

# Label ISR supported by public authorities



## Framework for oversight and control

July 2023

This translated version to English is made for information purposes only. Only the French version is legally valid.

The present document serves as a reference setting out the principles that govern the certification of organisations applying for the label ‘investissement socialement responsable’ (ISR).

It details the conditions for eligibility and all procedures for certification, monitoring and rescindment of the label ‘investissement socialement responsable’.

## **Section 1**

### **‘Certification bodies**

#### **Article 1 ‘Definitions’**

For the purposes of this document, the terms below are to be understood as follows:

1° Certification body: an entity recognised by the Ministry of Finance as responsible for auditing candidate funds and awarding the label.

2° Auditor: an agent with the necessary skills and impartiality who contributes to conducting an audit, selected for their knowledge of audit practices, the requirements of the label ‘investissement socialement responsable’ (hereinafter label ISR) and financial asset management.

3° Certificate: a document issued by a certification body to a candidate fund attesting that its procedures or services comply with the standards defined in the label ISR reference framework.

#### **Article 2 ‘Procedure for recognising certification bodies’**

Certification bodies are recognised by the Ministry of Finance, on the basis of recommendations by the Label Committee, and must have obtained a ISO/CEI 17065 or ISO/CEI 17029 accreditation.

A full list of these entities is available on the Ministry of Finance website.

Each certification body appoints a designated contact to represent it in exchanges with the Ministry of Finance.

#### **Article 3 ‘Choice of certification body by candidate funds’**

Funds applying for certification are free to choose their certification body.

It is the responsibility of applicants to check that the certification body is officially recognised as such for awarding the label ISR. The list of certifying bodies is available on the label ISR website (<https://www.llelabelisr.fr/>).

Any candidate wishing to change certification body at the expiration of its certificate may submit a new application for certification and satisfy an initial audit under the conditions set out in Article 8 of the present document.

During the certificate’s period of validity, a candidate may change certification body under the conditions set out in Article 14 of the present document.

#### **Article 4 ‘Denial or rescindment of and withdrawal from the label’**

Denial of certification is a determination made by the certification body during the initial audit process.

Rescindment of certification is a decision made by the certification body during the certification cycle. A candidate fund that has had its certification denied or rescinded by a certification body may not submit a new application for a period of six (6) months from the date of denial or rescindment.

Once this deadline has passed, the candidate fund must inform the certification body of all reported instances of non-compliance and demonstrate that they have been satisfactorily resolved. Following denial or rescindment of the label, the candidate fund may choose to retain or change its certification body.

Withdrawal from the label is a unilateral decision taken by the labelled fund during the labelling cycle. The candidate fund must inform the certification body of its choice, which, in turn, informs the Ministry of Finance.

If a labelled fund withdraws from the label, the asset management company must wait six (6) months to submit a new application on behalf of the fund in question to the certification body of its choice.

If the six-month hiatus is not met, the candidate fund risks having its certificate cancelled and its eligibility suspended.

## **Article 5 ‘Control of certification bodies’**

A regular control procedure of certification bodies is put in place by the Label Committee. Such checks are carried out on an annual basis as follows:

- The Ministry of Finance employs randomised sampling to identify a set of certificates for control, among those issued by the certification body.
- The certification body forwards all audit reports relating to the certificates concerned, as well as those documents used in the audits and any further elements required for the control.
- Each certificate is subject to a documentary check by the Label Committee, followed by interviews with the certification body's reference contact and, where appropriate, the audit teams.
- Where necessary, any sensitive points identified are addressed by the Label Committee.

Deviations from the requirements laid out in this document may result in temporary or permanent suspension of the certification body by the Ministry of Finance.

In the event of suspension by the Ministry of Finance, the certification body must, within a maximum period of fifteen (15) days following notification of the suspension, inform the companies for which its suspension may affect the issuance of their next certification. Certifications issued up to the date of suspension remain valid. The certification body may not issue new certificates from the date of suspension until the suspension is lifted.

