

Comparative Analysis of the DMCC Responsible Sourcing
Guidance and other Relevant Initiatives

Carried out for

The Dubai Multi Commodities Centre

By

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Section 1 Background

The Dubai Multi Commodities Centre (DMCC) was established in 2002 by Emiree Decree to develop Dubai into a global commodities hub.

In 2005 the DMCC published the Dubai Good Delivery (DGD) standard in order to increase confidence in the gold and silver industry, incorporating technical specifications and relevant best practices. There are currently 17 gold refineries and 13 silver refineries accredited to this standard across 14 countries.

This standard sets out clear requirements for the refiners in terms of company management systems and product quality and incorporates an inspection and testing regime. This has been further supplemented by guidance on the implementation of risk-based compliance and recommendations on how best to comply with Anti-Money Laundering ('AML'), Combating Financing of Terrorism ('CFT') and Fraud Prevention ('FP') legislation and best practices applicable to their business.

In April 2012, DMCC published its Practical Guidance for Market Participants in the Gold and Precious Metals Industry and has subsequently made it a mandatory requirement for all 'Dubai Good Delivery' member refineries to comply with and implement all its provisions. To ensure a robust implementation and evaluation of this compliance DMCC published a consultative draft Review Protocol on Responsible Sourcing of Precious Metals, which has since been formally adopted, with Version 3 published in May 2013.

These standards sit alongside a number of other industry standards and international initiatives across the world and, in the interest of minimising audit fatigue and supporting mutual recognition, DMCC have sought a comparative analysis of their protocols against other widely accepted initiatives.

Section 2 Scope of the Evaluation and this Report

A review of published industry initiatives and programmes relating to responsible sourcing of gold and precious metals, with particular reference to traceability of the origin of the materials and the best practices defined in:

- ❑ OECD Guidelines for Multinational Enterprises
- ❑ OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas
- ❑ Supplement when the Supply Chain includes Gold
- ❑ National and Transnational Legislation.

This includes the stated aims of the programmes and their implementation. For comparison purposes DMCC's practices and procedures were evaluated based on the following publications:

- ❑ Practical Guidance for Market Participants in the Gold and Precious Metals Industry, Version 1, April 2012
- ❑ DMCCs 'Review Protocol' on Responsible Sourcing of Precious Metals, Version 3.1, June 2013
- ❑ Guidance for Risk-Based Compliance for DNFBS: G – 01
- ❑ Anti-Money Laundering and Combating The Financing Of Terrorism Policy: G – 02,
- ❑ Dubai Good Delivery Product Overview September 2012.

These were evaluated against the requirements of current regulations and standards, and against company best practice in the area of business partner evaluation.

For the purposes of this review, the other standards and guidance selected were

- ❑ London Bullion Market Association Responsible Sourcing Guidance (LBMA)
- ❑ Electronics Industry Citizenship Coalition Conflict-Free Smelter Programme (EICC)
- ❑ Responsible Jewellery Council Chain of Custody Standard (RJC).

In addition, reference has been made to the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) and the US Securities and Exchange Commission (SEC) requirements for due diligence to underpin declarations of the conflict-free status of the tin, tungsten, tantalum and gold (3TG) used in products in accordance with Section 1502 of the above.

Further, knowledge of best practices in the implementation of programmes to meet the above legislation or other CSR initiatives have been considered but not referenced due to client confidentiality.

Section 3 Methodology

The analysis has been conducted by experienced consultants with an in-depth knowledge of traceability systems and certification and with previous experience of auditing to some or all of the standards used in the comparative analysis.

Desktop research was carried out to discover relevant documents and corporate practices. This was further supplemented by structured telephone interviews where clarification of requirements or procedures was required to form the basis of the research methodology. The telephone interviews were limited to questions of fact and clarification and conducted in such a way as to maintain confidentiality as to the nature of the research being undertaken and the principal who had requested this. Sources of information and websites used have been listed at the end of the report. This was further supplemented by information known to SGS as a major practitioner in this area, which has been provided on an unnamed basis for the sake of client confidentiality.

For comparison purposes, the practices and processes published by DMCC to evaluate and approve refineries were evaluated against publically available information in the following areas:

1. Relevant regulations and legislation impacting on conflict minerals and traceability of materials at both national and international level.
2. Relevant industry standards for good business practice.
3. Relevant standards and guidance available for the evaluation of smelters and refineries. While programmes applicable to the broader scope of industries involved in the precious metals industry from mining to retailing have been referenced, a clear differentiation has been made where requirements might apply to other sectors outside the immediate scope.
4. Current company practices for responsible purchasing or precious metals and due diligence of their supply chains. Suitable organisations were identified for inclusion based on:
 - ❑ Sector – the sectors selected were those that were comparable in some way to those covered by the relevant standards:
 - extraction and mining
 - finance and banking
 - retail.
 - ❑ Amount of publically available information: public information was gathered from corporate websites, academic papers, publications, networks, company reports, and other sources as identified during research.

Section 4 Executive Summary

The programmes were compared in terms of:

1. The content (in terms of subject matter) and the level at which the standard is set, and a comparison of where these sit in comparison to current national legislation, international requirements and industry norms.
2. The manner of monitoring and the use of the results as a means of evaluating business partners.
3. The relevance of the contents and supporting processes in terms of reputational risk reduction and supplier due diligence.

