



**CERISE+SPTF**

# Guidelines

for Third-Party Validations on  
Client Protection

**Version April 2024**



# Guidelines for Client Protection Third-party validations

(version April 2024)

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**Please note that Cerise+SPTF does not recommend, endorse or make any representations regarding third-parties conducting validations.**

**These Guidelines aim at helping stakeholders in the selection of third-parties by setting out key recommendations. Stakeholders remain free to decide what they decide to use from these guidelines.**

**The Cerise+SPTF Standards are a public good and may be downloaded [here](#).**

## Introduction

The Universal Standards for Social & Environmental Performance Management (USSEPM) and **the Client Protection (CP) Standards** (the “Standards”) have been developed by the people and for the people in the financial industry, because our members ask us to identify what practices they can implement to achieve client protection, social and environmental impact.

We have created the Client Protection Pathway, which describes the steps that a financial service provider (“FSP”) should take to improve its client protection practices and communicate transparently this progress to investors and other stakeholders. The Pathway provides FSPs a roadmap for implementing the Client Protection Standards and helps them stay on track.

The **Client Protection Pathway** consists of three steps:

1. **Commitment to implement client protection:** The FSP declares its commitment to implement Client Protection by signing up to the Pathway, and its profile is published on the Client Protection Pathway page of the Cerise+SPTF website. Within six months of joining, the FSP submits to Cerise+SPTF a self-disclosure of its client protection practices (in the form of a self-assessment or other acceptable proof of assessment).
2. **Assessment and improvement.** The FSP evaluates their client protection practices (using the SPI Online tools) through a self-assessment, or an accompanied self-assessment. Based on this assessment, the FSP creates an action plan and works on improving its practices.
3. **Demonstration of achievements.** The FSP demonstrates its current state of practice through a third-party validation, such as a certification or an external assessment. FSPs may have an interest to seek an external, independent validation to embed a lasting client protection culture, and report transparently to their clients, partners and investors on their progress against the Standards.

Cerise+SPTF supports and recommends an external validation for FSPs having accomplished Step 1 and Step 2 and proposes these **Guidelines to help users select third-parties that use the industry’s client protection standards and who are aligned with best practice of validation.**

The Guidelines are a market-based initiative and aim to support transparency in the third-party selection process. They bring together **Cerise+SPTF’s recommendations** regarding the professional and ethical standards to which we believe external reviewers should be held, along with the qualifications we believe they should possess.

They have been developed as a common undertaking between Cerise+SPTF and the Social Investor Working Group, and take reference from leading standard setting initiatives.

## Types of third-parties

There are 2 types of third-parties considered in these guidelines:

- **Organizations:** Legal entities such as rating agencies, audit or consulting firms who have a managerial and organization structure
- **Individuals** that have been trained by Cerise+SPTF; we recommend that they work in a team of two, as per best practice for objectivity and balance in opinion.

**Cerise+SPTF supports all types of third-party validations**, regardless of their legal status.

We recommend the following **pre-requisites** for any **organization** wishing to conduct third party validations – it should:

1. Have an organisational structure, working procedures, quality control systems and other relevant systems for carrying out the assessment
2. Have a formally appointed **committee**<sup>1</sup>, that is independent from the assessment team, that reviews and discusses each CP assessment, and where at least **one of its members is a CP qualified auditor** in accordance with the requirements defined for the [SEPM Pros network](#)
3. Assign **appropriate staff** with the necessary experience and qualifications for the scope of the assessment being provided. In case the organization uses consultants to carry out the assessment, these consultants should meet the conditions of an individual third-party, as outlined below. The third-party organization should notify its client about the use of a sub-contractor, and the notification should cover aspects relating to confidentiality and to independence from commercial and other interests
4. If applicable, have a clear **segregation of services**. If the organization provides other services (i.e., consulting, pre-certification, assessments, advisory), the staff involved in these services should not be involved in external validation or certification, and management should have a policy regarding the management of potential conflict of interest between the various services offered
5. Be regularly **engaged** in the application and trainings around the USSEPM standards and assessment methodologies

We recommend the following **pre-requisites** for any **individuals** wishing to conduct third party validations – they should:

1. Be a **CP qualified auditor** and an active **member of the SEPM Pros Network**
2. Be **independent** from the FSP they assess (e.g.: not having provided any technical assistance to this FSP in the past 3 years)
3. Be regularly **engaged** in the application and trainings around the USSEPM standards and assessment methodologies

*Please note that Cerise+SPTF monitors the engagement of all the SEPM Pros in SEPM and CP activities, at least annually. Cerise+SPTF reserves the right to withdraw any individual from the network.*

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<sup>1</sup> See [Annex B](#) for more details on requirements for the Committee.

