



Interpretation

INTERPRETATIONS OF THE NORMATIVE FRAMEWORK

Annual Administration Fee (AAF)



Title: Interpretations of the Normative Framework

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Abbreviations

AAF	Annual Administration Fee
ASI	Assurance Services International
CAR	Corrective Action Request
CB	Certification Body
CH	Certificate Holder
CoC	Chain of Custody
FPT	Forest Products Turnover

FSC-POL-20-005 V3-3 Annual Administration Fee (AAF)

Code	INT-POL-20-005_01
Requirement (s)	Forest Products Turnover (FPT)
Publication date	10 November 2021; amended 28 April 2023
<p>What is the level of rigor required for the FPT?</p> <p>100% forest-based businesses</p> <p>For CHs that are 100% forest-based businesses the calculation is very simple: the FPT equals the organization's total Revenue. Supporting documents to be viewed by the CB could be financial statements and/or tax filings, for example.</p> <p>Businesses with forest-based and non-forest-based products</p> <p>A logical starting point for the best estimation of the FPT is that the FPT value falls somewhere in a range between 100% of Revenue (all Revenue is associated with forest products) and 0% of Revenue (no Revenue is associated with forest products). Taking the total Revenue as a starting point, an organization can make a reasonable FPT estimate based on progressively excluding non-FPT from their total Revenue.</p> <p>For example, a \$100m Revenue company with five business units of \$20m each, two of which are forest products related and three of which are not, would be able to quickly estimate that the FPT is somewhere up to a maximum of \$40m. Being conservative, \$40m should be a credible estimate of FPT. Alternatively, the company could analyse the two business units in more detail to fine-tune the estimate to a lower FPT value. This analysis could include further segmentation of the two business units to exclude further non forest products. The company may further iterate through this process to reach an FPT estimate that is fair and plausible.</p> <p>CBs are required to ask CHs to provide some basic evidence to support any assertions. For instance, using the aforementioned example, the CH might state that a further 10% of the Revenue from the 2 divisions that trade in forest products are not actually forest-related, and thus the FPT should be further reduced. But if the CH cannot back up that claim, then the original calculation of FPT being 40% of Revenue should be used.</p> <p>Some CHs will have precise records of the amount of turnover derived from forest products, and for these organizations the FPT can be determined from the relevant accounting data.</p> <p>For all other CHs, some degree of estimation and professional judgement will be required to derive a reasonable estimation of FPT. Here, the overall approach should be to work from records and documentation that are available rather than creating complex analyses based on data that are not readily available.</p> <p>A good place to start is with the CH's management accounts and other relevant company documents. Alternatively, the CH may have sales recorded by geographic region: any region where there are no sales of forest products can be excluded when determining the FPT.</p> <p>A conservative approach is to be used by CBs when assessing best estimates of Revenue that is, or is not, forest related e.g. if a CH claims that 20-40% of their Revenue does not</p>	

come from forest products, then the lower figure (20%) should be used, leaving the FPT as 80% of total Revenue.

Plausibility checks will help to ensure any estimate of FPT is of the right order of magnitude. For instance, if the majority of a CH's employees work in their forest products division, but the CH claims that FPT only accounts for 30% of Revenue, then auditors should probe deeper. The calculations made to derive the FPT from the total Revenue should be clearly recorded and retained, as these may be required for inspection by FSC or its sub-contractors at a later date.

Code	INT-POL-20-005_02
Requirement (s)	Scope
Publication date	10 November 2021; amended 28 April 2023
What are the consequences for the CH if an auditor finds an inconsistency related to the AAF?	
<p>The auditor and/or the CB should clarify the inconsistencies with their CH, but shall not issue CARs to CHs related to the AAF in 2022, Q1 2023 to Q3 2023, as the Revenue Pathway, Default Pathway and Exception Pathway can apply until Q3 2023 AAF invoicing (see INT-POL-20-005_13).</p>	

