

RICERT Certification process for ESG4Real

Version 1.0 December 2018



Table of Contents

Table of Contents	2
1 Introduction	4
1.1 Overview of this document.....	4
1.2 Reference to other relevant documents	4
1.3 Contact	4
2 Certification process	5
2.1 Introduction to certification according to ESG4Real.....	5
2.2 Who can be certified?	5
2.3 Certification process.....	5
3 Assurance	10
3.1 Liability and confidentiality.....	10
3.2 Rights of the audited or certified organizations.....	10
3.3 Obligations of the audited or certified organizations	10
3.4 Grievance mechanism	10
4 Appendix	11
4.1 Terminology.....	11

Change history

Version	Author/Reviser	Date approved	Changes
v. 1.0	Niclas Tunebro	181203	First version created

1 Introduction

1.1 Overview of this document

This document defines the RICERT certification process for the ESG4Real scheme and the steps an asset manager is required to take in order to become certified. It describes who is eligible to apply for certification and the conditions for certification against the requirements of ESG4Real. In addition, it includes a description of the rights and obligations of asset managers and ESG4Real.

It is recommended that an asset manager aiming to apply for certification reads this document prior to submitting the application in order to verify eligibility and get an overview of the steps included in the certification process. The document includes the following parts:

- **Introduction:** contains general information about this document, referral to other relevant documents and contact information to RICERT
- **Certification process:** gives a description of eligibility, detailed steps and conditions associated with certification.
- **Assurance:** provides information about rights and obligations between RICERT and asset managers and the grievance mechanism for filing any complaints.
- **Appendix:** defines terminology used in this document.

1.2 Reference to other relevant documents

- *Description of ESG4Real Standard mandatory requirements v. 1.0* – Includes the mandatory requirements for asset owners and asset managers for licensing and certification respectively.
- *Description of ESG4Real Standard recommended requirements v. 1.0* – Includes the recommended requirements for asset owners and asset managers which may be used to build further upon the minimum level. (Not subject for certification.)
- *ESG4Real Control points v. 1.0* – Includes detailed information about items to be controlled in quality check/audit for licensing/certification.
- *ESG4Real ESG criteria v. 1.0* – Full description of mandatory and recommended ESG criteria.
- *RICERT Grievance mechanism v. 1.0* – Steps for submitting a grievance related to RICERT.

1.3 Contact

Questions regarding RICERT or ESG4Real and the content of this document may be put forward to RIA Intl. or RICERT.

2 Certification process

2.1 Introduction to certification according to ESG4Real

Certification to ESG4Real applies to *asset managers* eligible for certification. Asset managers aiming to be certified with ESG4Real need to comply with the *mandatory* requirements in the *ESG model* and demonstrate use of the *Tools for compliance and implementation*. For detailed requirements, please see “ESG4Real Standard – mandatory requirements” and “ESG4Real Control Points”. All requirements are to be fulfilled and implemented at time of auditing.

Further demands, in addition to the mandatory ones, may be added by asset owners and asset managers individually, but is not subject for certification. ESG4Real gives suggestions for recommended demands that may be added on top of the base model.

Certification is independently performed by assigned certification bodies and designed and conducted to follow the general requirements of ISO/IEC 17065 “Conformity assessment – Requirements for bodies certifying products, processes and services”.

2.2 Who can be certified?

Certification against the ESG4Real requirements applies to all types of institutional asset managers, e.g. banks, insurers and single/multi-client. The current scope for asset classes includes listed equities and corporate bonds. Included investment strategies are active and enhanced indexing (pure index mandates are not included). Organisation types out of scope are asset owners (eligible for licensing), intermediaries/service providers, e.g. investment consultants, and retail investors.

2.3 Certification process

2.3.1 Overview

The certification process consists of four phases with a total duration of 4-9 weeks. Total duration depends mainly on activities required in the preparation phase that the applicant conducts by itself, including e.g. review of ESG4Real standard, collection of required documentation from the applicant and closing of identified gaps.

After the preparation phase, the applicant shall send an application to RICERT, which will review the application and, together with the applicant, detail the audit process. The process is continued with the actual audit which will result in an audit report, which will be the base for the certification decision. A RICERT auditor not previously involved in the evaluation activities in the audit will make the certification decision to ensure quality.

