CONSULTATION PACK

Consultation on proposed updates to the ICTI CARE Audit Checklist and new Star Rating System

SEPTEMBER 2017

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WHAT'S HAPPENING?

ICTI CARE seeks your views on two proposed updates to the ICTI CARE Program. These include an updated and graded version of the ICTI CARE Audit Checklist and a new Star Rating System for ICTI CARE Certification to replace our existing Factory Seal Classifications.

These proposed updates have been developed with input from our initial consultation with program stakeholders and an extensive benchmarking exercise.

ICTI CARE now seeks your views on the following:

1. Enhanced, Graded ICTI CARE Audit Checklist
2. Star Rating System for ICTI CARE Certification

Taken together, these updates provide a more sophisticated assessment of factory performance, helping to ensure that the ICTI CARE program remains relevant and continues to meet the evolving needs of all our stakeholders.

SHARE YOUR VIEWS

Stakeholder input is a crucial part of program development at ICTI CARE – we invite all interested parties to provide feedback on the proposed updates described in this document.

Consultation on the proposed changes runs from mid September 2017 to the 3rd of November 2017. Consultation workshops, webinars, along with Q&A sessions, will be held throughout the consultation period.
The ICTI CARE Audit Checklist forms the backbone of our program, setting out the specific requirements against which we certify factories.

The new enhanced, graded version of the ICTI CARE Audit Checklist will assign risk criticality grades to non-compliances.

In the new Graded Audit Checklist each checkpoint is graded into one of the following four risk categories: Zero Tolerance, Critical, Major or Minor non-compliance.

Guidance text describing the criteria that determine the risk level assigned is also included in the new checklist.

**THE NEW GRADED AUDIT CHECKLIST:**

- evolves from a pass / fail approach into new risk-rated assessments
- helps both factories and brands understand the severity of issues found during audit
- determines the number of Stars awarded to factories in our new Star Rating System
- is flexible and responsive to the changing social compliance landscape
How the Graded Audit Checklist Will Work:

<table>
<thead>
<tr>
<th>Audit Finding Example</th>
<th>Non-Compliance Level</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forced labor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Child labor</td>
<td>Zero Tolerance</td>
<td>Termination</td>
</tr>
<tr>
<td>Access denial</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Record inconsistency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Incorrect overtime payment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Working hours beyond maximum</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Critical safety issues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Failure to provide EHS training to workers</td>
<td>Major</td>
<td>Determines Certification Status and Grade</td>
</tr>
<tr>
<td>Lack of written policies</td>
<td>Minor</td>
<td>Determines Certification Status and Grade</td>
</tr>
</tbody>
</table>

Share your views on the Graded Audit Checklist

Please start by downloading an excel copy of the new Graded ICTI CARE Audit Checklist.

Instructions to help you understand the new checklist are included on the first tab.

Once you have reviewed the checklist, you will find instructions on how to submit any feedback at the end of this document.
The graded Audit Checklist assigns a risk rating to all non-compliance checkpoints. The following example shows how the existing checklist has evolved from a pass/fail approach to a risk rated approach.

**CURRENT PASS/FAIL CHECKLIST**

### 2.2 Do labor contracts meet regulatory and legal requirements?

**Factory Guidance**

- Where applicable, the factory should enter into legal labor contracts with all workers.
- Workers should be given copies of labor contracts with appropriate signatures.
- Where contracts are not required, the factory should provide a written communication outlining the employment relationship and key provisions.

