



STANDARD OPERATING PROCEDURE TO DETERMINE CORPORATE GROUP CONTROL

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Title: Standard Operating Procedure to Determine Corporate Group Control

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INTRODUCTION

Since its adoption in 2009, the FSC Policy for Association (PfA) has set out an expression of values shared by individuals and organizations associated with FSC and has defined principles of corporate responsibility for unacceptable activities that apply to entire corporate groups. A violation of the PfA by conducting unacceptable activities may result in disassociation, a termination of existing contractual relationships between FSC and the Organization and its corporate group. Disassociation also bars the Organization and its corporate group from entering new contractual relationships with FSC. To end disassociation under the FSC Remedy Framework, the Organization and its corporate group must seek to address unacceptable activities through a remedy process. Ascertaining the entities which fall within an Organization's corporate group is critically important as it determines the scope of corporate responsibility under the PfA and the FSC Remedy Framework.

In August 2022, FSC approved Version 3-0 of the PfA, effective from 1 January 2023. A core revision introduced in this version was how the scope of corporate group is determined. Whereas Version 2-0 defined the scope primarily through the tests of "direct and indirect involvement" based on majority ownership or voting power, PfA V3-0 establishes scope through the broader concept of "control", which extends beyond shareholding structures. This change to the nexus of control reflects a recognition of evolving international norms around corporate responsibility in response to increasingly complex governance arrangements.

The objective of this Standard Operating Procedure (SOP) is to provide support for FSC in reviewing the scope of the corporate group based on the nexus of control. In aligning with interpretations of control in global sustainability regulatory and reporting frameworks, it aims to define concrete steps and implementable thresholds for each factor of control. The SOP is intended to provide indicators to ensure transparent, fair and consistent application, not rigid rules. FSC retains discretion to make final determinations on whether an entity should be deemed part of a corporate group.

FSC's review of the corporate group is not intended to provide any specific determinations on the Organization's corporate group, but solely to determine which entities form part of the scope for disassociation or scope for undertaking remedy under FSC Remedy Framework, as applicable.

Finally, this SOP is designed as a living document. It will be updated to reflect conceptual and regulatory developments in international and national norms in corporate sustainability due diligence, and to incorporate lessons learned from FSC's experience in the practical implementation of corporate group reviews.

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A. Scope

This is a non-normative document to provide operational guidance on the definition of corporate group and control as used in the following normative documents:

1. FSC-POL-01-004 V3-0 *Policy for Association* (PfA V3-0);
2. FSC-PRO-01-009 *Processing FSC Policy for Association Complaints*;
3. FSC-PRO-10-004 V2-0 *Disclosure Requirements for Association with FSC*;
4. FSC-PRO-01-007 V1-0 *FSC Remedy Framework Enabling Association Governed by the Policy to Address Conversion V1-0 and the Policy for the Association of Organizations with FSC V2-0* (FSC Remedy Framework 007); and
5. FSC-PRO-01-004 V1-0 *FSC Remedy Framework Enabling Association Governed by the Policy for Association V3* (FSC Remedy Framework 004).

This SOP is intended to provide a practical, step-by-step approach to FSC during internal reviews to determine the extent of a corporate group under the following processes and procedures:

1. An Organization and its corporate group being investigated for potential violations of PfA V3-0 under a process in accordance with FSC-PRO-01-009 *Processing FSC Policy for Association Complaints*;
2. An Organization applying for association with FSC and an extended review is triggered during the screening process due to connection with a disassociated organization as part of the corporate group under FSC-PRO-10-004 V2-0 *Disclosure Requirements for Association with FSC*;
3. An Organization and its corporate group is undertaking the remedy process under FSC Remedy Framework 007, has been disassociated from FSC due to engaging in unacceptable activities under PfA V2-0 or are seeking to address unacceptable activities under PfA V2-0 before associating with FSC, and is subject to ADVICE-10-004-01 V1-0 *Scope of application of FSC Remedy Framework for outstanding magnitude or gravity of harm caused*; and
4. An Organization and its corporate group is undertaking the remedy process under FSC Remedy Framework 004, has been disassociated from FSC due to engaging in unacceptable activities under PfA V3-0 or are seeking to address unacceptable activities under PfA V3-0 before associating with FSC.

B. Terms and Definitions

1. Corporate Group and Control

FSC adopts the definition of corporate group and control as defined by the Accountability Framework Initiative. The definitions of corporate group and control are set out at Annex 1 of PfA V3:

Definition of corporate group:	Factors that are used to determine whether a company is part of a broader corporate group include:
The totality of legal entities to which an associated organization* is affiliated in a corporate relationship in which either party controls the performance of the other (e.g. parent or sister company, subsidiary, joint venture, etc.). Control in this regard means the possession of power to direct, restrict, regulate, govern, or administer the performance of the other company through authority, rights, contract, or other means. NOTE: Control may exist irrespective of the percentage share of ownership; however, it is deemed to exist (unless evidence points to the contrary) when an organization owns more than 50 percent share interest in another legal entity.	• Formality of relationship: Is there formal ownership, such as through an investment holding structure? • Declared as a group: Has the group publicly declared the companies are linked? • Family control: Are the companies owned or run and controlled by members of the same family? • Financial control: Are there contractual or other financial arrangements that indicate one party controls the performance of another? • Management control: Is there extensive overlap in officials between companies? • Operational control: Are landholdings under a group's operational control? • Beneficial ownership: Is ultimate ownership hidden in offshore companies or by use of nominees? • Shared resources: Do companies share a registered address, land or other physical assets, or provision of company functions or services?