## Underlying Principles of professional conduct

Third-parties providing external validation on the alignment of a financial organization with the CP Standards should be guided by the following fundamental ethical and professional principles. Adherence to these principles is crucial to gain confidence in the quality and comparability of their validation.

### Impartiality | Objectivity

- To build and maintain confidence, it is crucial that observations and opinions made by a third-party are based on objective evidence of conformity (or non-conformity), and that its decisions are not influenced by other interests or by other parties. The third-party is responsible for handling the potential threats to impartiality that may arise at any point in the assessment process, which include: financial self-interest threats, self-review threats related to reviewing systems where they played a consultancy role, threats that may arise from excessive familiarity / closeness to the organisation being assessed, etc.

### Competence

- Based on its track-record and experience in conducting similar assessments and other types of qualitative audits, the third-party ensures that it has the qualifications / designates qualified staff to conduct and review assessments. Continuous capacity building and knowledge management ensure that all the acquired experience is maintained and used in further assignments.

### Accountability

- The third-party remains at all times accountable towards the public for its assessment. It has the responsibility to compile and assess sufficient objective evidence upon which to base its opinion. It is able to provide material evidence to justify its observations. It addresses any questions, complaints or appeals.

### Confidentiality

- During an external review, third-parties gain access to privileged information from their clients. It is crucial that third-parties, including if relevant, their directors, their employees and contractors, keep confidential any proprietary information about their clients at all times. In addition, because some of this information will be stored on SPI Online platform, and used for benchmarking, training or quality check purposes, the third-party should ensure that it obtains systematic and prior written agreement from all its clients.

## Recommendations to select third-party validations

**Cerise+SPTF does not recommend, endorse or make any representations regarding any third-party.** However, we recommend that the **selection** of third-parties be undertaken **carefully**, with attention to the proposed providers' reputation and their specific expertise in client protection, and that the third-party discloses transparently whether it is acting according to these Guidelines.

When selecting a third-party, you should:

- ◊ Request a detailed technical proposal that covers the objective, scope of work, methodology, team, and outline of activities that will be carried out
- ◊ Evaluate several proposals in detail
- ◊ Check if the third-party uses the relevant [Client Protection Standards](#) and framework

Cerise+SPTF establishes a set of points that third-party validations should, at a minimum, include:

1. **Audit methodology.** A description of the approach and validation methodology; and specifications of the review committee if any.
  - ▶ We recommend that the audit methodology be aligned with the SEPM Guide
2. **Tools.** The framework and scoring methodology used; ▶ We recommend to use at a minimum the client protection (CP) Standards framework and its assessment tools, namely CP Full/Certif, including the minimum requirements identified as Entry, Progress or Advanced level indicators, as well as the companion tools to assess responsible pricing
3. **On-site.** Details of the analytical approach, criteria and/or methodologies used to identify the branches to visit and the clients to interview
4. **Team.** Details of the team composition; ▶ For Individuals, we recommend to conduct the work in a team of 2, one who is CP-qualified and the other who has completed, at least, the Cerise+SPTF Level #2 training in client protection (which leads to a certificate)
5. **Qualification.** The third-party's credentials on client protection assessments: training certificate(s) delivered by Cerise+SPTF; experience in the industry, in similar assessments; if relevant, experience and understanding of specific country or regional context.
6. **Independence.** A statement on independence and no-conflict-of-interest, declaring the absence of any potential relationships with the FSP that could question the objectivity of the assessment<sup>2</sup>. Third-parties cannot be member-based organizations due to inherent conflict of interest.
7. **Detailed report.** A final report, with assessors' names, date of on-site visit, and detailed and substantiated observations on the compliance with each indicator, including clear indications on the areas of non-compliance or absent practices. In addition, Cerise+SPTF recommends that the final report be accompanied by (i) APR calculation and benchmarking analysis and (ii) the CP4 Companion tool with details on other components of pricing.