**NEW GRADED CHECKLIST**

### 3.2 Do labor contracts meet regulatory and legal requirements?

<table>
<thead>
<tr>
<th>New checkpoint number</th>
<th>Checkpoint</th>
<th>New grading</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.2.1a</td>
<td>A labor contract is signed with each employee who needs to enter into a labor contact:</td>
<td>MAJOR</td>
</tr>
<tr>
<td></td>
<td>- ≤ 95%</td>
<td></td>
</tr>
<tr>
<td>3.2.1b</td>
<td>A labor contract is signed with each employee who needs to enter into a labor contact:</td>
<td>MINOR</td>
</tr>
<tr>
<td></td>
<td>- &gt; 95% but not 100%</td>
<td></td>
</tr>
<tr>
<td>3.2.2</td>
<td>Labor contracts meet regulatory and legal requirements:</td>
<td>MAJOR</td>
</tr>
<tr>
<td></td>
<td>- contracts fulfils basic local legal requirements</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- contract is comprehensive and includes, but is not limited to,</td>
<td></td>
</tr>
<tr>
<td></td>
<td>employment conditions, rights, responsibilities, and duties</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- contract terms are proper</td>
<td></td>
</tr>
<tr>
<td>3.2.3</td>
<td>Employees receive a copy of their labor contracts</td>
<td>MAJOR</td>
</tr>
</tbody>
</table>
ADDITIONAL CHECKLIST ITEMS

The enhanced Audit Checklist also includes other items which are added in response to requests from brands and retailers and also reflect changes in regulation and legislation.

Please review these new checkpoint items in the following sections of the Audit Checklist:

- recruitment fees
- fire protection
- business ethics
- audit process
- underage labor
- forced and prison labor

New checklist questions in the above sections are marked as "New".

In addition to new checkpoint items, some current checkpoint items have been updated to provide further clarity.

You can review these updates in full in the enhanced Audit Checklist.

Download in English or Chinese.
The proposed Star Rating System shows how ICTI CARE Certified factories perform across all areas covered in the Graded Audit Checklist.

It will replace the existing ICTI CARE Seal Classifications (A60, A, B & C) which are determined by hours worked at factories.

Expectations from factories and brands have evolved:

- Factories want a certification which shows their performance across all social compliance areas
- Brands and retailers want a certification which enables them to make more informed sourcing decisions

The new ICTI CARE Star Rating System provides a more complete picture of factory performance across all areas in the new graded checklist.

It allows factories to differentiate themselves based a larger set of indicators and demonstrate their commitment to continuous improvement.
The Star rating assigned to each factory is determined by:
- the number of non-compliances found at audit
- the extent to which non-compliances are corrected
- consistently good performance over time

### HOW THE STAR RATINGS WORK

<table>
<thead>
<tr>
<th>RATING</th>
<th>CORE REQUIREMENTS</th>
<th>Availability</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 STAR</td>
<td>Allowance for 15 non-compliances, No more than 5 Major, 0 Critical</td>
<td>Working towards full compliance</td>
</tr>
<tr>
<td>2 STAR</td>
<td>Allowance for 8 non-compliances, No more than 2 Major, 0 Critical</td>
<td>Available at launch</td>
</tr>
<tr>
<td>3 STAR</td>
<td>No open non-compliances, Equivalent to existing certification (A60, A, B, C)</td>
<td>Fully compliant</td>
</tr>
<tr>
<td>4 STAR</td>
<td>No open non-compliances, No repeat non-compliances in previous full scope audit</td>
<td>Proposed from 2019</td>
</tr>
<tr>
<td>5 STAR</td>
<td>No open non-compliances, No repeat non-compliances in previous two full scope audits</td>
<td>Proposed from 2020</td>
</tr>
</tbody>
</table>
WHAT THE STAR RATINGS MEAN

1 or 2 Star factories are working towards full compliance

1 and 2 Star rated factories are expected to show progress over time.

For example, at its next full Annual Audit*, a 1 Star factory should show sufficient progress to advance to at least 2 Stars.

3 Star factories have achieved full compliance

A 3 Star factory has no outstanding non-compliance issues, this is equivalent to our existing seal classifications.

4 and 5 Star factories show good performance over time

4 and 5 Star factories have also addressed all outstanding non-compliances, and have no repeat non-compliances over time.

Factories will be assigned a 4 Star rating from 2019 if non-compliances are not repeated in the last full Annual Audit*. 5 star ratings will be available from 2020, provided that non-compliances are not repeated in at least the last two full Annual Audits*.

The criteria which underpin the 4 and 5 Stars will evolve. For example, we plan to recognize factories for participation in ICTI CARE capability training modules, or other good practice initiatives for worker well-being, as we continue to develop these areas.

