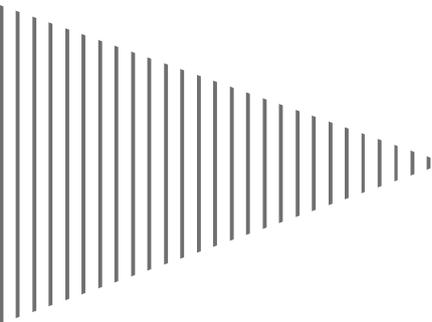


Are you ready for conflict minerals reporting?



Insights for US reporters and their suppliers

By 31 May 2014, all SEC registrants that use “conflict minerals” in their manufactured products will need to disclose whether these minerals originated from the Democratic Republic of the Congo or any of its neighboring countries. If the minerals do originate from any of these countries, SEC registrants will need to report on whether the sourcing of these minerals could have provided funding to armed groups.

As many SEC registrants are far removed from the source of their minerals, they are reliant on companies in their supply chain to provide timely and accurate information to enable reporting.

In September 2013, EY held a webcast attended by 268 global clients – a mix of SEC registrants and suppliers. This paper provides a snapshot of the challenges these businesses face in the run-up to the first reporting deadline of 31 May 2014 and sets out recommendations for overcoming these challenges.

What you need to know

- ▶ Regardless of whether you are an SEC registrant or a supplier, companies need to establish a clear strategy for compliance, secure buy-in from leadership and relevant business functions, and ensure sufficient resources for delivery.
- ▶ Currently, less than half of companies feel they are on track to meet their compliance objectives, with the majority either unprepared, still interpreting the impact of the legislation or in the early stages of planning.
- ▶ For suppliers that are not ready to respond, there is the risk that reactive or ineffective responses to information requests could strain commercial relationships with key customers.
- ▶ For SEC registrants, slow responses to information requests, as well as incomplete or unreliable data, will increase compliance costs and could create risks of SEC sanctions and reputational damage.



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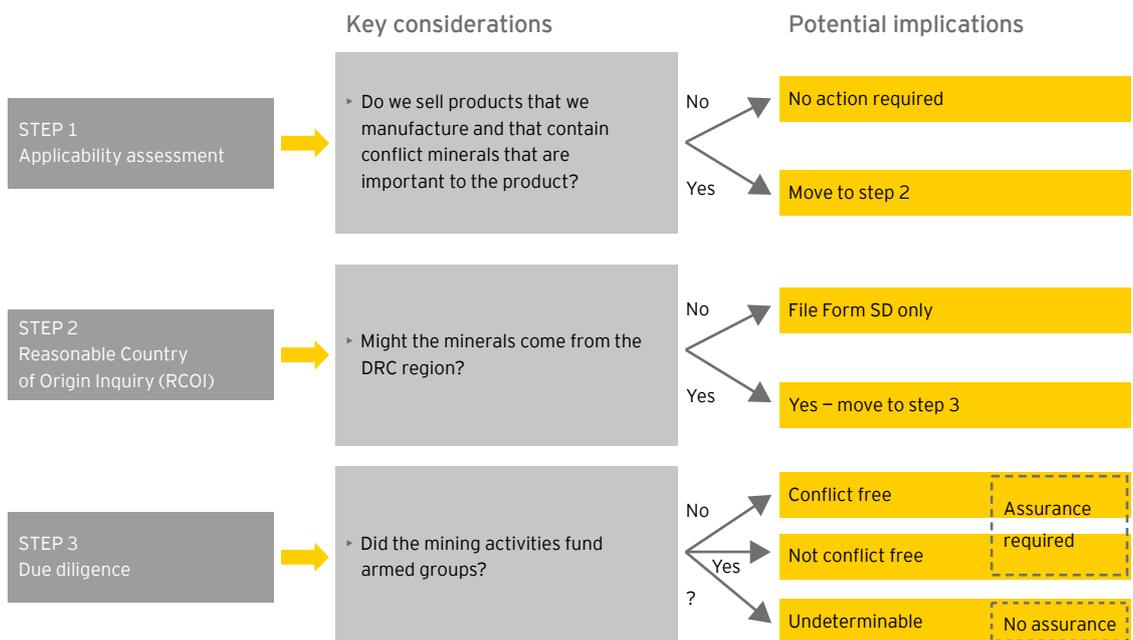
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- ▶ SEC registrants are anticipating an intense period of supplier engagement in the next six months. One-third of companies said this activity is their most critical immediate need.
- ▶ Companies outside the US are less advanced in their preparations for conflict minerals reporting than their US-based peers.
- ▶ Importantly, there is a disconnect between the recognition of the importance of supply chain engagement and the readiness of companies in the supply chain to provide the information needed for reporting.
- ▶ While the SEC rule allows for a level of certainty about mineral origins in the first two reporting years, this is not a “free pass” and should not detract from the sense of urgency needed to achieve regulatory compliance.
- ▶ For companies that set up their conflict minerals programs in the right way, there are broader business benefits to be realized. These include improved risk management, enhanced relationships with customers and suppliers, and readiness for other similar emerging disclosure demands.