We have found that, on a general level, a high level of alignment exists between the different schemes, in that they all reference the OECD Guidelines and, to some extent, incorporate its Five-Step approach. Compliance with any of these programmes would allow a company to use the data as due diligence towards the declarations required under the Dodd-Frank Act, either for itself or for customers to rely on for their declarations. The main differences between the programmes can be summarised as:

- ❑ OECD has not established an audit standard; audits are not technically conducted to the Guidance, nor are findings disclosed.
- ❑ LBMA Responsible Gold Guidance and DMCC Practical Guidance are very similar in their approach, having taken the Five-Step Guidance from OECD. In common with the OECD approach, it does not define 'grey area' or 'uncontrolled suppliers'; both leave the responsibility for defining the tiers of suppliers to be engaged with to each participant based on effective risk assessment and management systems. The programmes therefore require first tier suppliers to have sufficient data and documentation to verify compliance with the source of the raw material, and to have assessed risk insofar as to decide what further research might be required. This reflects the lack of a prescriptive approach in the OECD Guidance.
- ❑ The EICC Conflict-Free Smelter Programme only evaluates refiners/smelters, and then publishes that list for the public to use. If all tin, tungsten, tantalum and gold products can be traced to the refiners/smelters on the database, by default a company can declare compliance with the intent of OECD, LBMA, DMCC and RJC. The additional requirements of management systems and risk assessment are not met.
- ❑ RJC members are required to conduct audits at every level within the supply chain to fully certify compliance with the Chain of Custody standard. However, at present the underlying basis for companies seeking certification to be RJC members, and the requirement for them to meet compliance with the Code of Practice alongside this element, is a limiting factor on the number of participants.

Overall, it can be seen that the DMCC requirements and review protocol are aligned to the OECD Guidance and meet the same criteria as the LBMA. While the RJC goes further both in including their RJC Code of Practice requirements, which include labour standards and environmental criteria as well as the depth of certification to cover the entire supply chain, the additional requirements must be seen in the light of the scope of the standard, which is intended for the entire industry from mine to retail rather than being limited to refineries. DMCC's underpinning criteria for Dubai Good Delivery do also make mention of safe disposal of waste and compliance with health and safety standards, but do not go to the extent of requiring deeper management systems to support these elements.

Section 5 Responsible Sourcing Initiatives

Issues surrounding corporate responsibility in the precious metals supply chain continue to be raised by stakeholders. Whether they concern the potential for minerals from conflict areas to find their way into products or the impact of mining on local communities, companies are increasingly expected to minimise the undesirable environmental and social consequences of production at every stage, beginning with raw material sourcing.

The versatility of gold and other precious metals, combined with their rise in value, has attracted increased interest from a wide range of investors. As a result, ever more remote deposits are being explored, potentially to the advantage of unscrupulous and unregulated operators. Reports of environmental and health and safety infractions have surfaced around the globe, from the US, with concerns about the gold supplied for medals at the Olympic Games; to Ghana, where an increase in illegal mining has recently been observed, with the potential to worsen conditions for both migrant prospectors and indigenous artisanal miners; to the site of the so-called Amazon Gold Rush, with reported environmental infractions which are affecting the river ecosystem.

Moreover, the risk of the proceeds of trade in gold and other precious metals being used to fund conflict and terrorism has led to a range of legislation being implemented to respond to these challenges and more to follow under consideration.

5.1 National and Transnational Legislation and Trends

Legislation has been in place for a number of years across many territories, covering Anti-Money Laundering and the Financing of Terrorism. Much of this legislation includes extraterritorial powers, which has led to adoption of the guiding principles even where the legislation is not enacted in local law. From a global/transnational perspective the UN Anti-Money Laundering Convention, FATF 40 + 9 Recommendations and OECD Guidelines for Multinational Enterprises all contain clear definitions on the requirements to be imposed – especially for those involved in the trading of precious metals who are classed as forming financial institutions. As a result the concepts of Know Your Supplier and Know Your Customer have become accepted best practices to be followed by companies in this area, together with restrictions on cash transactions and the need to have systems that recognise and report suspicious transactions.

More recently, political pressure resulting from growing concern over the funding of conflict has led to requirements for responsible sourcing to include checks on the origins of raw materials and traceability of a range of commodities that are perceived as potentially originating from such sources. In the USA, this has led to the Dodd-Frank Wall Street Reform and Consumer Protection Act which requires US public companies to formally declare that any so-called conflict minerals (tin, tungsten, tantalum and gold – also known as 3TG) used in production do not originate from known conflict areas – particularly the Democratic Republic of Congo (DRC) and its near neighbours, collectively known as the Great Lakes region of Africa.

The companies initially targeted by this reform were those in the telecommunications sector where tantalum, in particular, is an important element. The scope of the law is, however, much broader, affecting all sectors, and products as diverse as belt buckles and electrical toys as well as precious metals that are being traded in their own right. This has led to increased demands from US buyers for their suppliers to be able to provide assurances and evidence of their

sourcing to provide data to fulfil this requirement, fuelled by a tardy response to requests for clarification and guidance on what would constitute sufficient due diligence.

The OECD has published the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas to provide information regarding appropriate levels of due diligence and effective management systems. The guidance document has been recognised by the US Securities and Exchange Commission (SEC) as an international framework for due diligence measures for companies required to file a conflict minerals report according to Section 1502 of the Dodd-Frank legislation. Pilots have been run on the implementation of these guidelines, and there is broad support from industry. The key requirements of this guidance are discussed in more detail below.

