FORUM POUR L'INVESTISSEMENT RESPONSABLE

A2 CONSULTING

Supply chains and responsible investment

Improving risk management

FIR Handbook n° 3

A word from the Presidents

Corporate performance increasingly depends on a company's ability to control the reputational and quality risks stemming from its network of business partners. The collapse of the Rana Plaza building helped to raise awareness of this issue. In contrast to the misguided approach of restricting companies' operations to their legal borders, the extended enterprise notion implies that companies should work more closely with their "external" partners and stakeholders in order to control risks and improve performance by working together positively, including generating innovative solutions.

The creation of a corporate social responsibility legal framework has made this change of focus a reality. For almost ten years, this framework has been built both internationally – the UN's "Ruggie Principles", the work of the OECD – and nationally, with the French law on the duty of vigilance, supported by the FIR. The supply chain has become an important focus for investors, embodying their responsibility.

However, there has been no tool specifying how to analyse and control these supply chain risks, no tool for finance professionals, which would also offer companies and society some guidelines for communal dialogue. This handbook provides such a tool. And if it ultimately improves the way the social and environmental impacts of procurement processes are taken into account, it will have served its purpose. I hope you find it useful.

Alexis Masse, President of the FIR

Under pressure from their stakeholders, first and foremost investors, instructing parties are now aware of the importance of the issues arising from their indirect activities in their supply chain.

The complexity and opacity of business relationships, the diversification of activities and the mobile nature of organisations undoubtedly make it difficult to identify, assess and prioritise the risks faced by large companies. Yet, it is evident that such companies have changed the way they operate. The recent ISO 20400 barometer and the French prize for the best "vigilance plan" clearly show that companies have made progress in understanding the impacts stemming from their relationships with their suppliers and subcontractors. In particular, they have understood that their responsibility lies in their ability to define objectives, monitor indicators and correct their actions – in a word, "risk management". This is a decisive step that gives us hope for a real improvement in corporate maturity.

We are particularly optimistic because most "issuers" (as they are called in the investment world) have already decided to adopt ISO 20400, which is based on a collective approach, integrating the vision of all stakeholders, both internal and external. The key to success clearly lies in this type of collective approach. Discussing the common interests of companies and investors, relying on the best practices of others, developing a shared relationship of trust, moving beyond preventative measures to take action, transforming an apparent constraint into a lever for value creation – this is the momentum our handbook aims to encourage.

Jacques Schramm, President of A2 Consulting

TABLE OF CONTENTS

TESTIMONIALS

Three questions for Laurent Berger, Secretary-General of the CFDT (French confederation of trade unions)

Why do you support sustainable procurement?

Businesses are collective projects that bring together capital and labour, that unite workers who are drawn to major customers without being directly employed by them and that form part of a structuring environment that is both natural and territorial.

I believe in the importance of this collective project, so I believe that companies have a responsibly towards the social conditions of the workers in their subcontracting chain and towards the environment. And I believe that consumers also share this interest in responsibility.

So should prices be higher?

The issue can't be limited to the question of cost. When subcontracting conditions are forced down, we implicitly accept the risk of poor quality or even safety issues, the risk of a lack of innovation on the part of the contracting parties, reputational risks in the way consumers perceive our image, and so on. When we hit the environment, we weaken a common good. And we damage the collective working effort that wants to do a good job and be proud of its work and of its employer. The challenge is to adopt a strategy for companies to be effective and resilient in the long run.

What do you think investors should do?

To verify the robustness of the companies in which they invest, investors should think in "extended enterprise" mode, so the quality of the company's relationship with its ecosystem. There are weak signals that need to be taken into account. I encourage investors to engage companies to do better whenever necessary. It will guarantee an improved performance all round.

A question for Stéphanie Kerbarh, Member of Parliament for Seine-et-Marne (France)

Why should companies employ sustainable procurement practices?

We are living in a world whose citizens are increasingly informed, increasingly connected, but also increasingly united in solidarity. The question of a company's responsibility for the impacts it has on society and on the environment is essential and even expected. Making the choice to buy sustainably is therefore an advantage and is a decision that really increases companies' competitiveness.

Two questions for Safira Dodat, Head of CSR for the Procurement Department at ADP

How does ADP analyse the ESG risks in its supply chain?

It's not the risk factor that interests us as such, but the action needed to transform gross risk into net risk.

For investors, what role do ESG risks and CSR play in procurement?

Only a few years ago, Sustainable Development was a topic for a handful of specialists, but it has now fully permeated the company, transversally and at all levels, thanks to the intense conviction of the company's governance, both at the top of ADP and at the top of the Procurement Department, with the Procurement Director being closely involved in these subjects.

Since 2007, ADP's desire to commit to a solicited non-financial rating process and the Procurement Department's commitment to comply with the Supplier Relations and Responsible Procurement Label have brought a positive dynamic to the sustainable procurement process, enabling the company to continually improve in this area.

A question for Sabine Castellan-Poquet, Investment Director at Macif

Professional investors are becoming increasingly involved in the supply chain as a result of the ESG controversies that have arisen from these chains (the collapse of the Rana Plaza building, for example). As an institutional investor, what role do you attribute to the "supply chain" factor in the emergence of ESG risks?

Social issues are at the heart of Macif's concerns. Because of its mutual values, Macif accords great importance to human issues.

In our operations, our investment activities in particular, we also devote our utmost attention to subjects such as "combating child labour", especially when the companies we finance operate in high-risk sectors (such as cobalt mining or cocoa production) or in geographical areas exposed to risks.

Dialogue with companies is the tool we use to focus on managing the risks to which we are indirectly exposed. Each year, with our partner OFI Asset Management, we solicit over 30 private companies exposed to social responsibility controversies. Our objective is that everyone makes progress, companies and investors alike. In practice, we send a questionnaire to companies asking them about the engagements they have undertaken, particularly in terms of respect of labour rights (in accordance with the main conventions of the International Labour Organization), the implementation of sustainable procurement policies, or the use of international standards such as ISO 20400.

By issuing its law on the "Duty of Vigilance" in 2017, the French regulator paved the way for collective ESG risk management. It is a promising first step, which will be greatly strengthened once investors become more actively involved in these issues. The European reflection on the creation of a transnational "Article 173" [on ESG reporting requirements] should contribute to this process.

PREFACE

This handbook is intended to raise awareness among French asset management companies and institutional investors of the environmental, social and governance (ESG) issues related to the supply chain and to encourage them to adopt best practices to manage the related risks. Its purpose is to facilitate their access to the information and tools useful for investment decision-making and risk management.

This document is set within a particularly ambitious French regulatory context in which private companies and professional investors face reciprocal ESG information and reporting obligations inviting them to strengthen their dialogue:

- On the corporate side, the French "Law on the duty of vigilance for parent and instructing companies with respect to their subsidiaries and subcontractors" requires large companies to implement a "vigilance plan" to identify risks and prevent "serious violations of human rights and fundamental freedoms, relating to the health and safety of individuals and the environment", throughout their supply chain.
- For institutional investors and asset management companies, Article 173-VI of the French "Act on Energy Transition for Green Growth" has amended Articles L. 533-22-1 and D. 533-16-1 of the Monetary and Financial Code, under which professional investors are required to inform their subscribers and clients of the way in which they take ESG criteria into account, or not, in their investment and risk management policy.

This handbook was prepared by the FIR's "Sustainable Procurement and Investment" working group, with the aim of creating a document that is both "pedagogical" and "operational", one of the objectives being to encourage the use of "best practices".

With this in mind, the handbook is divided into three parts:

- Part I: Presentation of the risk management issues relating to the corporate supply chain, for investors
- Part II: Presentation of the supply chain concepts, regulations and risk management tools available to companies
- Part III: Proposal of a set of methodological tools to help investors manage ESG supply chain risks in the context of their investment policy

SUMMARY

In today's hyper-globalised environment characterised by complex and opaque supply chains, private companies' responsibility for environmental, social and governance (ESG) controversies has become diluted.

Despite the burgeoning regulatory framework (such as the French law on the duty of vigilance), the risks of adverse impacts from corporate activities are further amplified because multinational companies are not sufficiently experienced in due diligence practices (their ability to identify, assess, prioritise and deal with these risks).

Professional investors indirectly bear the financial and reputational risks faced by the companies in which they invest and may even exacerbate these risks through their expectations of deteriorating economic performance. Like companies, they should therefore also exercise greater vigilance in terms of responsible procurement (purchasing).

From a regulatory perspective, although the French Article 173-VI requires professional investors to inform their clients how they integrate ESG risks into their investment activities, it does not require them to take into account risks stemming from the supply chain. However, the lack of investment regulations explicitly referring to due diligence requirements should not exempt investors from exercising the responsibility incumbent on them via "soft" law.

In practice, many tools already allow investors to assess their exposure when investing in multinational companies, for example, the OECD due diligence guidance, ISO 20400, supply chain impact indicators and services provided by non-financial rating agencies.

However, due diligence is not limited to monitoring exposures. In accordance with the OECD's fundamental principles, investors must exercise their responsibilities by:

- Taking into account the responsible conduct of companies in the supply chain in their investment and risk management policies
- Mapping the risks of adverse impacts in the supply chains of the companies financed
- Implementing preventive, mitigation or remediation measures
- Measuring the effectiveness of their measures
- Reporting

The due diligence actions that investors must take depend on the nature of their business (institutional investor or asset management company) and their organisation (direct management or delegated management). In any case, engaging with the companies involved is a key factor in the ability to control risks.

French investors are in the early stages of managing their supply chain risks. Nonetheless, this handbook illustrates that some investors have acquired real maturity in this respect and their practices can serve as a benchmark.

I. UNDERSTANDING ESG ISSUES IN THE SUPPLY CHAIN

This section shows how investors are, or should be, concerned by the ESG risks in their supply chain and describes their needs in this area. First of all, it is necessary to clarify certain concepts.

A. Definitions and concepts

Supply chain and procurement

What is the supply chain?

For a given company, the **value chain** extends from the raw material to the finished product, and includes the **product life cycle.**

The company's own operations are **central**; this is where the company's responsibility for the entire production chain stems from.

Downstream, the operations making up the value chain are distribution, consumption and, in some cases, recycling.

Upstream, the various links in the value chain concern the procurement of raw materials **(supply), subcontracting** the production of semi-finished or finished products, and **logistics** (transport). This is known as the **supply chain**.

The ESG risks discussed in this handbook stem from this "**supply chain**".

What is procurement?

The notion of the supply chain is closely linked to that of **procurement**, which is the **internal function** within an organisation that is responsible for managing the **relationship with subcontractors and suppliers.**

In today's ever more globalised world, this function has become increasingly **strategic**. It is estimated that it contributes between 50% and 70% of a company's average turnover, depending on the sector (Kedge, 2014).

The **buyer** seeks efficiency, an improvement in the quality of services and the optimisation of overall costs (immediate and deferred) within a value chain and measures their impact.

As set out in ISO 20400, the "**procurement process** considers the whole cycle from identification of needs through to the end of a services contract or the end of the life of goods, including disposal"; while **sourcing** "is a part of the procurement process that includes planning, defining specifications and selecting suppliers." It is necessary to differentiate it from the **procurement process**, which it is a component of, and which deals specifically with the operations carried out in the context of the relationship between the **instructing party (customer)** and its **subcontractors** and **suppliers.**

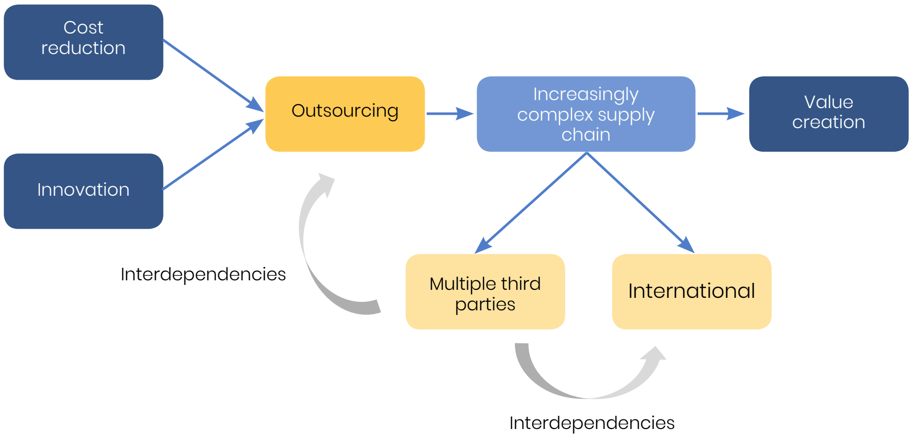
The **supply chain** as defined by ISO 20400

The **supply chain** is a "sequence of activities or parties that provides goods or services to the organization".

Responsibility and the supply chain

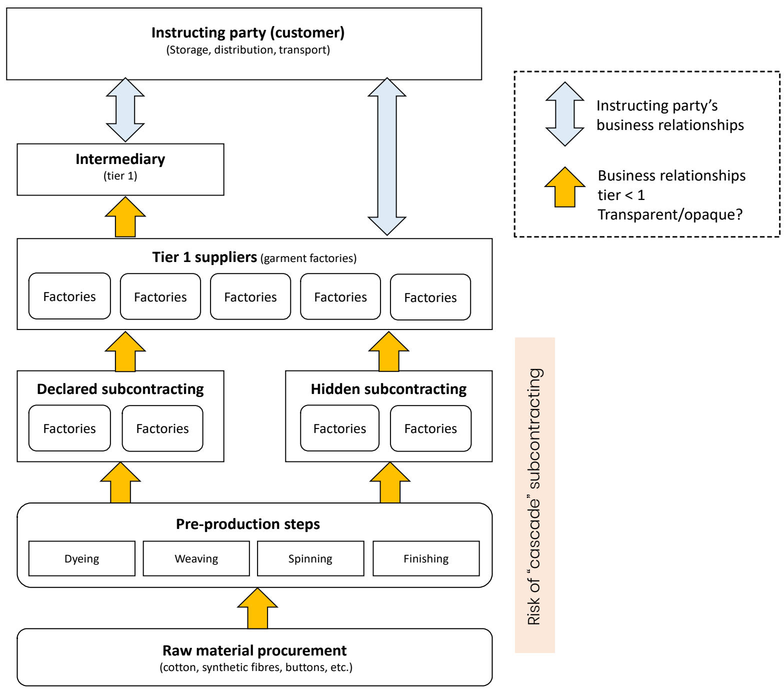
Increasingly complex supply chains

In an environment that has become broadly **globalised** by the search for cost reduction, companies' supply chains have become extremely **complex**. In most cases, numerous subcontractors and suppliers are solicited, from **multiple industries** and **diverse geographical areas**. Moreover, because of **outsourcing**, the supply chains of the various players also tend to be complex, and above all, **interdependent**. As a result, the relationships between the goods and services provided by the company and the ESG risk factors related to their production are **intertwined** between sectors and geographical areas at all tiers of the supply chain.



This complexity is characterised by "**cascade subcontracting**" operations (beyond tier 1), which dilute the sharing of responsibilities between **instructing parties** and **suppliers** due to the existence of a "**hidden side of the supply chain**", often accompanied by **hidden subcontracting.** The parent company's (and its subsidiaries') relationship with its suppliers at the various links in the supply chain are totally "blurred" or even invisible; only the main instructing party (customer) remains clearly identifiable.

This complexity creates a **breeding ground for the emergence of all kinds of risks:** human (child labour, forced labour, etc.), social (working conditions, health, freedom of association, etc.), environmental (site pollution, product toxicity, etc.) and governance (corruption, etc.).



"Multinational enterprises [...] have evolved to encompass a broader range of business arrangements and organisational forms. Strategic alliances and closer relations with suppliers and contractors tend to blur the boundaries of the enterprise."

(Source: "Guidelines for Multinational Enterprises", OECD, 2011)

The textile supply chain

The mapping of the supply chain in the textile and clothing sector prepared by the OECD's French National Contact Point in its report following the Rana Plaza accident gives an idea of the complexity of this chain.

The production of textile products involves a large number of actions undertaken at different stages of the process (the main actions being sourcing or preparing raw materials and fibres, spinning, weaving-knitting, finishing, clothing manufacture, packaging and transport). At the sub-activity level, the textile and clothing sector has unexpected "nodes" and "interactions", reinforced by the fact that textile companies' operations are spread over a very fragmented geographical area.

Impact, responsibility and due diligence

Responsibility for supply chain risks rests with the main **instructing party** for all of its business relationships.

Companies may generate **adverse impacts** stemming from their **own activities (direct operations)** or from their **business relationships with third parties (indirect operations, including with suppliers and other actors in the supply chain).**

Adverse impact

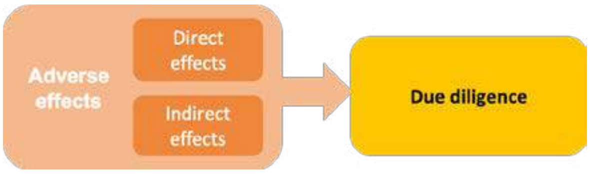
Impact or **effect** are the terms employed in most international conventions and fundamental rights guidelines to define the **environmental and social consequences of the activities undertaken by companies in the course of their business relationships** (including the supply chain).

The impact is **adverse** or **harmful** when the consequences result in environmental or social damage. It is positive when the opposite is true.

The impact may be **potential** or **actual**; in the latter case, the risk has already occurred.

Risk themes	Examples of impacts Based on the "OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas", 2017
Conditions of employment	• Labour law offers workers little or no protection (limitation of working time, rest periods, minimum wage, etc.) • Social protection for workers is low or non-existent (unemployment benefits, health coverage, pension contributions, etc.) • Workers are unable to join a union
Occupational health	• Dangerous working conditions can provoke occupational diseases, injuries and even death • Working in an isolated environment can pose risks to workers' mental health
Safety	• Trade union leaders and workers' representatives are targeted by threats, harassment and violence
Modern slavery	• Forced labour • Child labour
Unionisation	• Workers are unable to form or join a union and to bargain collectively

When an adverse impact arises, the responsible company should be able to **influence and correct the harmful practices of its supplier;** this action is the company's **due diligence obligation.** This is the activity of managing the ESG risks stemming from the supply chain.



Due diligence

Due diligence is the **process by which a company manages its risks** by ensuring that it has the means to avoid or remedy potential and actual adverse impacts. This requires it to implement a system comprising appropriate **preventive, mitigation or remedial** measures.

Due to the complexity of the supply chain, the intensity of these due diligence activities should vary according to the proximity and number of tiers and intermediaries that separate the instructing party from the risk generating actor.

Responsibility and accountability, a fundamental distinction

Although it has evolved considerably since the 19th century, **morally speaking, responsibility** implies **being answerable for one's actions** and **assuming their consequences.** In French law, it is linked to the concepts of **fault** and **compensation** for damage caused.

Responsibility must be distinguished from **accountability**, a fundamental principle linked to Corporate Social Responsibility (CSR). Accountability goes beyond responsibility; it implies being **answerable for one's impacts** on society, the economy and the environment. In addition to shouldering the responsibility for a wrongful practice, accountability involves **taking appropriate measures to remedy the wrongdoing** as well as **taking actions to prevent its recurrence.**

A necessary condition for accountability is **transparency**; information must be accessible and verifiable.

Accountability as defined by ISO 20400

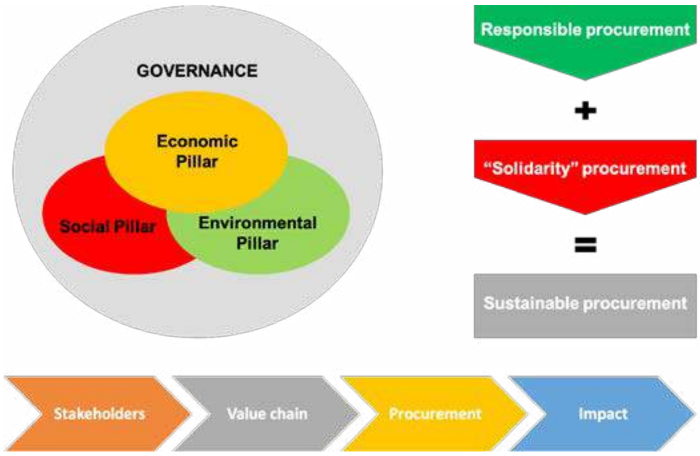
"An organization should be accountable for its own impacts on society, the economy and the environment. In the context of procurement, this specifically includes accountability for impacts and for those on the organization's supply chains, with a life cycle perspective on goods or services."

Transparency as defined by ISO 20400

"An organization should be transparent in those decisions and activities that impact the environment, society and the economy. In the context of procurement, this specifically includes being transparent in its procurement decisions and activities and encouraging its suppliers to be transparent. Transparency is the basis for stakeholder dialogue and collaboration."

What is sustainable procurement?

This terminology has been in use for around 20 years. As early as the 1990s, Drumwright provided a generic definition, which highlighted the **consequences of procurement actions.** However, it was not until the 2000s that the concept became clearer and was **more explicitly linked to the supply chain,** whose **management** appeared crucial in achieving the company's performance. The procurement function's performance was then approached from a **"Corporate Social Performance"** perspective, which combines social performance with the company's economic performance. After the first environmental-focused variants ("green supply chain"), the concept of SSCM (**Sustainable Supply Chain Management**) emerged, as developed by Carter and Rogers (2008).