Control may be interpreted as follows:

Concept	Components
Power	The ability of the Controlling Entity to introduce, direct, implement and/or decisively influence strategic, economic or operational decisions and policies in the Controlled Entity.
Form of Power	Positive Control – The ability to determine the strategic, economic or operational decision-making of a company. Negative Control – The ability to block strategic, economic or operational decision-making of a company.
Means of Power	Formal Relationship – This could be in the form of ownership, or contracts and rights established through a recognizable agreement. Informal Relationship – This could be in the form of authority acquired as a result of the relationship between the Controlling Entity and the Controlled Entity, or the Controlling Entity's position (e.g. via directorship or management roles).

Unless otherwise stated, establishing any of the eight factors of control deems that the Controlling Entity has control over the Controlled Entity, and that the two entities should be part of the same corporate group.

2. Defined Terms

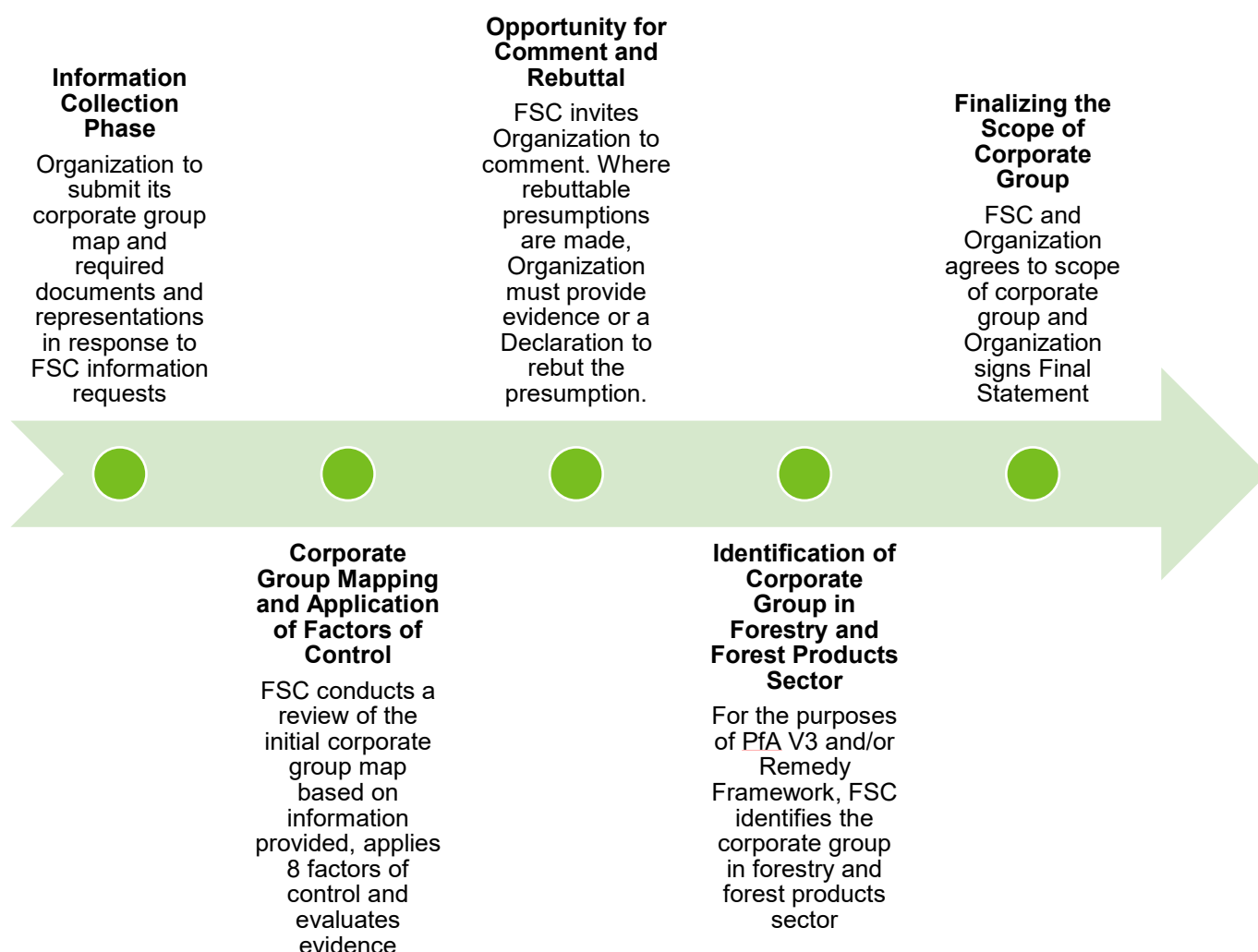
For the purposes of this SOP only, the following defined terms are used. For any other terms not included herein, the terms and definitions shall bear the same meanings as those under FSC-STD-01-002 *FSC Glossary of Terms*, PfA V3-0 and FSC Remedy Framework 004 and 007.