Understanding the conflict minerals rule

The SEC’s conflict minerals rule is complex, but in essence it requires SEC registrants to respond to three key questions:

1. Do your manufactured products contain conflict minerals?
2. If yes, could the minerals have come from the Democratic Republic of the Congo (DRC) or its adjoining countries?
3. If yes, did the mining of these minerals provide funding for armed groups?



Preparing for conflict minerals disclosure

Planning and organization

- ▶ Engage with senior management: the first step for the individuals tasked with establishing a company's conflict minerals program is to engage with senior leadership to gain executive sponsorship. This is necessary to ensure cooperation across the business to deliver the program. It should also assist in the next step, which is the creation of a cross-functional team to include procurement, compliance, product development, production, finance and other business areas as necessary.
- ▶ Establish governance processes: the team needs to set up clear governance processes that specify how the team is going to work, its priorities, and how the organization will deal with the findings of the compliance program. This will also help develop an understanding of the scope and scale of the program.
- ▶ Formulate a project plan: a strong project plan, including milestones, workstreams and training, is critical in enabling compliance deadlines to be met. For SEC registrants the first reporting deadline is 31 May 2014, and annually thereafter. For suppliers the reporting deadlines will be specified by customers (but will be earlier than the SEC deadlines).
- ▶ Create a communications strategy: a clear communications program should be part of this plan. This will include establishing an organizational conflict minerals policy and communicating this and other messages about the program to suppliers, customers and internal stakeholders.

Reasonable Country of Origin Inquiry

If conflict minerals are used in an organization's manufactured products (regardless of the quantity of these minerals – there is no *de minimis* threshold in the rule), then companies will need to perform a Reasonable Country of Origin Inquiry (RCOI) to establish the source of these conflict minerals.

It is important to have an effective strategy for analyzing the product and supplier base in order to efficiently and effectively prioritize RCOI efforts. For many companies this can be a daunting task given the prevalence of conflict minerals in the product supply chain of many manufacturing sectors. Typical approaches to prioritization include segmenting the product and supplier base by procurement spend or volume to ensure that RCOI efforts are focused on the most relevant elements of the supply chain.

Following these inquiries, suppliers will need to communicate details of the countries from which conflict minerals have been sourced to their SEC registrant customers. For SEC registrants, if the RCOI inquiries lead the registrant to believe that none of its conflict minerals could have originated from the DRC region, then a limited "Form SD" disclosure needs to be prepared and filed with the SEC, outlining how this conclusion was reached.

However, if the RCOI inquiry establishes that the conflict minerals may have originated from the DRC region then SEC registrants, and consequently their suppliers, will need to perform more detailed due diligence to establish whether the sourcing of these minerals could have provided funding for armed groups.

Due diligence

SEC registrants are required to disclose the results of due diligence in a Conflict Minerals Report, which may ultimately require independent assurance. This would focus on whether the company's due diligence process has been designed in accordance with the conflict minerals due diligence framework developed by the Organisation for Economic Co-operation and Development (OECD), and whether the due diligence process has been implemented as designed.