In France, the concept was clarified by the French sustainable procurement association ObsAR, which highlighted the need to include a **balance between all relevant stakeholders.** Researchers from the Kedge Sustainable and Socially Responsible Procurement chair (2012) extended this definition to include the **interests of the citizen-consumer,** the notion of the company's **image** and **reputation**, and above all the **link with the company's general strategy and business model.**

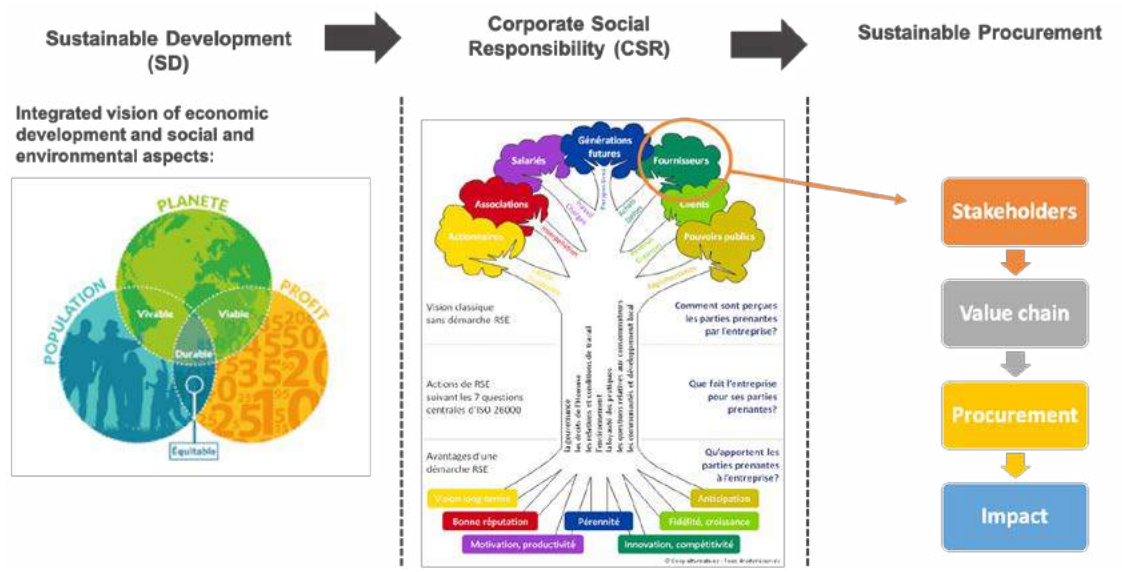
The definition from ISO 20400, which includes the notion of **impact**, is now the most widely accepted.

Sustainable procurement as defined by ISO 20400

"Sustainable procurement is procurement that has the most positive environmental, social and economic impacts possible across the entire life cycle and that strives to minimize adverse impacts."

Sustainable procurement: how is it linked to CSR?

Environmental, Social and Governance (ESG) issues relating to the supply chain (or to procurement) stem from the application of **Corporate Social Responsibility** (CSR) to the "Procurement" function.



If we adopt a conventional definition of CSR, based, for example, on the approach outlined by the European Commission (Green Paper, 2001), we can consider that sustainable procurement is the **application of CSR to the procurement function.** It must therefore be considered at an organisational level, as for other functions, such as responsible marketing or responsible investment. .

Definition of CSR

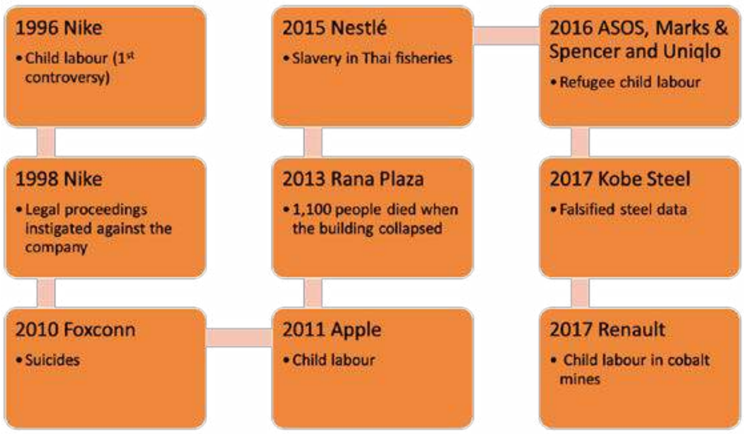
(European Commission Green Paper)

"Corporate Social Responsibility is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis."

B. Supply chain issues for investors

The supply chain at the heart of numerous controversies

Three examples of ESG risks that have arisen from companies' supply chains



The notion of **supply chain risks** emerged in the 1990s following a series of **controversies involving the social responsibility of large international firms** towards local populations.

Three of these controversies (those of Nike, Foxconn and especially Rana Plaza) have had a lasting effect and have paved the way for supply chain issues to be addressed by the various stakeholders involved, including **investors**, who are **indirectly** concerned.

These controversies were the starting point for raising awareness among the various stakeholders (trade unions, NGOs, civil society) in order to urge **instructing parties** to exercise their responsibilities, in particular regarding the **respect of fundamental rights** in the context of the working conditions imposed by their **subcontractors** and **suppliers** on their "employees". Awareness also increased among **investors**, who understood that their own responsibility was engaged.

Nike

As the world leader in sports footwear with a fully outsourced production process, Nike has been the subject of criticism since the early 1990s. Life magazine's June 1996 publication of a photo of a Pakistani child sewing Nike footballs served to accelerate such criticism.

In September 1996, in Michael Moore's film "The Big One", Phil Knight (Nike CEO) defended himself by stating that the children were 14 years old. In November 1996, an article in the New York Times revealed the disastrous working conditions in the company's Vietnamese factories.

Despite the supply chain commitments made by Nike in May 1998 (raising the minimum age, increased controls, clean air standards, etc.), the company is being sued by the NGO Clean Clothes Campaign Germany, based on Oxfam's "We are not machines" report denouncing several human rights violations among subcontractors.

Foxconn

In 2010, 13 suicides took place in the workshops of Foxconn, a large Chinese subcontractor working for major brands in the electronics sector, including Apple. Alerted by this succession of suicides, the NGO "SACOM" (Students and Scholars Against Corporate Misbehaviour) conducted a study to identify the working conditions of Foxconn employees.

The investigation revealed several serious violations of fundamental rights (inhumane management, punishment, abuse, excessive working hours, very low pay, unpaid overtime, non-compliant union representation, etc.).

One year later, a second study, "iSlave behind the iPhone", shone a spotlight on Apple's supplier relationship policy. Despite the existence of a supplier code of conduct and formalised procedures, Apple's lack of control over its subcontractors has led the company to be publicly portrayed as responsible for violating fundamental human rights, just like its suppliers.

Rana Plaza

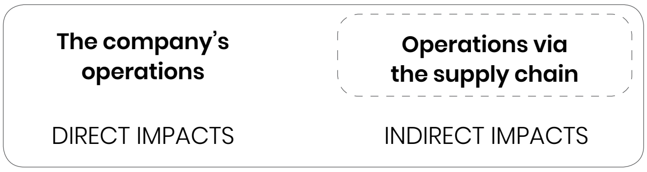
The collapse of the Rana Plaza building in the city of Dhaka, Bangladesh in April 2013, resulting in the deaths of more than 1,100 people, played a decisive role.

Beyond the violation of safety standards, the investigation revealed that the building housed ready-to-wear clothing workshops that were subcontractors for several international-scale foreign retailers. Clothing from the In extenso brand (Auchan group) was found in the rubble of the building. Many other brands were also involved: Mango, Benetton, The Children's Place, Cedarwood and Denim Co (Primark), Bon Marché, H&M, Inditex, Tex (Carrefour) and Camaïeu.

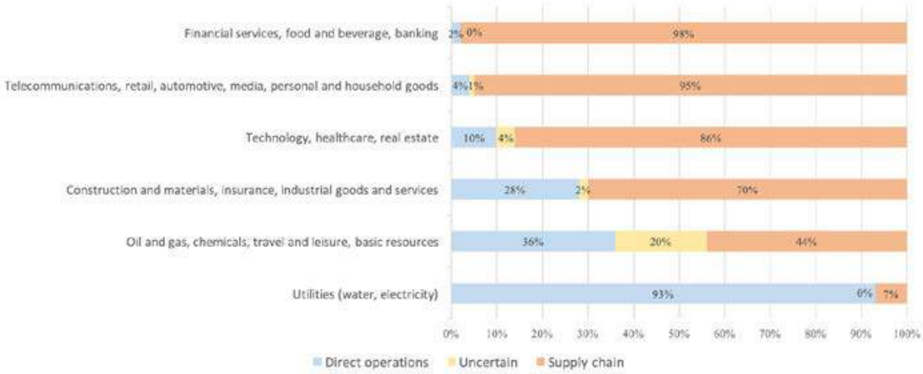
Following these revelations, the associations Sherpa, Peuples solidaires and Collectif Ethique sur l'étiquette filed a complaint against Auchan with the Lille public prosecutor's office in order to convict the retailer of the offence of "misleading commercial practices", since, according to them, the brand's ethical commitments constitute a commercial practice likely to mislead French consumers about the social conditions under which the products it markets are manufactured.

The significance of the supply chain in the occurrence of ESG risks

It is difficult to measure the impact of the supply chain in environmental, social and governance (ESG) controversies because the supply chain is an extension of the company's **direct operations,** which creates a degree of **opacity**.



Nonetheless, a study on environmental risks conducted by Trucost identified the extent to which the supply chain is responsible for the occurrence of risks, compared to impacts arising from companies' direct operations. The food and beverage, telecommunications, and personal and household goods sectors (textiles and clothing) are the most implicated, with a weight of around 90%. The financial services and banking sectors are also heavily involved through their **investment activities.**



Share of a sector's environmental impact located in the supply chain

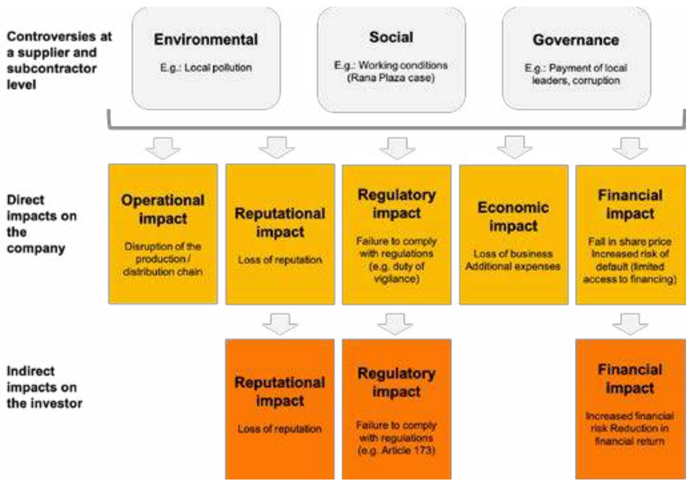
Source: "Managing ESG risk in the supply chains of private companies and assets", PRI & Trucost, 2017

"Company / investor" collateral impacts

Business risks and the supply chain

Supply chain controversies generate **direct impacts on companies,** generally of an **operational nature:** disruption of the production chain (in terms of raw materials or components, lengthening production times, etc.).

By extension, these impacts are transformed into **economic risks** (increase in production costs, provisions for litigation costs, regulatory sanctions, loss of customers, etc.).



Examples of companies whose reputation has been damaged

Legal risks are fundamental. For example, in 2010, British Petroleum was convicted for the oil spill caused by the sinking of the Deepwater Horizon platform, for acts attributable to its suppliers: Halliburton had designed and produced defective cement, Cameron had not managed the explosion prevention system for which it was responsible, and Transocean had not insured its liability as owner of the platform.

These risks generally cause a **deterioration in the company's reputation and image,** which may lead to a reduction in its market share and turnover. When an **NGO** publicly denounces a clearly identified company's supplier or subcontractor for non-compliance with International Labour Organization (ILO) conventions, the company becomes the target of a **call for boycott** that results in significant operating losses. Amplified by **media action,** this **"naming and shaming"** mechanism can quickly become a real liability. Findus paid the price. Its "beef from France" was in fact Romanian horse meat. The case led to a 40 to 45% drop in volume for the ready meals sector, contributing significantly to the resulting crisis of confidence.

From “corporate” risks to “investor” risks

Through the financial assets they hold, **investors** indirectly suffer the impacts caused by the companies they finance, and find **themselves subject to reputational and financial performance risks.** When they **anticipate** a deterioration in the future profitability of the companies in which they have invested, they **react negatively** (reduction in holdings, halting of investment projects, partial or total divestment, etc.), which generates **financial risks** for the companies concerned, such as a **stock market fall**, an **increase in the cost of bond issues** (linked to an increase in the risk of default) or a **reduction in financing opportunities.**

However, in reality, this **propagation mechanism** is more dispersed than might be thought, as shown in the examples below. The impact on stock prices may be small or insignificant, or of very short duration. A study by Vigeo-Eiris (2016) shows that less than 7% of large listed companies have been the subject of controversies directly related to the supply chain.

C. How are investors affected by the supply chain?

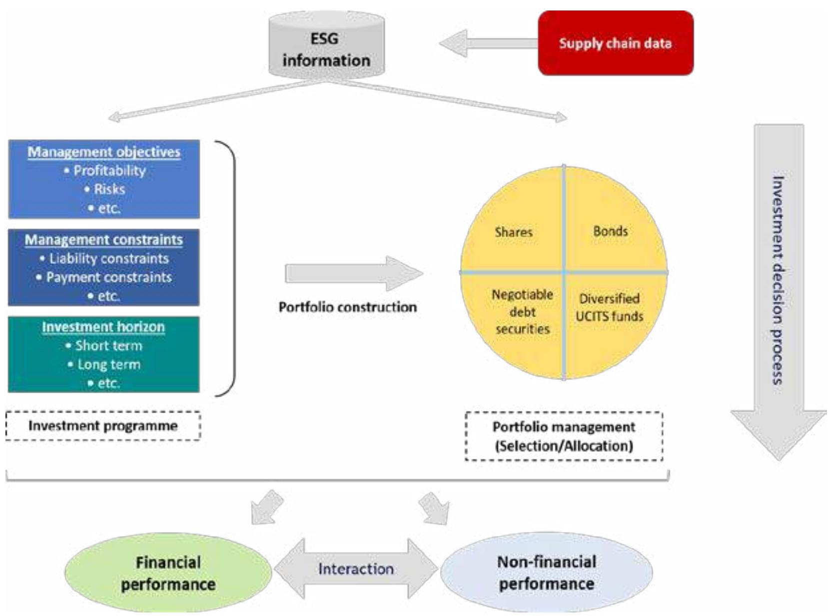
The supply chain and investment risk management

Sustainable procurement and asset management issues

For professional investors, ESG supply chain issues are part of their own social responsibility, which in the field of investment is called **responsible investment.**

Responsible investment is the integration of ESG information (including supply chain information) into the investment decision-making process.

ESG information should serve the investor’s management objective (financial profitability, social impact, etc.), which, within the framework of its constraints (regulatory, accounting, risk, etc.), generally plays out over a **long-term horizon.**

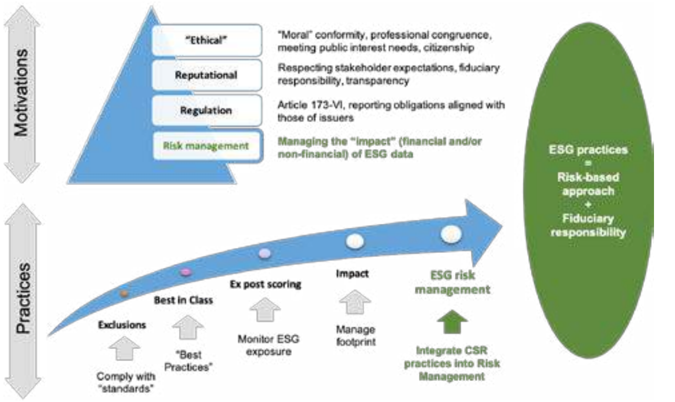


The role of managing ESG supply chain impacts (investment risks)

Since the 2007 financial crisis (subprime), the **motivations** for responsible investment have multiplied, including respect for moral values, the search for professional coherence (asset-liability matching), meeting public interest needs (fight against global warming, SDGs, etc.) or compliance with regulatory constraints.

Among these factors, **ESG risk management**, driven by the desire to **minimise negative social impacts** or to **control reputational and financial risks**, has led investors to include ESG information in their **overall risk management systems**.

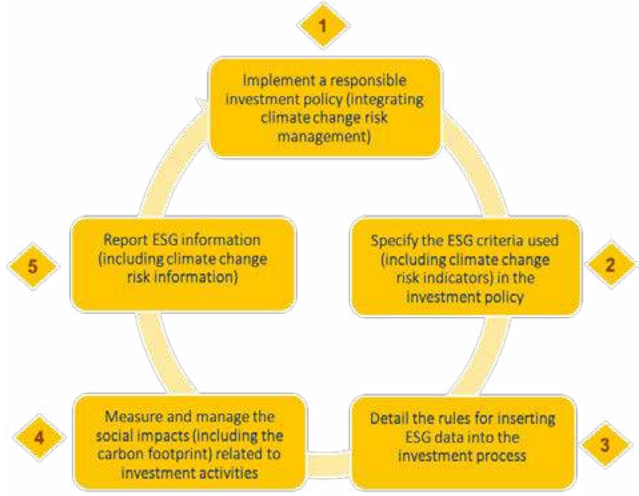
Given the significance of the supply chain in the occurrence of ESG risks, investors should **exercise greater vigilance regarding sustainable procurement**, especially since the related risks are generally "hidden", making them difficult to control.



The role of investor regulation

In 2017, **Article 173-VI** of the French Energy Transition Law for Green Growth (Loi sur Transition Energétique sur la Croissance Verte, "LTECV") raised investors' ESG disclosure requirements to the same level as those of companies by requiring asset management companies and certain institutional investors to **report on the inclusion of ESG criteria in their "investment decision-making and risk management policies".** This development has also been launched at a European level, as part of the European Commission's Sustainable Finance Plan (March 2018).

The spirit of the law is "comply or explain", but the regulator's intention is that professional investors develop best practices and take ownership of ESG issues, with supply chain issues at the forefront.



Due diligence and investment

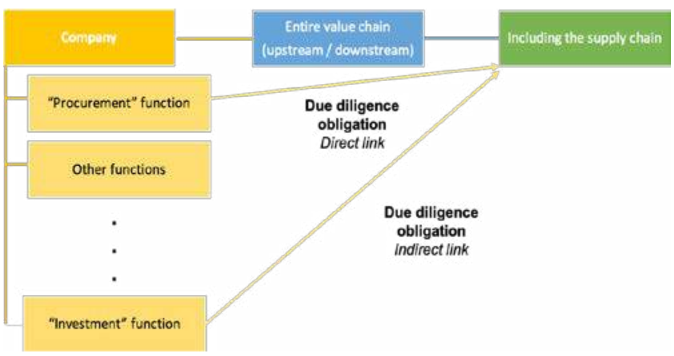
Investors' due diligence obligations

Although French **Article 173-VI** requires professional investors to inform their subscribers and clients as to how they manage the ESG risks arising from their investment activities, it does not require them to take into account the risks arising from the supply chain of the companies in which they invest.

However, the **absence of "investment" regulations explicitly referring to due diligence obligations** does not exempt investors from exercising this duty, which is their responsibility under soft law.

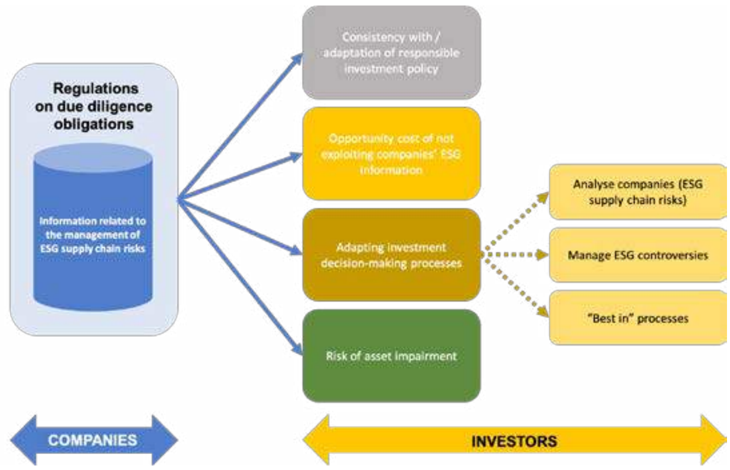
In addition, when institutional investors and asset managers are companies, or subsidiaries of companies, subject to due diligence obligations (as is the case in France, under the "duty of vigilance" law), the entities concerned must comply with the requirement to manage the ESG risks arising from their supply chain, in particular through their "investment" activities.

Finally, depending on the frequency and sensitivity of the risks stemming from the supply chain of the companies in which they invest, professional investors wishing to take ESG criteria into account in their investment strategy must necessarily include such risks in their evaluation framework.



The increasing regulation of companies' due diligence obligations – impacts on investors

Regulations requiring companies to disclose information on their management of the social risks stemming from their supply chain are expected to become more stringent and to grow significantly (see Part II.B), which will have several **consequences for investors:**



- They will have to ensure that the ESG risk management of the companies in which they invest is consistent with their own ESG practices **(compliance with their responsible investment policy).**
- They will need to make appropriate use of the ESG information disclosed by companies ("**opportunity cost**" risk).
- They will need to adapt their "**best in**" **screening processes** and their **procedures for managing controversies** in order to integrate the ESG risks and opportunities stemming from companies' supply chains (identification of "good" and "bad students" in their **analysis of companies**).

Observation: companies' due diligence practices are inadequate

A growing awareness of sustainable procurement...

Some private companies have taken ownership of ESG supply chain issues and have integrated them into their **risk management system**, in accordance with the requirements of the French law on the duty of vigilance, for instance.

The first edition of the vigilance plan prize, the "**Prix Plan Vigilance**" (PPV), launched by the FIR and A2 Consulting in 2018, was an opportunity to assess CAC 40 companies' risk management maturity with respect to ESG supply chain risks.

As part of the communication of its vigilance system, Orange, which won the award, has drawn up a **specific risk map for managing its "duty of vigilance"** by specifically taking its supply chain risks into account.

The movement is underway and several other companies are now in a position to set an example for their use of "best practices".