A granted certification is valid for two years, provided no approved complaint or incident regarding any minor or major non-conformity has been put forward by any stakeholder during the time period. Bi-yearly audits are performed to confirm continued compliance. For information on the different types of audits and the audit cycle, please refer to chapter 2.3.3

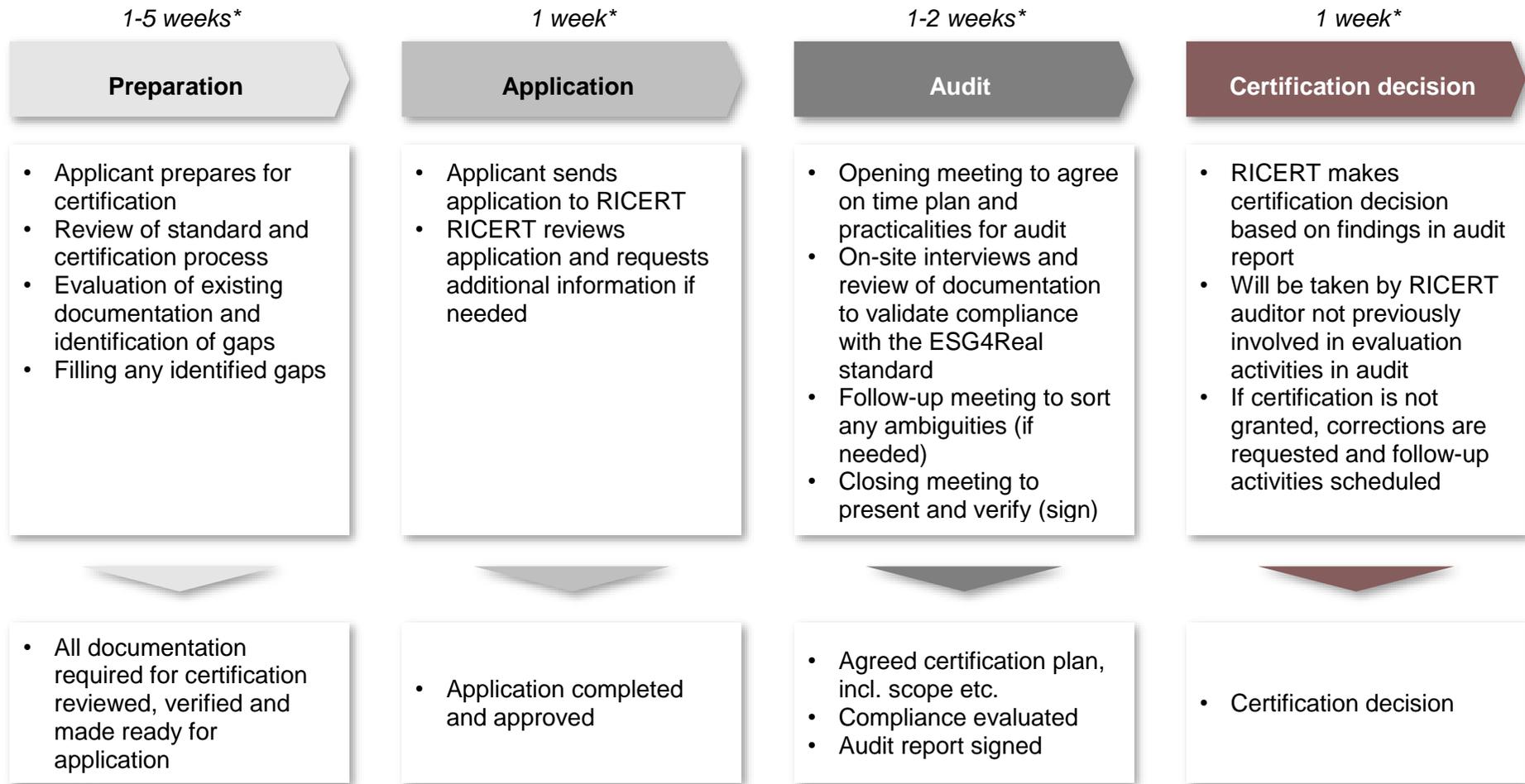


Figure 1. Overview of the certification process

Please note: given time consumption in each phase is an estimate that is dependent on e.g. existing documentation of policies, processes and reporting standards and organisational complexity, i.e. size of portfolio, number of locations etc.