*Please note that a full annual audit is defined as either Initial Certification Audit (ICA) or Initial Annual Audit (IAA)

Probation and termination

Probation and termination protocols will remain the same under the new system.
Working hour assessments under the new system

The current ICTI CARE Factory Seal Classifications are determined by hours worked.

Working hours are an important factor in a factory’s performance but they are not the only important factor. The new Star Rating System will reflect a complete picture of factory performance.

In 2018, we will display existing working hour seal classification alongside new star ratings.

From 2019, we will continue to reflect hours worked prominently in Audit Reports.

<table>
<thead>
<tr>
<th>Proposed certification rating</th>
<th>Current seal classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 star</td>
<td></td>
</tr>
<tr>
<td>2 star</td>
<td></td>
</tr>
<tr>
<td>3 star</td>
<td>= A60, A, B, C</td>
</tr>
<tr>
<td>4 star</td>
<td></td>
</tr>
<tr>
<td>5 star</td>
<td></td>
</tr>
<tr>
<td>Probation</td>
<td>Probation</td>
</tr>
<tr>
<td>Termination</td>
<td>Termination</td>
</tr>
</tbody>
</table>

Example: a factory with an A Seal currently, up to 66 hours a week (and up to 72 in peak season)
Proposed Rollout

From the 1st of March 2018, all factories holding valid ICTI CARE seals of compliance will be rated as 3 Star factories.

All future audits will then be assessed using the new, graded ICTI CARE Audit Checklist and Star Rating System, with each factory then earning a 1 to 3 Star certificate in 2018. The proposed 4 and 5 Star ratings would be available from 2019.
HOW WILL THESE CHANGES BENEFIT YOU?

The proposed Star Ratings and Graded Audit Checklist provide a more sophisticated assessment of factory performance, helping to ensure that the ICTI CARE program remains relevant and continues to meet the evolving needs of all stakeholders that use the program.

FOR FACTORIES

- checklist and ratings more closely matched to your customer’s needs
- greater acceptance to further reduce audit duplication
- ratings recognize your performance across all areas
- clear, simple, easier-to-understand assessments
- 4 and 5 Star Rating levels which recognize good performance over time
- enhanced insights with no additional cost
- no increase in audit cycle frequency
- further insights enable ICTI CARE to offer more targeted training and support

FOR BRANDS

- Star Ratings provide complete picture of factory performance
- different levels of factory compliance recognized
- understand the strengths and weaknesses of the factory at a glance
- enhanced data for risk analysis
- tailored to meet your evolving needs
- consistent good performers stand out, with other factories incentivized to improve
- designed for greater acceptance to further reduce audit duplication in toy supply chain
Share your views

We invite all interested parties to review the proposed enhancements described in this document and to share your comments and feedback with us.

Please adhere to the following guidelines when submitting your feedback:

- The enhanced ICTI CARE Audit Checklist is available to download here in [English](#) and [Chinese](#).
- Please submit your feedback on the enhanced Audit Checklist and Star Ratings using the consultation form available [here](#).

The ICTI CARE Team will review all feedback and take this into account during the development of the final versions of the enhanced Audit Checklist & new rating system for ICTI CARE Certification.

**CONSULTATION DEADLINE: 3rd November 2017**
Ways to keep up to date

ICTI CARE is running consultation webinars and in-person factory training sessions throughout September and October 2017 to explain the new ICTI CARE Audit Checklist and Star Rating System.

Click [here](#) to download the full program of consultation sessions and webinars.

Any questions?

Please submit your feedback using the [online consultation form](#), if you have trouble accessing this, please download our offline consultation form [here](#).

We also encourage factories, brands and retailers to attend a webinar or consultation workshop on the new ICTI CARE Audit Checklist and the Star Rating System. These sessions will incorporate a Q&A session.

You can also send questions or requests for a consultation session to the designated consultation inbox [consultation@icti-care.org](mailto:consultation@icti-care.org).

KEY DOCUMENTS

- [Graded ICTI CARE Audit Checklist](#)
  - English
- [Graded ICTI CARE Audit Checklist](#)
  - Chinese
- [Feedback and consultation form](#)
- [Full program of consultation sessions and webinars](#)