Best practices

- "Vigilance plan" presented in a specific document
- Matrix of due diligence risks
- "Lack of vigilance" considered as a specific risk
- ISO 20400 recommendations integrated into the supplier relationship
- Tier 2 and 3 suppliers included within the audit scope

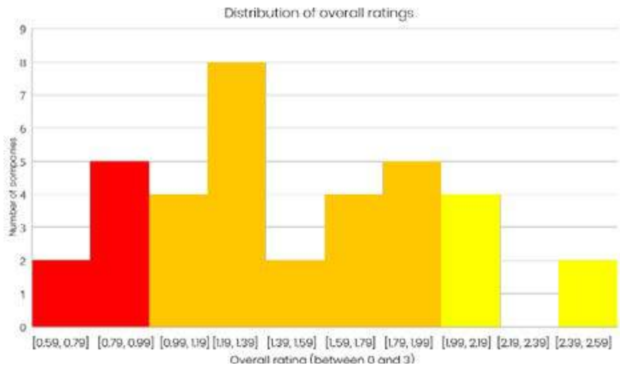
... but most companies do not yet seem to be up to the task of meeting the challenges involved

The study conducted for the PPV also shows that, across all companies, ESG supply chain issues are only **partially adopted.**

This observation is shared by many other studies (EDH & BL, Ernst & Young, Sherpa), which show the disparity of companies' organisation in terms of their due diligence obligations, revealing incomplete risk analysis, a lack of consideration of ESG issues specific to the supply chain (human rights, occupational health and safety, etc.), the need to improve risk rating methodologies, a lack of ESG indicators or governance mechanisms to properly manage risks, etc.

The findings of the Prix Plan Vigilance 2018

The maturity of French companies in terms of their due diligence performance (measured between 0 and 3) is distributed logarithmically, revealing that 30 companies (83%) from the CAC 40 have an inadequate maturity level (rating <2), only six of them (16%) have an acceptable maturity level (>= 2) and none of them is a maturity "leader" for its overall risk management system.



A2 Consulting ISO 20400 Barometer (2018)

Conducted with more than 200 French private and public companies from across all sectors, the barometer presented the following findings:

- 34% of the panel of buyers had never heard of the standard and 45% only knew it by name
- 42% considered that they had implemented significant actions to establish a sustainable procurement strategy, but only 30% had set up a sustainable procurement governance system or risk mapping
- 27% had a system for measuring their sustainable procurement performance with the aim of continuous improvement

ObsAR Barometer (2018)

Covering more than 250 French organisations, the ObsAR (French sustainable procurement association) barometer showed that only 26% of respondents had a risk map by supplier, with even fewer having a risk map by geographical area (19%).

Vigeo-Eiris Study (2016)

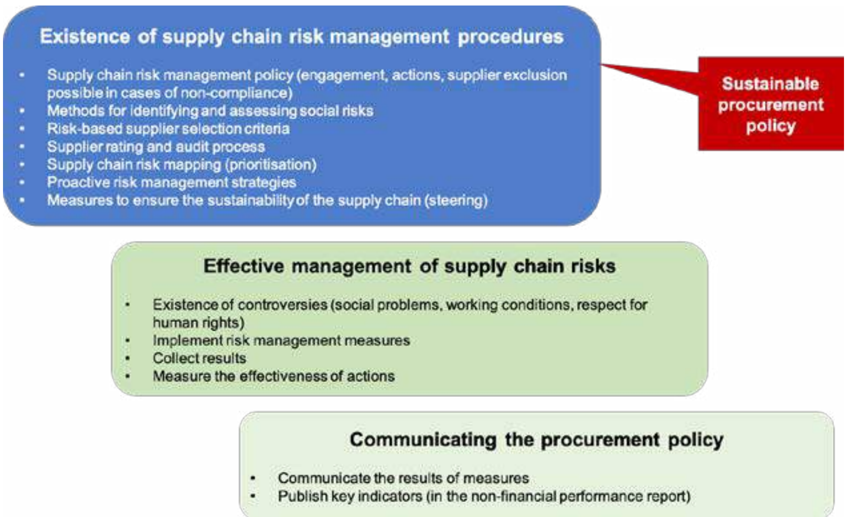
Conducted with more than 1,000 large international companies, this study highlighted the shortcomings of listed companies' due diligence mechanisms across all regions and sectors. It also revealed that companies in certain sectors that are highly exposed to environmental and social supply chain risks (retail, real estate, travel, transport and logistics) are less well prepared than average.

What do investors need?

Key points for investors

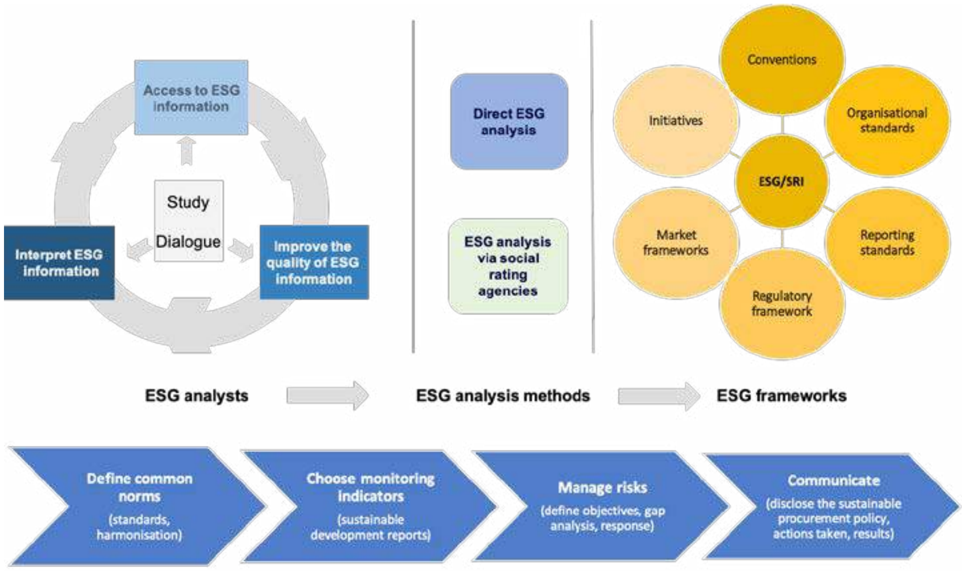
Given the importance of a sustainable supply chain, investors have expectations **for corporate transparency regarding:**

- **ESG supply chain risk management procedures,** including a sustainable procurement policy, a risk-based supplier scoring and selection process, supply chain risk mapping, proactive risk management strategies, indicators to measure supply chain sustainability, etc.
- **Effective management of ESG supply chain risks** when they arise, including feedback of information about controversies, implementation of risk management procedures, collection of results, measurement of the effectiveness of actions, etc.
- **Communication of the ESG supply chain risk management policy**



The provision and standardisation of ESG data is vital

In practice, professional investors monitor ESG risks (including those relating to the supply chain) either **directly** through their teams of ESG analysts or **indirectly** through social rating agencies. In both cases, they are confronted with a **multitude of frameworks,** although these frameworks **do not focus specifically on supply chain risks.** Professional investors therefore need **relevant and standardised ESG data relating to supply chains.**



What investors need from companies along the supply chain

II. DISCOVER THE CONCEPTS, REGULATIONS AND TOOLS AVAILABLE TO COMPANIES

This section presents the main concepts relating to supply chain risk management. It describes the essential regulations in this area and outlines the tools that companies can use to manage these risks.

A. The nature of ESG supply chain risks

The founding “principles” (ILO, UN, OECD)

ESG issues related to the supply chain are included in the main “guiding principles” prepared for international companies.

The “Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy”

The International Labour Organization (ILO) has drafted several conventions that are now considered “fundamental” in defining principles and minimum rights at work. They are grouped together in the “**The ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up**”, (1998, revised in 2010).

Prepared in consultation with representatives of States, employers and workers, these conventions are **legally binding**. Countries that have ratified a convention (91% coverage rate, out of a total of 187 countries) are required to apply it in law and practice and to report on its implementation at regular intervals. Representation and complaints procedures may also be initiated against a State that has not complied with the provisions of a convention it has ratified.

ILO Fundamental Conventions	Subject	Title	Number of signatory countries
Convention No. 29 (1930)	Forced Labour	Forced Labour	178
Convention No. 105 (1957)		The Abolition of Forced Labour	175
Convention No. 87 (1948)	Freedom of Association	The Freedom of Association and Protection of the Right to Organise	155
Convention No. 98 (1949)		The Right to Organise and Collective Bargaining	166
Convention No. 100 (1951)	Discrimination	Equal Remuneration	173
Convention No. 111 (1958)		Discrimination (Employment and Occupation)	175
Convention No. 138 (1973)	Child Labour	Minimum Age	171
Convention No. 182 (1999)		The Worst Forms of Child Labour	184

The ILO's "**Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy**" (2017), known as the "MNE Declaration", is considered to be the foundation for the labour rights that companies must respect. It provides a policy framework for "responsible" policies and practices in the workplace (employment, training, working and living conditions, labour relations).

The "MNE Declaration", is a set of **guidelines** that multinational companies can follow to "further social progress and decent work".

It is based on the Conventions mentioned above. The latest version focuses on the **role of supply chains**.

Subject	Article No.	Example guideline
Employment	20	*"To promote employment in developing countries, in the context of an expanding world economy, multinational enterprises, wherever practicable, should give consideration to the conclusion of contracts with national enterprises for the manufacture of parts and equipment, to the use of local raw materials and to the progressive promotion of the local processing of raw materials."*

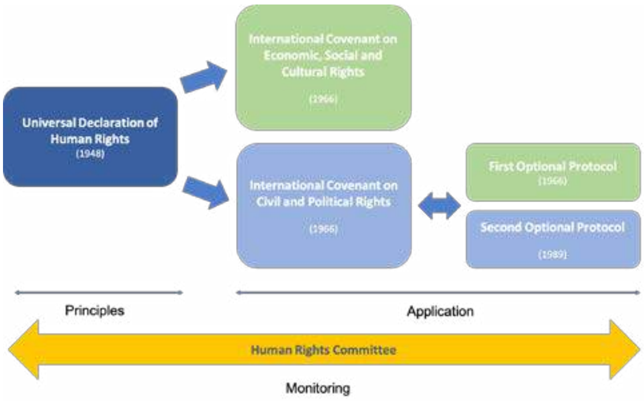
The ILO MNE Declaration and the supply chain

"The continued prominent role of multinational enterprises in the process of social and economic globalization renders the application of the principles of the MNE Declaration important and necessary in the context of foreign direct investment and trade, and the use of global supply chains."

The "United Nations Guiding Principles on Business and Human Rights"

Adopted by the United Nations Council in 2011 at the instigation of the Commission on Human Rights, the "**United Nations Guiding Principles on Business and Human Rights"** are presented as an extension of the scope of CSR. They include "human rights" and "fundamental freedoms", in addition to the standard environmental, social and governance dimensions.

These principles are essentially based on ILO conventions and the **International Bill of Human Rights,** which comprises several fundamental texts, including the **Universal Declaration of Human Rights** (UDHR), which is a "benchmark" for determining the extent to which international human rights standards are applied and respected.



The two international human rights covenants refer to the conditions necessary for their effectiveness (implementation measures). States must facilitate, promote and respect human rights, in particular by providing guarantees against the limitation of these rights. The International Covenant on Civil and Political Rights provides for the establishment of a Human Rights Committee (HRC) to monitor the implementation of enforcement measures.

The three key themes in the "United Nations Guiding Principles on Business and Human Rights"

- States must protect human rights by implementing international treaties of universal scope, using all means of public power at their disposal, including law and justice
- **Companies must comply with them,** i.e. not violate national or international law, either directly **or through a failure to monitor their supply chain**
- States and companies must ensure that victims of violations have straightforward access to fair compensation

The "OECD Guidelines for Multinational Enterprises"

The main instruments and methods that companies can use to adopt and implement responsible behaviour in their transnational activities, including their supply chain, are set out in the "**OECD Guidelines for Multinational Enterprises**". Initially drafted in 1976 and revised several times, these principles now constitute **the standard point of reference** for helping "complex" companies to take ESG issues into account.

The "OECD Guidelines for MNEs" are addressed by **governments to multinational enterprises operating in or from their territory.** They provide "**non-binding principles and standards** for responsible business conduct in a global context consistent with applicable laws and internationally recognised standards". The objective is to make companies contribute to economic and social progress. The means invoked are those of cooperation and work in partnership with States, businesses, trade unions and non-governmental organisations.

The aim of the "OECD Guidelines for MNEs"

"[To] encourage the positive contributions that multinational enterprises can make to economic, environmental and social progress and to minimise the difficulties to which their various operations may give rise."

The major ESG issues involved are grouped into **eight key areas**.

The importance accorded by businesses to the "OECD Guidelines for MNEs" stems from the different mechanisms that have been put in place to ensure compliance, including the central role played by the **National Contact Points** (NCPs). Since the early 2000s, each country adhering to the "Guidelines" has been required to establish an NCP on its territory, whose role is to assist businesses and their stakeholders in implementing the principles and resolving practical problems (mediation and conciliation).

NCPs can be activated by civil society actors (trade unions, NGOs, business circles, other interested parties, etc.), who may submit "complaints" or "specific circumstances" if it is considered that companies with their headquarters or subsidiary in the OECD member country concerned have violated the "Guidelines".

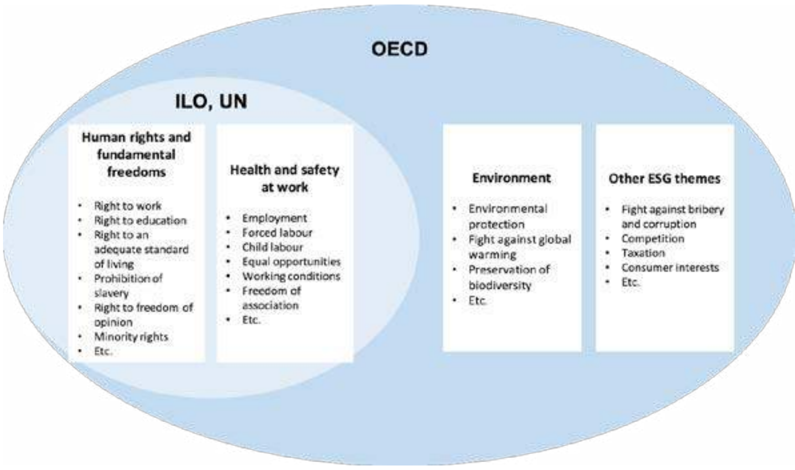
The eight areas in the "OECD Guidelines for MNEs"

- Human rights
- Employment and industrial relations
- Environment
- Combating bribery, bribe solicitation and extortion
- Consumer interests
- Science and technology
- Competition
- Taxation

What are the priorities?

The main ESG risks faced by multinational companies with complex supply chains have been integrated into the "OECD Guidelines for MNEs". They include those of the "ILO MNE Declaration" and the "UN Guiding Principles on Business and Human Rights".

The **three main themes** traditionally chosen to address social risks relating to the supply chain are **human rights and fundamental freedoms, health and safety at work,** and the **environment**. However, there is no theoretical limit to this classification, as all social subjects are inherently concerned, especially since they are interdependent. For example, in certain geographical areas bribery and corruption are often involved in employment.



One of the major advances of the "OECD Guidelines for MNEs" is the explicit consideration of the link with the company's b**usiness relationships.** Activities relating to the entire product cycle, including the supply chain (and therefore relations with subcontractors and suppliers), are directly addressed in the treatment of the "Environment" and "Bribery" themes, for example.

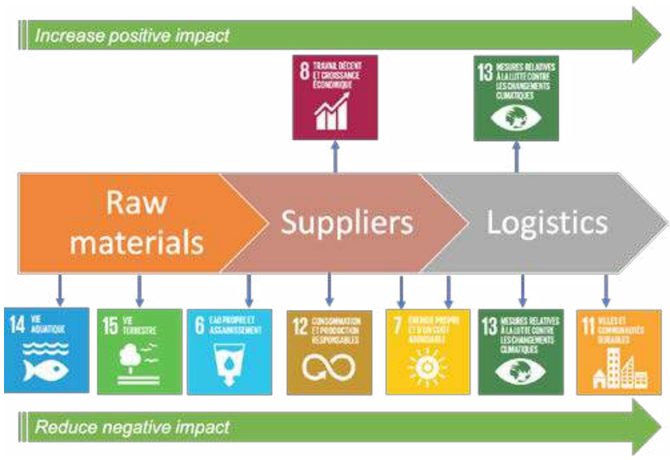
Sustainable procurement: how is it linked to the Global Compact and SDGs?

The signatory companies to the **United Nations Global Compact** commit to **ten key principles** relating to human rights, international labour standards, the environment and the fight against corruption. They summarise the **main guidelines set by the ILO, the UN and the OECD.**

In 2015, 193 United Nations (UN) Member States committed to achieve 17 global objectives, the **Sustainable Development Goals (SDGs), i**n the coming years (2015-2030). Divided into 169 "targets" to be achieved over 15 years, they cover many subjects: protecting the planet, building a more peaceful world, enabling everyone to live in safety and dignity, etc. The **SDGs concern the supply chain** since they involve applying CSR to the procurement function. **One SDG is directly linked to the major ESG risks characteristic of the supply chain: access to decent work.**

> **The ILO MNE Declaration and SDGs**
>
> "The parties concerned have the opportunity to use the principles of the MNE Declaration as guidelines for enhancing the positive social and labour effects of the operations and governance of multinational enterprises to **achieve decent work for all, a universal goal recognized in the 2030 Agenda for Sustainable Development.**"

An explicit link can also be made between the major ESG issues in the UN "Guiding Principles" and certain SDG targets. In the context of modern slavery (forced labour), the ILO and the Walk Free Foundation NGO have identified the SDG targets to be used, in particular target 8.7.



SDG No.	Title	Contents
8	**Decent work and economic growth**	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

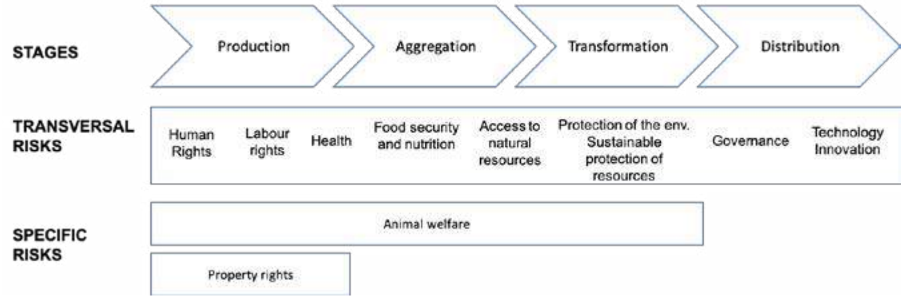
SDG Target	**Theme related to the target and modern slavery** (from ILO and the Walk Free Foundation, "Global Estimates of Modern Slavery: Forced Labour and Forced Marriage", 2017
8.7	Take effective measures to eradicate forced labour, end modern slavery and human trafficking, and end child labour in all its forms
5.2	Eliminate all forms of violence against all women and girls in the public and private spheres, including trafficking and sexual and other types of exploitation
5.3	Eliminate all harmful practices, such as child, early and forced marriage and female genital mutilation
16.2	End the abuse, exploitation, and trafficking of children
10.7	Facilitate orderly, safe and responsible migration and mobility of people, including through the implementation of planned and well-managed migration policies

Industry and geographical specificities

The ESG risks faced by multinational companies in the course of their activities (in particular through their supply chain) vary in nature and intensity, depending on the industry and geographical area concerned.

Industry specificities

Each industry sector features specific ESG risks.



For example, in the **garment and footwear sector,** ESG risks concern human and labour rights (child labour, discrimination, forced labour, health and safety at work, remuneration), followed by environmental risks (hazardous chemicals, water consumption, pollution, GHG emissions) and corruption. The supply chain risks for **metals from conflict-affected areas** (tin, tantalum, tungsten, etc.) are linked to the actions of illegal armed groups and security forces; they directly affect human rights. In the **agricultural sector,** risks depend on the position within the product cycle; at the processing stage, the main risks are environmental.

More information is provided in the OECD's specific due diligence guidance on the business sectors it considers to be highly exposed to ESG risks.

Top five sectors most affected by modern slavery
("Global Slavery Index 2018")

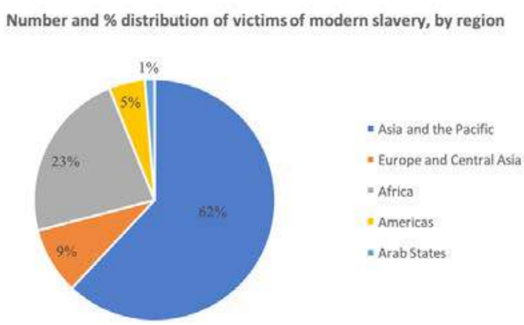
1. *IT and telephones*
2. *Garments*
3. *Fishing*
4. *Cocoa*
5. *Sugarcane*

Industry sector	Extractive Sector	Minerals from Conflict-Affected and High-Risk Areas	Agricultural Supply Chains	Garment and Footwear Sector
OECD studies				

Geographical specificities

The order of priority of ESG risks in a given industry varies depending on the geographical area and country concerned. For example, the ILO and the Walk Free Foundation (2018) estimate that, in absolute numbers of victims, the **regions most affected by modern slavery** are, in order of priority, Asia and the Pacific, Africa, Europe and Central Asia, the Americas, and the Arab States.

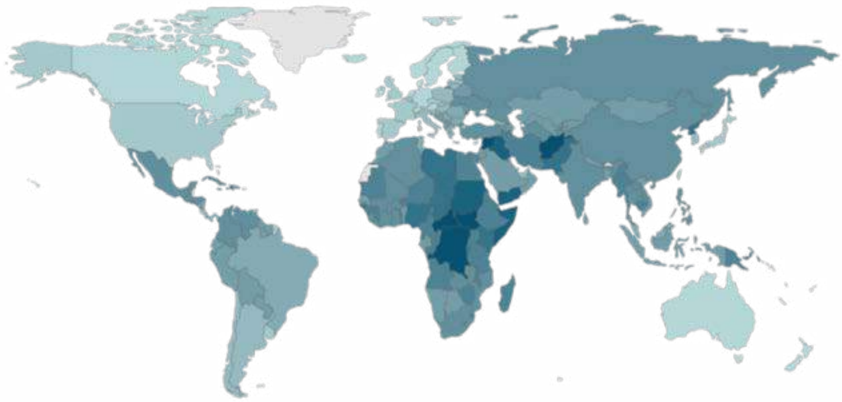
If we consider the number of victims in relation to the local population ("prevalence") and take into account the volume of business with the countries concerned (in terms of import/export turnover), it is possible to identify the "vulnerability" of geographical areas. In terms of modern slavery, this vulnerability is largely located in Central Africa.