The European Union is currently looking at implementing regulations in this regard and has launched a public consultation paper, open until 26 June 2013. The European regulations would be in addition to those affecting companies doing business in the US; however, based on what has been published to date it is expected that the thrust will be quite similar, so as to have a united approach to these challenges.

5.2 OECD Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas

The OECD Guidance was published after extensive consultation with the stakeholders in the international trade of minerals and has a supplement specifically geared to those whose supply chain includes gold. Part of the driver for this has been the concern that the blanket approach taken by the US legislation could exclude responsible miners in the areas considered high risk for conflict, which could have unintended consequences for the economy in those areas.

The specific guidance provided is based on a Five-Step approach covering the key controls and due diligence that should apply to the trade. The full text of the guidance is referenced at the end of the report with a link, but the key stages are as follows:

- ❑ **STEP 1: ESTABLISH STRONG COMPANY MANAGEMENT SYSTEMS**
OBJECTIVE: To ensure that existing due diligence and management systems of companies in the gold supply chain are structured for effective due diligence.
- ❑ **STEP 2: IDENTIFY AND ASSESS RISKS IN THE SUPPLY CHAIN**
OBJECTIVE: To identify and assess risks on the circumstances of extraction, consolidation, transport, trading, and export of gold from conflict-affected and high-risk areas.

Companies in the gold supply chain should use the strong management system put in place under Step 1 to identify and assess risks that the gold they produce or purchase through their supply chains may be contributing to conflict or serious human rights abuses.

- ❑ **STEP 3: DESIGN AND IMPLEMENT A STRATEGY TO RESPOND TO IDENTIFIED RISKS**
OBJECTIVE: To evaluate and respond to identified risks in order to prevent or mitigate adverse impacts.
- ❑ **STEP 4: CARRY OUT INDEPENDENT THIRD-PARTY AUDIT OF REFINERS' DUE DILIGENCE PRACTICES**
OBJECTIVE: To carry out an independent third-party audit of refiners' due diligence for responsible supply chains of gold from conflict-affected and high-risk areas and contribute to the improvement of refiner and upstream due diligence practices, including through any Institutionalised Mechanism or Industry Programme.
- ❑ **STEP 5: REPORT ANNUALLY ON SUPPLY CHAIN DUE DILIGENCE**
OBJECTIVE: To publically report on due diligence for responsible supply chains of gold from conflict-affected and high-risk areas in order to generate public confidence in the measures companies are taking.

Given the broad acceptance of the OECD Guidance, these Five Steps and the specific guidance developed to support the implementation of each have been used as the baseline against which to compare the different industry standards and the DMCC Practical Guidance and Review Protocol.

5.3 Voluntary Industry Initiatives

A number of industry initiatives have been developed on responsibility and transparency in raw materials sourcing, improvements in production techniques and promotion of best practice standards. An overview of the key initiatives is given below.

5.3.1 LBMA Responsible Gold Guidance

The LBMA Responsible Gold Guidance was published in January 2012 and made it mandatory for its Good Delivery Refiners detailing systems to be implemented to provide assurance of responsible sourcing. This guidance is based on Anti-Money Laundering principles as well as on the Five-Step framework for risk-based due diligence outlined in the OECD Guidance, and all participating refiners must arrange for an independent, third-party audit of their supply chain due diligence. Detailed guidance on the assessment criteria has been published, allowing routes through either ISAE 3000 or ISO19011:2011 to be taken to provide the required evaluation of risk. Requirements for third-party auditors have also been published and audit companies have been invited to participate in order to broaden the choice available to refiners.

LBMA have also reached out to other groups and agreed mutual recognition with a number of the schemes in order to reduce audit fatigue and allow companies to go through a single audit in order to be accepted.

5.3.2 World Gold Council

The World Gold Council (WGC) has also published a Conflict-Free Gold Standard, an industry-led approach to combat the potential misuse of mined gold to fund armed conflict. This open standard has been developed with member companies (gold producers) and in consultation with governments, civil society and supply chain participants.

This standard also incorporates the OECD Guidance but is tailored for the mining industry and does not consider risks outside this stage in the trade. As no requirements are set for refiners this has been excluded from the scope of comparison in this project.

5.3.3 EICC Certified Smelters

The Certified Smelter Programme was developed by the Electronics Industry Citizenship Coalition to approve smelters/refineries which are seen as the key control point of due diligence in the supply chains for precious metals. The objective was to create a certified starting point for the raw materials affected by the Dodd-Frank Act to enable companies to report reliably on their sourcing.

This programme has approached the issue from a more limited scope and requires an annual audit of inventory and traceability along the supply chain, in particular for tantalum. It also references International Transportation Regulations and only calls for implementation of Annex II of the OECD Guidelines for those smelters who are sourcing from DRC or the nine surrounding countries.

The audit protocol has been clearly specified with audit approval and training by the EICC itself and mandatory checklists and report formats.

5.3.4 RJC Chain of Custody Standard

Aimed at the jewellery industry, and covering the entire supply chain from mine to retail, this standard is an extension to the RJC Code of Practice. While the Code of Practice covers jewellery including diamonds, gold, silver and platinum, the Chain of Custody is limited to gold and platinum group metals.

