



## **WAGES AND WORKING HOURS GUIDELINES & IMPLEMENTATION PLAN**

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## **1. INTRODUCTION**

In recognition of the need to improve factory compliance with wages and working hours requirements and the desire to foster complete transparency in this area, and provided that there are no other serious violations disclosed in the auditing process, factories will be permitted/encouraged to enter into the ICTI CARE Process (ICP) Continuous Improvement Process (CIP).

This allows factories to register with the ICP, no matter what their existing wage and working hours are at the time of registration, provided that they are fully transparent and commit to work towards full compliance within an agreed timeframe, under the CIP. All currently registered factories continuing in the ICP are expected/required to provide clear records of their Wages and Working Hours demonstrating their transparency and their continuing commitment to the program.

## **2. WAGES**

### **a. Implementation Guidelines**

A number of factories reportedly do not currently pay the mandated minimum wage and overtime wage. Taking this into consideration, a three months compliance program for such factories will be implemented.

Compliance by factories with the correct payment of wages to the levels mandated by law must be achieved within three months of their first ICP audit.

Compensation of overtime at the legal rates of 150, 200 and 300%, when applicable as in China, is to be achieved within the same three months time period.

Payment of the minimum wage requires correct calculation of the rate for payment of the hourly minimum wage.

(The correct payment of wages is to be verified as part of a normal certification and follow-up audit. If further verification is required specifically on wage issues, this will require a separate and specific audit requiring one or two man-day audit. This separate and specific audit will also include the verification of working hours. See section 3 below)

### **b. Process in the Case of Non Compliance**

If the factory is not transparent in wages, procedures stipulated in section 3d should be followed.

For factories in which the wage requirements have not been met in the initial audit, a follow-up audit takes place after 120 days to verify the wage records of those three months. Factories in which the wage requirements have not been met as determined by this audit, will have a further one-or-two man-day audit scheduled of the month following the next full monthly

payroll or the month thereafter. If the factory is still not in compliance with the wage requirements, a decision will be made on the basis of good-faith efforts demonstrated to recommend either probation or termination (from ICP for a minimum of six months before a new application will be accepted by ICP for re-entry into the program).

### 3. WORKING HOURS

#### a. Implementation Guidelines

To help factories conform with the appropriate number of hours that workers should work; a working hours compliance system based on continuous improvement has been developed. It focuses on the difference between the actual number of hours worked (to be established by a review of actual time records) and the target of 66 working hours per week and the maximum level of 12 working hours per day as an important step towards compliance with legal requirements in China.

Starting from September 1<sup>st</sup> 2009 all factories will be required to reach compliance using the continuous improvement process no later than June 30<sup>th</sup> 2012 (regardless of when they enter into the process). All new entries after 30<sup>th</sup> June 2011 will only have 12 months to reach compliance.

The required minimum level of improvement and the length of time allowed for making the necessary improvement are listed below:

ICTI CARE Process Entry Time	Minimum Level of Improvement (annual reduction of weekly working hours of non-compliance)	Length of Time Allowed to Meet 66-Hour Target
between July 1 <sup>st</sup> 2009 and June 30 <sup>th</sup> 2010	at least 33%	Till June 30 <sup>th</sup> 2012
between July 1 <sup>st</sup> 2010 and June 30 <sup>th</sup> 2011	at least 50%	Till June 30 <sup>th</sup> 2012
between July 1 <sup>st</sup> 2011 and June 30 <sup>th</sup> 2012	All	12 months
after July 1 <sup>st</sup> , 2012	All	12 months

Insufficient improvement may lead to more frequent audits and more intensive training programs to support improvement, or probationary arrangement, or termination from the ICP. Factories will be given a seal classified A, B or Conditional depending on their level of working hours. See section 4 for more details regarding the classification.

#### b. Method

Progress audits will be required to verify the working hours level and improvement made by factories.

Factories who are awarded an "A" seal from January 1<sup>st</sup> 2010 onwards will need to pass a progress audit after 6 months in the first year only.