During the suspension period, which is capped at 6 months, the certification body may only carry out follow-up audits designed to enable assessment by the Ministry of Finance. If the suspension is not lifted within six months, the certification body will be permanently barred.

In the event of a definitive suspension, the certification body will organise the transfer of certifications it has issued to other certification bodies, as described in Article 15 of the present document. In particular, it shall provide the funds concerned with the list of officially recognised certification bodies and the procedure to be followed for carrying out this transfer.

## **Section 2 ‘Certification audit’**

### **Article 6 ‘Definitions’**

For the purposes of this document, the following definitions apply:

1° Initial certification audit: audit enabling a candidate fund to obtain initial certification from a certification body.

2° Renewal audit: audit enabling a candidate fund to secure a renewal of the certification issued

following the initial certification audit.

3° Follow-up audit: annual audit carried out prior to the renewal audit to determine whether the management rules of the candidate fund, including all appropriate procedures and documents, continue to comply with the specified requirements, with particular attention paid to any changes the certified candidate fund has indicated to the certification body.

The follow-up audit also serves to check that minor compliance violations requiring verification has been corrected. Depending on the changes under consideration or developments observed, the certification body may decide to carry out an additional audit.

4° Additional audit: audit carried out in the event of a substantial change to the investment policy or regulations of the candidate fund.

5° Complementary procedure: a procedure carried out when compliance violations requiring corrective measures is detected during the initial certification audit, annual follow-up audits or additional audits. The supplementary procedure focuses on the compliance violations concerned.

## **Article 7 ‘General certification process’**

Certification of compliance with the label ISR is carried out by an officially recognised certification body in accordance with this document, at the written request of the candidate fund.

The certification cycle lasts a maximum of three (3) years from the certification’s date of issue and includes two interim follow-up audits. The follow-up audits must be carried out within twelve months (plus or minus three months) and twenty-four months (plus or minus three months) of the certification’s issuance, respectively.

A renewal audit may be carried out at the earliest three (3) months before the certification expires (i.e., between 33 and 36 months after the certificate’s date of issue). Following the renewal audit, the decision must be delivered before the certification expires.

In the event of renewal, the new certification takes effect upon expiry of the previous certification decision.

If certification is denied or rescinded, the candidate fund may, if it wishes, reinitiate the certification cycle under the conditions defined in Article 4 of this document.

In cases where non-compliance is detected during the initial certification, annual follow-up or additional audit, such compliance violations must be corrected, and additional procedures may be scheduled by the certification body.

Additional audits may also be scheduled in the event of a substantial change in the investment policy or regulations of one or more certified investment funds of the same organisation.

During each audit, the certification body must record and justify any findings and must specify the documents examined.

## **Article 8 ‘Initial audit’**

Prior to the initial audit, the candidate fund contacts the selected certification body, which analyses the admissibility of its application.

The candidate fund sends the certification body a written request for certification, together with the information required to draw up a quotation and a certification audit contract.

This request is accompanied by a completed copy of the latest available version of the information sheet established by the Ministry of Finance and supplied by the certification body. In particular, it must contain all of the following information:

- the corporate name of the candidate fund and contact details,
- a list of undertakings for collective investment (UCIs) to be certified,
- information demonstrating that the company meets the SRI label's eligibility criteria, with all supporting documentation, and
- certifications already obtained, if any.
- a sworn statement affirming that the candidate fund is fully aware of all standards and requirements relating to the label ISR.
- a sworn statement affirming that the candidate fund has not had its certification denied or rescinded nor withdrawn from the label within the last six months.

The certification body ensures that the information sheet is complete and examines—on the basis of documentary evidence—the eligibility for the label of each candidate according to the eligibility criteria I, II and III of the requirements stipulated in Article 4 of the government decree no. 2016-10 of 8 January 2016.