The Code of Practice encompasses a wide range of environmental, social, human rights and business ethics standards affecting the diamonds and precious metals supply chain and it is mandatory for RJC members to achieve certification within two years of joining by undergoing an independent, third-party audit carried out by auditors formally accredited by RJC. The RJC Code of Practice takes into account many aspects of legislation and best practices in areas related to anti-corruption, as well as initiatives such as the Kimberley Process, the World Diamond Council System of Warranties and the OECD Guidance for Multinational Enterprises.

More recently developed, the Chain of Custody certification is a voluntary initiative which members may choose to implement and currently only applies to gold and platinum group metals. As a product certification standard, this is directed at all stages in the supply chain, so that, in addition to sourcing from certified refiners, members have to maintain control of the materials throughout the production cycle in order to be able to use the RJC Chain of Custody mark. The measure takes into account initiatives such as the OECD Due Diligence Guidance and Section 1502 of the USA Dodd-Frank Act in order to broaden acceptance and, like the LBMA, the RJC has signed Memoranda of Understanding with other programmes to allow multiple codes and audits to be accepted and/or taken into account as part of the audit.

The audit itself is to be conducted by RJC-accredited auditors, who have to apply and provide evidence of qualifications and approvals in order to be approved for this programme.

5.4 Other Initiatives

It is important to note the Fairtrade and Fairmined Gold Standard, which seeks to promote ethically sourced gold from artisanal and small-scale miners. Currently this represents only a small percentage of the overall market and, due to its nature, is being used in the production of jewellery where the premium can be more easily absorbed. As with the WGC Standard, these have not been included in the review as the scope of application is with artisanal and small-scale miners and the objective is to improve the lives of those involved in those activities.

At the same time a number of major retailers are implementing supply chain audit and certification requirements to enable them to meet their obligations under Dodd-Frank. Where best practice has been applied this may include a requirement for all suppliers to implement management systems for segregation and traceability and to undergo certification of their programmes through approved third-party auditors. Whilst this is currently mainly centred on US retailers, or those with significant business there, this trend is expected to increase, particularly across Europe, once EU regulation is in place.

5.5 DMCC Responsible Sourcing

The DMCC requirements, intended for all market participants, expressed through their Practical Guidance, provide an approach aligned closely to the OECD Guidance while the Review Protocol applies specifically to the requirements of the Dubai Good Delivery refineries. Building on the existing rules in the Dubai Good Delivery standard, the AML/CFT Policy and the additional Guidance provided to the refiners as designated non-financial businesses, the responsible sourcing standard can be seen as being closely comparable to the LBMA approach with no significant gaps against either the OECD Guidance or the LBMA requirements.

Section 6 Benchmarking of Programme Requirements and Audit Protocols

Tables 1 and 2 below compare the DMCC programme scope and requirements against the OECD and selected industry approaches.

Tables 3 and 4 similarly approach the audit protocols and the auditor requirements.

Key criteria have been summarised and, in some cases, simplified in order to allow for this comparison to be completed.

Table 1 Comparison of DMCC Responsible Sourcing Published Intent and Scope with Major Schemes

	OECD	LBMA	DMCC	EICC	RJC CoC
Overall Summary	Comprehensive guide addressing reporting requirements from mine to end user	Founded on the Five Steps from the OECD Supplement when conflict minerals (3TG) are present within the product	Founded on the Five Steps from the OECD Supplement when conflict minerals (3TG) are present within the product	Standard established to certify the inventory and sourcing of refineries/smelters	To advance responsible ethical, social, and environmental practices, which respect human rights, throughout the diamond and gold jewellery supply chain, from mine to retail. Incorporates existing schemes including OECD, LBMA, EICC, WGC etc.
Summary Statement	This guidance provides a framework for detailed due diligence as a basis for responsible global supply chain management of tin, tantalum, tungsten, their ores and mineral derivatives, and gold. The purpose of this Guidance is to help companies respect human rights and avoid contributing to conflict through their sourcing decisions, including the choice of their suppliers.	Ensures that all gold feedstock and all gold produced by refiners are conflict-free Enables downstream companies to identify and source from conflict-free refiners	To ensure that existing due diligence and management systems of companies in the gold and precious metals supply chain are adequate to conduct effective due diligence in the company's supply chain and provide guidance for all market participants Enables downstream companies to identify and source from conflict-free refiners.	Verifies that the sources of conflict minerals processed by smelters are conflict-free Enables downstream companies to identify and source from conflict-free smelters	Supports the identification and tracking of conflict-free gold throughout gold supply chains with the transfer of chain-of-custody documentation
Adoption Required	Voluntary – not an auditable standard	Mandatory for LBMA-accredited refiners	Mandatory for DMCC-accredited refiners	Mandatory for acceptance onto the database of conflict-free smelters	Voluntary but can only be used by RJC members
Industry Segment Covered	Multinational companies. All activities from mine to consumer	Refiners	Focus on refiners, but guidance for all market participants	Smelter/refiner	All segments from mine to retail
Scope of Activities/ Summarised	Establish management system, assess risk, design and implement a strategy to respond to identified risks, carry out independent third-party audit of supply chain due diligence at identified points in the supply chain, publically report on supply chain due diligence	Establish management system, assess risk, design and implement a strategy to respond to identified risks, carry out independent third-party audit of supply chain due diligence at identified points in the supply chain, publically report on supply chain due diligence	Establish management system, assess risk, design and implement a strategy to respond to identified risks, carry out independent third-party audit of supply chain due diligence at identified points in the supply chain, publically report on supply chain due diligence	Process for conducting the audit – company policy review, inventory list, on-hand observation and sampling, tracing of origin, pass/fail	Management system and responsibilities, eligible and/or CoC material in an entity's custody, outsourcing contractors and service companies, eligible mined materials, eligible recycled materials, eligible grandfathered materials, eligible material declarations, chain-of-custody (CoC) transfer documents, consumer claims and intellectual property, conflict-sensitive sourcing