Source: from ILO and the Walk Free Foundation, "Global Estimates of Modern Slavery: Forced Labour and Forced Marriage", 2017

Top 10 countries involved in modern slavery
(from the "Global Slavery Index 2018")

1. North Korea
2. Eritrea
3. Burundi
4. Central African Republic
5. Afghanistan
6. Mauritania
7. Sudan
8. Pakistan
9. Cambodia
10. Iran



Vulnerability of geographical areas in terms of risks of modern slavery
(from the "*Global Slavery Index 2018*")
The darker the colour of the area, the more vulnerable it is

B. Due diligence regulation

France has recently introduced a duty of vigilance law (2017). This law draws on the model of the UK Modern Slavery Act and fits within the framework of the European non-financial reporting directive.

The Modern Slavery Act

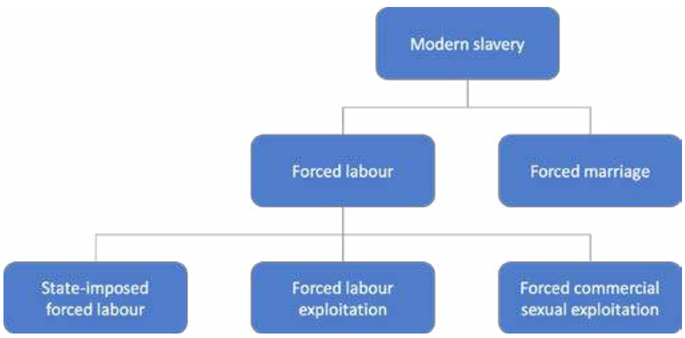
The MSA, an essential due diligence reference

The UK Modern Slavery Act (adopted in 2015) is the first European legislative measure requiring companies to provide information on their **due diligence processes** along their whole supply chain.

It concerns the issue of the **fight against modern slavery,** namely all forms of forced labour under the threat of physical or psychological abuse, as well as some of its variants (forced marriage, forced prostitution, etc.).

The MSA is a non-financial reporting obligation that requires companies, from all industries, with an annual turnover of more than £36 million to disclose the **measures taken to combat modern slavery in their supply chains** and to communicate if such measures have not been taken. The statement (annual report) must be approved by the company's executive management and made available on the company's website.

Section 54 of the Act, entitled "Transparency in supply chains", specifies companies' reporting obligations, which concern measures to identify and reduce the risks of forced labour in their activities, including those of third parties (subcontractors, suppliers, etc.). The law is not prescriptive; it does not provide a framework for reporting information, but instead leaves companies free to choose their presentation. Section 54.5 nonetheless includes guidance specifying the information that may be included in the statement, grouped into **six themes.**



The six themes in the MSA

- Description of the **organisation's** structure, its business model and its supply chain;
- Presentation of its **policies in relation to slavery** and human trafficking;
- Details of its **due diligence processes** in relation to slavery and human trafficking in its business relationships and supply chain;
- **Identification** of the elements of its business relationships and supply chain where there is a risk of slavery and human trafficking taking place, and the steps it has taken to assess and manage these risks;
- Its **effectiveness** in ensuring that these risks do not occur, measured using appropriate performance indicators;
- Implementation of **training** on the topic of slavery and human trafficking for its staff and management.

The Act therefore presents no **regulatory** constraints on how due diligence should be conducted along the supply chain. In the event of non-compliance, there are also no financial or criminal sanctions, although an injunction or civil proceedings may be considered.

The influence of the MSA, or "How the MSA spread throughout the G20"

Initiatives to **voluntarily report on ESG supply chain risks,** particularly those relating to human rights and decent working conditions, have grown rapidly over the last five years, under pressure from governments, themselves pressured by numerous stakeholders (trade unions, NGOs). By the end of 2018, **eight G20 countries** had put in place a law similar to the Modern Slavery Act: Brazil, China, France, Germany, Italy, the United Kingdom, the United States and Australia.

It should be noted, however, that Brazil and the State of California were forerunners in this area. As early as 2004, **Brazil** had set up a public "black list" of private companies found to be violating fundamental ESG rights (a "naming and shaming" mechanism). This procedure was accompanied by possible trade sanctions (such as freezing government subsidies) and criminal sanctions. In addition, the California Transparency in Supply Chains Act appeared five years before the UK's MSA (2010), built on a model that has since been copied.

China is one of the few Asian countries to have legislated in this area. In 2015, it introduced measures to assess and sanction private companies for workplace safety compliance. The texts primarily concern the mineral extraction sectors.

The last country to have legislated is Australia, which adopted its Modern Slavery Act in 2018, based on the model of the UK MSA of 2015. This law imposes reporting requirements for companies with annual turnover of more than AU$100 million and is more rigorous than the UK MSA.

In **continental Europe,** with the exception of the French duty of vigilance law (2017), the texts (in **Italy** and **Germany**, for example) are a transposition of the European Directive 2014/95/EU on non-financial reporting, which requires large companies to publicly produce a non-financial statement containing a large amount of information relating to ESG issues including human and labour rights.

Many other texts are currently under study.

European-style "comply or explain"

Directive 2014/95/EU on non-financial reporting: the requirement to report... but not to do

The European **Directive on non-financial reporting** encourages companies to disclose their corporate social responsibility framework, with a **focus on managing ESG supply chain risks.**

The directive, which came into force in December 2014, imposes a non-financial reporting obligation on all "public interest entities" (PIEs) with more than 500 employees, moving towards an **integrated reporting** approach. The stated objective is to increase investor and consumer confidence in large organisations by combining non-financial information with business issues.

The core of the Directive is based on companies' obligation to produce a **"non-financial statement"** containing useful information on the **business model, policies applied, related risks, key performance indicators and results obtained,** including "information relating to at least environmental matters, social and employee-related matters, respect for human rights, anti-corruption and bribery matters".

It activates several levers, all of which are linked to due diligence obligations:

The "non-financial statement" and due diligence

- *"The non-financial statement should also include information on the* ***due diligence processes*** *implemented by the undertaking (...) in order to* ***identify, prevent and mitigate existing and potential adverse impacts.****"*
- *"The risks of adverse impacts may stem from the undertaking's own activities or may be linked to its operations, and, where relevant and proportionate, its products, services and business relationships, including its* ***supply*** *and subcontracting* ***chains****."*

- **Prioritisation of key ESG issues,** as set out in the guiding principles of the ILO, the United Nations and the OECD, and more generally, in international CSR frameworks;
- **Consideration of ESG issues specific to the supply chain;** and
- **The exercise of due diligence, risk management, relevance and materiality.**

However, the European Directive on non-financial reporting is not very restrictive. It is based on the **“comply or explain”** principle. Under this mechanism, companies may present the information specified in the Directive, and if they do not (for one or all of the provisions), they must clearly and freely state the reasons for their choices. **The obligation is to “declare” rather than to “do”.**

The “Comply or Explain” principle

“Comply or explain” is a fundamental principle of transparency according to which actors subject to a code or a legal text should apply its provisions (“comply”), while being able to deviate from them, in which case they must clearly and precisely justify their choices by explaining (“explain”) in what way and why, if any, they deviate from all or part of the rules.

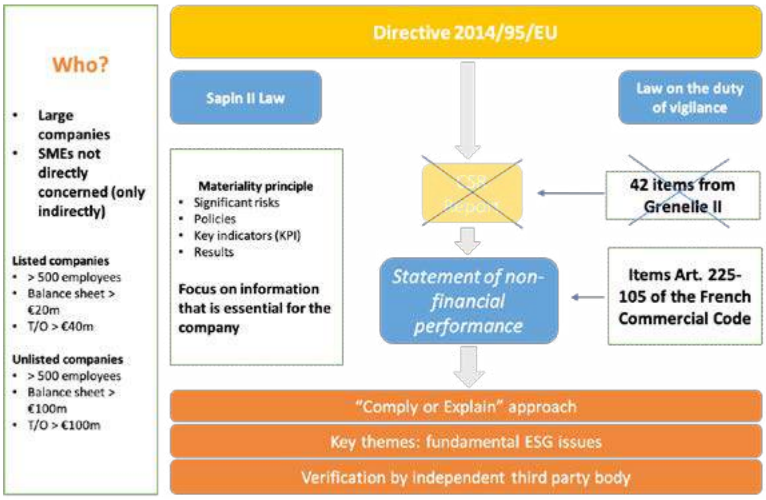
This principle is based on the responsibility of the actors, their use of “best practices” and a high degree of flexibility in the way obligations are met.

Transposition of the European directive on non-financial reporting

To date, **27 European Union countries** have transposed Directive 2014/95/EU on non-financial reporting, with the exception of Spain. Around 6,000 companies are involved. National laws focus on a common core of information covering all major ESG topics: environmental performance, social issues related to labour law, human rights and anti-corruption. The main differences concern the scope of application (size and nature of organisations), the reporting mechanisms and the penalties applied to companies if they fail to comply with their communication obligations.

In France, the transposition of the European Directive on non-financial reporting was performed through Decree No. 2017-1265[1], which replaces Article 225 of the Grenelle II Act. It applies to financial years beginning on or after 1 September 2017 for:

- Listed companies with more than 500 employees and a balance sheet exceeding €20 million or a turnover above €40 million;
- Unlisted companies with more than 500 employees and a balance sheet or turnover over €100 million;
- Credit institutions, insurance companies, mutual insurers and pension funds, designated as public interest entities.



Decree No.2017-1265 amends the provisions **of Articles L. 225-102-1** and **R. 225-105 of the French Commercial Code:**

- It requires companies to issue a “**Statement of Non-financial Performanc**e” (Déclaration de performance extra-financière, DFEF), replacing the “CSR report”;
- It refers to the **fundamental ESG issues** and specifies the **ESG information** that companies must disclose (42 “items”);
- Specifically, companies must communicate the **consideration of CSR issues in their procurement policy,** and more generally, the **relationship with their subcontractors and suppliers;**
- It calls for the use of **risk management** techniques to manage the risks relating to the company’s activities (including in the supply chain);
- It explicitly refers to the reporting obligations under the **duty of vigilance law.**

The treatment of ESG risks in the statement of non-financial performance (DFEF)

*“The statement may refer, where applicable, to the **information mentioned in the vigilance** plan provided for in I of Article L. 225-102-4.”*

For each category of ESG information, the statement should present (see Article R225-105 of the French Commercial Code):

*“1° A **description of the main risks** related to the activity of the company or group of companies including, where relevant and proportionate, the risks created by its **business relationships,** products or services*

*2° A description of the policies applied by the company or group of companies including, where applicable, the **due diligence procedures** implemented to prevent, identify and mitigate the occurrence of the risks mentioned in 1°*

*3° The **results** of these policies, including **key performance indicators.***

Where the company does not apply a policy with respect to one or more of these risks, the statement shall include a clear and reasoned explanation of the reasons for this decision.”

1 Decree No. 2017-1265 of 9 August 2017 implementing Ordinance No. 2017-1180 of 19 July 2017 on the publication of non-financial information by certain large companies and groups of companies.

Statement of non-financial performance / ESG "supply chain" information			Listed cos.	Unlisted cos.
Type of information	**Theme**	**Information ("items")**		
Social information	Subcontracting and suppliers	Social and environmental issues are taken into account in the procurement policy	X	X
		Taking suppliers' and subcontractors' social and environmental responsibilities into account in the relationship with these parties	X	X

European regulation with an industry focus

Two European regulations for private companies set out **due diligence obligations** along the supply chain in **industry sectors that are particularly sensitive with respect to fundamental ESG risks.**

- **The European Union Timber Regulation (EUTR)**

Regulation (EU) no. 995/2010,[2] known as the **EUTR,** is intended to limit the risk of marketing and circulating timber produced under illegal conditions; it has applied since March 2013 to all operators who place timber or timber products on the EU market for the first time.

The EUTR requires the implementation of a **due diligence** system when marketing timber or timber products for companies that import or harvest timber or timber products for commercial purposes.

This text provides for sanctions in the event of non-compliance, which, depending on their seriousness, may lead to a formal notice, suspension of the company's activity, daily penalty payments, payment of a fine of up to 500,000 euros or a prison sentence of up to seven years.

The risk information to be communicated in the EUTR

- **Supply chain mapping**
- A **due diligence** system comprising:
  - **Measures** and **procedures providing access to information** about the **supply** by the operator of timber or timber products placed on the market
  - **Procedures for analysing and assessing the risk** of illegal timber being placed on the market
  - **Risk mitigation procedures** (when the actual risk is significant)

- **European regulation on extractive industries**

Regulation (EU) 2017/821[3] aims to lay down **supply chain due diligence obligations relating to certain metals and their ores.** The regulator's objective is to oblige the EU importers concerned (including smelters and refineries) to put a stop to their indirect support for armed conflicts, which cause serious human rights violations, by asking them to implement a mechanism for **managing their purchases** that ensures that they do not contribute to adverse effects.

The text concerns importers of all sizes (including SMEs) but it is not applicable below certain volume thresholds. It entered into force in June 2017 and will apply from 1 January 2021.

The Regulation is accompanied by Recommendation (EU) 2018/1149,[4] which provides operational **guidelines** to help companies apply the Regulation (information to identify risk areas, warning signals to identify potential risks, etc.).

This text is explicitly based on the "OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas", which is in turn based on the "OECD Guidelines for Multinational Enterprises".

The French duty of vigilance

In 2017, France became the first European country to adopt a specific law on the "**duty of vigilance**". Based on the Anglo-Saxon model, it draws on the experience of the Sapin II Law, which was the first binding law on ESG issues in France.

2 "Regulation (EU) No 995/2010 of the European Parliament and of the Council of 20 October 2010 laying down the obligations of operators who place timber and timber products on the market".
3 "Regulation (EU) 2017/821 of the European Parliament and of the Council of 17 May 2017 laying down supply chain due diligence obligations for Union importers of tin, tantalum and tungsten, their ores, and gold originating from conflict-affected and high-risk areas".
4 "Commission Recommendation (EU) 2018/1149 of 10 August 2018 on non-binding guidelines for the identification of conflict-affected and high-risk areas and other supply chain risks under Regulation (EU) 2017/821 of the European Parliament and of the Council".

La Loi Sapin 2

Law no. 2016-1691 of 9 December 2016 on "transparency, the fight against corruption and the modernisation of the economy", known as the **Sapin II Law,** was an initial French regulatory step in terms of due diligence obligations.

Applicable from 1 June 2017, it requires large French companies (with more than 500 employees and a turnover of more than €100 million) to **put in place measures to prevent and detect corruption,** both in France and abroad (Article 17). The risk **management system** must be composed of **eight measures.**

Two points explicitly refer to **business relationships** (including the **supply chain**):

- **Corruption risk mapping** should be performed **"in function of the company's activities and the countries in which it operates".** Companies should be vigilant in the activities and countries where corruption is most likely to be present;
- **Procedures for assessing corruption risk** should include "first-tier suppliers and intermediaries" (tier 1 supply chain).

Sapin II also introduced an **administrative penalty,** enforced by the new French Anti-Corruption Agency, l'Agence française anti-corruption (Article 1). The penalty imposed by the Enforcement Committee (Commission des sanctions) can be up to €1 million for legal entities, and the director can be held personally liable (criminal conviction for corruption), with a penalty of up to €200,000. The company may also be excluded from public procurement.

Sapin II Law / Article 17 (8 measures)

- **A code of conduct** that defines and illustrates the various types of behaviour to be prohibited.
- An internal **whistleblowing mechanism** to collect reports from employees who are aware of conduct or situations contrary to the code of conduct.
- **Risk mapping,** in function of the company's activities and the countries in which it operates. This must be updated regularly.
- **Procedures for assessing** the situation of customers, first-tier suppliers and intermediaries.
- **Accounting control procedures,** carried out internally or by an external auditor.
- **A training system** for managers and staff in high-risk positions.
- An internal **disciplinary procedure** for sanctioning employees who violate the code of conduct.
- An internal **inspection and assessment system** for the measures implemented.

The law on the duty of vigilance: the first French law requiring companies to implement a system to manage ESG supply chain risks

Inspired by the Sapin II Law, French Law n° 2017-399 of 27 March 2017 on the duty of vigilance for parent and instructing companies with respect to their subsidiaries and subcontractors (*Loi relative au devoir de vigilance des sociétés mères et des entreprises donneuses d'ordre auprès de leurs filiales et sous-traitants*) is the first French measure obliging companies to adopt a **concrete approach to managing the risks affecting their supply chain and business relationships.** Business (or commercial) relationships are defined as any type of relationship that the company maintains with an identified stakeholder (supplier, investor, customer, service provider, etc.) in its activities.

The duty of vigilance law establishes an obligation for parent and instructing companies to **identify risks and prevent "serious violations of human rights and fundamental freedoms, the health and safety of persons and the environment".** It requires companies headquartered in France with more than 5,000 employees, or companies headquartered abroad with more than 10,000 employees, to prepare, implement and publish a **"vigilance plan"** in their "management report" as from January 2018 (see Article 4). A "report on its effective implementation" must also be included in the management report. Between 150 and 200 companies are affected by these requirements.

According to Article 1, "the (vigilance) plan should be developed **together with the company's stakeholders,** where appropriate, through multi-stakeholder initiatives within sectors or at a territorial level". Five measures should be included in the plan (Article L225-102-4 of the French Commercial Code).

The five measures of the "Vigilance Plan"
(Article 1)

- Risk mapping to identify, analyse and prioritise risks
- Regular evaluation procedures regarding the situation of subsidiaries, subcontractors or suppliers with whom there is an established business relationship, in line with the risk mapping
- Appropriate actions to mitigate risks or prevent severe impacts
- A whistleblowing mechanism for collecting alerts on the existence or occurrence of risks
- A system for monitoring implementation measures and evaluating their effectiveness

The duty of vigilance law does **not include sanctions** as such, although there is a **formal notice mechanism.** If a company fails to meet its obligations within three months of the formal notice (made at the request of any party with a legitimate interest, such as human rights associations or trade unions), the competent court can order the company to respect its obligations. In the event of a breach, the company may be ordered to repair the damage caused and pay a penalty.

The duty of vigilance law therefore creates an **"obligation of means"** but **no "obligation of results".**

C. Supply chain risk management tools

Due diligence

The main guiding principles of the ILO, UN and OECD are at the heart of the notion of **due diligence.** They constitute a **frame of reference** in the field, and can therefore be used as risk management tools by companies.

Due diligence according to the UN and OECD / Practical aspects

The main guiding principles of the ILO, UN and OECD are at the heart of the notion of due diligence. They constitute a frame of reference in the field, and can therefore be used as risk management tools by companies.

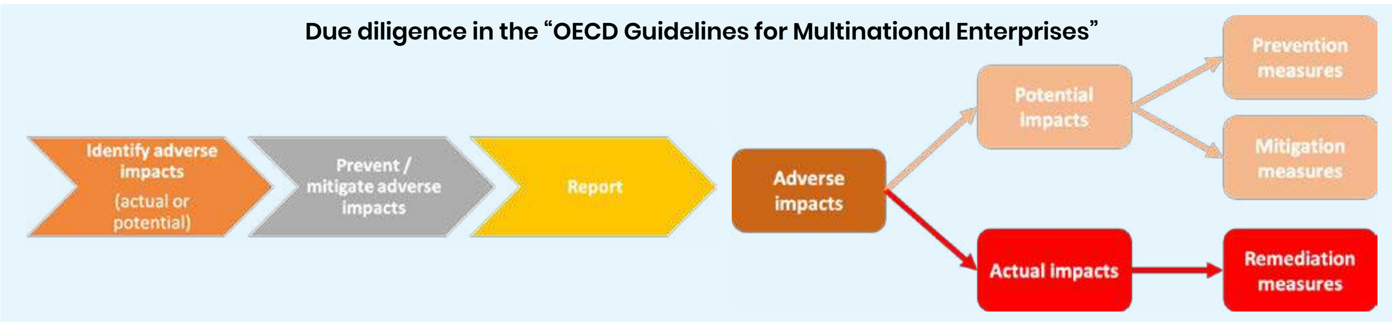
In 2011, the UN's "Guiding Principles on Business and Human Rights" laid the foundations for "**risk-based due diligence**".

Very similar to the UN guidance, the **due diligence mechanism set out in the "OECD Guidelines for Multinational Enterprises"** (2011) is now the undisputed **reference** on this topic. It is presented as a mechanism enabling companies to "identify, prevent, mitigate and account for how they address their actual and potential adverse impacts". It is further specified that "Potential impacts are to be addressed through prevention or mitigation, while actual impacts are to be addressed through remediation."

Due diligence in the UN's
"Guiding Principles on Business and Human Rights"

A "**risk-management** process" through which companies can:

- **Identify** and **assess** any actual or potential adverse human rights impacts
- **Prevent** actual and potential impacts
- **Manage potential impacts:**
  - **Mitigate** the effects of potential impacts (prevent or stop the company's contribution to potential impacts)
  - **Monitor the measures taken** (taking into account the results of impact studies)
  - **Track the effectiveness** of the measures
  - **Report** on how companies are addressing their impact
- **Remedy** actual impacts (stop them)



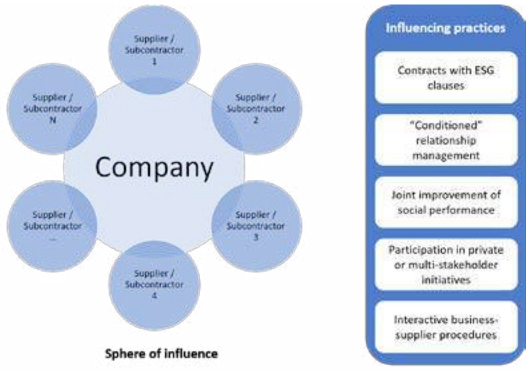
Sphere of influence, proportionality and priority

When we look beyond the identification and management of risks **for the company itself,** to also include the risks of direct or indirect adverse impacts related to all of the company's business relationships ("relationships with business partners, entities in the supply chain and any other non-State or State entities directly linked to its business operations, products or services"), we refer to a **sphere of influence.** The contribution to an adverse impact is thus extended to any activity that causes, facilitates, or induces **another entity** to cause the adverse impact.

