

Probation and Termination Policy

Effective: 1st March, 2017

ETP-P-02 V02 (E)

Summary

Since the announcement of the “Probation and Termination Policy” on 1st April, 2012, the ICTI Ethical Toy Program has been monitoring the effectiveness of the policy. Statistics reflect that factories have benefited from the on-site transparency policy by achieving fewer audits thus reducing the cost from audits.

We are streamlining our audit review and decision procedures to make these faster and more efficient. Consequently, the timeframe for factories to demonstrate transparency (by admitting inconsistencies in writing, proving complete and accurate relevant documentation) has been reduced. This update will reduce the overall timeframe for the audit review process, while ensuring fair and transparent assessments for all. Factories will receive their audit result and certification in a faster and more efficient manner than before.

The revised probation and termination policy is as follows:

Definitions of Status

Probation

- i. The status of “On Probation” of a factory is decided by the Program Monitoring and Development Team of Ethical Toy Program. The factory shall settle all the required payments within one month upon the receipt of the “Probation Agreement” to officially enter the probationary period with an “On Probation” certificate. This is considered as an agreement on accepting all the terms and conditions stated in the “Probation Agreement”, including undergoing regular Surveillance Audits, and commitment on continuous improvement to comply with Ethical Toy Program requirements.
- ii. Under normal circumstances, the probation period will last for 12 months, with 3 Surveillance Audits to measure progress.
- iii. After two consecutive Surveillance Audits, if the factory has no Zero Tolerance or Critical Violations, and with the approval of Program Monitoring and Development Team of Ethical Toy Program, the factory will be considered for 'earlier return' from Probation before the end of the 12-month Probation Period. Final approval will be made by Ethical Toy Program.
- iv. Probation Extension, with the maximum of one extension for a period of 6 months and 2 Surveillance Audits, may be granted by Ethical Toy Program

management depending on the conditions and status of continuous improvement based on the previous surveillance audits.

Termination

- i. A factory with any of the following situations will be terminated:
 1. Zero Tolerance violations;
 2. Critical violations, together with a failure to commit to make continuous improvement;
 3. Failure to comply with Ethical Toy Program audit procedures and process, such as refusal to undergo the required audits or to settle audit payment, etc.;
 4. Failure to submit an acceptable Corrective Action Plan (CAP) within 20 working days – the Factory Response Period (FRP).
- ii. Termination is approved by Ethical Toy Program management. A Factory shall be removed from the Ethical Toy Program once this decision takes effect. A Factory is then not permitted to re-apply until after at least a 6-month black-out period.

Zero Tolerance

Definition

- i. Violations of the fundamental Social Compliance standards of Ethical Toy Program and/or of National and International labor standards.
- ii. Zero Tolerance violations include, but are not limited to:
 1. Denial of full or partial access to meet the objective of the audit;
 2. improper influence occurred in audit;
 3. hidden production areas or hidden workers with the factory's intention to report an untrue scope of audit;
 4. two or more child laborers;
 5. forced labor.
- iii. Other non-compliances such as physical abuse, sexual harassment or life-threatening health and safety issues may also be considered as Zero Tolerance violations.

Procedures

- i. Auditors are required to inform the Program Monitoring and Development Team of Ethical Toy Program within 24 hours after the audit in which zero tolerance issues are discovered.
- ii. The Program Monitoring and Development Team of Ethical Toy Program will

review and recommend termination of the factory to the Ethical Toy Program management, who will make the decision.

Critical Violations

Definition

- i. Violations of the major social compliance standards of Ethical Toy Program, national and international labor standards.
- ii. Critical Violations include, but are not limited to:
 1. Record inconsistency;
 2. inaccurate time records and/or payment records;
 3. wages deficiency;
 4. delayed payment;
 5. less than one day off in a predefined week;
 6. less than 10 hours consecutive rest in the predefined 24 hours;
 7. missing 15 minutes break after 6 hours continuous work;
 8. weekly working hours exceed 78 hours;
 9. dormitory, production area and/or warehouse are in the same building;
 10. insufficient emergency exits.

Procedure for Critical Violations - with Record Inconsistency

- i. Transparency onsite - A Factory with Records Inconsistency that is able to show transparency onsite, with the approval of Ethical Toy Program management, a Probation Seal will be considered (not applicable to the factory that was in Initial Certification Audit cycle or already listed on Probation).
- ii. Transparency within 20 working days after receipt of the Corrective Action Plan (CAP).
 1. Factory that failed to show transparency onsite but is still able to provide an acceptable CAP within 20 working days (Factory Response Period - FRP), with the approval of Ethical Toy Program management, factory is subject to a transparency Re-Audit.
 2. If transparency is confirmed by the Re-Audit, a Probation seal will be considered; otherwise factory will be terminated (not applicable to the factory that was in Initial Certification Audit cycle or already listed on Probation).
- iii. Not transparent - Factory that is not able to be transparent within 20 working days will be terminated for 6 months.

Procedure for Critical Violations – without Record Inconsistency

- i. Other Critical Violations without Records Inconsistency will be further reviewed through Follow-Up Audits.
- ii. Normal seal will be granted if the findings have been corrected.
- iii. No more than 2 follow-up audits will be conducted per audit cycle.