Table 2 Comparison of DMCC Responsible Sourcing Requirements with Industry Standards and Guidelines

	OECD	LBMA	DMCC	EICC	RJC CoC
Step 1	<p>ESTABLISH STRONG COMPANY MANAGEMENT SYSTEMS OBJECTIVE: To ensure that existing due diligence and management systems of companies in the gold supply chain are structured for effective due diligence</p>	<p>Specific reference to Annex II of the OECD Due Diligence Guidance and in particular: - scope - organisation and responsibilities - criteria for high-risk gold supply chain - supply chain due diligence, inclusive of the Know Your Customer process - monitoring of transactions - maintaining records - training</p>	<p>Specific reference to OECD Due Diligence Guidance Develop the policy and process to include common principles, standards and processes for responsible supply chain to include: a. scope b. responsibilities c. criteria for supply chain due diligence d. main elements of the Know Your Customer (KYC) process e. monitoring and surveillance f. training</p>	<p>The company will have a documented, effective and communicated policy for procurement. Specifically the policy will cover the applicable items below: a) tantalum materials b) conflict regions c) International Transportation Regulations (Class 7) d) public communication of the policy e) policy embedded into standard operating procedures and individuals trained f) effective date established g) For those companies sourcing from the DRC, or nine surrounding countries, their sourcing policy will have to comply with Annex II of the OECD Guidance for tin, tantalum and tungsten.</p>	<p>Requires establishment of a management system; appointment of a management representative; development of policies and procedures; training records etc. Companies applying for certification must be RJC members and already certified to the RJC Code of Practice. Requires a system of internal controls for segregation and traceability</p>
Step 2	<p>IDENTIFY AND ASSESS RISKS IN THE SUPPLY CHAIN OBJECTIVE: To identify and assess risks on the circumstances of extraction, consolidation, transport, trading, and export of gold from conflict-affected and high-risk areas. Companies in the gold supply chain should use the strong management system put in place under Step 1 to identify and assess risks that the gold they produce or purchase through their supply chains may be contributing to conflict or serious human rights abuses. All companies may cooperate to carry out the recommendations in this section through joint initiatives. However, companies retain individual responsibility for their due diligence, and should ensure that all joint work duly takes into consideration circumstances specific to the individual company.</p>	<p>Specific reference to Annex II of the OECD Due Diligence Guidance and in particular need to assess risks in respect of: - systematic or widespread human rights abuses associated with the extraction, transport or trade of gold; - direct or indirect support to non-state armed groups or public or private security forces; - bribery and fraudulent misrepresentation of the origin of gold; - money laundering and terrorist financing; - contribution to conflict</p>	<p>Conduct a risk assessment on each party included in the supply chain from the mines (mined gold and precious metals) to the company including suppliers, exporters and transporters (mined/recycled gold and precious metals), using a risk-based approach. This should take into account specific risks posed by: - geographical origin - counterparties - transactions based on risk activities such as enhanced research, and reviews to respond to 'red flags' raised by any concerns on the above should be included.</p>	<p>Requirement is limited to specific practical steps in the smelter's sphere of responsibility and specifically that the company will have a mechanism for tracing sold goods back to purchased material source.</p>	<p>Covered through requirements to only trade with companies within their scope of certification or specific assessed business partners</p>
Step 3	<p>DESIGN AND IMPLEMENT A STRATEGY TO RESPOND TO IDENTIFIED RISKS OBJECTIVE: To evaluate and respond to identified risks in order to prevent or mitigate adverse impacts. Companies may cooperate to carry out the recommendations in this section through joint initiatives. However, companies retain individual responsibility for their due diligence, and should ensure that all joint work duly takes into consideration circumstances specific to the individual company.</p>	<p>Devise a strategy for risk management of an identified risk by either (i) mitigation of the risk while continuing trade, (ii) mitigation of the risk while suspending trade or (iii) disengagement from the risk. Where a management strategy of risk mitigation is undertaken, it should include measurable steps to be taken and achieved, monitoring of performance, periodic reassessment of risk and regular reporting to designated senior management.</p>	<p>Developing and implementing a risk mitigation/control plan to control the identified risk(s) in order to mitigate any adverse implications Detailed guidance for policy and processes to include the internationally accepted common principles, standards and processes for responsible supply chain management including enhanced engagement and physical security where risks are identified, including disengaging and suspending trade.</p>	<p>No specific requirements, as these are included in the specific requirements on traceability of the products sold.</p>	<p>Covered through requirements to only trade with companies within their scope of certification or specific assessed business partners</p>

Table 2 Comparison of DMCC Responsible Sourcing Requirements with Industry Standards and Guidelines cont'd