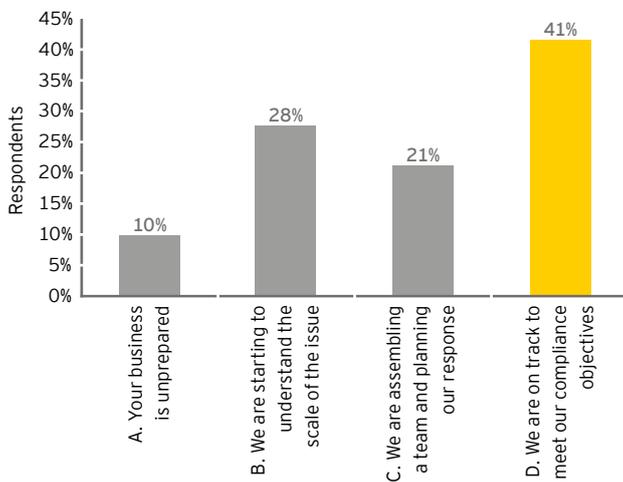
Suppliers to SEC registrants may not be subject to the same reporting and assurance requirements as registrants; however, some SEC registrants are likely to seek assurance from their suppliers on how due diligence has been enacted down the supply chain.

Where companies cannot determine the source of the minerals and whether proceeds from mining activities fund armed groups, SEC registrants are able to file an "undeterminable" status. This is available to large SEC registrant companies for the first two years, and to smaller registrants for four years. However, this is not a "free pass." For many companies, it will take a significant amount of time for reliable information on conflict minerals sourcing to be reported up the supply chain. SEC registrants that still have undeterminable minerals in their supply chain after the grace period must publicly disclose the relevant products as "not found to be DRC conflict-free" and obtain an independent audit over their due diligence activities.

Compliance deadlines loom, but many are unprepared

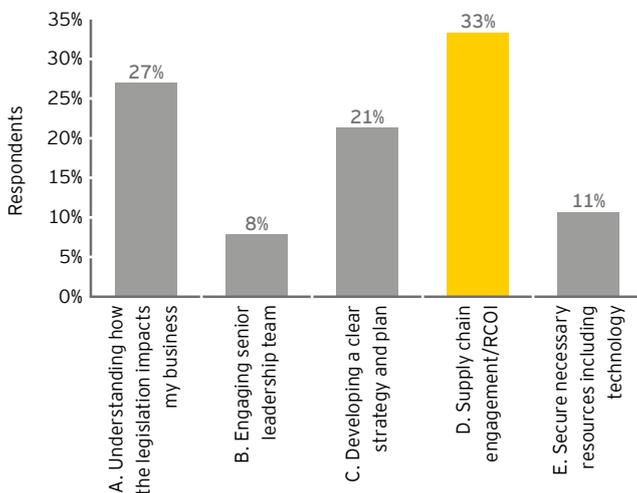
Less than half (41%) of the companies participating in the webcast felt that they were on track to meet their compliance objectives. The remaining 59% were either unprepared, still in the process of interpreting the impact of the legislation, or in the early stages of planning their compliance activities. Indications are that currently US companies (whether SEC registrants or their suppliers) are more advanced in their preparations for compliance than their non-US counterparts.

Which statement best describes your organization's current state of conflict minerals readiness?



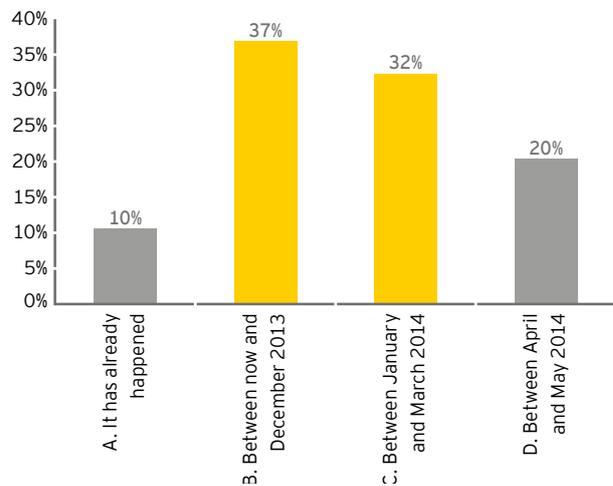
Those companies at the more advanced stage, who have completed rule interpretation, impact assessment and planning, will drive a shift in the market to an intense period of supplier engagement in the next six months. Thirty-three percent of companies expect to focus on supplier engagement as the most critical immediate need in their compliance program.