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<sup>2</sup> Relationships that threaten the impartiality can be, but are not limited to: ownership, membership, governance, management, personnel, shared resources, finances, contracts, family, marketing and payment of a sales commission or other inducement for the referral of new clients

## Possible second opinion

Any stakeholder interested in getting a second opinion **on a given third-party validation report** can request Cerise+SPTF to conduct a **desk review** of the report (fee-based) and provide its **public opinion** on the alignment with these Guidelines and the CP Full framework.

The output of such a second opinion will be either:

- This report complies with the Cerise+SPTF methodology and framework
- This report doesn't comply with the Cerise+SPTF methodology and framework for the following reasons (one-page maximum)
- This report doesn't provide sufficient information to be able to draw an opinion

Stakeholders interested in receiving a second opinion should first ensure with the third-party who conducted the validation that they are in a position to provide all the necessary information to Cerise+SPTF:

- Summary report delivered to the client
- Exported file from SPI Online: CP Full export & CP Full report
- Completed APR Benchmarking & Estimation tool
- Completed CP4 Companion Tool
- Details on the on-site visit and methodology
- Details on the branch and client visits (how many customers were interviewed, and how the customers were selected, who translated...)
- For organizations: the Committee Minutes.

Please contact Cerise+SPTF by email [cppathway@sptfnetwork.org](mailto:cppathway@sptfnetwork.org) to request a quote and the launch the process.

*Please note that the specific criteria to provide a second opinion are currently under construction, and will be published as annex to this document when ready.*

## Disclosure of third-party validation report

Cerise+SPTF recommends that third-party validation reports be made publicly available on the third-party organization's website and/or the FSP's website, or through any other accessible communication channel as appropriate.

The third-party validation results can also be reported by the FSP to Cerise+SPTF by [filling out this form](#), so that it appears online on the [list of institutions on the CP Pathway](#).

# ANNEXES

## A. Cerise+SPTF framework

### A.1 Use of the Cerise+SPTF framework

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- A.1.1 **Cerise+SPTF Standards and tool.** Third-party validations should be conducted using the common framework and tools established by Cerise+SPTF & SPI Online CP Full). The framework is composed of a the [Client Protection Standards Manual](#), a structured list of indicators and details from the Universal Standards, and a scoring methodology. This framework should be used to assess compliance for each indicator. The tool to conduct external assessments is CP Full, to be found on [SPI Online](#). By filling it in, it also helps creating industry benchmarks (e.g.: [State of Practice](#) report).
- A.1.2 **Update of framework.** Cerise+SPTF periodically updates the Universal Standards. The third-party should ensure the appropriate and timely update of all its tools, documents and training material when the Cerise+SPTF framework is updated. Third-party validations should be conducted under the common framework officially in use on the date of the on-site mission.

### A.2 Harmonized scoring

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- A.2.1 **Scoring methodology.** The third-party should assess compliance with each indicator of the framework, one by one. The organization is considered compliant if all parts of the indicator are fulfilled or implemented to the letter, with relevant evidence and justification. All indicators individually should weigh the same in the final score. Indicators that are not applicable to the organization should be removed from all calculations and scoring.
- A.2.2 **Minimum requirements.** The Client Protection framework has subsets of minimum requirements:
- Entry-level indicators (n=33): These indicators address practice over policy, as well as key concerns for the sector, along the 8 standards.
  - Progress-level indicators (n=21): These indicators are more rigorous requirements to demonstrate progress towards advanced practices.
  - Advanced-level indicators (n=24): These indicators confirm practices with policies and processes, and mitigate the biggest risks to clients.

And all the other indicators that complement the Standards, reaching a total of 128 scored elements.

- A.2.3 **The final score** shows the percentage of compliant indicators in relation to the total number of indicators. The FSP is considered compliant if all parts of the indicator are fulfilled or implemented to the letter, with relevant evidence and justification. All indicators individually weigh the same in the final score. Indicators that are not applicable to the organization should be removed from all calculations and scoring.

