
Independent Governance Committee for the DMCCA

Report for the period 1 June 2017 to 31 May 2018

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Executive Summary

The Independent Governance Committee (the **IGC**) was established in January 2015. It provides an independent oversight role on all aspects of the DMCC Authority Responsible Sourcing of Gold and Precious Metals Programme (the **Programme**). This includes oversight of the implementation and enforcement of the 'DMCC Authority Rules for Risk Based Due Diligence in the Gold and Precious Metals Supply Chain v 1.0' (the **DMCCA Rules for RBD-GPM**) that were effective from 1 August 2016 to 31 December 2017 and 'DMCC Authority Rules for Risk Based Due Diligence in the Gold and Precious Metals Supply Chain v 1.1' (the **DMCCA Rules for RBD-GPM v 1.1**) which are effective from 1 January 2018.

The DMCCA Rules for RBD-GPM v 1.1 replaced DMCCA Rules for RBD-GPM based on implementation experience to ensure that they cover all relevant areas and recognised best practice. The changes introduced have been informed by consultation with accredited members participating in the Programme (**Members**), industry experts, auditors, and the IGC. They also incorporate feedback from the OECD alignment assessment exercise¹.

The purpose of this annual report in respect of the period 1 June 2017 to 31 May 2018 (the **Period**), is to publicly disclose information to market participants on the activities undertaken by the IGC and DMCCA as regards the implementation of the DMCCA Rules for RBD-GPM v 1.0 and v 1.1. During the Period, the IGC was comprised of the following members:

- Effie Marinos, Global Technical Governance Manager, Supply Chain Assessment & Solutions, SGS;
- Prof. Arvind Sahay, Head of India Gold Policy Centre, Indian Institute of Management, Ahmedabad;
- Matthew Keen, Managing Consultant, Evidens Consultancy DMCC;
- Scott Hutton, Partner, Squire Patton Boggs; and
- Mitchell Hickman, UAExchange, Head – Group Enterprise Risk Management².

During the Period, the IGC met four times (one in-person meeting and three meetings by teleconference) to discuss the following matters:

1. Revision of the IGC Terms of Reference version 1.2 dated July 2016 and approval of the IGC Terms of Reference version 1.3 dated April 2018;
2. Revision of the DMCCA Rules for RBD-GPM and approval of the DMCCA Rules for RBD-GPM v 1.1, which were published in November 2017;
3. On-going review of reports on accredited members participating in the Programme submitted to DMCCA pursuant to the DMCCA Rules for RBD-GPM

¹ In 2016, as part of the implementation of the OECD Guidance, the OECD launched a project to develop and pilot test an assessment methodology for evaluating the extent to which industry programmes align with the detailed recommendations of the OECD Guidance. <http://mneguidelines.oecd.org/industry-initiatives-alignment-assessment.html>

² Joined the IGC on 18 March 2018

- v 1.0 and DMCCA Rules for RBD-GPM v 1.1 and recommendations and/or follow up on actions taken by DMCCA;
4. Review of actions undertaken by DMCCA between IGC meetings;
 5. Review and approval of IGC meeting minutes and publication of the short form meeting minutes on the DMCCA website;
 6. Admission of new members of the IGC;
 7. Strategic objectives of the IGC in 2018; and
 8. DMCCA's participation in the OECD's Alignment Assessment.

The IGC confirms that the DMCCA has implemented all the recommendations of the IGC for the Period in accordance with the expectations of the IGC and that there have been no material discrepancies in DMCCA's implementation of the Programme during the Period.

The IGC considers the OECD Alignment Assessment to be a useful exercise in engaging with other programmes and the results will be used for continuous improvement of the Programme.

Overall, the IGC concludes that in accordance with the IGC's Terms of Reference, all of its objectives have been fully met for the Period and that DMCCA has discharged its obligations and responsibilities with robustness, transparency and consistency, thereby upholding the integrity of the implementation of the Programme for the Period.

Ms Effie Marinos
IGC Chairperson

1. Role of the IGC and its Governance Structure

The IGC was established in January 2015. It is an independent body which oversees all implementation aspects of the Programme.