The certification body then informs the candidate fund in writing whether its application is admissible for certification.

Once the document of admission for certification has been received, and before the certification process begins, a contract is established between the candidate fund and the certification body, detailing the scope and duration of the body's commitment and the requirements concerning the certification procedures.

The contractual agreement describes the entity under assessment and requesting certification, any specific funds covered by the application, the certification's duration and the schedule of follow-up audits.

By signing the contract, the asset management company undertakes to implement within its organisation all measures necessary to meet the requirements of the present oversight and control framework as well as those of the label ISR guidelines.

Once the parties have entered into contract, the initial certification audit takes place in three stages as follows:

- a preliminary review and preparation for the audit,
- the audit process per se,
- deliberation, decision and issuance of the audit report.

#### I. Preliminary review and preparation for the audit

Once the contract enters into force, the candidate fund submits an application file which contains, in addition to the information contained in the submission described in Article 8 §2:

- all the documents required by the label's governing rules, in particular the fund's prospectus, KID, marketing materials, management report and portfolio statement.
- for each criterion stipulated, any evidence required by such rules or which the candidate fund deems relevant to establish its compliance with the criteria.

All information required to prepare and carry out the audit must be sent to the certification body at least 15 working days before the first day of the audit. If this deadline is not met, the certification body may postpone the audit. When the elements supplied are provisional documents, this information must be clearly indicated to the certification body.

Prior to the audit, the certification body draws up an audit plan. The audit plan establishes the scope of the audit and includes an analysis of each criterion in the standard.

If the label ISR audit is carried out in combination with another standard, the audit plan must clearly indicate which standard and which parts of the standard will be audited for, and when.

The audit consists of the following phases:

- an opening meeting: this meeting should be an opportunity for the auditors to introduce themselves to the candidate fund being audited and describes the audit procedure (interview times, methods, etc.).
- an assessment of compliance with the label ISR criteria based on a documentary check and interviews with the candidate fund's teams.
- the conclusions of the audit, presented by the auditors at the closing meeting.

## II. The audit process per se

The certification body decides whether to certify the candidate fund on the basis of conclusions drawn from an initial audit consisting of documents and interviews with the candidate fund's teams (on site or remotely), the procedures for which are set out in this document.

- The candidate fund and the certification body must base themselves on the most recent version of the standards, as well as on the interpretation guides produced by the Label Committee and made available by the Ministry of Finance.
- In the course of the audit, all the requirements of the current label ISR guidelines must be assessed by the auditor on the basis of documentary evidence. This assessment is to be supplemented by dedicated interviews with the candidate fund's teams where necessary. The *Audit Procedures Guide*, made available and updated by the Ministry of Finance, sets out the procedures for assessing the various requirements involved in the standard.

The candidate fund must assist the auditor throughout the audit. As part of the audit, interviews are held with the management and analysis teams, and/or any other person performing a relevant function at the asset management company. Wherever possible, the appropriate company executives are present at the opening and closing meetings, so that any compliance violations can be addressed at their level.

When the assessment of compliance with one or more criteria of the label ISR reference framework must be based on provisional documents, the latter are flagged as a major compliance violation which must be lifted within three months, as described in Article 13 of this document.

The auditors carry out the initial certification audit, assessing all the label ISR requirements applicable to the fund audited. During the closing meeting, the auditor, or lead auditor in the case of an audit team, presents the audit's conclusions and comments on any compliance violations identified in relation to the label's standards.

Following the closing meeting, depending on the proposals for action plans, comments and responses presented to the auditors by the applicant to any non-conformity findings identified in relation to the reference system, the certification body rules whether or not to certify the applicant's

fund(s).

The certification body is responsible for taking the certification decision and preparing the formal audit report. The certificate is issued solely on the basis of the results of the initial certification audit.

For audit teams, the duration of an initial certification audit depends on the size and number of funds to be examined.

