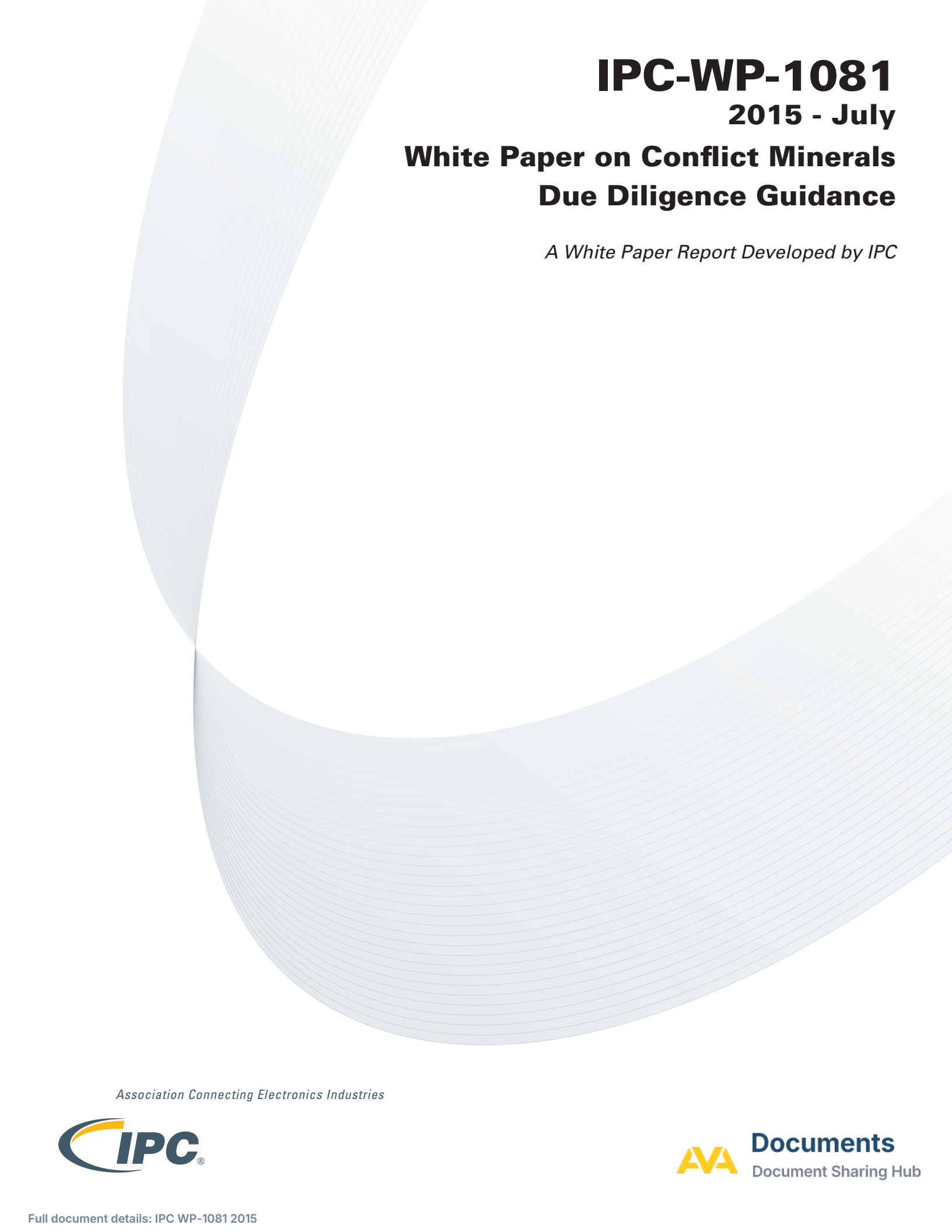




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White Paper on Conflict Minerals Due Diligence Guidance

A White Paper Report Developed by IPC

Association Connecting Electronics Industries



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- Minimize time to market
- Contain simple (simplified) language
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- Focus on end product performance
- Include a feedback system on use and problems for future improvement

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White Paper on Conflict Minerals Due Diligence Guidance

Developed by the Conflict Minerals Due Diligence Committee (E-30) of IPC

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White Paper on Conflict Minerals Due Diligence Guidance

1 Introduction

The electronics industry uses tin, tantalum, tungsten and gold in the manufacture of electronic products. These metals are derivatives of the specific conflict minerals that are covered by Section 1502 of the Dodd-Frank Act as shown in Table 1-1. These minerals are considered “conflict minerals” under Section 1502 of the Dodd-Frank Act regardless of whether they are associated with any actual conflict activity in the DRC or adjacent country. Examples of where these metals are used in electronics can be found in Appendix A.