This means ensuring that companies encourage their business partners, including **subcontractors** and **suppliers**, to apply the principles of due diligence themselves.

The company's ability to **change the harmful practices of the entity responsible for an adverse** impact can take different forms:

- Preventively, by establishing contractual agreements in the relationship (commitment clauses);
- By temporarily suspending the relationship during the mitigation period, or by severing it if mitigation efforts fail;
- By adopting a cooperative approach to improve suppliers' social performance (staff training, strengthening risk management skills, etc.);
- By setting up interactive business-supplier procedures (meetings, consultations, audits, etc.).



In practice, risk management in the sphere of influence should naturally satisfy the principles of **non-transfer of responsibility, proportionality** and **priority.**

Three principles for the application of due diligence

Non-transfer of responsibility: a company involved in a business relationship cannot transfer its due diligence responsibilities but must, on the contrary, support the stakeholders involved

Proportionality: the diligence must be adapted to the size and specificities of the company

Priority: when dealing with a large number of suppliers, due diligence should be performed where the risk of adverse impacts is greatest

Due diligence practices

In terms of **respect for human rights,** the UN guide "The corporate responsibility to respect human rights" (2012) provides **concrete examples** of types of adverse impacts, the severity of impacts, risk management policy, stakeholder involvement (including trade unions), governance models, prevention and mitigation methods, remediation processes (including preventive and corrective actions), risk measurement indicators, data sources, results monitoring methods, communication rules and grievance mechanisms (to deal with complaints and conflicts).

The recent "OECD Due Diligence Guidance for Responsible Business Conduct" (2018), or "RBC", has become the **standard reference for due diligence management techniques.** It includes the ESG themes covered by the ILO Declaration and the UN Guiding Principles, and goes beyond human rights (employment and industrial relations, environment, anti-corruption, etc.) in a spirit of continuous improvement.

It presents a number of practical actions and examples related to each of the six steps identified.

In addition, there are many examples specific to risk sectors in the OECD industry guides on supply chain risks, including risk suspicion factors, warning signals, risk measurement indicators (KPIs), warning systems, etc.

Step no.	Example due diligence actions
1	Develop specific policies on the company's most significant risks, building on findings from its risk assessment, in order to indicate its specific approach to addressing these risks.
2	Create an initial, high-level picture of the company's areas of operation and types of business relationships to understand what relevant information to gather.
3	Consult and engage with affected or potentially affected stakeholders and rightsholders or their representatives in developing and implementing corrective action plans.
4	Carry out periodic assessments of business relationships, to verify that risk mitigation measures are being pursued or to ensure that adverse impacts have been prevented or mitigated.
5	Disclose the due diligence information in a way that is easily accessible and appropriate, e.g. on the company's website, at the company's premises and in local languages.
6	Seek to assess the claimants' level of satisfaction with the remediation process and its outcome(s).

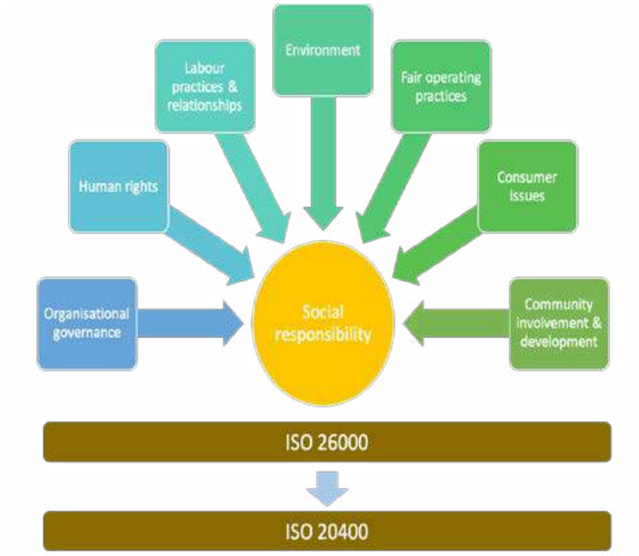
International Standard ISO 20400

A standard based on ISO 26000

Companies wishing to go beyond the OECD practical principles can rely on ISO 20400 (2017).

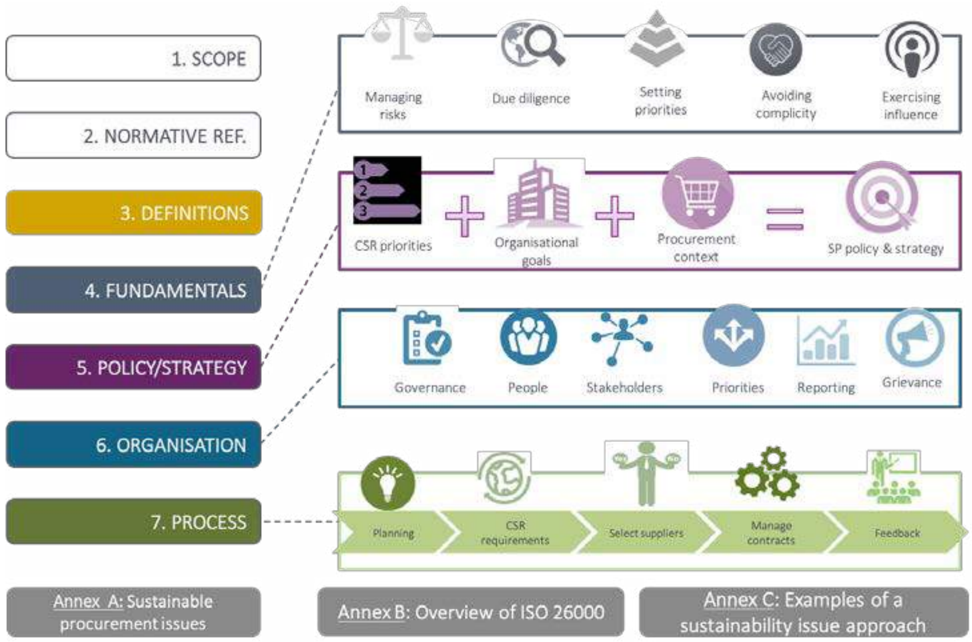
Dedicated to **integrating sustainable development issues within the procurement function,** and established in collaboration with major international organisations (UN, OECD, etc.), **ISO 20400** provides **recommendations** (flexible framework) for decision-makers and buyers who wish to control their costs while including **social and environmental risk management.**

Based on the **seven core subjects of ISO 26000,** it is applicable to all types of organisation (regardless of their size, activity or location).



Its main objective is to **integrate sustainability into the procurement process** and to help companies to **identify and manage the impacts on stakeholders at the various stages of the procurement activity** (strategy, policy, organisation, process). It considers all major ESG issues relating to the supply chain and explicitly includes **due diligence.**

In this sense, it has become the **indispensable reference** for companies wishing to manage their supply chain risks.

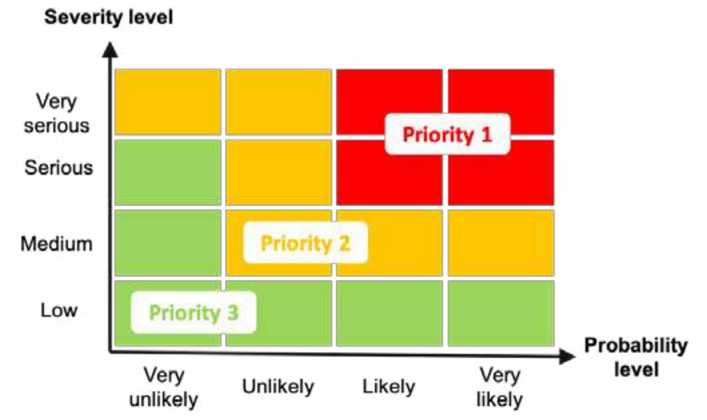


Meeting investor expectations

ISO 20400 is based on the core risk management concepts, as set out in **ISO 31000** (2018).

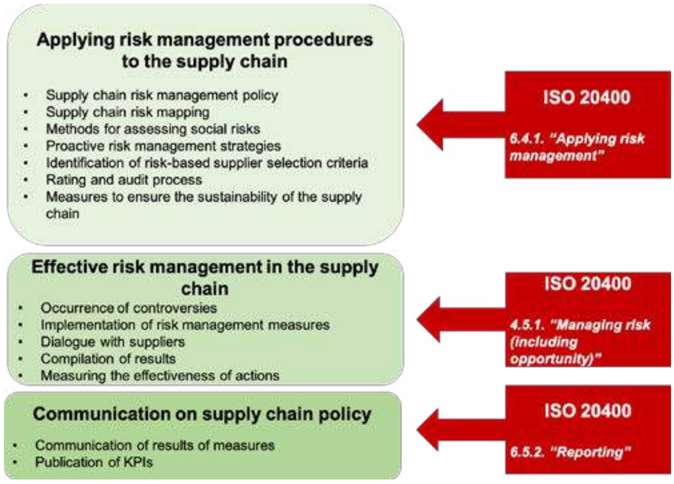
Core risk management concepts from ISO 31000

- Risk appetite
- Definition of objectives
- Types of risk
- Identification / evaluation / assessment / prioritisation of risks (mapping)
- Risk treatment / management / control
- Risk-management performance
- Continual improvement process
- Information and communication



It proposes a **risk management system** that precisely meets investors' expectations:

- Paragraph 6.4.1. "Applying **risk management**", provides a set of approaches for defining risk management policies and procedures
- Paragraph 4.5.1 "Managing risk (including opportunity)" provides considerations for effectively managing procurement risks
- Paragraph 6.5.2. "Reporting" presents the requirement to report information clearly



The "Supplier Relations and Sustainable Procurement" label

Public certification dedicated to sustainable procurement

In 2010, the French Business Mediator and the National Procurement Council (*Conseil National des Achats*, CNA) launched the **"Responsible Supplier Relations" charter** to "encourage companies, and public and private organisations to adopt responsible practices towards their suppliers". It consists of around ten commitments aimed at **facilitating the management of the procurement function** (monitoring of indicators, corrective actions) and **strengthening the partnership relationship between instructing parties and suppliers** (to date, it has been signed by approximately 2,000 companies).

Continuing in the same vein, in 2012, an initial **"Responsible Supplier Relations" certification label** (*Relations Fournisseurs Responsables*, RFR) was created by the same bodies. Awarded by the public authorities to "French companies in recognition of the **sustainable and balanced relations they have with their suppliers",** the RFR label is a "**voluntary approach** that aims for the recognition of its **commitment to a sustainable procurement policy** and of its desire to promote a **process of continuous improvement** of its practices".

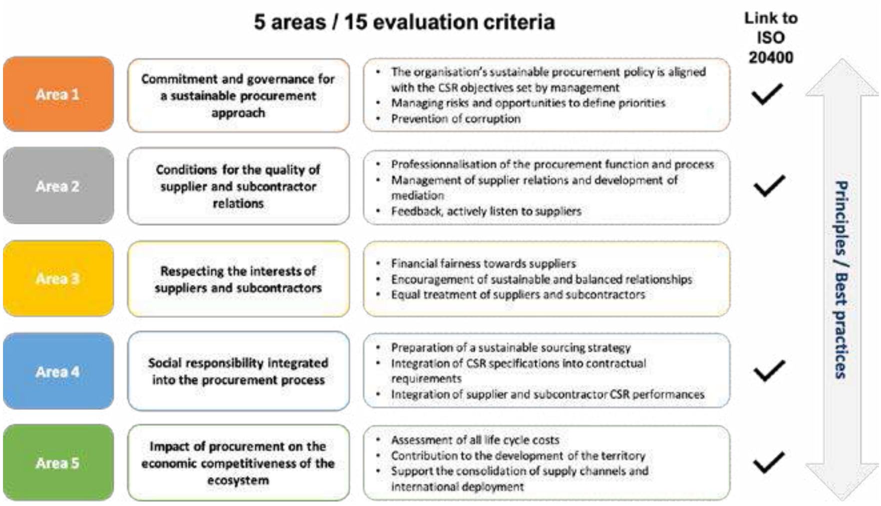
Extended to SMEs and VSEs in 2017 with the additional cooperation of French sustainable procurement association ObsAR and AFNOR, the French national organisation for standardisation, the RFR certification has been renamed the **"Supplier Relations and Sustainable Procurement" label** (*Relations Fournisseurs et Achats Responsables*, RFAR). It is granted by certified evaluation bodies (SGS, ASEA, AFNOR, RSE France) for a period of three years (annual verification), under the aegis of an allocation committee (*Médiation des Entreprises*, CNA). Roughly 40 private and public organisations have obtained the certification to date (representing more than €100 billion of annual purchases).

Certification linked to ISO 20400

One of the advantages of the RFAR label is that its **design is closely linked to ISO 20400.** Of the RFAR's five areas and 15 evaluation criteria, four and ten of them respectively are directly linked to the standard. For example, the "Managing risks and opportunities to define priorities" criterion is related to Chapter 4 of the standard; while the "Integrating the CSR performance of suppliers and subcontractors" criterion is related to points 7.3.5 and 7.4 of the standard.

The RFAF is currently unparalleled worldwide since it allows companies that have received the certification to publicly display **their level of supply chain control.** It provides valuable information to instructing parties (customers), helping them to manage their procurement risks.

However, it is primarily aimed at large French companies (the international dimension, which is characteristic of the supply chain, is not taken into account). Moreover, unlike ISO 20400, it is based on the publication of a certification (the label) and not on an assessment of the company's maturity.



III. MANAGING INVESTMENT RISKS FROM THE SUPPLY CHAIN

This section is intended for investment practitioners. It provides guidance and recommendations to help practitioners take ESG supply chain risks into account in their investment and risk management decisions. These decisions relate to company analysis, investment due diligence and dialogue with companies.

A. Assessing companies' exposure to ESG supply chain risks

Using supply chain risk indicators and frameworks

Sourcing ESG supply chain data

Investors can **directly access the information** they need to assess the ESG risks that companies face in their supply chains, without turning to a service provider.

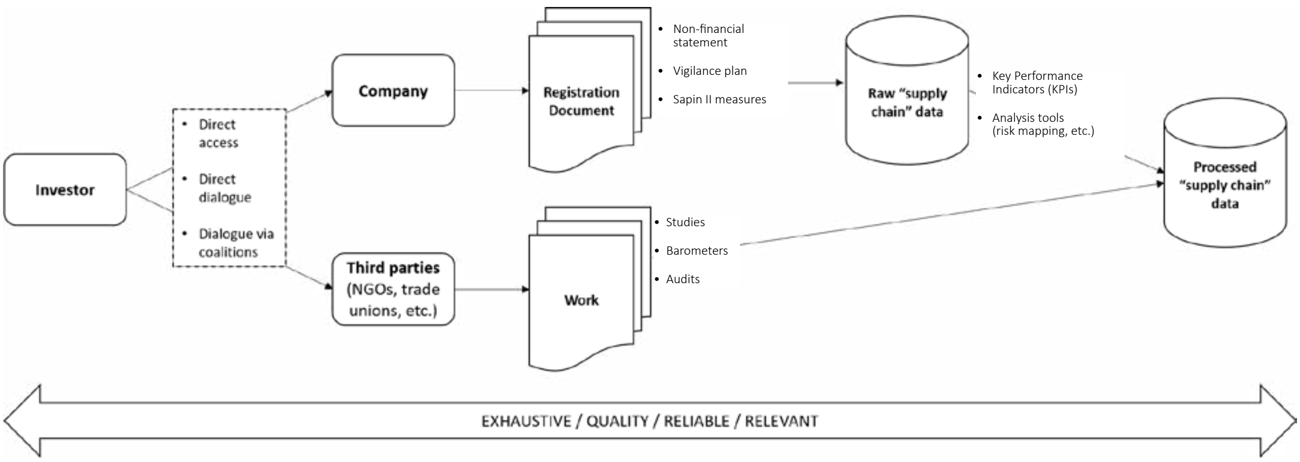
This information is largely based on the **raw ESG data** provided by companies. At best, these data will already have been processed and presented as **Key Performance Indicators** (KPIs) showing the ESG risks stemming from companies' relationships with their subcontractors and suppliers. In other cases, this information is enriched with **analytical tools** that provide more information than a simple exposure report (for example, risk mapping relating to the duty of vigilance).

The primary source of information for professional investors is a company's **annual report** ("registration document"). Companies disclose the information required to company with their regulatory obligations, as set out below:

- Non-financial performance statement (cf. Directive 2014/95/EU)
- Vigilance plan (cf. French duty of vigilance law)
- Corruption risk management plan (cf. Sapin II Law)

This information can be supplemented by analysing the **work performed by third parties,** such as NGOs, specialised agencies or government consulting firms, which may include **studies, barometers** (to identify best practices and areas for improvement) or external audits (see examples in the bibliography). Access to this work can be facilitated by creating **shareholder coalitions** to encourage transparency or by **adhering to specific initiatives. Dialogue** with the various stakeholders (NGOs, trade unions, etc.), including first and foremost the companies themselves, is naturally encouraged.

This information (annual reports, specialised studies) should be consolidated and managed using standard data management rules (requiring the information collected to be **exhaustive**, of **sufficient quality, reliable** and **relevant**), in accordance with the essential principles of **data governance.**



"Supply chain" reporting frameworks

In recent years, the communication of ESG data, including information relating to the relationship with subcontractors and suppliers, has been facilitated by the use of **reporting frameworks,** in particular those of the key international conventions (OECD, UN, ILO). These frameworks not only make it possible to classify the information concerned, and thus to compare it between companies, but also to establish links between companies. Two of the frameworks are essential for managing supply chain data: the Global Reporting Initiative and the UN Guiding Principles Reporting Framework.

- **The Global Reporting Initiative (GRI)**

The most well-known and widely used reporting framework for companies is undoubtedly the **Global Reporting Initiative (GRI).** More than 80% of listed companies use it worldwide (more than 8,000 organisations in more than 90 countries).

GRI STANDARDS

The GRI **reporting standards** are established with the GSSB (Global Sustainability Standard Board), an independent international organisation (whose members represent companies, pension funds, consulting firms, universities, etc.). Created in 1997, this reporting framework provides guidelines (taxonomy, indicators) that focus on the materiality and relevance of ESG issues, use so-called "essential" criteria and adapt these criteria to industry specificities.

In its G4 version, it provides a **tree structure of ESG themes related to the supply chain** that can be used as an initial basis for categorising information. It is sufficiently precise to identify "changes [...] regarding the organization's [...] supply chain" (G4-13) or "substantial, actual and potential negative impacts for labour practices in the supply chain and actions taken" (G4-LA15).

Supply chain taxonomy under the GRI (G4)

GENERAL STANDARD DISCLOSURES

- Organisational profile: G4-12, G4-13
- Governance: G4-41

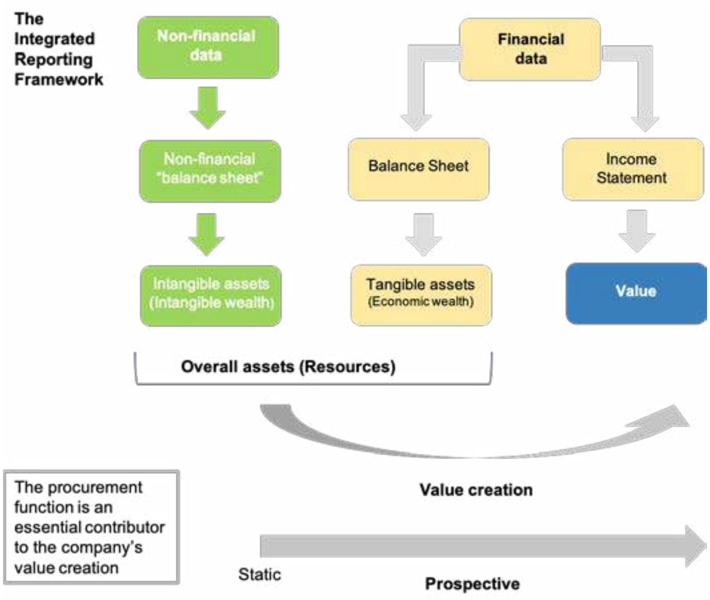
SPECIFIC STANDARD DISCLOSURES

- Category: Economic
  - Procurement practices: G4-EC9
- Category: Environmental
  - Energy: G4-EN4
  - Emissions: G4-EN17
  - Supplier environmental assessment: G4-EN32, G4-EN33
- Category: Social
  - Sub-category: Labour practices and decent work
    - Occupational health and safety: G4-LA6
    - Supplier assessment for labour practices : G4-LA14, G4-LA15
  - Sub-category: Human rights
    - Freedom of association and collective bargaining: G4-HR4
    - Child labour: G4-HR5
    - Forced or compulsory labour: G4-HR6
    - Supplier human rights assessment: G4-HR10, G4-HR11
  - Sub-category: Society
    - Supplier assessment for impacts on society: G4-SO9, G4-SO10

It should be noted that in 2016, the GRI's new modular structure proposed a version of the G4 standards based on revised terminology ("GRI standards") and a new numbering system (example: G4-HR5 "Child labour" -> 408.1).

In addition, the GRI releases **correspondence tables with the main UN and ILO conventions,** the OECD Principles, the European Directive on non-financial reporting, the Carbon Disclosure Project, the Global Compact, the SDGs, etc.

The latest version of the GRI framework is based on the main principles of Integrated Reporting (International Integrated Reporting Council), so as to be aligned with the movement initiated by the main CSR regulatory texts (starting with the European Directive on non-financial reporting), namely, that of **materiality** (an integrated report is "a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term").



- **UN Guiding Principles Reporting Framework (UNGP)**

Launched in 2015 by the Shift Project and Mazars, the UNGP is the **first reporting framework for companies to communicate their respect for human rights,** in accordance with key fundamental principles, including those of the UN. Although this framework does not cover all ESG risks (it is intended primarily for companies subject to the Modern Slavery Act), it has the merit of addressing international firms in all sectors. It integrates the supply chain, and addresses impact and risk management issues. In particular, it addresses the subject of remediation, which is absent from the GRIs.