Code	INT-POL-20-005_03
Requirement (s)	Clause 2.2 b)
Publication date	28 April 2023
Does a certification body still have to verify and update the necessary information in FSC certification database for calculating the AAF, if the certification body has waived a surveillance audit as per Clause 3.3 of <FSC-STD-20-011 V4-2 Chain of Custody Evaluations>?	
<p>Yes, a certification body shall verify and update the data at minimum each calendar year even if the surveillance audit has been waived.</p> <p>Waving an audit and updating the FSC certification database with necessary information for calculating the AAF are two distinct and independent requirements in the FSC normative framework.</p> <p>The certification is subject to the AAF even if the audit is waived as per Clause 3.3 of <FSC-STD-20-011 V4-2 Chain of Custody Evaluations>.</p>	

Code	INT-POL-20-005_04
Requirement (s)	Clause 2.4

Publication date	29 July 2022; amended 28 April 2023
<p>Shall the information on CH class value still be relevant from Q3 2022 onwards?</p> <p>The data in the old AAF class (i.e. the previous 1-10) fields are relevant only for CHs following the Default Pathway for AAF invoicing. We will revise the fields available on Salesforce in 2023 to simplify data entry going forward and a specific solution will be provided for CHs following the Default Pathway for AAF invoicing.</p>	

Code	INT-POL-20-005_05
Requirement (s)	Clause 2.4 d) and e)
Publication date	22 September 2021
<p>Do the FPT and Revenue for chain of custody CHs in class 1 have to be entered?</p> <p>Yes. This requirement applies to CHs of all classes</p>	

Code	INT-POL-20-005_06
Requirement (s)	Clause 2.4 d)
Publication date	10 November 2021
<p>What is the FPT for a CH that is based in country X, which is assembling furniture (sofas, chairs, etc.) from the parts supplied by the mother company in country Y? The company based in country X is acting as subcontractor and does not make any purchases or sales at all and is invoicing the mother country Y just for the assembling services provided.</p> <p>Zero '0' USD FPT shall be declared for the CH based in country X as the FPT definition states "Forest Products Turnover does not refer to related services". This would also apply if both companies were in the same country.</p> <p><i>(This has not been changed compared to V2-9 of the AAF Policy.)</i></p>	

Code	INT-POL-20-005_07
Requirement (s)	Clause 2.4 d)
Publication date	28 January 2022
<p>How should the FPT be calculated for a multi-site CH whose organizational structure consists of subsidiaries and includes internal sales?</p>	

The FPT should not account the internal sales within a multi-site certification but only actual Revenues from invoicing the customers of a CH. In summary, what ultimately matters is whether sales are made within or outside the multi-site certification.

Code	INT-POL-20-005_18
Requirement (s)	Clause 2.7
Publication date	15 June 2023
What is meant by ‘newly certified companies’ in the context of providing the FPT?	
Newly certified companies refers to CHs certified after 1 July 2022.	

Code	INT-POL-20-005_08
Requirement (s)	Clause 2.10
Publication date	10 December 2021; amended 28 April 2023
Are there any other exceptions for when a CH does not have to provide the Revenue figure?	
Yes, if the Revenue Pathway (INT-POL-20-005_13) applies and the cap of 10 billion is used, the exact Revenue figure is not required, and no supporting documentation is needed.	

Code	INT-POL-20-005_09
Requirement (s)	Clause 2.20 and 6.5
Publication date	28 April 2023
FSC recommends the use of OANDA as a preferred currency converter by changing ‘shall’ to a ‘should’ requirement in the Clause 6.5 of <u>FSC-POL-20-003 V3-3 Annual Administration Fee</u>. If a certification body uses another currency converter, how can it be demonstrated and justified?	
A Certification body may use another currency converter if the need for its use can be demonstrated and justified. FSC considers it a valid justification if e.g. a certification body can demonstrate that the use of another currency converter is an integral part of its internal operations.	