2.3.2 Description of the certification process

Below steps outline the activities an asset manager eligible for certification is expected to pursue in the certification process:

1. Preparation

- Initial contact with RICERT or owner of the ESG4Real standard to get a general overview of ESG4Real requirements, decision to proceed with certification.
- Review and compile required documentation and review ESG4Real requirements.
- Internal assessment if the requirements are likely to be met and actions needed in order to comply. The “Description of ESG4Real standard – mandatory requirements” and “ESG4Real Control points” may be used to support the process of evaluating compliance. Depending on what type of audit that is carried out, requirements in scope for assessment differ, please see “ESG4Real Control points” for which requirements that are checked in each audit.
- Compilation of all relevant information for application for audit to RICERT.

2. Application

- Submission of application: May be submitted throughout the year.
- Review of application: The application is reviewed by RICERT to ensure that the information is sufficient and that the applicant is eligible for certification.
- Approved applicants are instructed to prepare for an Opening meeting, which includes securing that evidence of compliance with the requirements, such as documentation of processes and screening results, are readily available and ensure associated staff is available for interviews.

3. Audit

- Participate in Opening meeting to set time plan for certification, audit scope and schedule interviews.
- Participate in interviews and answer questions as requested.
- The results from interviews and collected documentation is compiled and assessed against the specific control points in the audit plan.
- An audit report is created and discussed and signed in the closing meeting. Purpose is to provide opportunities for clarification of any ambiguous areas and questions from the applicant.
- If needed, a follow-up meeting with applicant is held to sort any ambiguities, ensure understanding of result and discuss potential non-conformities. Additional requests for interviews and/or documentation may occur to fill any information gaps, only conducted if needed to find further facts/resolve uncertainties.

4. Certification decision

- Based on the final audit report, a certification decision is made by a representative from RICERT. Possible decisions are:
 - o Certificate granted: no major or minor non-conformities have been identified and the applicant is granted a certificate valid for 2 years, provided that no non-conformities are detected during the certificate period.

- Request for changes: *minor* non-conformities have been identified, but the applicant is certified when the *minor* non-conformities have been closed in a verification audit (first time applicants). If the applicant is a current certificate holder it will be able to keep the certificate, provided it can present an action plan for closing the non-conformities. The plan is to be presented to the auditor within 30 days of the notification of the non-conformities. Closing of all non-conformities will be checked in a verification audit. The plan shall for each non-conformity found (as indicated in the final audit report) include the following:
 - Root cause of the non-conformity to minimize the risk of it occurring again
 - Corrective actions to be taken
 - Planned date for closing of all non-conformities, latest 2 months after final audit report
- Certificate not granted: major non-conformities have been found and certification is not possible without major changes. The applicant will be required to submit a new application and undergo the certification process from start. If the applicant is already a certificate holder, all communication about the ESG4Real certificate must be removed immediately following the decertification. Reapplication for certification is possible after 1 year and will incur a new complete audit.
- An auditor will review the plan, assessing the relevancy of the actions to be taken and the analysis of root causes.
- An auditor will schedule a verification audit in which verification of evidence of closing of non-conformities according to the presented plan is carried out.

2.3.3 Audit cycle

Audits performed by RICERT are based on predefined, systematic and independent processes for obtaining and assessing material and evidence from the asset manager to determine if the requirements of ESG4Real are met. In total, six types of audits are available, out of which two are carried out continuously and four when needed only. Audit duration varies depending on e.g. complexity, size and structure of the applicant’s organisation and/or funds.

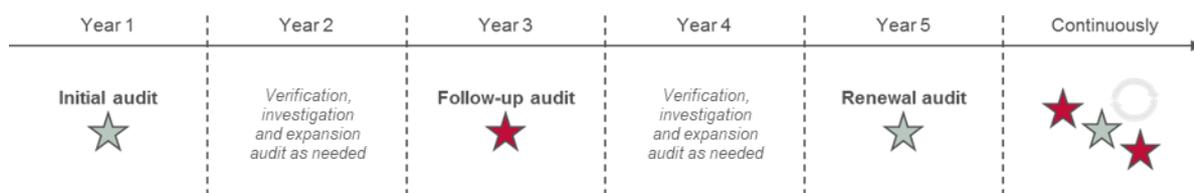


Figure 2 presents the audit cycle consisting of the initial audit that is the starting point of the cycle and is continuously followed by a follow-up audit and renewal audit performed alternatingly every second year.