What is the most critical immediate need in your business?



Almost 70% of companies anticipate the most intense period of supplier engagement will be between now and March 2014. Only 10% believe this phase of engagement is largely complete for their business. However, with two-thirds of the market either still working on understanding the impact of the rule (27%), engaging senior leadership (8%), developing a strategy and plan (21%) or securing the resources to deliver (11%), it is clear that many companies on the receiving end of this supplier engagement are not ready to respond.

With respect to the first reporting period, when do you expect the most intense period of supply chain engagement to occur?



There are two important implications of this market disconnect:

1. Many suppliers are not prepared or ready to respond with accurate, timely information to their customers' requests and so may be pressured into a reactive response. This could create a commercial risk in the form of strained customer relationships or, at worst, customers switching to suppliers that have a better handle on conflict minerals traceability.
2. Those proactive companies who are on the front foot are likely to be met with a slow response to their information requests as well as incomplete, inaccurate or unreliable data. This may challenge the 41% who currently feel that they are on track.

Whether on the SEC side or the supplier side of this equation, companies need a clear strategy and plan for how to deal with this market disconnect and the risk it creates.

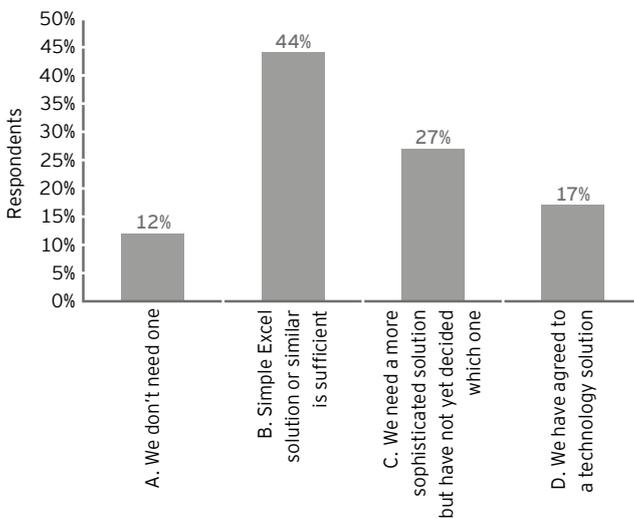
Technology can help

As with any data-heavy compliance program, effectively deploying technology resources can bring significant benefits to companies' conflict minerals compliance programs. Examples include:

- ▶ Providing a starting list of suppliers and products in scope of the rule
- ▶ Managing the large amounts of data (collection, collation, analysis and reporting)
- ▶ Minimizing costs and resources used
- ▶ Providing a clear audit trail
- ▶ Facilitating additional analysis around product information, supplier data and prices to derive additional business value

Companies are using a range of technology solutions as there is no "one size fits all" solution. Forty-four percent of webcast participants had either agreed to a technology solution or recognized the need for one, while the same amount plan to use an Excel or similar solution for their data management needs.

What decision has been made about technology solutions in your organization?



Technology choices are likely to reflect the impact of the legislation on the organization and the complexity of a company's supply chain. Multiple products and suppliers can result in vast amounts of data and, as a result, a focused technology solution may be required or desired to drive efficient data in order to meet program objectives. On the other hand, where there is limited use of conflict minerals or a straightforward supply chain, a generic tool might be more appropriate.

However, as many companies are still in the earliest stages of their compliance programs, and supplier engagement and reporting is only just starting, some companies will find that their compliance program becomes more complex and resource-intensive than anticipated.