The UNGP reporting framework is related to other major frameworks (GRI, IIRC). It also provides access to a database of information provided by user companies.

ESG supply chain indicators (KPI)

Although the regulations invite companies to develop their communication system for non-financial performance data, ESG indicators for supply chain risks are not yet widely used in these systems.

In 2013, the French sustainable procurement association l'Observatoire des Achats Responsables (ObsAR) published a guide in which it listed and recommended the publication of 15 "relevant" indicators grouped into five typologies "to cover the relationship with suppliers, their practices, the impacts of the products purchased (negative or positive) and the management of the organisation that supports the implementation of sustainable procurement".

Objective evaluated	Description	ObsAR indicator
	Implementation objective	
Implementation of the approach internally	Verify that action plans and dedicated internal training (procurement, prescribers, legal, etc.) have been implemented	• % of buyers trained in sustainable procurement • % of buyers whose objectives are based on their responsible purchasing effort • % of procurement transactions where full cost analysis was used
Implementation of the approach externally	Verify that external action plans (primarily with suppliers) have been implemented	• % of product specifications that incorporate CSR selection criteria • Number of CSR progress plans agreed with suppliers • % of new suppliers who have signed a sustainable procurement charter
Performance targets		
Suppliers' CSR performance	Evaluate the maturity of the organisation's supplier panel in terms of CSR issues	• % of suppliers whose social or environmental policy has been certified
Results of instructing party's procurement practices	Measure the actual results of the behavioural and procedural best practices put in place to manage the customer-supplier relationship in a balanced way	• % of suppliers who are SMEs • % of purchases with an effective payment term of less than 60 days
Results of measuring the impact of the services and products procured	Measure reductions in social, societal and environmental impacts through the products and services procured	• % of buyers trained in sustainable procurement • Savings achieved by applying a full cost approach to the products or services procured • Amount of purchases in the "integration through economic activity" sector • Amount of purchases in the adapted and protected sector • % of products and services considered to have social or societal utility • % of products and services that provide environmental added value • % of products or services certified in the social or environmental fields

In practice, most large international companies limit their disclosures to **traditional indicators** relating to their **procurement policy** and their **direct relationships with suppliers,** most often with reference to the GRI. Vivendi, for example, has implemented specific indicators for several years

Vivendi: an example of supply chain KPIs

- Existence of a formal commitment referring to the founding principles of the procurement policy
- Breakdown of purchases by main line items and geographical areas (for suppliers and subcontractors representing at least 75% of the overall expense) / G4-12, G4-EC1
- Percentage of purchases made with local suppliers / G4-EC9

Examples of supply chain indicators recommended by the French "Vigilance Plan Prize"

- Percentage of suppliers who have signed a CSR charter
- Performance of subsidiaries/suppliers/subcontractors on ESG commitments
- Percentage of sites that are ISO 14001 certified
- Frequency rate of workplace accidents on sites and/or among suppliers
- Number of redundancies by region
- GHG emissions by supplier
- Percentage of employees who have received specific training on the duty of vigilance

Using rating agencies

How do non-financial rating agencies operate?

Non-financial rating agencies provide investors with **ESG information** disclosed by companies, together with **analysis**, enabling investors to assess the nature and level of ESG (supply chain related) risks to which they are exposed.

Agencies have their own **repository**, which they feed with **data** that is not fundamentally different from that available to investors:

- Public data from companies: annual reports, vigilance plans, websites, etc.
- Public cross-sectional data used for benchmarking: reports from international bodies (OECD, United Nations, ILO, etc.), public agencies (the French Environment and Energy Management Agency "ADEME", etc.), international initiatives (the CDP global disclosure charity, etc.), NGOs (Amnesty International, Friends of the Earth, Sherpa, etc.), specialised sector-specific bodies (International Telecommunication Union, etc.).

However, they add several types of information that investors cannot access themselves:

- Findings from **questionnaires** they conduct with companies
- **Internal documents** obtained from interviews with directors (policies, procedures, implementation reports)
- **Studies** and **analyses** that they prepare themselves (see, for example, the Vigeo-Eiris (2016) study on responsible supply chain management)

The agency repositories typically include information on **key ESG issues specific to the supply chain** (child labour, forced labour, freedom of association, discrimination, health and safety, remuneration, working time, etc.), but they also contain information on risk **management policy** (risk mapping, audit procedures, procedures in cases of non-compliance, training of procurement department employees, actual controversies, etc.).

The main categories of services provided by the agencies

These services can be grouped into **three main categories:**

- Integration of "Sustainable procurement / Supply chain" themes into non-financial assessments (**E/S/G scoring**);
- Provision of ESG indicators specific to the **"Sustainable procurement / Supply chain" theme;**
- Integration of "Sustainable procurement / Supply chain" themes into the management of **controversies**.

The services provided by the main agencies are shown in the following table:[5]

Agency	Services	Methodological features
EthiFinance	• ESG rating • Benchmarks • ESG Controversies • Fund reporting (including supply chain reporting) • Shareholder engagement (support for engagement, including in the supply chain) • Position papers	• Inclusion of supply chain risks • Specific supplier evaluation questionnaires (audits, CSR standards, countries at risk, human rights, etc.) • Monitoring of initiatives
ISS-oekom	• ESG Ratings • ESG analyses • ESG Controversies • Supply Chain Indicators • Studies, position papers on working conditions in the supply chaint	• Overweighting of supply chain indicators in exposed sectors (textiles, IT hardware) • Compliance with international standards • Valuation of industry initiatives
MSCI	• ESG rating (prospective analysis of risks and opportunities) • ESG controversies • Sector reports (food processing, tobacco) • Study of child labour in the supply chain	• Risk/opportunity approach (risk management = policy x measures) • Consideration of key issues by sector (% different) • Integration of the supply chain into ESG assessment, when it is material (relevant) downstream, in function of the sector (textile, food processing) • Consideration of specific indicators (initiatives, collaboration with suppliers, supply chain controversies, supply chain work management)
SUSTAINALYTICS	• ESG rating • ESG (supply chain) controversies • Human Rights Risk Monitor (HRRM) (human rights impacts of firms in fragile territories) • Arms Trade Research (involvement of arms sales firms in countries with human rights risks) • Global Compact compliance	• ESG rating including human rights and health and safety • Risk-based approach (exposure x management) • Indicators specific to the supply chain (prevention of human rights violations, suppliers' CSR performance, consideration of tier three, degree of supplier control, training buyers, etc.) • Weightings depending on sector exposure • Negative impacts of controversies influence scoring • Partner of KnowTheChain (supply chain transparency initiative) • Inclusion of international standards (including UNGP framework)
Trucost ESG Analysis S&P Global	• Environmental database • Scope 3 evaluation and water footprint (including supply chain externalities) • Carbon price assessment (including supply chain exposure) • Supply chain studies (many topics)	• Complete assessment of the environmental performance of the supply chain • Environmental indicators that take into account the indirect impacts of the supply chain • Percentage indirect impact in function of the level of externalities and sector
vigeo eiris	• ESG rating • ESG controversies • Evaluation and benchmarking of French vigilance plans • Studies (integration of ESG risks into listed companies' supply chains) • Publication of commitments and best practices in the supply chain	• Five criteria (out of 38) dedicated to supply chain issues (respect for fundamental rights in the workplace, respect and prevention of human rights risks in the supply chain, responsible relations with suppliers and subcontractors, environmental factors in the supply chain, economic and social development of the operating territory) • Analysis = policy x process x results • Based on international conventions (including OECD sector-specific supply chain frameworks) • Weighting according to materiality (sector, activities, organisation) and control of the company (vulnerability of stakeholders, objectives, capacity for intervention, etc.) • Evaluation of companies' performance in responsibly managing their supply chain • Specific methodology for evaluating French vigilance plans (22 factors across four levels: engagement, efficiency, relevance of the remediation process, relevance of reporting)

5 A detailed comparative analysis is available on request.

Assessing the behaviour of companies oneself

Investors can use their internal teams of ESG analysts to "rate" the behaviour of companies in terms of their ability to manage their supply chain ESG risks. The scoring methodology provided in the first edition of the FIR-A2 Consulting vigilance plan prize, the "Prix Plan Vigilance" (PPV), provides an illustration.

Maturity levels

Companies can be rated using a **maturity grid.** These grids can be used to position companies in relation to one another according to the **extent to which they have adopted a due diligence approach,** and to identify the efforts that some of them will need to make in order to improve their performance.

Maturity levels can be distinguished, such as those used in PPV rating methodology (rated from 0 to 3 in this case).

Maturity level	Explanation
0 / Inexperienced	• Does not meet regulatory obligations • Lack of information
1 / Beginner	• Beginning to implement a vigilance plan • Imperfect knowledge of due diligence issues • Basic understanding of due diligence
2 / Experienced	• Formalised and high-quality due diligence system • Sound understanding of due diligence issues • Effective deployment throughout the entire organisation • Management of basic, actual impacts (residual risks)
3 / Leader	• Perfect understanding of due diligence issues • Suitable governance • Risk systems, actions and management at the required level • Systematic and relevant treatment of reported risks

Rating criteria and rules

To assess the level of maturity of companies in business and purchasing relationships, a **rating system** is needed to compare companies' ratings, irrespective of the sectors and geographical areas concerned.

This system can be supported by a **proprietary repository** that gathers **key criteria,** which can themselves be classified by main **focus areas** and themes. In the first edition of the PPV, two focus areas were chosen:

- Regulatory obligations" (risk mapping, assessment procedures, risk mitigation measures, warning systems, monitoring of measures and their effectiveness), linked to the five obligations set out in the French duty of vigilance law;
- "Procedures/Communication", including gathering information beyond the legal requirements: implementation of a policy for managing due diligence, use of international guidelines on due diligence, governance implemented to manage due diligence, easy access to related documentation, etc.

Focus areas	Themes	Criteria (between 0 and 3 depending on maturity level)
Procedures / Communication of the "vigilance plan"	Overall approach	Initiatives
		Policies
		Steering device
	Presentation	Accessibility
		Presentation
		Clarity
Due diligence regulatory obligations	Risk map	Identification and prioritisation of risks
		Risk management framework
		Risk typology
		Risk measurement indicators
	Risk assessment	Consideration of subsidiaries
		Tier of suppliers assessed
		Sourcing
		Processing ESG data
		Information systems and tools
	Alerts	Warning system
	Risk mitigation actions	Risk mitigation action plan
	Monitoring measures	Device for monitoring measures

Weightings can be defined, depending on the priority given to each focus area, theme and/or criterion. In the PPV, priority was given to criteria such as "risk identification and prioritisation" and "referenced risk typology", which were deemed particularly significant.

"Rules" must be used for each of the criteria in the repository in order to **qualify the level of maturity** reached by the company in **terms of managing its ESG supply chain risks.** The principles and tools presented in Part II of this handbook (ILO Declaration, UN Guiding Principles, OECD Due Diligence Guidance for Responsible Business Conduct, ISO 20400, etc.) can be used, while also respecting due diligence fundamentals (contextualisation, prioritisation, proportionality, non-transferability of responsibilities, continuous evolution, etc.).

This means that the company's level of maturity can be assessed globally or on each node of the tree structure with the same granularity.

Criteria / Maturity	Level 0	Level 1	Level 2	Level 3
Identification and prioritisation of risks relating to due diligence	• No risk mapping • Mapping not related to due diligence	• Mapping with partial identification of risk types • Risk assessment could be improved • Difficult to prioritise	• Mapping with precise identification of risk types • Risk assessment could be improved	• Mapping with precise identification of risk types • Precise risk assessment (quantifiable impacts and occurrence) • Consideration of residual risks • Consultation with the various stakeholders (including trade unions)

B. Managing ESG supply chain risks

Managing the ESG risks stemming from the supply chain allows investors to ensure consistency between their practices and their responsible investment policy. It also (and above all) makes it possible to consolidate the "risk management" motivation when it is a fundamental pillar of their investment policy.

In practice, risk management requires the implementation of a dedicated system, whose operation must be adapted in function of the investor's organisation and the asset classes concerned.

Implementing a system to manage supply chain risks

The OECD guide on responsible business conduct for investors

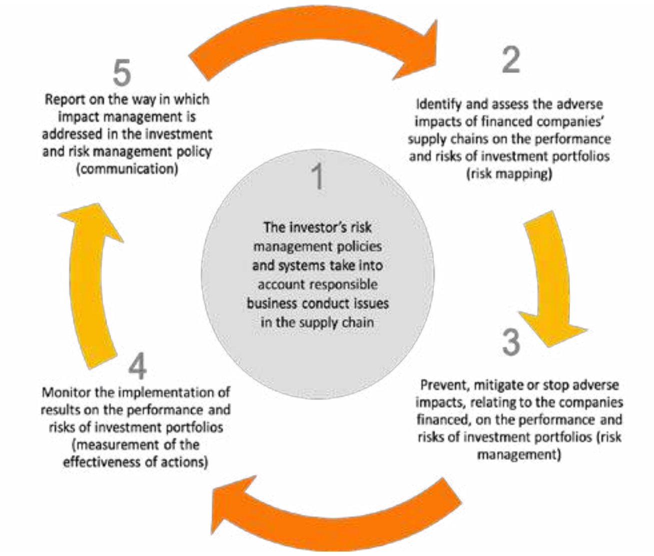
In 2017, the OECD published its guide, "Responsible business conduct for institutional investors - Key considerations for due diligence under the OECD Guidelines for Multinational Enterprises", specifically aimed at investors, to provide them with the tools and procedures necessary to manage ESG risks stemming from the supply chain of private companies. Based on the "Guidelines for MNEs", it assumes that investors can and should influence companies' behaviour through their status as shareholders.

The aim is to apply the **due diligence principles** to the financial asset portfolios held by investors, who have a responsibility, albeit indirect, for the occurrence and management of adverse corporate impacts. Investment decision-making processes are affected differently depending on the investor's specific organisation, in particular depending on whether the investor operates on the markets directly (almost always asset management companies) or by delegation to asset management companies (often the case for institutional investors).

We have seen that private companies' ESG risk management rarely extends beyond the scope of their own operations, and in the best case reaches only to the most important tier 1 suppliers. Investors have a responsibility to help change this state of affairs.

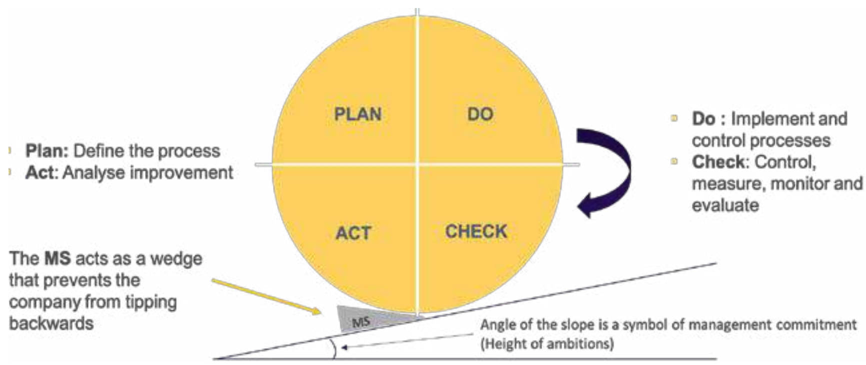
Five steps to manage supply chain investment risks

Investors must be able to avert the adverse impacts of their investments (**investor due diligence**) and the adverse impacts **on** their investments (**reputational and financial risk management**). The two subjects are linked by the **indirect liability that affects** investors and can be treated in the same way. In both cases, they depend on the investor's ability to influence the companies creating ESG risks in the supply chain.



As for companies, when investors apply due diligence to their own function (investment), they need to follow **five key steps** to **manage their supply chain risks.**

Investors are not yet accustomed to integrating companies' individual management of ESG supply chain risks into their investment expectations and decisions. Integrating ESG supply chain risks into investment policies and practices



They are still relatively inexperienced in this matter, with most investors only just starting to develop appropriate tools and methods to identify, evaluate and manage these risks. As for companies, investor management of ESG supply chain risks is an "emerging" practice that, to be robust, requires a long **learning process** and **continuous improvement.** This latter must aim to progress and to acquire a certain maturity, in which ambitions are supported by an **appropriate Management System (MS).**

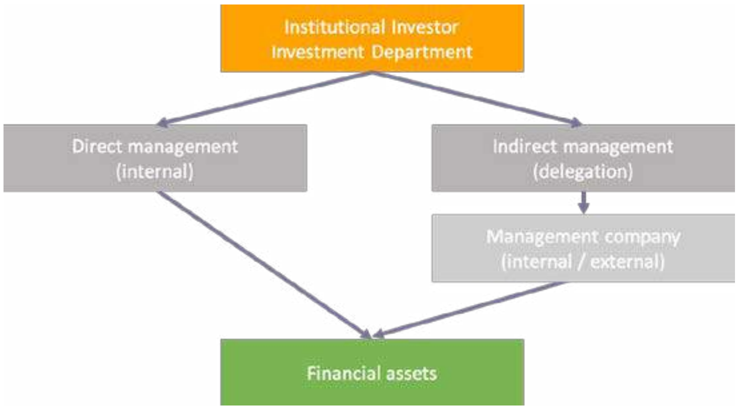
Adapting due diligence to the investment function

Distinguishing actions to manage ESG supply chain risk according to whether asset management is direct or delegated

Professional investors can be organised very differently from one another, especially when they are institutional investors. In this case, they may manage their assets **directly**, or **delegate** management to one or more asset management companies.

The actions required to manage ESG supply chain risks may differ according to the configuration:

- In the case of **delegation**, the processes affected are essentially the "due diligence" exercised on the **delegatee asset management companies and/or the funds they manage.** Supply chain risks can then be integrated into the risk management system of the asset management company(ies), which will make it a **selection criterion.**
- In the case of **direct management,** the management of ESG supply chain risks must be part of a more complete system requiring them to be identified and evaluated before investment, and managed throughout the entire holding period. In this case, investors can more easily use the engagement lever to encourage companies to prevent, reduce or eliminate their adverse impacts.



Integrating ESG supply chain risks into investment policies and practices

Like any other risk (financial, operational, regulatory, standard ESG, etc.), ESG supply chain risks must be integrated into **investment policy** and **decision-making processes.**

The main steps of the investment function's organisation (analysis, management strategy, decision-making) do not need to be disrupted. It is simply a matter of building on the existing system and integrating new information such as ESG supply chain data, regardless of the initial management model (fundamental analysis, quantitative management, smart beta strategies, index management, etc.).

Steps in the investment chain	**Examples of actions to integrate ESG supply chain risks into investment policy and processes**
Policies	• Develop a specific policy on managing ESG supply chain risks • Adapt the responsible investment policy to include ESG supply chain risks • Include ESG supply chain risks in the engagement policy • Integrate ESG supply chain risks into due diligence processes (where delegation to asset management companies
Processus	• Adapt investment decision-making processes (in function of strategies and asset classes) by including ESG data relating to the supply chain • Adapt ESG strategies by inserting ESG data relating to the supply chain
Reporting	• Establish reporting on companies' "supply chain performance" • Introduce reporting on how delegated asset managers take ESG supply chain risks into account • Establish reporting on engagements relating to ESG supply chain risks
Contrôle	• Implement a procedure for monitoring the management of adverse impacts • Establish a database of incidents relating to supply chain risks

If the investor's organisation already employs **responsible investment strategies**, it simply needs to insert ESG supply chain information into the ESG strategy(ies) adopted. For example, if the investor already applies:

- Norm-based exclusions (for example, Global Compact), then it can ensure that compliance with the ten principles is applied to companies' supply chains;
- Controversy management, it can focus on controversies related to high-risk business sectors and geographical areas (from the supply chain perspective);
- Best in Class management, then it can integrate specific supply chain data into its ESG assessment of companies;
- Impact investing, it can develop specific impact indicators to monitor supply chain risks.

In addition, obtaining ESG supply chain information is part of risk management, it must therefore be included in the investor's risk **mapping** so that it can be used to assess and prioritise these risks as well as merely identify them.

Identification, assessment and prioritisation of ESG supply chain riskst

Investors need to identify and prioritise risks before and after investment. The **actions preceding an investment** involve extending standard risk analysis (financial and non-financial analysis) to the asset class concerned. **After the investment,** ex post risk analysis can be performed by portfolio screening with respect to the main factors known to generate ESG supply chain risks (high-risk business sectors and geographical areas, human rights, etc.).

Risk assessment is based on the **quality of the information used,** which may have different sources (see Part III.A.), including the services of non-financial rating agencies (particularly on controversies), databases of collaborative initiatives such as the Principles for Responsible Investment (PRI) and information from direct dialogue with companies. Particular attention should be paid to data from grievance mechanisms such as those from local NCPs (see Part II.B), which can quickly identify companies that are facing actual risk events.

Support from NGOs, trade unions and other stakeholders (professional organisations, parastatal agencies, media, etc.) can also be useful.

Where management is delegated, the investor must ensure that his or her delegate has appropriate risk management policies and procedures in place.

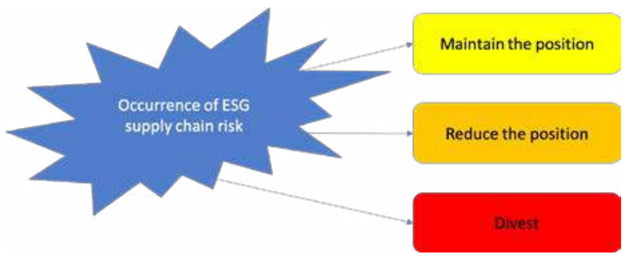
Pre-post investment / Asset classes	Listed equity	Corporate bonds	Investment and private equity funds	Other (infrastructure, real estate, etc.)
Before investment	Perform non-financial analysis to identify and prioritise supply chain risks	Perform non-financial analysis to identify and prioritise supply chain risks	Integrate ESG supply chain risks into the due diligence procedure for asset management companies	Perform non-financial analysis to identify and prioritise supply chain risks
After investment	• Run portfolio diagnostics on a regular basis to identify ex post exposures to ESG supply chain risks • Identify and assess the most important risks, and engage with the companies concerned	• Run portfolio diagnostics on a regular basis to identify ex post exposures to ESG supply chain risks • Identify and assess the most im-portant risks, and engage with the companies concerned • Monitor the most significant risks	Monitor ESG supply chain risks as part of the post-investment dialogue with asset management companies	Track ESG supply chain risks in post-investment monitoring

Prevention and reduction of ESG supply chain risks

If the investor faces **potential risks,** it may take **preventive actions,** including setting up **ESG management strategies,** to avoid the risk situation (industry, norm-based and controversy-based exclusions), participating in **collaborative initiatives** in order to be informed and to anticipate, or employing preventive **engagement actions** (for example, by informing a company of its exclusion policy in the event of a serious human-rights controversy).