1.1 IGC's Objectives

- To ensure consistency, transparency and robustness of the implementation of the Programme;
- To uphold the integrity of the Programme;
- To perform an annual review of the governance framework for implementation of the Programme; and
- To ensure continuous improvement of the Programme.

1.2 IGC Members

The IGC members are industry experts and key stakeholders representing a diversity of market participants across the globe. During the Period, the IGC members were as follows:

- Prof. Arvind Sahay, Head of India Gold Policy Centre, Indian Institute of Management, Ahmedabad;
- Effie Marinos, Global Technical Governance Manager, Supply Chain Assessment and Solutions, Consumer and Retail, SGS (Committee Chairperson);
- Matthew Keen, Managing Consultant, Evidens Consultancy DMCC;
- Scott Hutton, Partner, Squire Patton Boggs; and
- Mitchell Hickman, UAExchange, Head – Group Enterprise Risk Management³,

1.3 Role of DMCCA

- DMCCA is the Secretariat for the IGC meetings and provides related administrative support for the operations of the IGC.
- On the request of the IGC, DMCCA is required to make available to the IGC all relevant information with regards to the implementation of the Programme.
- DMCCA does not have any voting rights in relation to matters under consideration by the IGC.
- From time to time, the relevant DMCCA employee(s) and/or external market participants may be called by the IGC at its discretion to attend IGC meetings to provide clarification of matters being discussed and reviewed by the IGC.
- The IGC makes recommendations to DMCCA. However, it is at the discretion of DMCCA as to whether it upholds and implements the IGC's recommendations.

³ Joined the IGC on 18 March 2018.

2. Review of the Programme

2.1 Participation OECD Alignment Exercise⁴

Background

In 2016, as part of the implementation of the OECD Guidance, the OECD launched a project to develop and pilot test an assessment methodology for evaluating the extent to which industry programmes align with the detailed recommendations of the OECD Guidance.

The five industry programmes assessed were:

- Conflict Free Smelter Initiative (CFSI)
- International Tin Supply Chain Initiative (ITSCI)
- London Bullion Market Association (LBMA)
- Responsible Jewellery Council (RJC)
- Dubai Multi Commodities Centre Authority (DMCCA)

An informal Advisory Group comprising the European Commission and Global Witness supported the project and provided feedback in the development of the methodology as well as the review of the pilot assessment.

The group provided extensive input and feedback during the development of the methodology and during the review of this report.

Results in 2017-2018

The initial assessment found significant gaps between industry programmes and the recommendations of the OECD Guidance. The 2016 assessment of standards and implementation found that of the five participating industry programmes, three were 'not aligned' (DMCCA, RJC and RMI) and two were 'partially aligned' (ITSCI and LBMA).

In the year following the initial 2016 assessment, the participating programmes were given time to make changes to their standards to better align their requirements with the recommendations of the OECD Guidance. Programmes' standards were re-assessed in early 2018. Following these changes, most of the programmes' standards including DMCCA now are in, or close to, full alignment with the recommendations of the OECD Guidance. Due to the time needed for companies to implement and then be audited against the revised programme standards, implementation of the revised standards could not be re-assessed in this pilot project. A full re-assessment of implementation is envisaged for 2019/2020.

Key strengths of the Programme following assessment:

⁴ <http://mneguidelines.oecd.org/Alignment-assessment-of-industry-programmes-with-the-OECD-minerals-guidance.pdf>

- DMCCA assurance review of findings that result from audit aspects of the Programme.
- Engagement on responsible sourcing with gold traders and government authorities in the UAE and with producers and exporters in higher risk countries.
- An Independent Governance Committee, which provides a mechanism for external oversight of the programme.

Key areas of the Programme identified for improvement following assessment:

- Enhance the vetting and capacity building of auditors to strengthen audit consistency and rigour.
- More explicit clarification to Members and auditors that all Annex II risk areas should be considered during risk assessment and risk mitigation activities.
- Clarification to Members and auditors that on the ground risk assessments should always be undertaken on red-flagged supply chains.

2.2 Key actions of implementation

During the cycle of 2017-2018 the IGC has given a number of critical recommendations taking into consideration feedback from the OECD regarding the Programme.