Common pitfalls that EY is currently observing in the market include inadequate project scoping, a reluctance to devote sufficient resources to the compliance program, and poor-quality data from supplier surveys. There is a risk that many companies, both on the SEC registrant and supplier side of the equation, may be overly optimistic in their expectations regarding progress toward compliance reporting deadlines.

Supply chain transparency trends and opportunities

In the short term, the market dynamics highlighted in this report mean that most companies will be focused on undertaking sufficient work to satisfy the immediate compliance objective of the SEC conflict minerals rule. However, in so doing, it is important not to lose sight of the potential benefits that companies may gain through a positive, proactive approach to this compliance challenge.

If companies set up their conflict minerals programs in the right way, business benefits will emerge over time in the form of reduced supplier risk, enhanced relationships with customers and suppliers, and possibly improved commercial arrangements where supply chain analysis exposes previously hidden commercial differentials that can be corrected.

It should also be recognized that while the SEC's conflict minerals rule is a specific piece of legislation that needs to be addressed, it is part of a much broader trend driving increased transparency in supply chains. With similar EU regulation due to be proposed in the coming months it is important that companies set up conflict minerals compliance programs in a way that can endure and be adapted to wider supply chain transparency demands.



Recommendations for SEC registrants

- ▶ Ensure you have clearly segmented and prioritized your supplier base so that you can focus first on those most impacted.
- ▶ Take the time to educate your suppliers, set clear expectations about your conflict minerals policy and what information you require to be submitted, by when.
- ▶ Stress the importance of reporting accurate information, even if that is a “don’t know.”
- ▶ Make sure you know who the right contact is and that your supplier relationship manager is fully involved in managing the supplier engagement process.
- ▶ Establish a clear plan between now and 31 May 2014 based on minimum requirements to comply.
- ▶ Establish a clear strategy for handling incomplete, inaccurate and non-responses and for actively engaging and collaborating with suppliers over time to get the answers you need.

Recommendations for suppliers to SEC registrants

- ▶ Establish a clear “first response” to customers, setting your conflict minerals policy and the process you will be following to meet their information requirements. This is critical to instilling confidence in your customers. It is important to provide the right information first time, even if that takes time, rather than just ensuring a box is ticked.
- ▶ Get on the front foot with your most impacted customers at the earliest opportunity.
- ▶ Ensure that you have established a clear process for managing inbound inquiries as these may come into your business at multiple contact points.

How EY can help

EY has established a multidisciplinary, cross-border team made up of members from our Climate Change and Sustainability Services, Forensic Data Analytics and Assurance teams with SEC reporting experience who can provide a thorough yet pragmatic approach to help you to meet these new compliance requirements.

We are working with a range of companies across many sectors to be ready for the end of the first reporting period on 31 May 2014, assisting them with:

- ▶ Compliance strategy and planning
- ▶ Program governance and control
- ▶ Applicability, impact and risk assessments
- ▶ Systems, data and information management
- ▶ Communications and training
- ▶ Supplier engagement
- ▶ Program implementation
- ▶ Reporting and assurance requirements

EY Conflict Minerals contacts

For further information on how EY can help you with your conflict minerals and wider supply chain programs, please contact:

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Sample information

268 globally based clients from a wide range of sectors attended a webcast on 26 September 2013. 53% SEC registrants, 34% supplier, 13% both. Results exclude all don't-know and not-applicable responses.

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Governments and organizations around the world are increasingly focusing on the environmental, social and economic impacts of climate change and the drive for sustainability.

Your business may face new regulatory requirements and rising stakeholder concerns. There may be opportunities for cost reduction and revenue generation. Embedding a sustainable approach into core business activities could be a complex transformation to create long-term shareholder value.

The industry and countries in which you operate as well as your extended business relationships introduce specific challenges, responsibilities and opportunities.

Our global, multidisciplinary team combines our experience in assurance, tax, transactions and advisory with climate change and sustainability skills and experience in your industry. You'll receive a tailored service supported by global methodologies to address issues relating to your specific needs. Wherever you are in the world, EY can provide the right professionals to support you in reaching your sustainability goals.

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