See section 3e Incentives and Backsliding, Financial Incentive

"B" and "Conditional" Seal factories are subject to progress audit requirements:

ICTI CARE Process Entry Time	Audit interval
between July 1 <sup>st</sup> 2009 and June 30 <sup>th</sup> 2010	Every 6 months One is an annual audit
between July 1 <sup>st</sup> 2010 and June 30 <sup>th</sup> 2011	Every 4 months One is an annual audit
between July 1 <sup>st</sup> 2011 and June 30 <sup>th</sup> 2012	Every 3 months One is an annual audit
after July 1 <sup>st</sup> , 2012	Every 3 months One is an annual audit

Factories must demonstrate continuous improvement on each audit date. No "backsliding" will be accepted See section 3e. Incentives and Backsliding).

To ensure that "B" and "C" Seal factories have the ability to make the necessary improvements, a training program may also be required.

The following two examples demonstrate the method of assessment:

**Example I:**

Actual factory working hours:	90 per week
Less: ICP Target working hours:	66 per week
Non compliance of hours =	24 per week
 <i>Factories entering in 2009 – will have up to 3 years to reach compliance</i>	
1 <sup>st</sup> certification audit cycle: Reduction of 33% of 24 hours -> 8 hours -> max. 82 hours per week	
2 <sup>nd</sup> certification audit cycle: Reduction of 33% of 24 hours -> 8 hours -> max. 74 hours per week	
3 <sup>rd</sup> certification audit cycle: Reduction of 34% of 24 hours -> 8 hours -> max. 66 hours per week	
Factories will be audited every 6 months during this period	
 <i>Factories entering in 2010 – will have only 2 years to reach compliance</i>	
1 <sup>st</sup> certification audit cycle: Reduction of 50% of 24 hours -> 12 hours -> max. 78 hours per week	
2 <sup>nd</sup> certification audit cycle: Reduction of 50% of 24 hours -> 12 hours -> max. 66 hours per week	
Factories will be audited every 4 months during this period	
 <i>Factories entering in 2011 – will have to be in compliance within 12 months</i>	
Year 1 <sup>st</sup> certification audit cycle: Reduction of 100% of 24 hours -> 24 hours -> max. 66 hours per week	
Factories will be audited every 3 months during this period.	
Factories that enter anytime after June 30 2011 will have 12 months to reach compliance.	

## Example II:

Actual factory working hours:	102 per week
Less: ICP Target working hours:	66 per week
Non compliance of hours:	36 per week

### Factories entering in 2009: Compliance by June 30<sup>th</sup> 2012 audited every 6 months

1<sup>st</sup> certification audit cycle: Reduction of 33% of 36 hours -> 12 hours -> max. 90 hours per week  
2<sup>nd</sup> certification audit cycle: Reduction of 33% of 36 hours -> 12 hours -> max. 78 hours per week  
3<sup>rd</sup> certification audit cycle: Reduction of 34% of 36 hours -> 12 hours -> max. 66 hours per week

### Factories entering in 2010: Compliance by June 30<sup>th</sup> 2012 audited every 4 months

1<sup>st</sup> certification audit cycle: Reduction of 50% of 36 hours -> 18 hours -> max. 84 hours per week  
2<sup>nd</sup> certification audit cycle: Reduction of 50% of 36 hours -> 18 hours -> max. 66 hours per week

### Factories entering in 2011: Compliance by June 30<sup>th</sup> 2012 audited every 3 months.

1<sup>st</sup> certification audit cycle: Reduction of 100% of 36 hours -> 36 hours -> max. 66 hours per week. Factories that enter anytime after June 30<sup>th</sup> 2011 will have 12 months to reach compliance

## **c. Verifying Compliance:**

To ensure compliance with the plan, one-or-two man-day progress audit, depending on the factory size, will be conducted to verify wage compliance and working hours improvements every six months, increasing to every 4 months for factories entering the program in the second year and to every 3 months for factories entering in the third year.

## **d. Process in Case of Non Compliance**

### Transparency

All factories should be transparent with the ICP at all times.

Factories in the CIP, that show transparency but fail to meet the minimum level of improvement required will be subject to more frequent audits than described above and or more intensive training. During this period those factories would remain in the system and be classified as "in progress". Factories that continuously fail to meet the agreed upon improvements would face either probation or ultimately termination from the ICP.

### Non Transparency

New factories joining the ICP, that are found to be non transparent in the first audit will be offered an additional one-or-two man-day audit to be conducted after 120 days to review three months records. During this time, the factory will remain in the system as "In Progress". If the factory fails to be transparent a second time, it will be suspended from the program until such time as it commits to be fully transparent and may then apply to restart the process.