	OECD	LBMA	DMCC	EICC	RJC CoC
Step 4	<p>CARRY OUT INDEPENDENT THIRD-PARTY AUDIT OF REFINER'S DUE DILIGENCE PRACTICES OBJECTIVE: To carry out an independent third-party audit of the refiner's due diligence for responsible supply chains of gold from conflict-affected and high-risk areas and contribute to the improvement of refiner and upstream due diligence practices, including through any Institutionalised Mechanism or Industry Programme. The recommendations in this section are not intended to be used as an audit standard but outline some basic principles, scope, criteria and other basic information for consideration.</p>	<p>See 60-page LBMA third-party audit guidance v2 18/01/2013</p>	<p>Mandatory requirement for refiners to be audited</p>	<p>Specific process for conduct of the audit</p>	<p>Requirement for audit to cover entire supply chain and be conducted in accordance with the RJC requirements</p>
Step 5	<p>REPORT ANNUALLY ON SUPPLY CHAIN DUE DILIGENCE OBJECTIVE: To publically report on due diligence for responsible supply chains of gold from conflict-affected and high-risk areas in order to generate public confidence in the measures companies are taking</p>	<p>Regardless of the third-party audit approach chosen, refiners should also submit a corrective action plan to the LBMA Physical Committee when there is a deviation from compliance and/or the refiner fails to satisfy one or more of the requirements as set out in Steps 1 to 5 of the LBMA Responsible Gold Guidance.</p>	<p>Requirement to publically report on due diligence for responsible supply chain to generate public confidence in the measures that the company has implemented. The report should include all the measures taken by the company to respond to Steps 1 to 5.</p>	<p>No specific public report but smelter can only be listed on the EICC database of conflict-free smelters if they pass the audit</p>	<p>No specific requirement for annual published report but RJC members are required to publish their overall commitment to RJC Code of Practice and Chain of Custody and key policies. Certified companies can display the RJC logo on marketing and sales materials and at point of sale.</p>
Guidance Available	<p>Five-Step Framework for Risk-Based Due Diligence in the Mineral Supply Chain (with Supplemental Guidance for 3T and Supplemental Guidance for Gold)</p>	<p>LBMA Responsible Gold Guidance</p>	<p>DMCC Practical Guidance for Market Participants in the Gold & Precious Metals Industry</p>	<p>EICC Transparency Audit Guidance</p>	<p>RJC Chain-of-Custody (CoC) Standard</p>

Table 3 Comparison of DMCC Auditor Competence Requirements with Industry Standards and Guidance

	OECD	LBMA	DMCC	EICC	RJC CoC
Auditor Competence	Not determined, audits are not being performed to OECD standard – this serves as advisory or benchmark standard. Requires independent assessors – ensure the appropriate level of competence, by employing experts with knowledge and skill in as many of the following areas as possible: the operational contexts assessed (e.g. linguistic abilities, cultural sensitivities), the substance of conflict-related risks (e.g. the standards in Annex II, human rights, international humanitarian law, corruption, financial crime, conflict and financing parties to a conflict, transparency), the nature and form of the gold supply chain, and the standards and process contained in this Guidance.	The LBMA will accept an audit engagement performed in accordance with the internationally recognised auditing standard ISO 19011:2011 or the non-financial assurance standard ISAE 3000. This document contains guidance with respect to ISO 19011:2011 and ISAE 3000. Throughout the document, the two approaches have been delineated in different colours: turquoise for ISO 19011:2011 and purple for ISAE 3000.	Auditor competences specified in review protocol but assessment of auditors not defined. Audit companies are approved by DMCC and listed on the DMCC website. The DMCC protocol will accept an audit engagement performed in accordance with the non-financial assurance standard ISAE 3000 but will also accept the internationally recognised auditing standard ISO 19011:2011. The review protocol contains guidance with respect to ISAE 3000 and mentions that detailed guidance for ISO 19011:2011 will be available in the future.	Currently three service providers selected. Auditors are trained and certified by EICC following internal requirements for auditors as established by the three service providers.	Detailed accreditation process based on company accreditations and audit competences. If an approved audit company for another scheme, company must demonstrate content knowledge. A company not already approved must demonstrate that audit standards are aligned with relevant requirements outlined in ISO 17011. Auditors must meet education and training requirements. Impartiality – no RJC Certification consulting to members within last three years. (Lead Auditor must also within the last three years have three complete audits of at least 15 days of audit experience acting in the role of audit team leader.)
Auditor Selection	Not determined, audits are not being performed to OECD standard – this serves as advisory or benchmark standard.	The LBMA Physical Committee plans to publish a list of recommended service providers on the LBMA website (www.lbma.org.uk) and shall ensure the list is regularly reviewed and maintained up to date.	DGD refineries have discretion to select which of the approved reviewers to use. The approved reviewers are listed on the DMCC website. Auditors may apply directly to DMCC for approval.	Currently three service providers are selected by EICC. EICC will assign work orders to the selected service provider, based upon national approval and sharing the auditor workload. .	RJC members may select from the list of RJC-approved auditors.
Auditor Accreditation	Not determined, audits are not being performed to OECD standard this serves as advisory or benchmark standard	LBMA approves service provider. Service provider provides internal training to auditors.	DMCC approves service provider. Service provider provides internal training to auditors.	EICC approves service providers. EICC provides training to auditors.	RJC approves service provider. Service provider provides internal training to auditors.