### A.3 Assessment methodology

- A.3.1 **No exceptions.** The third-party should assess all indicators in the framework established by Cerise+SPTF and make no exception, except for those explicitly listed in the online guidance provided by Cerise+SPTF.
- A.3.2 **In-person process.** All third-party validations should be conducted **in-person and on-site**. The third-party should conduct an on-site visit to the location where the client organization operates, including visiting branches and interviewing clients. If travel proves impossible, the third-party could organize its process along a formalised procedure that guarantees an adequate triangulation of information.
- A.3.3 **Triangulation of information.** The scoring decisions should be based on a process by which the third-party is able to proceed with triangulation of the information collected through a variety of sources: **People** (interviews) – **Paper** (desk review of documentation) – **Practice** (visit to the field, talking to field staff and to clients). The process should include targeted and random documentation and records review, MIS consultation, one-on-one interviews with Board member(s) and staff, and observation of practices in the field. Clients and branches should be selected independently by the third-party, and not by the FSP. **Client interviews or focus-groups** are necessary steps to support and cross-check results found from other aspects of the assessment process such as the review of policies and procedures and interviews with staff.

## B. Committee (applicable to third-party organizations only)

- B.1.1 **Committee policy.** The third-party organization should have formal rules for the appointment, terms of reference, duties, authorities, operations, and responsibilities of the Committee. The Committee should have demonstrated competence to evaluate the validation process and related recommendations or questions of the analysts' team. The structure of the third-party organization will safeguard the impartiality of the committee's activities and will provide for a Committee to:
- develop third-party validation services and schemes
  - make third-party validation decisions
  - control the performance of analysts
  - develop policies relating to impartiality of its activities
  - ensure responsiveness to complaints from FSP clients
  - conduct a review, at least annually, of the impartiality of the audit, validation, and decision-making processes of the committee
- B.1.2 **Composition.** The committee should necessarily involve one manager who has technical expertise for advice on matters directly relating to management systems of FSPs for client protection, and preferably on the geographic areas in which the third-party organization operates. The third-party organization should ensure that the people that sit on the Committee are different from those who conduct the audits.

- B.1.3 **Role of the committee.** The Committee is in charge of the final decision regarding the third-party validation report and scoring. It will confirm, prior to making a decision, that:
- a. the information provided by the analyst(s) is sufficient with respect to the validation requirements and the scope;
  - b. it has reviewed, accepted and verified the effectiveness of correction and corrective actions, for all non-conformities that represent:
    - failure to fulfil one or more requirements of the methodology, or
    - a situation that raises significant doubt about the ability of the organization to achieve its intended outputs
  - c. it has reviewed and accepted the client's planned correction and corrective action for any other non-conformities.

## C. Expertise

- C.1.1 **Experience in the industry.** The third-party must have demonstrable experience providing services in at least one of the following sectors: banking, or inclusive finance, and/or social business and financial service customer protection.
- C.1.2 **Competence.** The key competence of third-party staff or individual should include interview skills and audit techniques appropriate to this kind of assignment, and the ability to apply required knowledge and skills during third-party validation.
- C.1.3 **Training on CP.** All persons involved in third-party validation should have successfully completed at a minimum the level 2 in-depth training provided by Cerise+SPTF on client protection. At least one person in the process must have a level 3 qualification.

## D. Confidentiality

- D.1.1 **Confidentiality of client documents.** The third-party should, through legally enforceable agreements, have a policy and arrangements to safeguard the confidentiality of the information obtained or created during the performance of its activities at all levels of its structure, including committees and individuals acting on its behalf. The third-party should keep the records on prospects and clients secure to ensure that the information is kept confidential. Records should be transported, transmitted or transferred in a way that ensures that confidentiality is maintained.
- D.1.2 **Consent to share with Cerise+SPTF.** The third-party should have a specific clause in its contracts that explains that documents and confidential information may be shared with Cerise+SPTF. The client should be informed in advance of this requirement and provide his formal consent systematically. Information obtained will not be disclosed by Cerise+SPTF without consent of the data owner.

## Resources to support third-party validations

- The extremely comprehensive [SEPM Guide](#) that details for each CP indicators the sources of information and evidence to provide, as well as concrete steps for implementation
- [SPI Online](#) and its range of tools; more specifically CP Full
- The [CP training](#) and qualification program
- The [SEPM Pros Network](#) with qualified auditors available to support FSP in their third-party validation
- Standardized Terms of Reference for a third-party validation (work in progress)