Table 1-1 Conflict Minerals and Metal Derivative

Conflict Mineral	Metal Derivative
Cassiterite	Tin
Columbite-tantalite	Tantalum
Gold	Gold
Wolframite	Tungsten

2 SCOPE

This document is intended to provide downstream companies with practical examples for establishing a conflict minerals program based upon the Organization of Economic Cooperation and Development (OECD) Due Diligence Guidance. This includes guidance on obtaining and evaluating supply chain information and data in order to respond to external inquiries regarding the source of conflict minerals contained in their manufactured products. This document is not, and should not be used as, a guide to legal compliance.

3 USE OF DOCUMENT

This document is designed to provide a flexible framework that companies may use to establish a Conflict Minerals due diligence program for responding to information and data requests. It builds on existing conflict minerals reporting guidance, supply chain disclosure practices, and management systems. This document is not intended to establish mandatory practices or requirements nor replace any governmental or non-governmental regulations or standards.

4 REFERENCE DOCUMENTS

4.1 Section 1502 of the Dodd Frank Financial Reform Act

Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) (Pub. L. 111-203)

4.2 U.S. Securities and Exchange Commission (SEC)

*U.S. Securities and Exchange Commission’s Final Regulation to Implement Section 1502 of the Dodd-Frank Act, 77 FR 56273 September 12, 2012*¹

U.S. Securities and Exchange Commission’s Statement on the Effect of the Recent Court of Appeals Decision on the Conflict Minerals Rule, April 29, 2014

4.3 Conflict Free Smelter Initiative (CFSI)

*Conflict-Free Smelter Program*²

4.4 Organization of Economic Cooperation and Development (OECD)³

OECD (2013), OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, Second Edition OECD Publishing.

1. <http://www.gpo.gov/fdsys/pkg/FR-2012-09-12/pdf/2012-21153.pdf>

2. <http://www.conflictreesmelter.org/>

3. <http://dx.doi.org/10.1787/9789264185050-en>

5 TERMS AND DEFINITIONS

For the purposes of this Guide, the following definitions apply:

5.1 3TG

The acronym used to refer to the four common conflict mineral derivatives - tin, tantalum, tungsten and gold.

5.2 Conflict minerals

Conflict minerals, as defined in Dodd-Frank Section 1502, consist of columbite-tantalite, also known as coltan (the metal ore from which tantalum is extracted), cassiterite (the metal ore from which tin is extracted), wolframite (the metal ore from which tungsten is extracted), gold, or their derivatives; or any other mineral or its derivatives determined by the U.S. Secretary of State to be financing conflict in the Democratic Republic of the Congo or an adjoining country.

5.3 Downstream companies

Companies in the supply chain that, for purposes of conflict minerals disclosure and reporting, procure conflict minerals or their derivatives from other companies, including material producers, part and component manufacturers, and raw materials suppliers.

5.4 Due diligence

Measures that have been taken to determine the source and chain of custody of conflict minerals that conforms to a nationally or internationally recognized set of standards or guidance.

5.5 Upstream companies

Companies in the supply chain that, for purposes of conflict mineral disclosure and reporting, supply conflict minerals or their derivatives to other companies, including mines and smelters, local traders or exporters.

6 DUE DILIGENCE IS THE GOAL

Section 1502 of the Dodd-Frank Act and the final SEC Conflict Minerals rule both require reporting entities to exercise reasonable due diligence regarding the origin and chain of custody of the conflict minerals contained in their manufactured products. If the reasonable due diligence inquiry determines that the conflict minerals originated in the covered countries, the company is then obligated to use due diligence to determine whether the minerals financed or benefitted armed groups in the covered countries. For more information on the legal determination of “due diligence” that is required by Section 1502, see Appendix B.

This document helps establish guidance for the formation of due diligence systems for supply chain conflict minerals tracking, management, disclosure, and reporting. The final SEC regulation defines “due diligence” as the measures that have been taken to determine the source and chain of custody of conflict minerals that conform to a nationally or internationally recognized due diligence framework. According to the SEC final regulations, if a nationally or internationally recognized due diligence framework does not exist for a necessary conflict mineral, a company must exercise appropriate due diligence in determining the source and chain of custody of the conflict mineral, including whether it comes from recycled or scrap sources.

The appropriate level of due diligence is often scaled to the size of the company or the number of its supply chain relationships. The scope of the supply chain inquiry will depend upon each company’s particular facts and circumstances, including the company’s size, products, relationships with suppliers and other factors. The design of a conflict minerals due diligence plan, therefore, should be based upon each company’s unique circumstances.

Evaluating the company program against industry and other guidance documents, such as the “*Organization for Economic Co-operation and Development (OECD) Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas*,” will help ensure that the company’s program is consistent with nationally or internationally recognized set of standards, or guidance for, due diligence regarding conflict minerals supply chain reporting and monitoring.