Consolidated Entity	refers to Org Chart Entities whose financial accounts are consolidated into the Organization's financial accounts for accounting purposes.
Controlling Entity	refers to a company or natural person (or persons acting together, such as a family) that exercise control over a company.
Controlled Entity	refers to a company or organization that is under the control of, influenced or can be directed by a Controlling Entity in terms of its decisions, policies and operations. The Controlled Entity may not be able to operate independently, as its governance is ultimately determined or affected by a Controlling Entity.
Declaration	refers to a written statement of facts voluntarily made by the Organization or any of the Org Chart Entities and confirmed by affirmation or oath by a person authorized to do so by law.

Final Statement	refers to the document that Organizations are required to sign at the end of the information collection exercise conducted by FSC to determine the Organization's corporate group, undertaking that all information submitted through the information collection process to the FSC is true, accurate, current and complete.
Information Requests	refers to information requests used by FSC to conduct the initial collection of information from Organizations. The purpose is to ensure that comprehensive and accurate information is obtained for informed decision-making by FSC to determine the extent of an Organization's corporate group.
Minority Shareholder	refers to entities holding 50% or less shareholding or voting rights in the Organization and Org Chart Entities.
Org Chart Entities	refers to entities that are included in the organizational chart submitted by the Organization as part of its response to FSC information requests, excluding the Organization.
Parent Company	refers to entities which holds a majority share or voting right in its immediate subsidiary.
Potential Entity	refers to a company or organization with whom there are substantial indications of control but do not amount to clear and convincing evidence.
Ultimate Natural Person Shareholder	refers to any natural person shareholder of the corporate entity holding more than 25% shareholding.

C. General Approach to Determine Scope of Corporate Group

1. FSC Process to Determine Scope of Corporate Group



FSC's review of an Organization's corporate group begins with a self-disclosure process. The Organization shall provide information in response to a detailed list of Information Requests covering its ownership and governance structure and an initial corporate group structure. This includes providing required documents or submitting a Declaration in cases where documents cannot be provided.

To ensure the accuracy and completeness of the information received, FSC may search and collect additional data through the following sources:

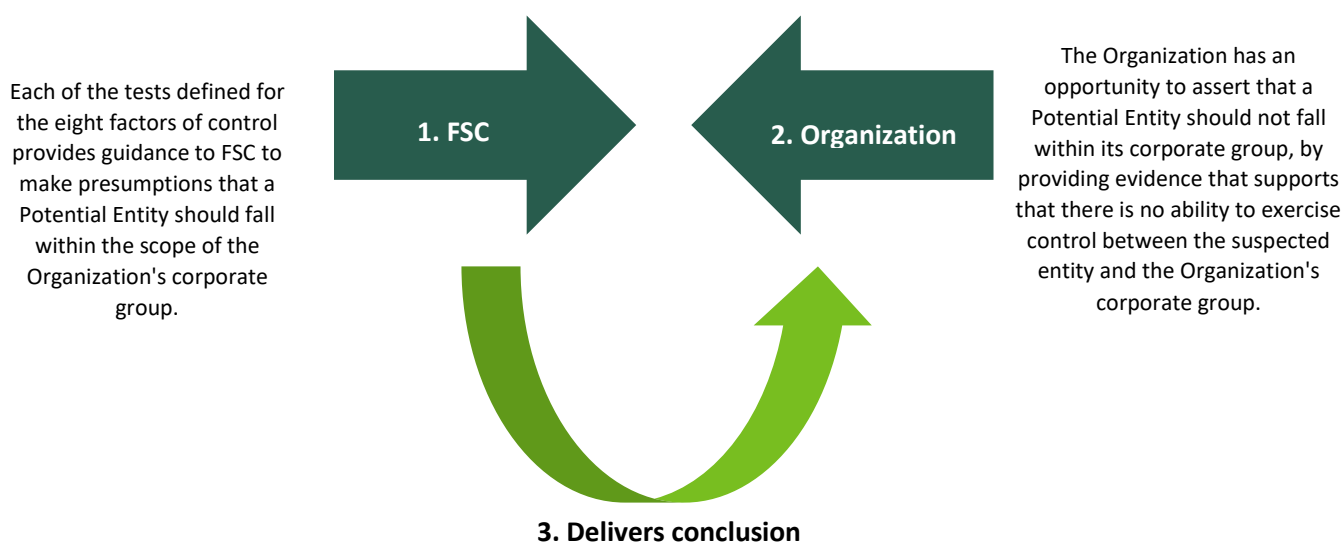
- FSC Network Partners;
- National, regional, and international authorities (e.g. company registers, chambers of commerce and industry, beneficial ownership registries, competition authorities, judicial records);
- Annual and sustainability reports and other publicly available corporate publications;
- Peer-reviewed research;
- Trusted third-party data providers; and
- Any other reliable sources relevant to understanding the corporate group.