Table 4 Comparison of DMCC Review Protocol Requirements with Industry Standards and Guidance

	OECD	LBMA	DMCC	EICC	RJC CoC
Scope of Activities – Long Text Reference	The scope of the audit: the audit scope will include all activities, processes and systems used by the smelter/refiner to conduct supply chain due diligence of minerals. This includes, but is not limited to, smelter/refiner controls over the mineral supply chain, the information disclosed to downstream companies on suppliers, Chain of Custody and other mineral information, smelter/refiner risk assessments including on-the-ground research, and smelter/refiner strategies for risk management.	Defined in Section 2, Audit Guidance. ISEA and ISO19011 approaches accepted with checklist, report formats etc., all predefined	Interviews, visual observations, documentation review a) auditee's supply chain management systems – e.g. compliance and risk management structure, related operating policies and procedures, reporting mechanism, training and development b) auditee's due diligence measures – e.g. pre-account opening screening i.e. KYC and KYC's supplier including licences, beneficial ownership, references, background check – post-account opening and pre-transaction: risk matrix based on DMCC guidance covering red flags and related risk elements c) auditee's transactions— minimum information recording to ensure track and trace i.e. date of gold receipt, physical form and weight of gold, source of origin, point of origin in transportation and/or customs documents (recording of seal numbers and/or packaging list)	Systems verification, inventory systems verification. Predefined documentation, checklists, reports etc. to be used.	Defined in Certification Handbook with defined assessment toolkit and questionnaire
Scope of Activities – Pre-Planning	No	No	No	NO	YES
Scope of Activities – Sample Size	100%	100%	100%	100%	100%
Scope of Activities – Evaluate Systems	YES	YES	YES	NO	YES
Scope of Activities – Risk Assessment	YES	YES	YES	NO	YES
Scope of Activities – Document Review	YES	YES	YES	YES	YES
Scope of Activities – Inventory – Document Review	NO	YES	YES	YES	YES
Scope of Activities – Interviews	NO	YES	YES	NO	YES
Scope of Activities – Leaving Corrective Action Plan On-site	Not an audit	YES	YES	YES	YES

Table 4 Comparison of DMCC Review Protocol Requirements with Industry Standards and Guidance cont'd

	OECD	LBMA	DMCC	EICC	RJC CoC
Length of Assessment	Not determined, audits are not being performed to OECD standard – this serves as advisory or benchmark standard	2.1 – Full assessment 2–10 days depending upon number of suppliers and number of transactions Assessment reviews 1–8 days based on criteria	Left to reviewer's decision based on their assessment of risk and number of transactions etc.	2–4 days depending on number of transactions – determined by EICC	
Frequency of Audits	Not determined	Full assessment every three years, Assessment review or full audit every year based on findings, Corrective Action completed within 90 days of audit	Full reasonable assurance review every three years. Limited assurance review every 12 months. If result was Non-Compliant: High Risk, a follow-up review is to be conducted within 90 days.	Annually	Full audit every three years; surveillance audit within 12–18 months of certification. Non-compliances addressed by time of surveillance visit
Audit Guidance Available	No – the audit criteria: The audit should determine the conformity of the smelter/refiner due diligence process against the standards and processes of this due diligence Guidance	Section 2, Audit Guidance	DMCC's 'Review Protocol' on Responsible Sourcing of Precious Metals	EICC Provides to Service Providers	RJC Chain of Custody Guidance Document
Guidance on Follow-Up	No guidance on follow-up provided	Gold feedstock is either Certified Conflict-Free or Unable to Determine.	Supply chain is either Certified Conflict-Free or Unable to Determine. Full specification is given on follow-up based on result of audit.	Smelter/refiner is listed on EICC database as Conflict-Mineral-Free or not listed until the audit is passed.	Supplier is either Certified Conflict-Free or Unable to Determine
Rating of Findings	OECD has not established an audit standard, and does not rate findings. However red flags have been identified. Conclusions can be drawn from companies in compliance with OECD Guidance based on their publically reporting risk, and independent audit activity.	Overall rating of Compliant/Non-Compliant; individual findings rated according to risk	Fully Compliant, Compliant with Low-Risk Deviations, Non-Compliance: Medium Risk, Non-Compliance: High Risk. Overall result is detailed in management report to DMCC. Auditee's compliance report and Reviewer's assurance report to be published by refiner	Pass/Fail	Pass/Fail

Section 7 Summary and Expert Opinion

The research has shown that DMCC's Practical Guidance for Responsible Sourcing of Precious Metals is directly aligned to the OECD Guidance and that the Guidance contains clear steps to ensure that the refiners implement key actions to assure due diligence in the supply chain. There are some missing details in defining 'grey area' or 'uncontrolled suppliers' but this is not deemed significant, given that the Guidance is intended for refiners and does not cover miners and traders who might encounter such situations more frequently. However, consideration should be given to providing further guidance on this topic.

Comparison to the LBMA Responsible Sourcing Guidance again shows close alignment with a similarity in their approach, the LBMA having taken the Five-Step Guidance from OECD. In common with the OECD approach, neither defines 'grey area' or 'uncontrolled suppliers'. Both programmes place responsibility for implementing a risk assessment management system on the participant. As a result, the tiers of supply chain to be engaged with are left open, to be based on effective risk assessment and on the participants' management systems. The programmes therefore require first-tier suppliers to have sufficient data and documentation to verify compliance with the source of the raw material, and to have assessed risk insofar as to decide what further research might be required. This reflects the lack of a prescriptive approach in the OECD Guidance. Equally, in line with the 'reasonable assurance' approach, it is the responsibility of the reviewer to assess the sufficiency of the risk assessment and the management systems that support this.

The Review Protocol is generally clearly detailed but it is recommended that further guidance is given on the number of man-days for audit and criteria that is applied in evaluating the competence of auditors. This would ensure a greater transparency in the system and eliminate potential risks of inconsistency in the depth of assessment between the approved reviewers.