Code	INT-POL-20-005_10
Requirement (s)	Clause 2.23

Publication date	17 February 2022
<p>Is a document signed by a Chartered Accountant stating just the FPT amount (with no context) sufficient as supporting documentation for the FPT amount?</p> <p>A signed statement from a reputable professional services firm is acceptable. In such a case the CB is not required to investigate further the validity of the numbers stated. The statement shall include the name of the Chartered Accountant or auditor, as well as the organization.</p> <p>A self-declaration signed by an internal Chartered Accountant can be used as supporting documentation alongside other checks. In this case, the Clause 2.21 of <FSC-POL-20-003 V3-3 Annual Administration Fee>and INT-POL-20-005_01 on 'FPT rigor' continue to apply. For reference, the Clause 2.21 of <FSC-POL-20-003 V3-3 Annual Administration Fee> states:</p> <p>'CBs shall not rely on oral or written self-declarations alone. A self-declaration shall be assessed by the CB for reasonableness, plausibility and, as far as possible, accuracy'.</p>	

Code	INT-POL-20-005_11
Requirement (s)	Clause 2.27
Publication date	10 November 2021; amended 28 April 2023
<p>What data protection considerations have been taken into account? For instance, will the information provided related to the AAF be confidential?</p> <p>Yes, information provided related to AAF will be held confidential. FSC adheres to General Data Protection Regulation (GDPR) regulations, which means that any data stored by FSC (including the FPT and Revenue figures) are handled in a compliant manner. Turnover and Revenue data is stored on the FSC certification database; access to Turnover and Revenue data is restricted to the CB who obtains the data from the CH and manages it within the database, plus a tightly defined set of FSC staff who need to use that data to perform their job functions and those teams' contractors who operate under strict non-disclosure agreements.</p> <p>Processing of business sensitive and confidential data is lawful as it is necessary in order to ensure conformance with the FSC certification scheme to which the data subject is party. As with all certification activities, and according to Clause 1.8 of <FSC-STD-20-001 V4-0 General requirements for FSC accredited certification bodies> the CB "shall be responsible, through legally enforceable commitments, for the management of all information obtained or created during the performance of certification activities". According to Clause 2.4.2 of <FSC-STD-20-001 V4-0 General requirements for FSC accredited certification bodies> the CB must have established procedures to "define the controls needed for the identification, transport, transmission, storage, protection, retrieval and disposition of its records related to the implementation of FSC requirements, including controls to safeguard confidentiality". Therefore, if a CH has concerns on matters regarding certification activities, the CH should raise these concerns with its CB.</p>	

Code	INT-POL-20-005_12
Requirement (s)	Clause 2.27
Publication date	10 December 2021
<p>What are FSC’s protocols for handling confidential information?</p> <p>Certification data, including personal and other confidential information, are managed in FSC’s IT platforms. Certification bodies are contributors and managers of certification data in FSC’s IT platforms, and FSC’s confidentiality agreements and FSC Information Security protocols reflect the security requirements specific to FSC’s operating environment and the laws and regulations that are relevant to FSC, as well as best practices in information security. Our protocols and practices include Access Control to grant access to those with a legitimate role for access, Acceptable Use via our agreements with employees, certification bodies and third-party contractors enforce confidentiality and non-disclosure, Physical Security via our IT infrastructure providers who are certified for and provide physical security to ensure availability, integrity, and confidentiality of data, and Network Security that ensures that all data and authentication moves across encrypted channels.</p>	

Code	INT-POL-20-005_13
Requirement (s)	Clause 5.1.1
Publication date	25 November 2021; amended 15 June 2023

How will the AAF be calculated, if the exact or best estimate of FPT and/or Revenue is not available?

Overview of AAF calculation

The flowchart outlines the process for calculating the AAF. In the vast majority of cases FSC expects the Forest Products Turnover to be provided by CHs, including sufficiently meeting supporting documentation requirements. See INT-POL-20-005_14 for additional clarification on what supporting documentation is required for the different Pathways. However, FSC has also outlined the process should the Forest Products Turnover and/or Revenue not be available. The below process only applies to CHs certified before 1 July 2022. All CHs certified after 1 July 2022 are expected to comply immediately with providing the exact Forest Products Turnover data, unless the 'Exception pathway' is granted and/or unless the Clause 2.5 or the Clause 2.6 of AAF Policy V3-3 applies. This process applies to Q1 to Q3 2023 AAF invoicing.