7 FRAMEWORK FOR ESTABLISHING A CONFLICT MINERALS DUE DILIGENCE PROGRAM

This document is intended to provide guidance for downstream companies in establishing and implementing a Conflict Minerals due diligence program based on nationally or internationally recognized standards including those established by the OECD. The framework includes the following five steps:

1. Establish strong company management systems.
2. Identify and assess risk in the supply chain.
3. Design and implement a strategy to respond to identified risks.
4. Carry out independent third-party audit of supply chain due diligence at identified points in the supply chain.
5. Report on supply chain due diligence.

The framework outlines core elements, but provides flexibility to accommodate companies of all sizes. This document's approach recognizes the complexities and business challenges that are associated with the global electronics industry and its vast network of global suppliers.

NOTE: Since steps 1 and 2 (Sections 7.1 and 7.2) seek to obtain information about a conflict mineral's country of origin, the SEC has determined that these two steps duplicate the first two steps of the OECD 5-step framework and therefore constitute a company's reasonable country of origin inquiry (RCOI) procedure. Further, the SEC has declared that a company's RCOI procedure is not subject to an independent private sector audit.⁴

7.1 STEP 1: ESTABLISH STRONG COMPANY MANAGEMENT SYSTEMS

Each company within the supply chain should establish a conflict mineral management process within their company. For smaller companies, the process could be managed by a single person or for larger companies the process could involve multiple disciplines within their company and require assigning people responsibility for their area of expertise. In either case, the people responsible for the process will need to be able to work with senior management for support and decision making on their conflict minerals compliance status.

7.1.1 Overall company policy on conflict minerals

A company's Conflict Minerals policy should be used to communicate to interested parties the company's conflict minerals compliance commitment and include responsibilities expected of up-stream supply chain members in identifying the origin of any conflict minerals being used in its products. Examples of policy statements can be found in Appendix C.

7.1.2 Internal management structure

Each company should define its management structure for handling 3TG requirements as defined by the SEC and the OECD guidance. The management structure definition should include identifying those responsible for the day to day data collecting and analysis, who becomes engaged in the decision process when escalation of a 3TG issue is identified, and ultimately the management person responsible for approving the 3TG program. This person should support proper resourcing of both personnel and data required to maintain 3TG efforts. Examples of internal management systems can be found in Appendix D.

7.1.3 A system of controls and transparency

The use of common tools/standards will facilitate achieving transparency throughout the supply chain. The integrity of conflict mineral supply chain source data will derive from its provision by reliable sources, with proper evaluation and assimilation by each successive supply chain member. Examples of supply chain transparency tools can be found in Appendix E.

7.1.4 A stronger company engagement with suppliers

3TG management processes should incorporate supply chain management of 3TG minerals in contracts and agreements with their suppliers. This is most easily managed with the immediate tier 1 suppliers but becomes more difficult at subsequent upstream suppliers. These agreements should include language on supporting 3TG data and information exchange. Where questions or issues may be identified, proper upstream supplier support to escalate the issue towards resolution should be included. An open exchange of the 3TG process methodology within a company requesting the data to its suppliers could assist upstream suppliers in establishing their process and/or making it more streamlined. Examples of supplier engagement techniques can be found in Appendix F.

4. SEC FAQ 18 issued April 7, 2014, <https://www.sec.gov/divisions/corpfin/guidance/conflictminerals-faq.htm>

7.1.5 Grievance mechanism

Companies should establish a grievance system, if they do not already have one that defines the process by which an employee may bring suspected abuses or perceived lack of integrity in conflict minerals compliance systems to the attention of appropriate company authorities without fear of retribution, should normal communication channels fail to address the issue.

7.2 STEP 2: IDENTIFY AND ASSESS RISK IN THE SUPPLY CHAIN

7.2.1 Assess company product for in-scope 3TG

A company must determine if any of its products contain in-scope 3TG metals and, if so, whether such product content is in-scope or exempt from SEC reporting.

The term “company” is applicable to public companies that must report to the SEC (filers or issuers) and private companies that supply SEC filers/issuers (assuming products supplied by private companies contain 3TG metals and the private company desires to continue supplying SEC filers/issuers). The term “in-scope 3TG metal” refers to a 3TG metal that does not qualify for an SEC reporting rule exemption/exclusion.

There are two basic SEC rule exemptions/exclusions a company needs to consider when determining whether or not its products contain in-scope 3TG metals:

1. First, trace levels of 3TG metals not intentionally added and not necessary to product functionality or production are excluded. Examples include trace tin in steel and trace gold in copper.
2. Second, 3TG metals contained in tools or machines used to manufacture product(s) are exempt from SEC reporting. Examples include wrenches, drill bits and gold plated test probes. If a 3TG metal is used in the manufacture of a product, but is not contained in the final product, it is not considered necessary to the functionality of the product. Intentionally added 3TG metal is only considered necessary to the functionality of the product if it is contained in the final product.