Based on this evidence, FSC further maps the corporate group by applying the eight factors of control under PfA V3-0 to identify any further Potential Entities and evaluate the evidence to demonstrate any relationship of control, as outlined in **Section D** of this SOP. In cases with highly complex corporate governance structures, FSC may engage an independent consultant or law firm to conduct the review.

FSC then provides an opportunity for the Organization to comment on the proposed corporate group mapping, including the Org Chart Entities and Potential Entities, and identifies the entities in forestry and forest products sector. The final scope of the corporate group is discussed between FSC and the Organization following the rebuttable presumptions mechanism set out in **Section C.2** of this SOP.

When the Organization's corporate group has been finalized, it will then be required to sign a Final Statement undertaking that all information submitted through the information collection process to FSC is true, accurate, current and complete.

2. Rebuttable Presumptions Mechanism



Based on the results of applying the various tests for each control factor, along with the evidence provided by the Organization to the FSC, FSC determines the applicable corporate group under PfA V3 and/or Remedy Framework and concludes the scope of the Organization's corporate group.

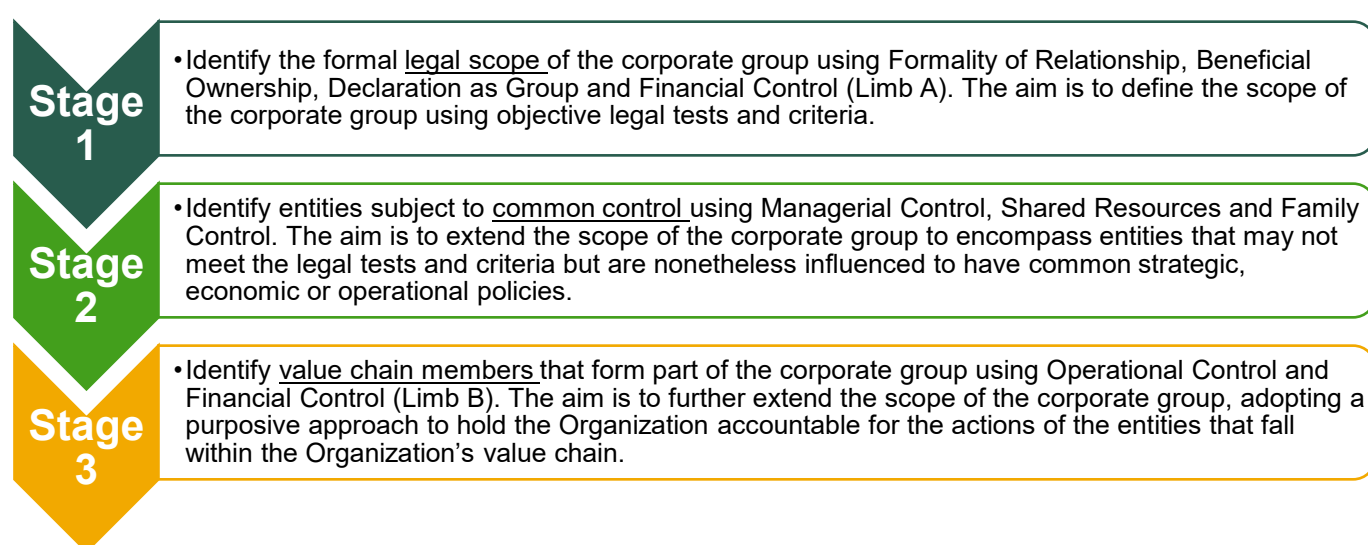
In assessing the scope of the corporate group, where potential control links are identified to entities suspected to be within the Organization's corporate group but these do not amount to clear and convincing evidence, FSC may raise a rebuttable presumption that a certain entity should fall within the Organization's corporate group if an applicable test defined under one or more of the eight factors of control is met.

To rebut the presumption, the Organization is provided the opportunity to explain why the Organization or any Org Chart Entities do not have the ability to exert control over the Potential Entity and therefore that entity should not fall within the scope of the Organization's corporate group. The Organization must support its position with evidence, such as company filings made to the official national company registry or regulators, contractual agreements or, where there is a lack of evidence, a Declaration made by the Organization or relevant Org Chart Entity that the Potential Entity does not fall within the scope of the corporate group.

FSC has the ultimate discretion to decide, based on weighing the results of applying the various tests under the eight factors of control, along with the evidence provided by the Organization, whether the Potential Entity should fall within the scope of the Organization's corporate group.

D. Applying Factors of Control in Corporate Group Review

In conducting a corporate group review and mapping the corporate group structure, the eight factors of control may be conceptually grouped into three stages of review: (1) the formal legal scope of a corporate group; (2) entities that do not meet the formal legal scope of a corporate group but share common strategic, economic or operational policies; and (3) entities that fall within the value chain. The below diagram sets out the stages and categories of factors of control in applying the eight factors of control.



