500 sample, we would also like to invite them to engage in this process so that they have an opportunity to guide its development.

Scoring will take place in July and August 2014. Scores will then be communicated to each respondent on a **private basis**, and with our Global Partner, Deloitte, we will engage with each respondent to seek feedback on the methodology. This feedback will be used to refine the methodology which will then be applied to all respondents in the 2015 disclosure cycle.

As highlighted throughout the year, a decision has yet to be made on how, if at all, water scores will be communicated publicly in 2015.

Moving onto the concern of Mandate endorsers that water performance scoring may be premature and that if this aspect of water disclosure is not done in a sound manner it could significantly set the field back.

We hope the explanation above reassures Mandate endorsers that our approach to developing and refining our water scoring methodology is sound. Further, it is worth reiterating that we acknowledge that there are elements of performance relating to water stewardship that we will not be able to score, and where this is the case, we will instead seek to support and accelerate the development of thinking in this space.

² Water Advisory Council Members: NBIM, RobecoSAM, Deloitte, WWF, Pacific Institute and Sasol

The aim of the water score

CDP's water score will be a key component in driving better disclosure and comprehensive water stewardship amongst responding companies. Scores will enable investors and other stakeholders to better understand how prepared a company is in the face of water challenges.

For clarity:

We will not be scoring the following

- ▼ Risk exposure – based on the number or profile of risks a company discloses
- ▼ The efficacy and appropriateness of the company's risk mitigation responses

We will aim to score the following

- ▼ The comprehensiveness of a risk assessment - e.g. do risk assessments consider local basin contexts?
- ▼ The levels of accountability for water within the company – e.g. is the Board of Directors engaged on water on a regular basis?
- ▼ How water is factored into business planning – e.g. how is water integrated into a company's business strategy?
- ▼ The comprehensiveness of water policies, strategies or plans – e.g. does the policy, set performance standards on water withdrawals, consumption and waste water discharge? Is it publicly available?

As stated in Stockholm, CDP takes its responsibility as a catalyst for change seriously. Our scoring methodology for climate change is held in high esteem. The CDP Leadership Index was rated the most credible sustainability rating/ranking system by 850 sustainability professionals in over 70 countries in the [SustainAbility Rate the Raters Program](#). Our water questionnaire has already been highlighted in a [GreenBiz survey](#) as the water framework that businesses value the most. It is our ambition and intention that our water scores will command the same status. We therefore very much welcome the offer from the Mandate and its endorsers to continue to collaborate closely with us in 2014 to help ensure that our water scoring methodology is robust and of the highest possible quality.

Our proposals

- ▼ Invite all Mandate endorsing companies to take part in the 2014 disclosure cycle and testing of the water scoring methodology.
- ▼ Strengthen our existing Memorandum of Understanding with the Mandate. Establishing a more formal MOU would provide opportunities for the Mandate to guide the development of CDP's water program, including scoring, by providing a seat on our Water Advisory Council.
- ▼ Explore how the Mandate's Water Disclosure Working Group can play a role in the development of the methodology during 2014 and beyond.

- ▼ Create two face-to-face opportunities during 2014 for those Mandate endorsers interested in providing direct support to review the draft methodology and identify opportunities to strengthen it.
- ▼ In the future, explore support from the Mandate and its endorsers on working together to establish a methodology that will assist companies and investors better understand risk on a comparable basis.

We would be grateful if you would consider what resources the Mandate might be able to provide to support this important work and we look forward to your comments and the opportunity to discuss this further in the coming weeks.

With warm regards,

Cate Lamb



Head of Water, CDP