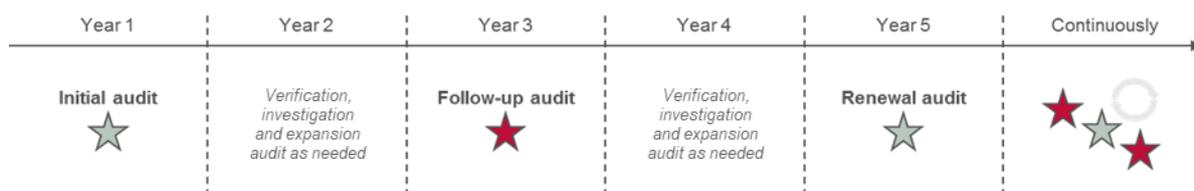


Figure 2. Audit cycle

- **Initial audit** is performed when an asset manager first applies for certification and serves the purpose of assessing compliance with the certification requirements. The audit includes a complete assessment of compliance with all requirements of ESG4Real, i.e. the ESG model and use of tools for implementation and compliance as well as an audit of the portfolio.
- **Follow-up audit** is performed continuously 2 years after an initial or renewal audit to reassure continued conformance and identify any discrepancies that may have occurred since the last audit). The audit consists of a lighter assessment that mainly reviews the portfolio and reporting to asset owners. Additional topics may be added ad hoc, e.g. if additional capital, sites or reporting area are to be assessed or whether there are any specific areas in need of further investigation, e.g. changes in processes
- **Renewal audit** is conducted four years after the initial audit and is performed continuously every fourth year to verify compliance. The audit includes the same activities and assessment as in the initial audit, but due to established contact and already obtained documentation in previous audits, it is likely to be less time consuming.
- **Verification audit** controls if closing of any *minor* non-conformities found in initial/renewal audit have been made and verified. Conducted ad hoc based on findings in previous audits. (In case of major non-conformities, the applicant has to apply for a new initial audit.) Audit content is determined according to the minor non-conformities found.
- **Investigation audit** is carried out in response to a complaint or incident reported informally or via the grievance mechanism. Conducted ad hoc. Audit content is determined according to the complaint/incident reported.
- **Expansion audit** is performed when an already certified asset manager applies to expand the certification, e.g. for another fund or part of the portfolio that has similar characteristics. In this case, an initial assessment is done, by RICERT's CEO or appointed personnel, to review five factors of the new subject to application:
 - Investment process
 - Steering documents
 - Asset classes
 - Investment team
 - Geographical location

The five factors are compared to the asset manager's already certified fund or portfolio (that has passed the initial and/or following audits) to identify similarities or deviations in between. Based on the outcome of the comparison, the CEO decides whether it is adequate to initiate an Expansion audit (1) or an Initial audit (2).

1. If the five factors are identical or have minor¹ deviations between the already certified investments and the subject to application, an Expansion audit is performed. The Expansion audit reviews documentation related to the investment portfolio and reporting to asset owners. Interviews with relevant stakeholders can be done during the Expansion audit if applicable. If the subject to application is certified in the Expansion audit, the full certified portfolio will be subject for next audit in the audit cycle (i.e. next Follow-up audit or Renewal audit). During the Expansion audit, if the auditor realizes that a comprehensive audit is required, an Initial audit process can be initiated.
2. If the five factors have major² deviations between the already certified investments and the subject to application, an Initial audit is performed. The Initial audit includes a complete assessment of compliance with all requirements of ESG4Real, i.e. the ESG

model and use of tools for implementation and compliance as well as an audit of the portfolio.

^{1,2} It is up to the CEO to decide whether a deviation is minor or major and what audit type is appropriate. In the general scenario, i.e. a fund with identical investment process, steering documents and underlying asset classes is suitable for an expansion audit, but the evaluation has to be done for each particular case.