Factories holding a valid ICP seal, if non-transparency is found, a one-or-two man-day audit will be scheduled within four weeks. If the factory shows transparency, the factory will be offered probation for the normal period of 12 months.

If continued non-transparency is found in the re-audit, the factory will be terminated for 12 months. A shorter period, but no less than 6 months, may be granted by the ICTI Asia Operations team, depending on the sincerity of the factory in question and its willingness to make genuine continuous improvement.

#### **e. Incentives and Backsliding**

Continuous improvement is at the core of ICP's wages and working hours policy, which provides the opportunity to work towards ICP compliance in return for transparency. This means that it is essential for all monitored factories, no matter the seal level at which they enter the ICP to strive toward, achieve and maintain an "A" level seal. Backsliding, i.e. a factory going from an "A" to a "B" or a "B" to a "C," is only allowed under strict terms.

To encourage continuous improvement toward, and maintenance of, an "A" level Seal, the ICP offers the following:

- Financial Incentive: Factories that have maintained a level "A" Seal for at least two years will have their normal audit cycle extended from 12 to 18 months, which in effect reduces audit costs by one third. This incentive will continue so long as the factory retains its "A" Seal. (applicable for all "A" seal factories through June 30, 2012)
- Recognition Incentive: The recognition process will use the current Factory Database on the ICP website.
- Other Incentives: A campaign will be directed to retailers, buyers and Date Certain committed companies through written materials and personal visits. They will be encouraged to actively support the program by giving preferential treatment to factories registered in the ICP.
  - Buyers will be encouraged to focus their purchases on "A" and "B" Seal factories which should further incentivize and encourage factories to improve. Any factory with an A Seal will be regarded as an especially trustworthy and reliable business partner. Buyers will be encouraged to support factories who are on probation working to resolve their non-compliance issues
  - Retailers decide what level of seal their supplier factories must attain in order to qualify/remain qualified to receive orders. This is an additional incentive to remain in good standing and not backslide.

This holds true for catalogue merchandisers as well.

When backsliding occurs, ICP may do the following with regard to the factory:

- Encourage retailers/buyers not to buy from backsliding factories
- Require factories to participate in appropriate training in an ICP-approved program.

How backsliding may occur and factories may return to continuous improvement:

**"A" Seal Factories:**

Scenario 1 - backsliding to "B"

Audit finding: Factory consistently worked in excess of 66 hours but no more than 72 hours

Re-categorization: Factory therefore loses its "A" Seal status and is put in the "In Progress" category with re-audit requirement,

Re-audit - Compliance: Re-audit (after 120 days to review three months records) shows compliance with "A" Seal requirements, and then "A" Seal is reinstated.

Re-Audit - Non-Compliance: Re-audit (after 120 days to review three months records) shows "A" Seal requirements were not met, then a "B" Seal is given and the factory is required to give a corrective action plan to re-attain a "A" Seal within three months. Another re-audit will be required after a further 120 days to review three months records, so as to ensure that the corrective action plan is implemented. If compliance with "A" is met in this second re-audit, a "A" Seal will be reinstated. If not, then the factory maintains the B Seal and will be subject to progress audit requirement as stated in the above.

Scenario 2 – backsliding to "Conditional"

Audit finding: Factory consistently worked in excess of 72 hours

Re-categorization: Factory would go straight to being "on probation" for 12 months with a corresponding probationary agreement and arrangement of regular audits;

Re-audit - Compliance: Regular surveillance audits according to probationary agreement. If compliance with "A" or "B" Seal requirements is met in two consecutive audits an "A" or "B" Seal would be reinstated.

Re-Audit - Non-Compliance: If the requirements for at least a "B" Seal are not met in two consecutive audits and attendance at a rigorous training course, continued non-improvement would lead to termination from the ICP.

**"B" Seal Factories:**

Audit finding: Factory consistently worked in excess of 72 hours

Re-categorization: Factory loses its "B" Seal status and would be put in the "In Progress" category;

Re-audit- Compliance: Re-audit (after 120 days to review three months records) shows compliance with "B" Seal requirements; "B" Seal would be reinstated.