Info Box

Valid criteria may include but are not limited to:

- Regulations

Invalid criteria:

- Company policy prohibits the sharing of the data
- Effort required to obtain the data

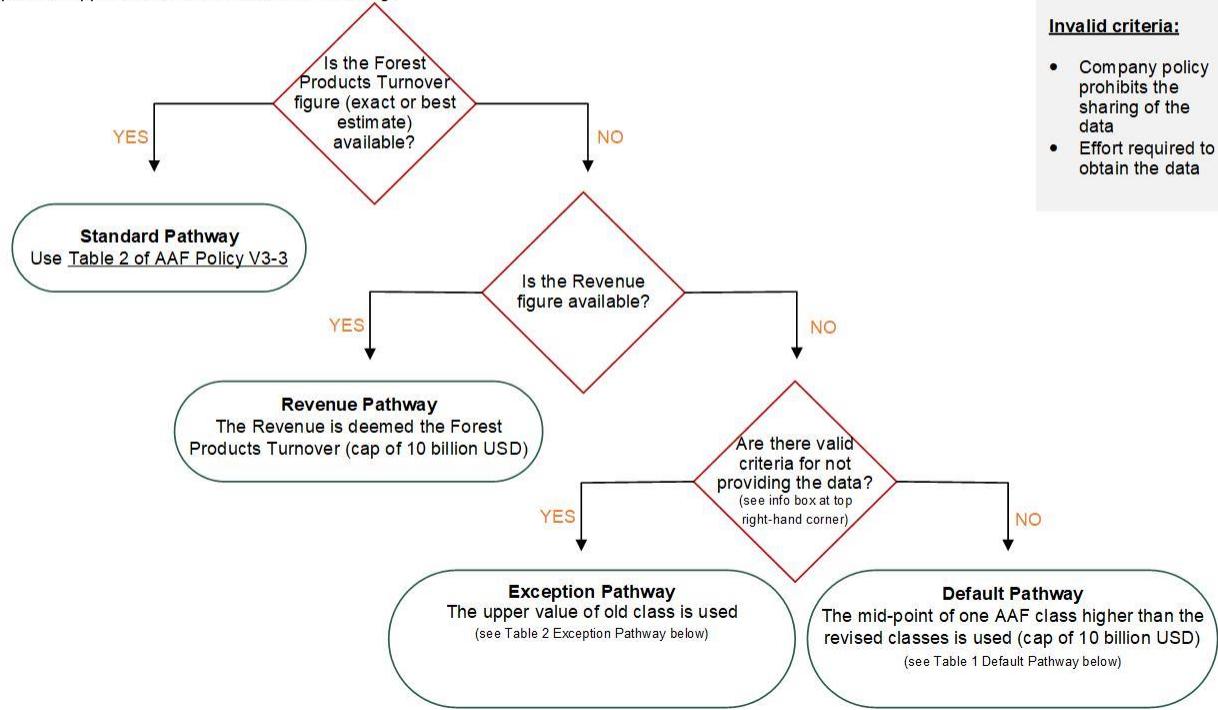


Table 1 Default Pathway

A. Old AAF class (Table 2 of the AAF Policy V3-1)	B. Revised AAF class (Table 2 of AAF Policy V3-3)	C. Mid-point of FPT for revised class (Million USD)	D. AAF (USD) for processors	E. AAF (USD) for traders
1	1	3	942	283
2	1	3	942	283
3	2	15	2,090	628
4	3	62.5	4,029	1,211
5	4	300	8,914	2,676
6	5	1,250	24,269	7,280
7	6	6,000	87,621	26,287
8	6	6,000	87,621	26,287
9	7	10,000	139,341	41,807
10	7	10,000	139,341	41,807
10+	7	10,000	139,341	41,807

Table 2 Exception Pathway

A. Old AAF class (Table 2 of the AAF Policy V3-1)	B. FPT (Million USD)	C. Upper value of old AAF class (Million US)	D. AAF (USD) for processors	E. AAF (USD) for traders
1	≤0.2	0.2	114	83
2	>0.2 – 1	1	559	171
3	>1 – 5	5	1,314	395
4	>5 – 25	25	2,865	861
5	>25 – 100	100	5,192	1,560
6	>100 – 500	500	12,636	3,792
7	>500 – 1,000	1,000	20,391	6,117
8	>1,000 – 2,000	2,000	35,901	10,767
9	>2,000 – 3,000	3,000	48,831	14,647
10	>3,000 – 5,000	5,000	74,691	22,407
10+	>5,000	10,000	139,341	41,807