If the risks have actually occurred (actual impacts), **investment decisions** can take three forms: **maintaining the position, reducing the position** (partial divestment), or **divesting completely** (exclusion).

The first two types of decisions may be accompanied by engagement actions and close monitoring of the risks to which the investor is exposed. Full divestment should only be considered in the event of a severe impact. In some cases, divestment is not possible (for accounting or financial reasons), in which case the company should be monitored more closely.



	Examples of actions to prevent and reduce investment risks relating to the supply chain
Risk prevention	• Implement norm-based exclusion strategies (compliance with international standards) • Implement industry-specific strategies (exclude high-risk business sectors) • Implement controversy strategies (track controversies relating to supply chain issues) • Participate in collaborative initiatives focused on the supply chain • Engage with companies suspected of being at risk
Risk reduction	• Maintain the investment and engage in various different ways (send letters, participate in meetings, use voting rights, form investor coalitions, etc.) • Maintain the investment and take part in initiatives aimed at reducing risks • Reduce the investment position (monitor) • Temporarily divest (monitor) • Divest completely, prohibit investment when the risks have a high impact (exclusion)

The nature of the decision depends on the **asset class concerned.** For example, engagement actions can attempted for corporate bonds, but without much chance of success, given the low degree of investor influence over this asset class. More generally, investors will have an interest in initiating strong engagement actions when they have significant leverage over the asset, i.e. if they are shareholders with significant weight in the company (possibly in the context of investor coalitions). Participation in investor initiative actions (such as the PRI, see below) is effective in this respect. It should also be noted that investors have been able to file resolutions as a result of an NCP reporting a "specific instance" [6].

Investment decision / Asset classes	Listed equity	Corporate bonds	Investment and private equity funds	Other (infrastructure, real estate, etc.)
Engagement	Engage individually or collaboratively, with an escalation process and an extended period if necessary	Engage individually or collaboratively, taking into account that the potential for influence is low	Encourage the delegate to engage	Engage individually
Divestment	Consider divestment if engagement is unsuccessful	Consider divestment in cases of severe impact	Consider divestment in cases of severe impact	Consider divestment in cases of severe impact
Monitored investment	If the engagement is unsuccessful and divestment is impossible or inappropriate, remain invested at the level considered reasonable, and ensure strict risk monitoring	If the engagement is unsuccessful and divestment is impossible or inappropriate, remain invested at the level considered reasonable, and ensure strict risk monitoring	If the engagement is unsuccessful and divestment is impossible or inappropriate, remain invested at the level considered reasonable, and ensure strict risk monitoring	If the engagement is unsuccessful and divestment is impossible or inappropriate, remain invested at the level considered reasonable, and ensure strict risk monitoring

Naturally, when management is delegated, the investor must ensure that the asset manager is able to implement risk prevention and reduction procedures itself.

Monitoring of implementation and results, and reporting

Reporting on investor due diligence activities also depends on whether the investor is an institutional investor or an asset management company.

In the first case, the **information is public and intended for the main stakeholders.** Reporting on investment due diligence policy and practices should be performed in accordance with the expectations of clients or beneficiaries (typically in PRI format).

For asset management companies, the reporting requirements for ESG supply chain risk management are the same except that **additional non-public reporting for clients** (individual or not, they may be institutional investors) is required.

Finally, institutional investors and asset management companies subject to the provisions of French Article 173-VI are also obliged to inform their subscribers and clients how they integrate, or not (in accordance with "comply or explain"), ESG criteria into their investment policy and practice. This legal obligation to provide information goes far beyond simple reporting, and ultimately constitutes a real legal engagement towards the investor's subscribers and clients to implement the chosen ESG criteria.

6 The OECD guidelines cite the case of a resolution filed with the Dutch pharmaceutical company Mylan, after the latter had been the subject of a specific instance by the local NCP, for adverse human rights impacts associated with the sale of a product used for lethal injections in prisons.

Type of due diligence reporting	Communication actions (reporting content)
Public reporting (institutional investors and asset management companies - collective management)	• ESG supply chain risk management policy (including asset management companies' due diligence procedures, if applicable) • Implementation of policy for the different strategies and asset classes • Engagement activities • Companies that have engaged • Result of engagement • Investment decisions (reductions, divestments / exclusions) • Voting policy principles relating to ESG supply chain risks • Voting results relating to ESG supply chain risks • Projects to develop the due diligence policy and system
Private reporting (institutional investors and asset management companies - collective and individual management)	• Risk identification method • Results of identification of adverse impacts • Management of company impacts • Performance of the due diligence policy

C. How to engage

Engagement is central to investor due diligence. Here are some additional suggestions to help investors put it into practice

Talk to companies

Company-investor dialogue about the supply chain: a necessary requirement

Due to their largely identical regulatory obligations, companies and investors face the **same challenges.**

Both types of actors have a **joint interest in better integrating ESG supply chain risks into their decisions** on the production of goods and services, and on financial management, respectively.

The provision of ESG supply chain information by companies and its use by investors can generate a **virtuous circle** between the two parties: companies' ESG supply chain risk management policies can feed into investors' responsible investment policies, and, conversely, investors' responsible investment policies can influence corporate social responsibility policies.

Facilitating a constructive dialogue between companies and investors is a necessary condition for meeting the collective challenges of managing ESG supply chain impacts.

Managing the dialogue and engagement process

The Principles for Responsible Investment (**PRI**) network has produced a **guide**, "Managing ESG risk in the supply chains of private companies and assets" (2017), which provides a benchmark for dialogue and engagement with companies on ESG supply chain risks. Although it is more focused on private equity, the rules it develops are also applicable to listed companies.

These principles are illustrated by numerous examples of engagement practices across different business sectors.

The guide is accompanied by a **resource library** that contains more than 150 documents and reference tools related directly or indirectly to the supply chain. The library is divided into two groups: one concerns fundamental documents (e.g., OECD); the other relates to specific subjects (e.g., industry characteristics). The criteria used to index the data are based on ISO 26000 and **ISO 20400.** It makes use of keywords such as "human rights", "labour practices", "environment", etc.

The **process of dialogue** and engagement on the supply chain differs depending on the position in the investment decision process (before or after the investment). **Before investment,** the dialogue can take the form of a "**pre-assessment**" or "**due diligence**", depending on whether the investor is at the prospective or pre-investment decision stage. After investment, the dialogue is part of the engagement, as the investor is now a shareholder-owner. The information to be obtained from the company differs in these three cases, and must also be adapted in function of the investor's priorities (in terms of risk management) and the company's maturity:

- During the "**pre-assessment**" phase, the investor must be able to access **indicative information** in order to assess the general level of risks (or opportunities) in the supply chain
- During the "**due diligence**" phase, the investor must be provided with **information that will enable it to identify the extent to which the company is capable of managing risks.** This mainly relates to information concerning the governance and performance of the risk management system.
- During the **"post-investment"** phase, the dialogue should focus on the **specific points** for which the investor has identified risks concerning its investment, the objective being to influence the company so that it can improve its performance and reduce its own risks.

Pre-post investment	Steps in the investment decision process	Topics to be prioritised in exchanges with the company
Before investment	Pre-assessment	• Identification of priority risks (high-risk activities and sectors) • Essential information: - Size and organisation of the company - Market characteristics (competitive, oligopoly, etc.) - Complexity of the supply chain - % of activity in high-risk sectors and geographical areas - Risk analysis prepared by the company - Company's assessment of the level of adverse impacts
	Due diligence	• Assessment of the performance of the risk management system • Essential information: - Resources and organisation of the risk management system (governing bodies, responsibilities, etc.) - ESG risk management policy and procedures - Measurement of supplier performance (KPI, reporting, etc.) - Supply chain mapping beyond tier 1 - Supplier relationships (contractualisation, regulatory compliance, dialogue, audits, etc.)
After investment	Engagement	• In-depth research on specific risk points • Examples - Training suppliers in ESG risks - Continued measurement of relevant KPIs - Actions taken in the event of non-compliance - Number of suppliers replaced for ESG risk reasons - Etc.

Inviting companies to use best practices

As part of their dialogue with companies, investors can suggest points for improvement in the management of ESG supply chain risks. A number of **best practices** were identified during the first edition of the "Prix Plan Vigilance" (vigilance plan prize, see attached table).

FOCUS AREAS	THEMES	CRITERIA	RECOMMENDATIONS
Procedures / Communication of the "vigilance plan"	**Overall approach**	**Policies**	Involve subsidiaries, suppliers and subcontractors in designing the due diligence policy
		Initiatives	Adhere to local or international pacts, charters, labels or codes of conduct, explicitly linked to due diligence
		Steering device	Set up a system to manage due diligence: • Establish a dedicated governance system comprising the various internal stakeholders (operational departments, general management) and external stakeholders (trade unions, subsidiaries, suppliers) • Clarify its role • Submit its proposals to the Board of Directors
	Presentation	**Accessibility**	Draft a free-standing vigilance plan
		Presentation	Enrich the vigilance plan by presenting the overall approach and taking the results into account
		Clarity	Explain in a clear and detailed manner the methodology used to prepare the vigilance plan
Due diligence regulatory obligations	**Risk map**	**Identification and prioritisation of risks**	Present the risk map by taking into account the company's ability to reduce the real impacts on stakeholders: • Establish a specific due diligence risk matrix (subsidiaries, suppliers, subcontractors) • Isolate geographical and business sector risks • Integrate indirect risks (for example via the investment function) • Present the mapping by allocating the risks of their occurrence and level of impact (gross risks) • Take into account the company's degree of risk control (net risks) • Involve internal and external stakeholders in preparing the risk mapping
		Risk management framework	Use a risk management reference framework specific to supplier/subcontractor relationships (ISO 20400)
		Risk typology	Take into account the risks stemming from the company's geographical, industry and business specificities
		Risk measurement indicators	Use detailed performance indicators for subsidiaries and suppliers: • Use specific due diligence risk measurement indicators (see part x) • Use appropriate presentation standards (GRI, UNGP, etc.) • When ESG risk measurement indicators are generic (CSR), take care to apply them to the business relationships concerned (subsidiaries, suppliers, subcontractors)
	Risk assessment	**Consideration of subsidiaries**	Make subsidiaries responsible by asking them to report their ESG risk exposures and results using a specific mechanism
		Tier of suppliers assessed	Extend the scope of supplier and subcontractor risk analysis to the level where the risks of adverse impact remain material: • Apply the vigilance plan comprehensively, at the tier of suppliers considered relevant (activities, geographical areas) • Provide information on the tier of the suppliers evaluated (coverage rate)
		Sourcing	Challenge suppliers and subcontractors with audits performed by external service providers
		Processing ESG data	Ensure that the ESG data processing is able to generate precise corrective actions
		Information systems and tools	Develop internal assessment tools to combine the different sources
	Alerts	**Warning system**	Involve internal and external stakeholders in the design and monitoring of the warning system
	Risk mitigation actions	**Risk mitigation action plan**	Adopt a corrective action plan that takes into account the seriousness of the risks previously identified in the mapping: • Implement a system that distinguishes the type of corrective actions to be taken with respect to the various ESG risk priorities in the mapping • Example: 1/ "Zero tolerance" level -> Activate a crisis unit; 2/ "Serious non-compliance" level -> Minimum timescale to resolve the non-compliance; 3/ "Moderate non-compliance" level -> Longer timescale to resolve the non-compliance + implementation of a follow-up audit; 4/ "Observation" level -> Implementation of a preventive action plan
	Monitoring measures	**Device for monitoring measures**	Set target objectives and trajectories for reducing ESG risks relating to due diligence: • Example: impose a target on suppliers requiring them to reduce workplace accidents by x% over horizon H and a path for achieving it • Adjust target objectives and trajectories in the light of the results observed (continuous improvement process) • Implement control procedures (ensure that objectives are met) • Circulate information on the effectiveness of the system

Join supply chain collective initiatives

To address ESG supply chain issues, investors can join **collective initiatives** dedicated to the topic. These initiatives are generally aimed at companies and are usually specialised by industry sector. Their objective is to consider the implementation of codes of conduct, ESG risk assessment (mapping) and management methods, supplier evaluation and audit techniques, key performance indicators, reporting, etc., all subjects for which an active contribution from investors will help them to better control their own risks.

Some key initiatives for managing ESG supply chain risks

Here are some of the key initiatives involving French professional investors:

Initiative	Name	Objective
PRI Principles for Responsible Investment	**Principles for Responsible Investment**	• Created by the UNEP FI (United Nations Environment Programme Finance Initiative) in 2006, the Principles for Responsible Investment (PRI) aim to encourage professional investors to incorporate ESG issues into their investment practice. • The signatories undertake to respect six principles: - To incorporate ESG issues into their investment analysis and decision-making processes - To incorporate ESG issues into their policies and practices as shareholders - To seek appropriate disclosure on ESG issues by the entities in which they invest - To promote acceptance and implementation of the PRI within the investment industry - To work together to enhance the PRI - To report on their implementation of the PRI • The PRI have a Collaboration Platform for engagement initiatives designed to engage collective action, particularly around ESG issues relating to the supply chain
KNOW THE CHAIN	**KnowTheChain**	• KnowThe Chain is an initiative for companies and investors who want to understand and address the forced labour risks in their supply chains • The initiative provides practical resources for companies to help them be more transparent and accountable • It benchmarks company practices • It also provides information to investors to help them make informed investment decisions
Sustainable Apparel Coalition	**Sustainable Apparel Coalition**	• The Sustainable Apparel Coalition (SAC) concerns companies in the apparel, footwear and textile industry, which it supports by providing them with indicators that measure the social impact along the supply chain (Higg Facility Social & Labour Module) • It also has a module on environmental impact indicators (Higg Facility Environmental Module)
	Responsible Business Alliance	• The Responsible Business Alliance (RBA), formerly the Electronic Industry Citizenship Coalition (EICC), claims to be the largest coalition dedicated to corporate social responsibility in supply chains • Created in 2004 by a group of electronics companies, it has extended to the retail, automotive and toy sectors • Its objective is to support the rights and well-being of workers and communities around the world affected by the global supply chain • Members adhere to a code of conduct and benefit from the Initiative's tools and training to continuously improve their ESG responsibilities along their supply chains
EITI	**Extractive Industries Transparency Initiative**	• The Extractive Industries Transparency Initiative is a global standard "to promote the open and accountable management of oil, gas and mineral resources" • The EITI standard concerns governments, companies and investors • The EITI standard requires countries to disclose information along the extractive industry value chain (from the point of extraction, to how revenues make their way through the government, and how they benefit the public) • The EITI seeks to strengthen public and corporate governance, promote understanding of natural resource management, and provide data to inform reforms with the ultimate aim of curbing corruption and moving towards accountability in the extractives sector
JAC	**Joint Audit Cooperation**	• The Joint Audit Cooperation is an association of telecom operators whose aim is to assess and develop CSR implementation along the industry's international production chain (including suppliers) • Members share resources and best practices to deploy CSR at all layers (tiers) of the supply chain

Examples of investor initiative actions

Two recent investor initiatives relating to the management of ESG supply chain risks illustrate how investors can be mobilised on the topic.

- **FAIRR's initiative in the fast food sector**

In March 2019, the FAIRR (Farm Animal Investment Risk and Return) Initiative, supported by CERES (Coalition for Environmentally Responsible Economies), urged the fast food giants (McDonald's, Yum! Brands (owners of KFC and Pizza Hut), Restaurant Brands International (owners of Burger King), Chipotle Mexican Grill, Wendy's Co. and Domino's Pizza) to adopt a clear strategy for reducing the risks in their meat and dairy **supply chain** and to make it public.

This initiative urges the targeted companies to:

- Adopt a rigorous supplier policy with clear requirements for suppliers to measure, report and reduce greenhouse gas (GHG) emissions and freshwater impacts
- Commit to quantitative, time-bound targets to reduce the GHG emissions and freshwater impacts of their supply chains
- Commit to publicly disclose progress on these targets on an annual basis (in CDP format)
- Undertake a climate scenario analysis in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

The coalition brought together **investors** such as Schroders, Fidelity, Aviva Investors, UBS, ABN AMRO, Natixis IM, OFI AM and Mirova (US$6.5 trillion of managed assets).

Action by FAIRR and CERES in the fast food industry (March 2019)

motivated by climate change issues

Three ESG risks are explicitly targeted: greenhouse gas (GHG) emissions, water and land use. But the priority is clearly GHG emissions. The initiative aims to require the fast food industry to review its supply chain in order to commit to the objectives of the Paris Agreement to limit global warming, following the example of other industries (e.g. the automotive sector).

In a joint study, the Initiative shows that meat and fish producers are highly exposed in terms of ESG risks and that 60% of them do not manage these critical risks and/or do not produce related ESG reporting.

- **IIFS action against deforestation in South America**

The IIFS (Investor Initiative for Sustainable Forests) is an **investor coalition** launched by the PRI and supported by CERES. In March 2019, it launched an initiative to foster investor engagement regarding the financial risks arising from deforestation, caused by companies sourcing commodities (such as soy or cattle) from South America.

The objective of this initiative is to encourage the companies concerned to eliminate deforestation (and the associated financial risks) by setting up **protection mechanisms** and **ensuring the traceability of the activities** they conduct with soy producers and cattle farmers.

The IIFS action claims that companies sourcing soybeans produced in South America are exposed to many business risks related to deforestation, including reputational risks (due to consumers being aware that the company's **supply chain** is linked to deforestation), human, territorial and operational risks (related to potential local climate change and declining agricultural yields), legal and regulatory risks, and market access risks.

A total of **57 investors** (US$6.3 trillion) signed up to this movement, including BNPP AM and Mirova.

IIFS action against deforestation in South America (March 2019)

What is required of companies

- Implement and disclose a deforestation **risk management** policy, including engagements covering the entire **supply chain** and geographical areas affected
- Disclose the system implemented to **identify, assess and manage the risks of deforestation along the soybean supply chain**
- Disclose the results and corrective action plans deployed in the event of non-compliance
- Disclose the metrics used to manage deforestation risks

Drawing on investor best practices

Here are some examples of French professional investors' initiatives. This list is not exhaustive, but is intended to illustrate certain practices.

Institutional investor practices

In France, institutional investors are generally less well prepared than asset management companies. However, there are some noteworthy initiatives, which are becoming increasingly widespread.

- **Allianz**

Allianz France has openly stated in its "Article 173" report that its ESG policy will allow its Investments unit to "comply with the new regulations on duty of care", and that in this context it will take into account the emissions of tier 1 suppliers and supply chain risks.

- ***L'Etablissement de Retraite Additionnelle de la Fonction Publique* (ERAFP, French public-service supplementary retirement pension body)**

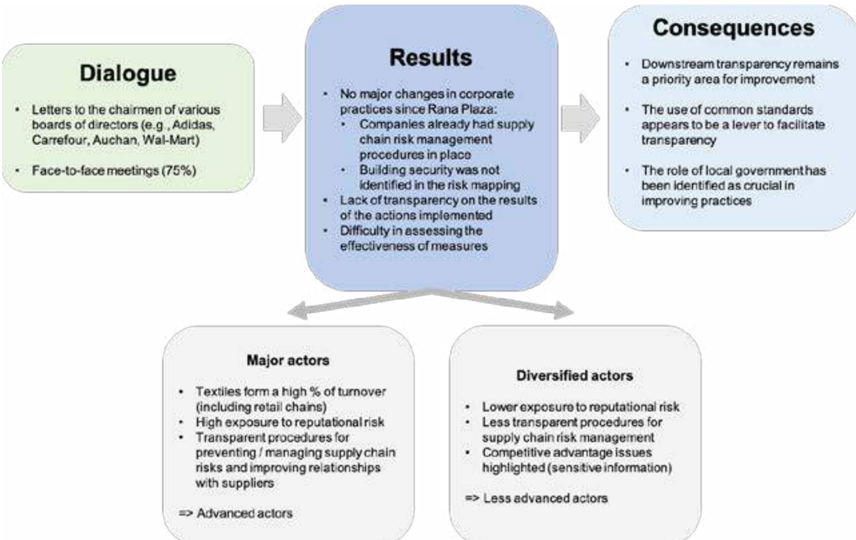
The ERAFP SRI Charter is based on five values, the first of which, "The Rule of Law and Human Rights", explicitly incorporates the criterion of **"responsible supply chain management".** The organisation is committed to initiatives such as the PRI, the EITI and the ICCR (Interfaith Center on Corporate Responsibility), with which it is committed to "preventing social risks in the supply chain", which has been identified as the **second priority theme for engagement** (after the fight against global warming).

In addition to its participation in the **Mirova platform** (see below) on "working conditions in the textile and IT supply chain", ERAFP announced in its 2019 investment policy that it would strengthen its participation in collective initiatives focusing on "social risks in the supply chain".

- ***Le Fonds de Réserve pour les Retraites* (FRR, French Pensions Reserve Fund)**

In its investment policy, whose first principle has long been to "respect human rights and fundamental labour rights", the FRR has set itself the goal of **"promoting actions aimed at establishing cooperative relations with suppliers, subcontractors and co-contractors".** It participates in the EITI and the PRI.

As a member of the **Mirova platform,** the FRR engages in **dialogue relating to the supply chain,** including sending letters to the chairmen of various boards of directors (e.g., Adidas, Carrefour, Auchan, Wal-Mart) and face-to-face meetings (75%). Its initiatives differentiate between two types of actors in the management of supply chain risks:



- Advanced players, such as retail chains, where a high proportion of turnover derives from textiles. These companies have high exposure to reputational risk, transparent procedures for preventing and managing supply chain risks, and improved relationships with suppliers; and
- Less advanced players, characterised by lower exposure to reputational risk, less transparent procedures for supply chain risk management, and competitive advantage issues. The FRR focuses on these actors.