Re-audit- Non-Compliance: Re-audit (after 120 days to review three months records) shows "B" Seal requirements were not met; factory will be shown as "on probation" for 12 months with a probationary agreement and arrangement of regular re-audits, to achieve at least "B" Seal

qualification within three months. If the requirements for at least a "B" Seal are not met in two consecutive audits and attendance at a rigorous training course, continued non-improvement would lead to termination from the ICP.

#### **4. FACTORY CLASSIFICATION**

- Class A Seal of Compliance – will be issued to factories whose workers do not work in excess of 66 hours per week
- Class B Seal of Compliance – will be issued to factories whose workers work more than 66 hours but not more than 72 hours per week
- CONDITIONAL Seal of Compliance – will be issued to factories whose workers work in excess of 72 hours per week

In order to qualify for any one of the Seal levels, all factories need to be in compliance with proper wages payments. Furthermore, factories need to meet all other ICP requirements with regard to:

- Underage Labor
- Forced Labor
- Disciplinary Practices
- Discrimination
- Employee Representation
- Facilities
- Fire Protection
- Environment, Health and Safety
- Dormitories
- Canteen/Cafeteria Services
- Medical Services
- Bribery and corruption

Factories must show improvement each year. Continuous improvement throughout the year is the criterion to remain in the program and is rewarded by an increase in the level of a factory's Seal.

#### **5. IMPLEMENTATION - TIMELINE**

**Local Specific Document** will be updated once the final Wages and Working Hours Policy is in place.

**Auditor Training** includes the wages and hours requirements. The implementation of the new policy began after the training of the auditors. These training courses were held on:

- July 3<sup>rd</sup> Shenzhen
- July 7<sup>th</sup> Shanghai
- July 10<sup>th</sup> Shenzhen

Further training courses will be conducted as appropriate/needed.

**Audit Start Date for Policy:**

The effective start date is September 1<sup>st</sup> 2009.

**Factory Registrations**

New Registrants

These requirements will be made known to all new registrants at the time of their application to join the process.

Existing Participants

These requirements will be made known to existing participants advising them of the need to comply following their next audit.

**Review of Policy**

To measure the effectiveness of the new policy a review will be done for the June 2010 Board meeting.

September 1st, 2009

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## 6. GLOSSARY OF TERMS

### With regard to status within the ICTI CARE Process

- "Registrant" Signifies a factory that has registered in the ICP, but has not yet had its first audit
- "In Progress" Signifies a factory that is working through a Continuous Improvement Program (CIP) and has not met its target level of working hours, or a Corrective Action Plan (CAP) and has not yet passed a re-audit.
- "Conditional Seal" The first level Seal. Indicates a factory has been audited, with no critical defects found and has committed to transparency. It was found to work more than 72 hours per week and is working through a continuous improvement plan (CIP) to reduce hours and achieve a higher level of Seal.
- "Class B Seal" The second level Seal. Awarded to a factory that has been audited, with no critical defects found and has committed to transparency. It was found to work 72 hours or less, but more than 66 hours per week. This level may be achieved either at an initial audit or as part of a CIP, through which it is continuing to work toward a higher level of seal through the reduction in hours.
- "Class A Seal" The third level (highest) of Seal. Awarded to a factory that has been audited, with no critical defects found and has committed to transparency. It was found to have worked no more than 66 hours per week.
- "Probation" Signifies a factory whose seal is pending satisfactory completion of a corrective action plan. The probation period is normally 12 months and during this period, the factory will be subject to regular surveillance audits (quarterly), throughout the twelve months, during which time the CAP will be completed.
- "Termination" Signifies a factory that has been removed from the ICP and must reapply after a waiting period.

### With regard to working hours:

- Working Hours: The number of working hours needs to be met every week during the full year. It will not be calculated as an average throughout the year, nor treated as a year-end target. There will be at least one rest day in every week.
- Working Hours Exceptions: "Occasional" and "Regular" overtime may be summarized as;
  - "Occasional" - "Occasional" is defined as when any group of (two or more) workers work overtime exceeding the above ICP requirements, but not for more than one day per week, and three weeks in any one month, and three months in any one year. Occasional overtime is not counted towards non-compliance with maximum allowable working hour limit per week.
  - "Regular" - Regular overtime is when a factory exceeds the criteria for "Occasional" stipulated above.

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