3 Assurance

3.1 Liability and confidentiality

Asset managers are required to submit all information requested by RICERTT and in the ESG4Real standard. Information submitted will not be disclosed, unless it has been by source specifically approved to share. Applicants shall acknowledge that RICERT's interpretation of the information prevails, however if the asset manager does not agree, the RICERT Grievance mechanism (see chapter 3.4) may be used to put forward disagreements, complaints, etc.

3.2 Rights of the audited or certified organizations

The audited or certified organizations may plead the following rights:

- Obtain an answer to any questions relating to interpretation of the ESG4Real standard.
- Get updated versions of ESG4Real standard and other relevant documents.
- Receive an audit report and certification decision within the timeframe defined by RICERT.
- Appeal a certification decision made by RICERT, informally or formally. Formal appeals are to be escalated via the grievance mechanism (see chapter 3.4).
- Request a cancellation of the certificate at any moment. No reimbursements of already paid audit and certification fees will be made.

3.3 Obligations of the audited or certified organizations

The certified organization shall fulfil the following obligations:

- RICERT will contact the applicant to schedule a renewal/follow-up audit at least 45 days before the expiry date of the certified in order to complete the respective audit process on time. To keep the certificate, a new application shall be submitted, using the assigned RICERT template, with truthful, accurate and updated information.
- Inform RICERT of any significant changes in its scope or operations.
- Pay the required fees associated with any type of audit and certification.
- Ensure that the audit team has access to all relevant documentation and operations requested and has the right to interview relevant employees for audit and spot-checks
- Be clear and truthful in communications with stakeholders about the share of total relevant capital that is certified. (Applies to investment strategies and asset classes in scope for ESG4Real, see chapter 2.2).
- Take full responsibility for the use of the ESG4Real trademark, including third parties acting on their behalf, e.g. investors, parent companies, sub-contractors and service providers.

3.4 Grievance mechanism

An asset manager having a complaint or any other issue regarding a decision or operation made by RICERT or any certified organisation (such as mis-use of certificate etc.) may use the RICERT Grievance mechanism. The mechanism aims to solve any grievance in a transparent and unbiased way and prevent future possible disputes. It also facilitates continuous improvement of RICERT. Please see further “RICERT Grievance mechanism”

4 Appendix

4.1 Terminology

Term	Definition
Audit	Predefined, systematic and independent process for obtaining and assessing material and evidence from the applicant to determine if the requirements of ESG4Real are met.
Certificate	Document issued by a certification body to an applicant complying with the requirements of the ESG model and use of Tools for implementation and compliance.
Comply/explain approach	<ul style="list-style-type: none">• RICERT and ESG4Real do not use a “one size fits all” approach for all requirements. Deviations from requirements are acceptable if the asset manager considers there are more suitable ways to comply with the requirements or have sound explanations as to why the requirements are not complied with. This gives room for flexibility, reflecting that it is impractical to define in detail the behaviour necessary from all asset managers to achieve compliance.• To avoid “box ticking”, issuers must consider their own individual circumstances, the size and complexity of their operations and the nature of the risks and challenges they face• Where an asset manager considers a requirement not applicable or relevant to comply with they may instead explain and give reasons to its asset owners and shareholders why the requirement is not complied with• Asset owners should not consider departures from requirements as breaches. They should carefully consider and evaluate explanations given by asset managers in the “comply or explain” process• An informed, constructive dialogue between asset managers and asset owners is important to make sure that there is a mutual understanding of reasons to compliance and explanations¹
Major non-conformity	<ul style="list-style-type: none">• A non-conformity that indicates absence or deficiency of a required process or activity defined as a requirement in the ESG4Real standard• Minor-non conformity repeated in consecutive audit• Multiple minor non-conformities can result in a major non-conformity• Has effect on the output of a process or activity (decided by auditor)
Minor non-conformity	<ul style="list-style-type: none">• A non-compliance that indicates some deviation from a required process, e.g. lack of documentation of a process or policy• It shows that practice is followed but only partially

¹ Hong Kong Stock Exchanges (2010) *Appendix 14 Corporate Governance Code and Corporate Governance Report*, available at:

https://www.hkex.com.hk/eng/rulesreg/listrules/mbrules/documents/appendix_14.pdf