During the Period DMCCA implemented the following key actions:

- Review of the IGC Terms of Reference version 1.2 dated July 2016 regarding the structure and quorum of the IGC;
 - The IGC Terms of Reference were improved based on the recommendations of the IGC and version 1.3 of the IGC Terms of Reference was approved on 10 April 2018.
- Review of the DMCCA Rules for RBD-GPM based on the results of the OECD Alignment Assessment.
 - The IGC supported the initiative of DMCCA to make amendments to the DMCCA Rules for RBD-GPM v 1.0 based on the recommendations of the OECD and welcomed the involvement of a third-party independent consultant to participate in this exercise. The IGC guided DMCCA during the process which resulted in positive feedback from the OECD during the re-assessment of the DMCCA Rules for RBD-GPM v 1.1 in 2018.
- Admission of a new member to the IGC with different expertise to make the IGC more diverse;
 - Based on the discussions, Mitchell Hickman, an independent Enterprise Risk Management & Advisory Consultant was officially admitted to the IGC in April 2018.
- Review of audit reports received from Members that were submitted to the IGC by DMCCA following their internal review based on a risk assessment approach.

- DMCCA referred audit reports to the IGC for discussion and recommendation in cases where these are considered to indicate higher risks either due to reported results or concerns about the consistency of the audit approach. All recommendations of the IGC were implemented by DMCCA.

The IGC reconfirms the challenges (see 2.1) outlined by the OECD as regards to enhancement and capacity building of auditors to strengthen audit consistency and rigour. Strengthening of independent audits and competence building is a critical priority. DMCCA initiated 2 training sessions managed by a third party independent expert for Members and auditors in January 2018. The IGC agreed to further enhance training capacity and develop additional guidance for Members and auditors. Since many programmes are facing the same issue, DMCCA will look into building a working group with other participating programmes.

The IGC also advised DMCCA to further look into the wording of the DMCCA Rules on RBD-GPM v 1.1 as regards to the on the ground risk assessments and the points of Annex II that had been mentioned in the results of the OECD Alignment Assessment. This will be undertaken during the 2018/2019 cycle.

3. Conclusion and outline for 2018

The IGC confirms that DMCCA has implemented all the recommendations of the IGC for the Period in accordance with the expectations of the IGC and that there have been no material discrepancies in DMCCA's implementation of the Programme for the Period.

Overall, the IGC concludes that in accordance with the IGC's Terms of Reference version 1.3 dated April 2018, all of its objectives have been fully met for the Period and that DMCCA has discharged its obligations and responsibilities with robustness, transparency and consistency, thereby upholding the integrity of the Programme.

During the Period, the IGC reviewed the reports of 3 Members that were escalated to the IGC by DMCCA. The IGC provided DMCCA with its recommendations and reviewed the results of their implementation by DMCCA.

The IGC underlines that the consistent implementation of DMCCA Rules for RBD-GPM v 1.1 is critical. As highlighted by the OECD, it is important that DMCCA continues checking additional information on Members to enhance transparency and compliance of the Members with the OECD Guidance.

The IGC welcomes the initiative of DMCCA to initiate an independent third-party review of all audit reports submitted by Members. The new structure provides a more rigorous system that is aligned with international best practice on corporate governance.

The IGC underlines that it is important that the IGC focuses on the strategic aspects of the Programme. It is essential that a strategic approach is developed which will further frame the activities of the IGC.

Based on the feedback from the OECD, it would be appropriate for the IGC to take a stronger position and oversight on:

- individual auditor approval requirements and expertise rather than just company level approvals;
- training of auditors to understand expectations and have greater industry knowledge;
- improved reporting by approved refiners (to include exploring whether the assurance statement should provide more information);
- more details in public reporting by DMCCA (annual report); and
- preparation of the plan for amendments that will need to be made to the DMCCA Rules for RBD-GPM v 1.1.

The IGC recognises that it will require additional capacity but that it is important to continue to strengthen the governance and implementation of the DMCCA Rules for RBD-GPM v 1.1.

4. Remarks

This report has been approved by all existing members of the IGC on 11 July 2018 and subsequently will be published by DMCCA on its website.

5. Appendix

The overview of the DGD and MDB members is available on the [DMCCA website](#).