1. Stage 1: Identify Legal Scope of Corporate Group

i. Formality of Relationship

Definition

Formality of relationship takes into consideration the ability to exert control through formal legal relationships established by the shareholding structure and governance framework implemented in the Controlled Entity. Determining the legally recognized rights of shareholders in a Controlled Entity in terms of their shareholdings, voting rights, and interests in the Controlled Entity may indicate a shareholder's ability to make decisions or influence the Controlled Entity's operations. The mere existence of a legal relationship based on share of ownership is not solely sufficient to indicate the existence of control between shareholders and the Controlled Entity. In a corporate structure, control can either be exercised through voting or the right to appoint directors, which enables a shareholder to determine the strategic economic or operational decision-making of the company; or veto rights or co-determination rights, which enables a shareholder to block certain strategic economic or operational decision-making of the company.

Where a company has issued different classes of shares, the proportion of a shareholder's voting rights may differ from its total number of shares held. The proportion of voting rights is usually regarded as giving a more accurate indication of control.

Depending on the shareholding structure and governance framework implemented, there is also a possibility of joint control of a Controlled Entity, where control may be exercised by more than one shareholder, for example via a joint venture.

The shareholding structure of a company can be discerned from official documents such as its register of members and/or latest annual return; whilst voting rights and other interests of shareholders may be discerned from the company's articles of association and any shareholders' agreements. A formal ownership relationship may also be established where an entity is declared as another company's asset in the latter's audited accounts.

Tests

Step	Test
1	FSC should trace the shareholding chain upstream and downstream from the Organization. Where an individual or entity owns more than 50% shareholding or voting rights, this individual or entity is presumed to be a Controlling Entity and have effective control over the Controlled Entity.
2	For owners holding 50% or less shareholding or voting rights in the Organization, i.e. the Minority Shareholder, FSC should assess whether the Minority Shareholder may have any veto rights, co-determination rights or a right to appoint members of the board of directors in the Controlled Entity. If the Minority Shareholder owns veto rights or co-determination rights, they are presumed to be a Controlling Entity and have effective control over the Controlled Entity. If the Minority Shareholder has the right to appoint a majority of the members of the board of directors of the entity or the chairperson of the board of directors, they are presumed to have the ability to exert effective control over the Organization.
3	Where there is a listed company, if there is a single large shareholder holding a significant minority share (even where it is below 30% but above 5%) and the rest of the shares are dispersed among many small shareholders, the large shareholder is presumed to have effective control.
4	Where an entity (and each of the immediate parent at each level of the hierarchy) holds a majority share or voting right in its immediate subsidiary, the Parent Company is presumed to maintain effective control over the indirectly owned subsidiaries, even though the Parent Company does not own a majority of shares in any of the indirectly owned subsidiaries. The proportion of shares owned by the Parent Company in each indirectly owned subsidiary is calculated by multiplying the proportion of shares in each level of the hierarchy. For illustration, Company A owns 80% of Company B, which in turn owns 60% of Company C. This means that Company A effectively holds 48% of Company C's shares (80% * 60%). While this is less than a majority, Company A still maintains effective control over Company C through its ownership stake in Company B.

ii. Financial Control (Limb A)

Definition

Financial control examines the economic or contractual arrangements between various entities where a link can be established by virtue of the Controlling Entity having the ability to introduce and implement the financial and/or operational policies of the Controlled Entity. The ability of a Controlling Entity to introduce and implement the operational policies of a Controlled Entity indicates financial control because operational policies often dictate how resources are allocated, how business strategies are implemented, and ultimately steering the financial outcomes of the Controlled Entity through these operational policy decisions.

Financial control may be explicit through the terms of a contract signed as part of a financial arrangement between the Controlling Entity and Controlled Entity, or implicit, if the amount invested in or lent to the Controlled Entity is judged to be significant enough in terms of its turnover or assets that the Controlling Entity (i.e. an investor or lender) could reasonably be expected to make demands over how the Controlled Entity is run.

Limb A of financial control can be seen as an additional lens to the Formality of Relationship factor, where shareholders (especially Minority Shareholders) providing loans to the company may receive additional rights (such as voting or veto rights) in the company that would enable it to exert more control over the company.

Tests

Step	Test
1	If a shareholder has provided a shareholders' loan, where the size of the loan equates to 5% of all the debt owed, the shareholder is presumed to be a Controlling Entity and have financial control over the Controlled Entity.
2	For any shareholders' loan that does not meet the threshold set out in Step 1, if the shareholder receives additional voting rights, veto rights, co-determination rights or a right to appoint members of the board of directors in the company as a result of the shareholders' loan, the shareholder is presumed to be a Controlling Entity and have financial control over the Controlled Entity.

iii. Beneficial Ownership

Definition

Beneficial ownership refers to the natural person(s) who ultimately owns or controls a company and/or the natural person on whose behalf a transaction is being conducted. It also includes those natural persons who exercise ultimate effective control over a legal person or arrangement. Only a natural person can be an ultimate beneficial owner, and more than one natural person can be the ultimate beneficial owner of a given legal person or arrangement. While ownership of shares serves as an indicator of beneficial ownership, it is not a conclusive indicator. There are many cases in which the legal owner and the beneficial owner may not be the same, and the beneficial owner is "concealed", for instance, in situations where there has been an establishment of a trust or the appointment of nominee shareholders.