Within ten (10) working days of the closing meeting, the certification body sends the candidate fund an audit report identifying all compliance violations identified during the audit and an outline of the action plan for correcting them.

Where appropriate, the candidate fund will propose in writing, within ten (10) working days of receipt of the outline action plan, a full action plan for correcting all compliance violations, preventive actions to prevent their recurrence and a deadline for implementing these actions.

If the certification body does not validate the action plan proposed by the candidate fund, the latter has a further ten working days in which to propose a new action plan.

At the end of a maximum period of thirty (30) working days from the closing meeting, if the action plan proposed by the candidate fund has not been validated by the certification body, then the compliance violations concerned are requalified, with the consequences described in Article 13 of this document.

### III. Deliberation, decision and issuance of the audit report

After each audit, a full, written report is produced by the certification body. The audit report must be written by the auditor and countersigned, if necessary, by the person in charge of the audit team. It should be drafted rigorously and transparently, based on the latest available version of the template established by the Ministry of Finance. In particular, the report must contain the following sections:

- General information on the asset management company and the candidate fund.
- Overall result of the audit, with a detailed description of the characteristics of the investment fund by criterion,
- A summary in the form of a table,
- A summary of all compliance violations detected for each criterion.

The certification decision is taken independently by the certification body, on the basis of the audit report, an analysis of the compliance violations identified, the explanations provided by the candidate fund and the action plan adopted.

In the event of a favourable decision by the certification body, the latter issues a report that has the legal status of a certificate and forwards it to both the candidate fund and to the Ministry of Finance.

### **Article 9 ‘Renewal audit’**

Renewal of the label ISR requires that a renewal audit be carried out three years after the initial audit. A new certificate is issued following this audit.

The certification body undertakes to contact the labelled fund at least three (3) months before expiry of the certificate in order to schedule the renewal audit. The asset management company is responsible for maintaining the certification of its fund(s) and informs the certification body which

funds are candidates for renewal of the label.

The renewal audit must be scheduled at least three (3) months before the expiry date of the certificate. The decision to renew must be taken by the certification body before expiry of the existing certificate.

If the asset management company elects not to renew the label for one or more funds, the certification body is charged with so informing the Ministry of Finance and the Label Committee.

### **Section 3 ‘Monitoring by certification bodies’**

#### **Article 10 ‘Changes to investment policy’**

In the event of a substantial change to the fund's investment policy or the fund's regulatory documentation, the labelled entity is required to inform its certification body within one month, so that the latter can assess the impact of changes on the certification in force and decide, if necessary, to carry out an additional audit.

#### **Article 11 ‘Annual follow-up audit’**

Annual follow-up audits are carried out by the certification body as part of the monitoring procedures for labelled funds. Additional procedures may be scheduled by the certification body in the event of non-compliance.

The purpose of the annual follow-up audit is to determine whether the investment fund's management rules, including all relevant procedures and documents, comply with the requirements of the label ISR.

These audits consist of verifying that the standards in force are still being applied, and that the documentation has not been significantly modified.

Particular attention is paid to compliance violations identified during the prior follow-up audit or initial certification audit, and to the implementation and effectiveness of corrective actions and preventive measures from the action plan drawn up on that occasion.

A report of the annual follow-up audit is to be presented as an appendix attached to the report of the most recent initial or renewal audit.

In the specific case where a newly updated version of the label ISR guidelines enters into force during the labelling cycle, the first annual follow-up audit following entry into force of the new guidelines takes into account the application procedures established by the Ministry of Finance and is thus adapted and sized so as to pay specific attention to any new requirements identified by the Ministry of Finance in the guidelines.

#### **Article 12 ‘Follow-up audit process’**

Follow-up audits are carried out by the certification body appointed by the asset management company.

The annual follow-up audit is carried out on the basis of documents, supplemented by dedicated



interviews with the candidate fund's teams where necessary.

