



Responsible Investment Certification Program

#14. Verification Requirements & Certification of Underlying Fund Managers – Guidance note

Guidance Questions

A. My international shares fund is a fund-of-funds. What are the requirements under the RI Program for underlying managers of international funds?

The Program Requirements specify that the relevant underlying fund manager processes are also required to be subject to independent verification. The Product Provider and Superfund Option category requirements state:

Have their RI processes verified: have their product and its management processes audited by a Third-Party Verification entity appointed by RIAA; where some or all of the product is managed by external manager/s, those managers' processes are also required to be audited by a Third-Party Verification entity appointed by RIAA (unless already certified by RIAA);

For superfund option applicants, there is an additional requirement:

Have their underlying fund managers Certified: the option's underlying asset manager/s must be certified under the Program. Some exemptions to this may be negotiated where a manager is either managing an immaterial portion of the investment option's total assets and/or is located outside of Australasia; and

B. So, if my fund is invested with an underlying manager who has products that are certified by RIAA, they will not be subject to the independent verification process?

That's correct. However, as RIAA certifies products and not managers, your fund must be invested in the Certified Product (fund) for this to remain true.

C. What happens if the underlying fund manager (based overseas for example) is not certified by RIAA?

Whether or not RIAA or the RIAA appointed independent verification entity (auditor) is required to submit the underlying manager to an audit is at the discretion of the Certification Assessment Panel (CAP), sub-committee of the RIAA Board and is a function of several factors including the CAP's assessment of:

1. materiality of FUM to certifying member's total product;
2. the RI/ESG governance process in place in the certifying member's fund to appoint underlying fund managers and manage their RI/ESG performance;
3. its level of confidence in the governance of the process in 2. above;
4. its level of confidence in and/or reputation of underlying fund manager to manage RI, ethical funds; and
5. other factors that are relevant in that context.



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In the event that the CAP's assessment process delivers a "higher risk" outcome, it is likely the CAP would require the independent verification entity to undertake an audit with the underlying fund manager.

In the event of a "lower risk" outcome, the CAP is likely to rely primarily on the independent verifying entity's assessment of the veracity of the certifying member's governance process of the IMA (or equivalent) between the certifying member fund and their underlying fund manager.

D. At what point would RIAA expect an underlying fund to also be fully certified by RIAA?

There is an expectation that an underlying fund would be required to be certified by RIAA, ahead of the applying member's product approval being granted, where the underlying fund manager:

1. is domiciled in Australia or New Zealand; and/or
2. provides fund management services for two or more certified member products.

Refer to Decision Guide (following) for more detailed guidance.



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DECISION GUIDE (for internal use)

1. Is the fund's underlying fund manager products Certified?

- Yes (no further independent verification required)
- No, Go to next step

2. Is the FUM covered by the uncertified fund, material to the RI product or option seeking certification? It is incumbent upon the CAP to consider the appropriate threshold for materiality in each individual case. As a guide, funds that are 5% or greater of total FUM are considered material.

- No, independent verification is not likely
- Yes, Go to next step

3. Is the underlying uncertified fund (manager) key to the delivery of two (2) more certified RIAA member funds and is domiciled in Australia or New Zealand?

- Yes, then certifying member to approach underlying fund manager and request they enter the RIAA certification process
- No, Go to step 5

4. Is the fund manager key to the delivery of four (4) or more certified RIAA member funds and is domiciled outside of Australia or New Zealand?

- Yes, then certifying member to approach underlying fund manager and request they enter the RIAA certification process
- No, Go to next step

5. Are there robust and proven RI/ESG governance processes in place in the certifying member's fund to appoint underlying fund managers and manage their RI/ESG performance?

- Yes, independent verification is not likely, but would be considered pending outcome of the independent verification results of the Certifying member
- No, Go to next step

6. Is there a high level of confidence in and/or reputation of underlying fund manager to manage RI, ethical funds?

- Yes, independent verification may still be required
- No, Go to next step

7. Is there a lack of information about the underlying fund, or is there only a medium or low-level confidence in the underlying fund manager to manage RI, ethical strategies?

- Yes, independent verification required