Tests

Step	Test
1	Any natural person holding a shareholding of more than 25% shall be presumed to be an ultimate beneficial owner of the Organization. If a corporate entity holds a shareholding of more than 25%, any natural person shareholder of the corporate entity holding more than 25% shareholding, i.e. the Ultimate Natural Person Shareholder, shall be presumed to be an ultimate beneficial owner of the Organization. FSC should continue to trace up the corporate chain until a natural person shareholder holding more than 25% shareholding in the corporate entity immediately below it in the chain is identified.
2	If a trust has been established in respect of shares held in the Organization and the shareholding of the trust is more than 25%, the beneficiaries of the trust are presumed to be ultimate beneficial owners of the Organization.
3	If a nominee arrangement has been established in respect of shares held in the Organization and the shareholding of the nominee shareholder is more than 25%, the principal with the authority to instruct the nominee is presumed to be an ultimate beneficial owner of the Organization.
4	If a legal shareholder of the Organization is acting through a power of attorney and the shareholding of the legal shareholder is more than 25%, the principal granting the power of attorney is presumed to be an ultimate beneficial owner of the Organization.
5	If after going through the above processes, no natural person can be identified as an ultimate beneficial owner, then the natural person(s) who hold the position of senior managing official at the parent (or the ultimate Controlling Entity) of the Organization

shall be presumed the ultimate beneficial owner. The senior managing official may be the Chief Executive Officer or chairperson of the board of directors.

iv. Declaration as Group

Definition

This factor of control considers the formal statements, proclamations or announcements made by the Controlling Entity or any Controlled Entity that a company is considered to be a member of the corporate group. The formal declaration must be made in a public manner through an official communication channel of the corporate group, the Controlling Entity or the Controlled Entity.

Many operations belong to formally established, publicly listed companies organized into groups with conventional parent–subsidiary structures, which list their subsidiaries and/or projects more or less comprehensively on their websites or in their annual reports. Companies and operations can be attributed to corporate groups on the basis of these published formal structures or declarations by the company or group without extensive further research, as long as there is confidence that the parent or individual shareholder is in fact the Controlling Entity or that members of the declared group are under common control.

Tests

Step	Test
1	FSC should conduct desktop search of the Organization's official communication channels, and that of the Org Chart Entities, to determine the scope of the Organization's publicly declared corporate group.

2. Stage 2: Identify Entities Subject to Common Control

i. Management Control

Definition

Management control is deemed to exist between two or more companies when there is a significant overlap of board directorships or senior management positions among them. It is not necessary for an individual to have the same management role in each company with which they are involved. Such extensive overlap strongly suggests a corporate group relationship, where one company may exert control over another. This is because shared directors and management can influence the strategic direction and decision-making processes within their respective companies. Consequently, overlapping directors and management often leads to one of these companies exerting indirect influence over the other entities, which in turn often result in coordinated decision-making.

Senior management position is defined to include the following:

- the C-suite positions;
- the senior management personnel as listed in the annual report of the company (if available); and
- the personnel named as an officer in the national company register.

Middle management position is defined as the head of various business units.

The management control factor can be considered together with other factors of control, including family control and shared resources, to determine whether control can be established between the entities.

Tests

Step	Test
1	FSC should review if any executive director or senior management in the Organization and the Consolidated Entities holds an executive or full-time management position (whether senior management or middle management) in another company. If an individual holds an executive director or full-time senior management position in a company, it is generally presumed that they are fully committed to that role and unlikely to dedicate significant time to other companies. Therefore, if an individual is found to occupy executive or full-time management positions (whether senior management or middle management) in more than one company, it should be presumed that management control is established between those companies that permit the individual to serve in both roles.
2	If one-third of non-executive board members overlap between the Organization or the Consolidated Entities and another entity, it is also presumed that management control is established, as such extensive overlap suggests there is a high likelihood of frequent communications, coordinated decision-making, and sharing of information, which will result in the exertion of influence between these companies.

ii. Family Control

Definition

Family control refers to the aggregate management or control of one or more different companies by family members with close family relationships by virtue of their ownership or directorships at the companies. Due to the close relationship among family members, it is highly probable that they can influence each other's decisions and exercise of their control. Given that it is not common for individuals with close family relationships to establish the acquisition of control and influence among these individuals and their associated companies through a formal means (e.g., power of attorney, agreement to act in concert), and control would usually take the form of informal power, it is difficult for FSC reviewers who are not part of the family to identify evidence to prove the existence of control. Consequently, it is presumed that individuals with such connections work together and actively collaborate to strengthen their control or management over one or more companies in which they hold substantial ownership in. The burden of proof should lie on the individuals or companies of concern to provide evidence that there is no common control over these companies or that there is no influence between these individuals with close family relationships.