The EICC Certified Smelter Programme has been compared alongside these initiatives as it is directed at the same potential target audience of refiners, but this is much more limited in scope and expectations, with no requirement for an overall risk-based approach but a specific requirement for traceability of sold goods.

The RJC Code of Conduct goes much further in requiring adherence to the RJC Code of Practice before members can achieve certification to this additional standard. This reflects the broader range of companies and sectors being addressed from mines to retail and the potential impact on communities and consumers. In order to further strengthen the Guidance and to support the reputation of the DMCC consideration should be given to adding requirements on labour standards and environmental issues to reflect the risks in the production environment.



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5 July 2013

Section 8 Information Sources and References

Regulations

Dodd-Frank Wall Street Reform and Consumer Protection Act

<http://www.gpo.gov/fdsys/pkg/PLAW-111publ203/html/PLAW-111publ203.htm>

Public consultation on a possible EU initiative on responsible sourcing of minerals originating from conflict-affected and high-risk areas

Trade.ec.europa.eu/consultations

OECD Guidelines for Multinational Enterprises

<http://www.oecd.org/fr/daf/inv/mne/mining.htm>

The USA Patriot Act Compliance Kit

www.jvclegal.org/t_patriotsact_home.html

Standards and Industry Organisations

DMCC Responsible Sourcing of Precious Metals

<http://www.dmcc.ae/jltauthority/gold/responsible-sourcing-of-precious-metals/>

EICC

<http://www.eicc.info/Extractives.shtml>

FATF

www.oecd.org/fatf

FSA Guide – DP22: Reducing money laundering risk – Know Your Customer and anti-money laundering monitoring

www.fsa.gov.uk/pubs/discussion/22/

Global Compact

www.unglobalcompact.org/Portal/Default.asp

ICMM's Sustainable Development Charter

www.icmm.com

ISAE 3000 Assurance Standard

www.ifac.org/download/2008_Auditing_Handbook_A270_ISAE_3000.pdf

ISO

<http://www.iso.org/iso/en/aboutiso/isomembers/index.html>

The Kimberly Process Certification Scheme

www.kimberleyprocess.com

LBMA Responsible Gold Programme

http://lbma.org.uk/pages/index.cfm?page_id=137&title=responsible_gold

Responsible Jewellery Council Code of Practice

<http://www.responsiblejewellery.com/quick-downloads/rjc-certification-system-documents/>

Responsible Jewellery Council Chain of Custody Standard

<http://www.responsiblejewellery.com/chain-of-custody-certification/>

World Gold Council Conflict-Free Gold Standard

http://www.gold.org/about_gold/sustainability/conflict_free_standard/

Section 9 Glossary

A

Accredited auditor

An auditor who has been approved to a specific scheme

Accredited certification body

An organisation which has been approved to endorse a specific standard

Audit

A systematic process used to determine the extent to which requirements are being met and carried out by a competent person(s)

Audit – external

An audit carried out by an auditor with no employment relationship with the supply chain. This may be a second- or third-party audit depending on who the client is.

Audit – internal

An audit carried out by an auditor who is either an employee or under the management of the direct supplier. This is also known as a first-party audit.

Audit report

A written confirmation of the findings of the audit. The format of the report may be specified by the audit standard or the client.

C

Certification

An endorsement which confirms the meeting of a required standard

Certification scheme

A system of endorsement which confirms the meeting of a required standard

Code of Conduct

Set of principles set by an organisation, detailing their standards on CSR issues

Compliance

Meeting the standard

Conflict gold

Conflict gold is the term used for the production or trade of gold that enables conflict through the financing or benefiting of armed groups, either directly or indirectly. This includes financing of terrorism, wars, rebellions, conflict etc.; human rights abuses such as forced labour and extreme violence; using extracting or refining methods that cause harm to the environment and the people working in that area; unlawful financial gains from smuggling, money laundering, tax evasion etc.; violation of national or international laws; and damaging the reputation of legitimate trade (as when conflict gold is mixed with legal gold).

Corrective Action

Action taken to correct any non-compliance which has been found in an assessment to an agreed standard

Corrective Action Plan (CAP)

This is a document completed at an audit which confirms the findings and any agreed actions. This is usually agreed and a copy left with the factory.

F**Follow-up audit**

Audits carried out after the initial appraisal, the main purpose of which is to confirm that agreed corrective actions have been completed

I**Independent monitoring system**

A system which is not directly controlled or influenced by the supply chain

L**Limited Assurance Review**

A review undertaken by a qualified practitioner, which takes a smaller sample size than a reasonable assurance review by focusing on known risks in order to provide assurance on current practices.

M**Mandatory requirement**

A 'must'

Multiple audits

These occur when a contractor is audited several times for different customers. A common complaint is that these are both disruptive and non-productive.

N

NGO

A nongovernmental organisation or charity

Non-compliance

Any area where investigation highlights a variation from legal requirements

Non-conformance

Any area where investigation highlights a variation from the standard

O

Observation

In the view of the auditor, an issue which is not a non-compliance but an opportunity for improvement

R

Reasonable Assurance Review

A review undertaken by a qualified practitioner to provide assurance on acceptable risk based on on a reasonable sample size and balance of findings.

Risk assessment

A structured analysis of the potential damage to a business that could be caused by an organisation's failure to meet the requirements of a standard

S

Supplier

An organisation that supplies finished products, components or raw materials.