In the event of compliance violations identified during the annual follow-up audit, the certification body must send the asset management company an audit report and the action plan template identifying all the compliance violations identified during the follow-up audit within 10 working days of the last day of the follow-up audit. In response, the candidate fund proposes an action plan to correct these compliance violations, following the same procedures as those described in article 8 of this document.

### **Section 3**

#### **Article 13 ‘Addressing compliance violations’**

A compliance violation is a deviation from the standards of one or more criteria set out in the label’s governing rules.

Compliance violations are classified in ascending order of seriousness: minor, major or serious. It is up to the certification body to assign a classification to each compliance violation identified according to the seriousness or number of deviations from compliance with the standard.

Certificates may still be issued in the event of an identified compliance violation, provided that the following deadlines for implementing corrective action are met, per the seriousness of the deviation:

- For a minor compliance violation, the candidate fund must provide the certification body with proof that the approved action plan has been implemented within a maximum period of six (6) months. A minor compliance violation that cannot be remedied by the next audit will be reclassified as a major compliance violation.
- For a major compliance violation, verified implementation of corrective action and the elimination of the compliance violation must be effective within three (3) months following approval of the corresponding action plan by the certification body. Verification of compliance gives rise to an additional procedure, either document-based or on-site as necessary, focusing on the deviation. A major compliance violation that cannot be remedied within three (3) months must be reclassified as a serious compliance violation.
- In the case of serious non-compliance detected during an annual follow-up audit, verification of the implementation of corrective action and elimination of the non-compliance must be effective within three (3) months. An instance of serious non-compliance detected during an annual follow-up audit that cannot be rectified within three months will result in the withdrawal of the label. If a serious compliance violation is detected during an initial or renewal audit, certification is denied, and a new certification audit is required.

### **Section 4**

#### **Article 14 ‘Transfers of certification’**

The transfer of a certification is defined as the transfer of responsibility for an existing and valid certificate from one certification body to another.

The transfer process follows the following steps:

- the transfer procedure is initiated at the request of the certified candidate fund, addressed

- to the recipient certification body
- the recipient certification body checks that the certified activities fall within the scope of its recognition as a certification body, and that the candidate fund seeking to transfer its certification possesses a certification in accordance with the rules currently in effect.
  - at the request of the receiving certification body, the former certification body is to send, within 10 working days, a copy of the certificate it issued, all audit reports published since the initial audit (including annual follow-up audits, supplementary audits and additional procedures), as well as a file detailing any compliance violations detected, and the action plan approved for remedying the deviation from established standards.
  - the receiving certification body then examines, thanks to a document review, the status of outstanding compliance violations, the latest audit reports and the corrective actions implemented. The receiving certification body has twenty (20) working days from receipt of the documents to accept or refuse the certificate transfer, by written confirmation. Responsibility for the certificate is transferred from the former certification body to the receiving certification body as soon as the latter is notified that the transfer has been validated.
  - in the absence of a response within twenty (20) working days, or in the event of a refusal of transfer by the receiving certification body, the transfer procedure lapses. The former certification body then retains responsibility for the certificate.

No transfer process may be initiated in the event of major or serious compliance violations that have not been resolved. A transfer request may be made in the event of minor non-compliance, by following the steps described above.

No transfer process can be finalised in the two (2) months preceding the anniversary date of the certificate.

## **Section 5**

### **Article 15 ‘Communication of information by certification bodies’**

The certification bodies recognised by the Ministry of Finance are tasked with providing the human and material resources necessary to fulfil the following obligations:

- Participating in meetings of the Label Committee's maintenance sub-committee,
- Communicating newly label attributions and label rescindments to the Ministry of Finance, based on the latest available version of the template provided by the Ministry.
- Carrying out controls on behalf of the Ministry of Finance, as described in Article 5 of this document,
- Contributing to the future development of the standards and providing expertise on the auditability of the criteria.

Certification bodies and their teams are bound by professional secrecy and must maintain the confidentiality of their interactions with candidates.

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