- **L'Ircantec**

Ircantec (*Institution de retraite complémentaire des agents non titulaires de l'État et des collectivités publiques*, French supplementary pension institution for non-permanent employees of the state and public authorities) regularly participates in collective initiatives, such as those led by the PRI on "human rights practices" or "water risks", "among suppliers to the **food and beverage** industry".

One of the main areas of focus of its engagement policy is the "**management of human rights by companies**". It is addressed by reference to the fundamental rights of workers as defined by the ILO (freedom of association and the effective recognition of the right to collective bargaining, the elimination of all forms of forced or compulsory labour, the abolition of child labour, and the elimination of discrimination in respect of employment and occupation).

- **La Macif**

In its "Article 173 Report", Macif explicitly refers to the French law on the duty of vigilance, as well as the 2011 "United Nations Guiding Principles on Business and Human Rights". Citing the "**implementation of due diligence**", the mutual insurance group announced a desire for dialogue around ESG supply chain issues "in continuity and in coherence with its commitment to the fight against child labour".

In practical terms, Macif joined the PRI in 2017 in an action to combat child labour in the cocoa industry.

Asset management company practices

- **Ecofi Investissements**

Ecofi Investissements has demonstrated its commitment to due diligence and procurement by signing the KnowTheChain initiative. The asset management company includes supply chain issues in its ESG rating system (with an overweighting of the supplier relations criterion) and in its engagement policy.

- **Meeschaert AM**

At **H&M's annual general meeting** on 7 May 2019, the asset management company Meeschaert AM filed a joint resolution with Fondazione Finanza Etica (also members of the Shareholders for Change network) on variable remuneration for senior executives, asking that it be based on social objectives that explicitly include precise targets for improving the health, safety and wages of workers **along the group's supply chain,** and that it be disclosed. The resolution was not adopted.

Meeschaert AM participates in filing a resolution invoking the supply chain (H&M)

Whereas: *as long-term shareholders, we believe that compensation metrics should incentivise the creation of sustainable, long term value. Furthermore, we believe that disclosing sustainability targets for the remuneration of senior executives would increase company responsiveness to shareholders who are seeking information about the company's response to the current social and environmental challenges in the apparel and footwear sector.*

Be it resolved: *we request that H&M fully discloses the sustainability targets that must be fulfilled to trigger variable remuneration of senior executives and annually reports the performance of senior executives against those targets.*

Supporting statement: *we recommend that the above mentioned sustainability targets:*

- *are disclosed in the board's proposals to the AGM for guidelines for remuneration of senior executives or, in alternative, in the H&M group sustainability report;*
- *include precise targets on the improvement of worker health, safety and wage practices along the group's supply chain*

- **Mirova**


ETUDE
mirova

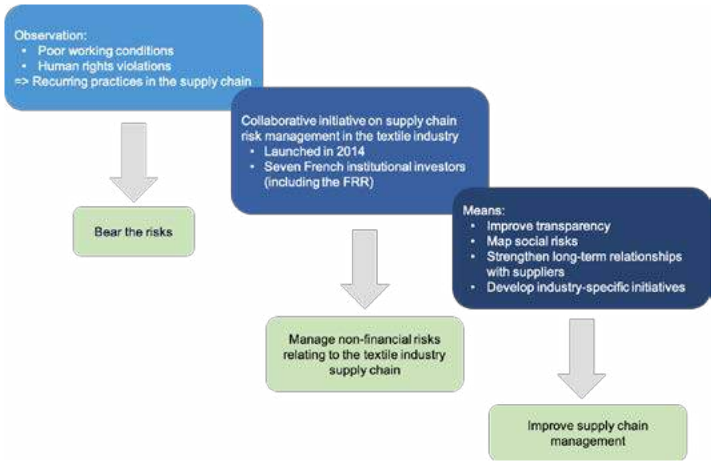
Mirova is probably the asset manager most involved in supply chain issues in France. It is a signatory to the Sustainable Apparel Coalition and Responsible Business Alliance initiatives, and regularly publishes articles on the subject.

In 2014, it launched a **Collaborative Engagement Platform** with several institutional investors, including the FRR. The initiative was based on the observation that following the Rana Plaza accident, there had been no major change in the way companies manage supply chain risks (poor working conditions, human rights violations). Mirova identified that, beyond the existence of written risk management procedures, companies' lack of transparency concerning the actions implemented, as well as the difficulty of evaluating these actions, could be detrimental to investors.

In this context, Mirova highlighted a number of needs (downstream transparency, use of common standards, role of local authorities) that led it to build its platform, the stated objective of which is to manage the non-financial supply chain risks in the textile, IT and cocoa production industries, amongst others.

In its **engagement strategy,** the asset manager's **dialogue actions** are focused on **"mapping" social risks,** using key impact indicators **(specific reporting)** and constructing a **long-term relationship with suppliers.**

- **OFI AM**



OFI AM integrates supply chain issues into its **non-financial company assessment** procedures and carefully monitors how the companies assume their responsibility as instructing parties, particularly with regard to improving the social and environmental conditions of suppliers and subcontractors.

OFI AM recently published a **study** (2018) on supply chain issues, in the context of the implementation of the French law on the duty of vigilance.

The asset manager also supports its institutional clients, with whom it works alongside private companies. It engages in **dialogue** with the latter when CSR controversies arise, particularly when they concern the supply chain. For example, in 2018, MACIF worked with 35 companies in different sectors to ensure the respect of human rights, particularly child labour. The objective was to identify the most advanced companies and to encourage the least active ones to react to bring their procedures closer to best practices.

OFI AM: two areas of focus for supply chain dialogue

Area 1: *Improve the way that audits are conducted with suppliers*

Area 2: *Improve the positioning of the procurement function within the company's teams*

- **Roche Brune AM**

In 2017, Roche Brune AM commissioned Ethifinance to lead a **shareholder engagement** exercise with two electronic cable companies, Prysmian and Nexans, regarding allegations of child labour in their mica supply chain.

Based on a report produced by the Terre des Hommes NGO (2016) denouncing the mica production chain in Jharkhand and Bihar (India) as one of the "worst forms of child labour", the asset manager engaged two out of the 13 publicly named companies. The objective was to help these companies address the issue, in line with a **responsible investment policy,** which focuses on **limiting non-financial risks.**

Analysis was conducted to precisely identify the sources of legal, operational, financial and reputational risk for the investor. **Operational risk** was assessed as being "medium to high", given that Roche Brune AM is a signatory to the PRI and holds SRI-certified funds (the financial risk was considered negligible).

Risks	Nexans
Legal	Limited: Nexans operates in France and is subject to the 2017 law on the duty of vigilance of parent companies, which governs procurement policies, but has yet to set a legal precedent.
Operational	Low: the company's Mica dependence is low, it is present in many products but in small quantities. Alternative technologies to mica are being developed, although the potential scope of application is not yet known.
Financial	Low: The financial impact of possible convictions is low. Mica represents a limited share of purchases and the suppliers concerned are not major partners for Nexans.
Reputational	Medium to high: Child labour is a major public concern and generally presents a high reputational risk for the companies concerned. In this case, the degree of risk depends largely on the company's ability to respond to the controversy, i.e. its existing internal systems and its willingness to communicate.

Source: "Roche Brune AM Report on engagement policy", 2018 - Risk assessment of Nexans

Dialogue with the two companies, completed by an analysis of the documentation provided (audit reports, certificates from local authorities, etc.), allowed the asset manager to make its investment decisions. At the end of this process, Prysman was resistant (no response), which led the asset manager to "deteriorate the beta value". Conversely, Nexans demonstrated openness to dialogue and genuine responsiveness to the subject, with focus areas for work and reflection being examined internally. The asset manager concluded that "the beta value has therefore not been altered".

- **Sycomore AM**

In its SPICE model, **Sycomore AM** analyses companies' control over their subcontracting chains from a "risk" perspective.

- **Talence gestion**

In 2017, Talence Gestion also commissioned Ethifinance to lead an **engagement exercise** with two companies:

- An engagement process was conducted with **SEB** following a reference to its Tefal brand in a report by the China Labor Watch organisation (2016) noting possible violations of ILO conventions, including forced labour at the Cuori plant. This led the company to take corrective measures. It also provided satisfactory guarantees on the processes in place and the exercise of its due diligence obligations.
- Talence Gestion engaged **Albioma** on the potential environmental impacts of its Galion 2 project (a power plant fuelled by biomass imported from North America). The asset manager mentions that throughout the dialogue process, the company gave serious guarantees as to its ability to measure and, if necessary, limit the environmental impact of these imports.

Supply chain funds

- **Parvest SMaRT Food**

This "international equity" collective investment fund managed by Impax Asset Management on behalf of BNP Paribas Asset Management invests in companies in the **food value** chain that demonstrate responsible behaviour. The value chain includes the production, processing, transport, packaging, safety checking and distribution of food.

The fund favours companies that act to reduce pollution, fight climate change and improve food quality. Companies that, directly or through their supply chain, have poor labour management (health and safety, employment), speculate on commodities, grab land, fail to respect biodiversity, have toxic emissions, etc. are excluded. **"Responsible supply chain management"** is an **exclusion criterion** in its own right.

Parvest Smart Food fund: three monitoring procedures

- **Compliance with international conventions and standards** (UDHR, ILO Tripartite Declaration, Rio Declaration on the Environment, United Nations Convention against Corruption, UN Global Compact)
- **Prohibit operations in so-called "controversial" industries** (palm oil, nuclear power generation, coal power generation, agricultural commodities, mining, oil sands, controversial weapons, asbestos)
- **Ensure the "severe social controversies" rate of the portfolio is lower than that of the benchmark index** (MSCI ACWI)

Company monitoring is essentially performed via three procedures, the most interesting of which is the **management of "severe social controversies",** which are events rated category four out of five (as identified by Sustainalytics) in one of the following areas: employees, subcontractors and supply chain, customers, society and community.

- **Libertés et Solidarité**

Managed by La Banque Postale Asset Management (LBPAM), this diversified ethical and shared-return fund is not specifically dedicated to the supply chain, but focuses on the **major issues that characterise the supply chain** (respect for human rights) and seeks to ensure that they are respected. The fund is SRI and Finansol certified.

The fund has been backed since 2001 by the **FIDH** (Fédération Internationale des ligues des Droits de l'Homme, the International Federation for Human Rights), an NGO specialised in the respect of human rights and the environment, and its investment process benefits from the FIDH's expertise.

On the "private" side, the FIDH establishes a pool of "ethical" companies that stand out positively in their industry, based on an assessment of the integration of international human rights standards into their policies and activities. The criterion "Human rights and fundamental labour rights" explicitly includes a **sub-criterion "Human rights in the supply chain".**

FIDH's four selection criteria

for the Libertés et Solidarité fund

- Human rights and fundamental labour rights
- Governance and human resources
- Engagement with local communities
- Environmental protection

The FIDH draws on an **independent ethics committee** (whose members are appointed on the basis of their expertise in the field of human rights, corporate social responsibility, fundamental labour rights or respect for the environment), the non-financial rating agency Vigeo-Eiris (which provides the FIDH with its analyses on companies' environmental, social and governance performance), the LBPAM SRI team (for ad hoc analyses) and **requests to several stakeholders** (international organisations, trade unions, human rights organisations and environmental organisations).

With the support of the LBPAM, the FIDH also engages in **dialogue with companies affected by controversies,** or those for which insufficient information is available to perform the evaluation. These exchanges with companies influence the FIDH's decision on whether to include them in the investment universe or not.

GLOSSARY

A

ACTUAL IMPACT

Potential impact that has already occurred or that is ongoing.

ADVERSE IMPACT

when a company's activities deprive or reduce the ability of an individual, a group, an organisation, or even the planet, to enjoy its rights.

B

BUSINESS RELATIONSHIPS

A company's relationships with its business partners, entities involved in its value chain or any other organisation (governmental or non-governmental) directly related to its operations, goods and services. This includes indirect business relationships in the value chain, beyond the first tier, as well as minority or majority interests.

D

DUE DILIGENCE

An approach that involves identifying, preventing or mitigating actual or potential adverse impacts and accounting for the way in which impacts are addressed.

I

INVESTMENT PROCESS

The process by which an investor builds a portfolio of financial assets, usually composed of equity (shares) and debt (bonds).

M

MITIGATION

Actions taken to reduce the possibility of the occurrence of an adverse impact.

MNE

Multinational enterprise.

O

OPERATIONS

Activities or business relationships maintained by the company/organisation to serve its strategy and business objectives, including research and development, construction, production, supplier relations, distribution, purchasing, marketing, sales, storage and availability of goods and services, lending and investment.

P

PARENT COMPANY

A company that owns one or more subsidiaries and/or sub-subsidiaries, i.e. that has majority control of other companies (holds more than 50% of the share capital).

POTENTIAL IMPACT

An adverse impact that may potentially occur but that has not yet actually occurred.

PREVENTION

Actions undertaken to ensure that adverse impacts do not occur.

PROCUREMENT

Activity of acquiring goods or services from suppliers. The procurement process considers the whole cycle from identification of needs through to the end of a services contract or the end of the life of goods, including disposal. Sourcing is a part of the procurement process that includes planning, defining specifications and selecting suppliers. (ISO 20400)

PROFESSIONAL INVESTORS

Legal entities that manage portfolios of financial assets representing the interests of beneficiaries. They include institutional investors (insurance companies, mutual insurers, pension funds, etc.), who manage the money of their subscribers or members, and asset management companies, whose business is third-party asset management. The latter generally supply the former.

R

REMEDIATION

Process that involves both providing a solution to reduce or stop an adverse impact, and compensating for the adverse impact (apology, financial compensation, punitive sanction, injunction, guarantee of non-repetition, etc.).

RISK MANAGEMENT

A discipline that involves identifying, assessing and prioritising the risks relating to an organisation's activities in order to control the probability of events occurring and to reduce their impact if they do occur.

S

STAKEHOLDERS

In a company, stakeholders are individuals and groups who contribute, voluntarily or not, to the company's ability to create value and activity and who are its potential beneficiaries and/or bear the risks. An affected stakeholder is a party who has suffered damage or prejudice generated by the operations, goods or services of a company.

SUBCONTRACTOR

A company linked to another company by a contract that requires it to carry out part of the first company's production or activities. Subcontractors differ from suppliers in that they manufacture a product designed by or in common with the customer. Subcontracting may be performed "in a cascade": a "tier 1" (or tier 2) subcontractor itself becomes the instructing party for a "tier 2" (or tier 3) subcontractor.

SUBSIDIARY

A company that is controlled by another company known as the parent company. The term "control" means that the parent company has a sufficient financial interest in the subsidiary's share capital (voting rights at shareholders' annual general meetings) to be able to impose its decisions. Subsidiaries may also control their own subsidiaries themselves (called lower-tier subsidiaries), and so on.

SUPPLIER

in international trade, a supplier is a company that supplies other companies/organisations with commodities or materials. The supply activity may involve production, processing, packaging, importation and sale. As with subcontractors, suppliers may be organised "in a cascade": a "tier 1" (or tier 2) supplier may purchase from a "tier 2" (or tier 3) supplier.

SUPPLY CHAIN

Goods and services contributing to the production of the services of a company or organisation. This includes the supply of goods and services from both the local country and from international locations, and from sources beyond direct suppliers.

SUSTAINABLE PROCUREMENT

Procurement that has the most positive environmental, social and economic impacts possible over the entire life cycle and that aims to minimise negative impacts. (ISO 20400)

V

VALUE CHAIN

A company's value chain encompasses all of the operations that transform inputs (resources) into outputs (goods and services) by creating value. The value chain includes entities that have a direct or indirect business relationship with the company, and that either supply goods and services that contribute to the company's own goods and services or receive goods and services provided by the company.

VIGILANCE

A particular focus that aims to closely monitor someone (an individual, an organisation, etc.) or something (the planet, etc.) or its environment, as well as changes to it in order to detect the slightest anomaly, in a prudent manner.

SUGGESTED FURTHER READING

B&L, EDH (2018), « Application de la loi sur le devoir de vigilance – Analyse des premiers plans publiés », 1st edition du 25 april 2018,

Carter C.R., Rogers D.S. (2008), « A framework of sustainable supply chain management : moving toward new theory », International Journal of Physical Distribution and Logistics Management, vol. 3, n° 5, pp. 360-387.

Commission of the European Communities (2001), « Promoting a European framework for Corporate Social Responsibility », Green Paper.

COSO (2017), « Enterprise Risk Management – Integrating with strategy and performance ».

Drumwright M. (1994), « Responsible organizational environmental concern as a noneconomic buying criterion », Journal of Marketing, no. 58, pp. 1-19.

Ernst & Young (2018), « Loi sur le devoir de vigilance : Analyse des premiers plans de vigilance par E&Y – Quelles réponses à la loi ? Quels enseignements pour les entreprises ? ».

Forum Citoyen pour la RSE (2017), « Loi relative au devoir de vigilance des sociétés mères et entreprises donneuses d'ordre – Questions récemment posées ».

Forum Citoyen pour la RSE (2019), « Loi sur le devoir de vigilance des sociétés mère et entreprises donneuses d'ordre – Année 1 : les entreprises doivent mieux faire ».

Human Right Watch (2016), "Human Rights in Supply Chains".

ILO (2017), "Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy", 5th edition.

ILO, Walk Free Foundation (2017), "Global Estimates of Modern Slavery - Forced Labour and Forced Marriage".

ISO (2017), "ISO 20400: 2017, Sustainable procurement: Guidance".

ISO (2010) "ISO 26000: 2010 – Guidance on social responsibility".

ISO (2018), "ISO 31000: 2018, Risk management".

Kedge BS (2014), "Guide pour des achats plus responsables".

Les Amis de la Terre, ActionAid France (2017), "Fin de cavale pour les multinationales ? Droits humains, environnement : d'une loi pionnière en France à un traité à l'ONU".

ObsAR (2012), "Comprendre les achats responsables – Guide à l'usage des TPE-PME".

ObsAR (2013), "Indicateurs et reporting pour les achats responsables".

ObsAR (2017), "La mise en œuvre des indicateurs Achats Responsables – Guide méthodologie".

OECD (2011), "Guidelines for multinational enterprises", 2011 edition.

OECD (2017), "Responsible business conduct for institutional investors - Key considerations for due diligence under the OECD Guidelines for Multinational Enterprises".

OECD (2018), "OECD Due Diligence Guidance for Responsible Business Conduct".

SACOM (2011), "iSlave behind the iPhone Foxconn Workers in Central China".

Sherpa (2018), "Guide de référence pour les plans de vigilance – Première edition"

Shift Project (2017), "Human rights reporting: Are companies telling investors what they need to know?" .

Shift Project (2019), "Human Rights Reporting in France: A Baseline for Assessing the Impact of the Duty of Vigilance Law".

Ten Kate, A. Remmers M., Kiezebrink V., Schipper I. (2016), "Beauty and a beast: child labor in India for sparkling cars and cosmetics", Terre des Hommes.

UN (2011), "Guiding Principles on Business and Human Rights".

UN (2012), "The corporate responsibility to respect human rights – An interpretative guide".

UN PRI (2017), "Managing ESG risk in the supply chains of private companies and assets".

Vigeo-Eiris (2016), "Responsible Supply chain management – Where do companies stand?".

Walk Free Foundation (2018) "The global slavery index 2018".

ACKNOWLEDGEMENTS

This handbook was prepared by the FIR's "Sustainable Procurement and Investment" working group (the ARI):

Claire Chaves D'Oliveira (A2 CONSULTING)
Grégoire Cousté (FIR)
Alicia Fouletier (AG2R LA MONDIALE)
Marie Fromaget (AXA IM)
Sophie Gaudeul (CFDT)
Olivier Laffitte (FMA AVOCATS)
Jean-Marie Pean (OFI AM)
Philippe Payen (TK BLUE AGENCY)
Thiên-Minh Polodna (FIR)
Alexandre Triki (A2 CONSULTING)
Patrick Viallanex (A2 CONSULTING)

The following also participated in preparing the handbook:

Naima Anajar (LA BANQUE POSTALE)
Marie Arnaud (A2 CONSULTING)
Anne Chanon (ETHIFINANCE)
Mehdi Fourar (A2 CONSULTING)
Theo Kotula (AXA IM)
Martine Leonard (CM CIC AM)
Natacha Seguin (GROUPE ALPHA)

The FIR and A2 CONSULTING warmly thank all the members of the working group for their valuable assistance, expertise and contribution, as well as all the participants who were invited:

To express their point of view (transcripts):
Laurent Berger (CFDT)
Sabine Castella-Poquet (MACIF)
Safira Dodat (ADP)
Stéphanie Kerbarh (Députée de Seine-et-Marne)

To present their non-financial analysis:
Emmanuel De la Ville (ETHIFINANCE)
Julia Haake (ISS-OEKOM)
Marion De Marcillac (MSCI)
Floriana Cau (SUSTAINALYTICS)
Jean-Florent Helfre (TRUCOST / S&P GLOBAL)
Florence Bihour-Frezal (VIGEO-EIRIS)

FIR Contacts:

Grégoire Cousté
gregoire.couste@frenchsif.org
+33 (0)1 40 36 61 58

Thiên-Minh Polodna
thien-minh.polodna@frenchsif.org
+33 (0)1 40 36 61 58

A2 Consulting Contacts:

Patrick Viallanex
patrick.viallanex@a2consulting.fr
+33 (0)6 72 93 35 87

Claire Chaves d'Oliveira
claire.chavesdoliveira@a2consulting.fr
+33 (0)6 28 73 41 29



FIR FORUM POUR L'INVESTISSEMENT RESPONSABLE

47 rue Berger 75001 Paris

Tel +33 (0)1 40 36 61 58

www.frenchsif.org

A2 CONSULTING

14 rue d'Ouessant 75015 Paris

Tel +33 (0)1 78 09 88 00

www.a2consulting.fr

Design www.beatrice-frant.fr - Photos Unsplash.com et Pixabay.com

FSC

June 2019