The close family relationships of any individual shall include:

- the person's spouse, parents, children, grandparents and grandchildren;
- the person's siblings, their spouse or de facto spouse and their children; and
- the parents and siblings of the person's spouse or de facto spouse.

Any reference to a child shall include a person's natural child, adopted child and step-child.

Tests

Step	Test
1	Where any of the close family members identified in accordance to the definition of “close family relationships” above of a shareholder, director or senior management of the Organization holds, individually or in aggregate (amongst themselves), more than 30% shareholding in a company, such companies shall be presumed to form part of the Organization's corporate group.
2	Given the difficulty in establishing family control, FSC may also take into account indirect circumstantial evidence, which may suggest close family relationships in the event direct evidence is not available: • Frequent or joint transactions between any of the close family members identified in accordance to the definition of “close family relationships” above of a shareholder, director or senior management of the Organization or their associated companies, may indicate common or shared decision-making.

iii. Shared Resources

Definition

Evidence of shared resources may indicate the presence of management control or operational control between companies as sharing of resources among two or more independent companies suggest that there may be some degree of integration of operations or flow of business information through the common usage of resources or common management and strategic oversight of the usage of resources.

However, the mere sharing of resources does not automatically imply the existence of control among the companies in question. In some instances, unrelated companies may share certain resources to achieve operational efficiencies, and this should not be interpreted as constituting control. Specifically, if the resource sharing is motivated solely by economic efficiency, pertains to only a minor aspect of the companies' business activities, and does not necessitate joint decision-making regarding core operations, it may not indicate control.

Shared resources that may suggest such control include land and landholdings, shared facilities (like processing plants and transport infrastructure), and internal services (such as recruitment and procurement).

When evaluating the implications of shared resources, it is crucial to consider the context. Shared resources provide an additional lens through which to assess whether two companies are under common control, but on its own, may not be sufficient to establish control between two companies. If there is evidence of both shared resources and another form of control (either management control or operational control), evidence of shared resources and other circumstantial evidence of management or operational control should be evaluated together to determine whether control is established.

Tests

Step	Test
1	Consider if the Organization or any Consolidated Entities shares any landholdings, facilities or internal services with any other entities.
2	Engage in discussions with the Organization to gain a deeper understanding of the context surrounding the sharing of resources. This will enable FSC to determine whether the resource sharing is indicative of common control between the entities or if it represents a legitimate commercial arrangement aimed solely at achieving economic efficiencies. Here are some considerations: • Size of the Entities and Market Share: Assess the size of the entities involved and their respective contributions to the market share. If the entities are relatively large or hold significant market share, it is more likely that some control relationship exists between them. Larger companies typically have less commercial necessity to share resources with completely independent entities for the purpose of enhancing economic efficiencies, as they can often achieve such efficiencies on their own due to their scale and market presence. • Competitive Dynamics: Evaluate the competitive landscape between the entities sharing resources. If there is actual competition between these companies, it becomes less plausible to infer that they exert control over one another. Genuine competition often leads companies to operate independently to maintain their market positions, which diminishes the likelihood of a relationship of control. • Industry Norms: Consider the prevailing practices within the industry. If it is common for companies to share resources, or if resources are typically provided or subsidized by the government (for instance, government-funded storage facilities available for free use by smaller players), it is less likely that a control relationship exists in this scenario. Such arrangements may be standard practice aimed at fostering competition and supporting smaller entities, rather than indicative of any controlling influence. • Sharing Economy: Consider if the objective of sharing facilities or other resources is for the purpose of facilitating the circular economy, in which case the likelihood of a control relationship is diminished.

3. Stage 3: Identify Value Chain Entities

i. Operational Control

Definition

Operational control refers to the ability of one company to direct the day-to-day activities and decision-making processes of another company. This entails the authority to establish, implement and enforce the operational policies within the Controlled Entity. The range of these operational policies encompasses areas that can impact the company's strategies, performance, operations, resources, and compliance. Examples of how control can be exerted include through procurement policy, supplier code of conduct, health and safety policies, and sustainability initiatives.

If a company can directly influence the operational aspects of another company, it serves as a strong indication that the company exercises some degree of control or influence over the latter. For instance, operational control can be established between a Controlling Entity and a landholder where the Controlling Entity can direct the business activities and processes that take place in the landholder's landholding (including any facilities). Operational control also focuses on the ability of the Controlling Entity to operate the assets of the Controlled Entity or direct the Controlled Entity on how to operate the assets of the Controlling Entity, notwithstanding legal ownership of the asset.

Where FSC is assessing the existence of operational control in respect of a landholding or facility, and that landholding or facility in question has a different beneficial owner from the operating company (for example, through contractual arrangements), both the owner of the landholding or facility and the operating company would be considered to have control over the landholding or facility.