Assessing which products contain in-scope 3TG metals (and the suppliers of these metals) is a necessary step for any company. Sources for product content information may include product material content declarations, catalog information, web page postings, process and product engineering specifications, purchasing records and specifications.

If a company is unable to self-determine which company products contain in-scope 3TG metals (and the suppliers of these metals), then a survey of all direct company suppliers may be necessary. If a company decides to survey its direct suppliers to determine the presence of in-scope 3TG, it may want to consider using the Conflict Free Sourcing Initiative (CFSI) Conflict Minerals Reporting Template (CMRT) for this purpose. The CMRT reports information about the presence of 3TG in the materials provided. Surveying direct suppliers is discussed in section 7.2.2.

7.2.2 Surveying direct suppliers

A company will need to determine how it intends to survey its suppliers. The company will need to establish the following procedural protocols for surveying suppliers:

1. Who (which department or function) will be responsible for querying suppliers?
2. What person/contact/department will receive supplier responses?
3. Are instructions needed in order for suppliers to be able to respond to a request for data?
4. What type of supplier declaration is required? Examples include company-wide, product part number or a user defined declaration.
5. How often will declaration be required?

In order to ensure the seamless exchange of information across the supply chain, using a standardized method for surveying suppliers is preferred. The IPC has published the *Conflict Minerals Data Exchange Standard* (IPC-1755)⁵, which defines data elements companies are asking for in order to determine compliance with conflict minerals reporting requirements. The standard is XML schema-based, which allows third party solution (software) providers to develop tools that are compatible with the standard. Several solution providers have already developed tools that are compatible with the standard, including the Conflict Minerals Reporting Template (CMRT), BOMCheck, iPoint and Papros.

5. www.ipc.org/1755

In reviewing supplier conflict minerals declarations, a company will need to determine whether its suppliers' declarations are complete and accurate. Deficiencies should be documented to each supplier and tracked to resolution. A record of supplier responses compared to supplier requests should be maintained so that percentages of supplier responses can be determined in order to document reasonableness of supplier surveys. If a supplier cannot identify all of its source smelters, a follow-up schedule should be established so that all source smelters can be identified. All review communications should be maintained for potential 3rd party auditor review.

7.2.3 Potential risks

Assessing a supplier's risk regarding conflict minerals content in the supply chain can be accomplished by several approaches including:

- a. Obtaining a copy of the supplier's policy on conflict minerals sourcing.
- b. Determining if declared source smelters are validated as conflict free by the CFSI or other smelter validation programs.
- c. Contacting the declared source smelters (normally via email) to ascertain their feedstock source mine(s) if these mines are not reported in the CMRT.
- d. Requesting the percentage of a smelters feedstock that comes from recycled or scrap sources if such feedstock is declared.
- e. Obtaining a copy of the source smelters policy on conflict mineral sourcing.
- f. Reviewing source smelters web pages for additional smelter information on conflict minerals.

Documentation on the above assessment approaches (including web page screen shots) should be maintained for potential 3rd party auditor review. Adverse inputs from the above assessment steps can then be the basis for implementing due diligence efforts per the OECD 5-step framework. Appendix A of the OECD Due Diligence Guidance describes potential supplier red flags⁶. These red flags may be related to:

- Red flag locations of minerals origin and transit
- Supplier red flags
- Red flag circumstances

7.3 STEP 3: DESIGN AND IMPLEMENT A STRATEGY TO RESPOND TO IDENTIFIED RISKS

In order to determine how to respond to identified risks, a company should understand how risk is defined in the context of this due diligence. OECD guidance defines "risk" in relation to potentially adverse impacts stemming from a company's operations. These adverse impacts may include:

- Harm to people (i.e., external impacts)
- Reputational damage
- Legal liability

These risks may result from a company's own activities or its relationships with third parties, including suppliers and other entities in the supply chain.

Downstream companies face unique challenges while addressing identified risks. Since risk in this context is associated with conflict-affected and high-risk areas, the identified risks are likely associated with actors early in the upstream supply chain such as smelters or refiners. Downstream companies may not have a relationship with these parties and may have never attempted to identify the source mines of ores used in their products. Yet, if a company is to identify and respond to these risks, knowledge of this supply chain channel will need to be obtained. It is important to note that neither the Dodd-Frank Act nor the SEC Rule restrict companies from using minerals from the affected countries, but rather requires that the use of these materials be reported appropriately.

7.3.1 Components of Step 3

STEP 3 is broken down into four components in the following three documents: The OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas; the Supplement on Tin, Tantalum, and Tungsten; and the Supplement on Gold.

6. The OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas discusses the importance of identifying and mitigating red flags, or risk factors, in a supply chain. The document recommends that companies should first consult the red flags listed in the introduction of each supplement. Please see Section 4.4 for the full OECD document reference.