Code	INT-POL-20-005_14				
Requirement (s)	Clause 5.1.1 and INT-POL-20-005_13				
Publication date	06 April 2022				
For each pathway, as per INT-POL-20-005_13, when is the following required:					
a) the FPT and Revenue figures?					
b) verification?					
Pathway	FPT figure required?	Level of Rigor of FPT as per INT-POL-20-005_01 met?	Revenue figure required?	Verification of Revenue required?	Additional comments on exceptions
Standard Pathway	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> or <input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> or <input checked="" type="checkbox"/>	As per Clause 2.10, if the FPT figure does not involve an element of estimation, the CB may waive the requirement to collect and verify the Revenue figure.
Revenue Pathway	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> or <input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> or <input checked="" type="checkbox"/>	As per INT-POL-20-005_08, if the cap of 10 billion is used, the CB may waive the requirement to collect and verify the Revenue figure.
Exception Pathway	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> or <input checked="" type="checkbox"/>	<input checked="" type="checkbox"/> or <input checked="" type="checkbox"/>	Template for Exception Request (see Annex 1) to be completed initially. Revenue requirements in such a circumstance are determined on a case-by-case basis.
Default Pathway	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	

Code	INT-POL-20-005_15				
Requirement (s)	Clause 5.1.1 and INT-POL-20-005_13				
Publication date	17 February 2022; amended 28 April 2023				
How shall CBs communicate to FSC when the FPT and/or the Revenue is not available in order to allow FSC to calculate the AAF according to INT-POL-20-005_13?					
In case the Revenue Pathway is used:					

1. The Revenue figure is entered in the FSC Certification Database and the FPT field is left blank.
2. No further communication with FSC is needed.

In case the Default Pathway is used:

1. Both the Revenue and FPT fields are left blank in the FSC Certification Database.
2. No further communication with FSC is needed.

In case the Exception Pathway is used:

1. The Revenue and FPT fields are left blank in the FSC Certification Database.
2. Complete the Exception Template (see Annex 1) and email it to aafsupport@fsc.org.
3. Await FSC's formal response to the exception request.
4. Deadline to submit the exception request is one month before the determination date of the AAF invoicing for the respective quarter.

Code	INT-POL-20-005_16
Requirement (s)	INT-POL-20-005_13
Publication date	21 June 2022; amended 28 April 2023
<p>What are the database entry requirements should the Revenue Pathway apply and the cap of '10 billion USD is used?</p> <p>CBs may enter '10 billion' into the field. However, CBs are encouraged to enter the actual Revenue figure if possible. For the invoicing of CBs by FSC International, the cap will automatically be applied in the background.</p>	

Code	INT-POL-20-005_17
Requirement (s)	Annex 1
Publication date	28 April 2023
<p>How does FSC calculate the AAF for Natural Forests in the Sub-Tropical Zone?</p> <p>For the purpose of calculating the AAF, FSC considers the forest type 'Natural Forest – Sub-tropical' same as 'Natural Forest – Tropical' with the rate of 0.0020 USD per hectare until the Annex 1 of the AAF Policy is revised.</p>	

Annex 1 Template for Exception Requests (ER)

This template is to be filled in by CBs to submit an approval request to FSC via aafsupport@fsc.org for applying the Exception Pathway. The following subject shall be used "AAF Exception Approval Request: CB NAME _ CH CODE".

This exception is only granted upon individual request and subsequent FSC approval in writing. Deadline to submit the exception request is one month before the determination date of the AAF invoicing for the respective quarter.

ER-Code (assigned by FSC)	FSC-EXC-AAF-2023-000
Request	<i>The CH to follow the Exception Pathway as the CH meets valid criteria.</i>
Name of Certificate Holder (CH)	
Certification Code	
Rationale (valid criteria that prevents CH from providing Forest Products Turnover and Revenue data)	
Supporting document attached	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A
Further information (optional)	
FSC EVALUATION RESULT	
FSC conclusion	
Approval date (if applicable)	
Period of validity (if applicable)	



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