Tests

Step	Test
1	Where the Organization or any Consolidated Entities can direct the business activities and processes that take place in a landholder's landholding, the Organization or the applicable Consolidated Entities is presumed to have operational control over the landholder, and vice-versa.
2	Where the Organization or any Consolidated Entities can direct another legal entity on how to operate the assets of that legal entity for the benefit of the Organization and/or its corporate group, the Organization or the applicable Consolidated Entities is presumed to have operational control over that legal entity, and vice-versa.
3	Where the Organization or any Consolidated Entities has contracted out the management and operation of their assets to be handled by another legal entity, the Organization or the applicable Consolidated Entities is presumed to have operational control over that legal entity, and vice-versa.
4	Where the Organization or any Consolidated Entities can impose environmental, social and governance requirements on a supplier through a supplier code of conduct, the Organization is presumed to have operational control over the supplier, and vice-versa.

5 Given that operational control may not necessarily be documented, FSC may also take into account the following indirect circumstantial evidence which may indicate the existence of operational control in the event direct evidence is not available:

- Shared resources
 - Joint actions in litigation or commercial transactions in which the entities concerned act together to pursue common interests
 - The group's name or logo (or that of one of its known member companies) is displayed at the site of operations
-

ii. Financial Control (Limb B)

Definition

As set out in **Section D.1.ii**, financial control looks into economic arrangements where control is a result of a commercial relationship or transaction(s) across entities. Assessing this factor at this step focuses on identifying any value chain members of the Organization or its corporate group that should also fall within the scope of the corporate group.

This could encompass arrangements in which the Organization has invested in or otherwise financed a company with the result that it is able to exert control over that company. Examples include lending money to a company, purchasing company bonds or otherwise becoming a creditor of a company.

Financial control may also be established in supplier relationships. Where an entity is the sole or the largest buyer of another legal entity's product(s), it may exert control over the latter. For instance, where there is evidence that a primary producer has agreed to exclusively supply a downstream processor or trader (e.g. where a company operates a logging concession supplying a group's timber mill), a relationship of financial control by the downstream company may be inferred, even if the terms of the contract are not known. The reason that an exclusive purchaser can exert control over the third-party supplier is a result of the supplier's reliance on the exclusive purchaser for all its revenue, and hence, the exclusive purchaser could potentially direct the supplier's operational policies that have an effect on the supplier's product development and capabilities, inventory levels, and resource allocation based on the exclusive purchaser's requirements. While the alleged Controlling Entity has in such cases no formal means of determining the decisions of the alleged Controlled Entity, due to financial dependence, the latter may nevertheless need to listen to the former's suggestions to maintain the business relationship.

However, being the sole customer of another legal entity does not necessarily lead to financial dependence and thus control, in cases where the alleged Controlled Entity is able to find an easy replacement in the shortest possible time if it loses its sole customer. Therefore, the abuse of a superior bargaining position shall be analysed on a case-by-case basis, with an emphasis on the rights conferred to the customer in the supplier agreements.

Cases where a producing company is effectively dependent on a processing or trading company because there are no other realistic options to sell its product (e.g. the processing or trading company has a local monopoly) are also more complex. If the Organization is a processing or trading company owning the local monopoly, they are presumed to have control over its suppliers.

Tests

Step	Test
1	If the Organization or a Consolidated Entity has extended a loan or invested in a debt security of a third party company, and the terms of the agreement provide for any voting rights, veto rights, co-determination rights or a right to appoint members of the board of directors in the third party company, the Organization or the Consolidated Entity is presumed to have financial control over the third party company unless proven otherwise.
2	If the Organization or a Consolidated Entity (individually or in aggregate) is the exclusive purchaser of goods from a third-party supplier in any of the previous 3 years, the Organization and/or the Consolidated Entity is presumed to have financial control over the third-party supplier unless proven otherwise.

E. Corporate Group Responsibility

1. Consequences of Corporate Group Review

In light of the six unacceptable activities set out in PfA V3 that severely impact forests and people on the ground and pose significant reputational risks for FSC, the corporate group review is aimed at determining the scope subject to PfA V3 or the FSC Remedy Framework and may lead to the following consequences depending on the process to which this SOP has been applied:

- Where a corporate group review is undertaken for the purposes of investigating potential violations of PfA V3-0 in accordance with FSC-PRO-01-009 *Processing FSC Policy for Association Complaints*, FSC determines which entities within the corporate group has a contractual relationship establishing association with FSC and may disassociate from those entities by terminating the contractual relationship depending on the conclusion of the investigation.
- Where a corporate group review is undertaken due to an extended review of an applicant during the screening process under FSC-PRO-10-004 V2-0 *Disclosure Requirements for Association with FSC*, FSC determines which entities fall within the corporate group and may reject the application for association depending on the conclusion of the screening review.
- Where a corporate group review is undertaken for the purposes of engaging in remedy to end disassociation or to address unacceptable activities before association under either FSC Remedy Framework 007 where the Advice Note applies or FSC Remedy Framework 004, FSC determines which entities within the corporate group fall within the forestry and forest operations sector and may be eligible for association once all the requirements of the FSC Remedy Framework are met.

2. Record-keeping and Reporting

FSC will maintain a record of the final reports of the corporate group review in its internal document filing registries of the relevant normative document. Where there is a dedicated PfA complaint or remedy case, the scope of the corporate group will be updated and published on the relevant case page.



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