Mining the Disclosures 2017
An Investor Guide to Conflict Minerals Reporting in Year Four

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In proud partnership with
Meet the Speakers

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Mining the Disclosures in Year Four
Sample group
- 206 companies representing $12.6 trillion in market cap
- 26 Industry Groups
- 8 Sectors

Indicators
- 21 key performance indicators across three themes:
  - Risk Mitigation
  - Human Rights Impact
  - Effective Reporting

Each indicator is weighted according to its significance.
Metrics & Results: 2017 vs. 2016

Performance 2017:
- Weak: 0.5%
- Minimal: 1.9%
- Adequate: 10.7%
- Good: 23.8%
- Strong: 39.3%
- Leading: 16.5%
- Superior: 1.9%

Performance 2016:
- Weak: 1.0%
- Minimal: 29.6%
- Adequate: 17.0%
- Good: 12.1%
- Strong: 19.4%
- Leading: 7.3%
- Superior: 0.5%
Companies’ Disclosures Quality

General decrease in quality for 2017

• 80% of companies in the sample have lower scores

• Improvement of one industry group: Packaging & Containers with two companies significantly increase their scores: Aptar Group and Crown Holdings

• Score for in-scope determination indicator: drops by 36 points

• Score for RCOI supplier response verification processes: loses 26 points
Leading Industry Groups and Companies

The technology sector surpasses every other sector whereas ...
Laggard Industry Groups and Companies

... laggard industry groups are distributed among a variety of sectors
OECD Guidance

5 Step Framework:

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 audits of supply chain due diligence at identified points in the supply chain.

5. Report on supply chain due diligence.
Compliance-only vs. Due Diligence

**Laggards v. Leaders**

- Compliance-only strategy instead of on-going, proactive risk-based due diligence.

- Weakness of risk assessments leads to inappropriate mitigation measures.

- Leading companies’ risk mitigation processes are proactive, innovative, cooperative, and multi-sectorial.

- Multi-stakeholder initiatives (CFSI, PPA, …)

- Company’s internal mechanisms (RRA, …)

- Comprehensive risk assessment and information reviewing

- Cooperation with upstream suppliers (including SORs)

- On-the-ground “conflict-free” sourcing (iTSCi, Solution for Hope, …)
Effective Reporting and Publicly Available Information

**Reporting outside disclosures**

- 5% of the companies publish their risk assessment on dedicated conflict minerals websites.

- Leaders include websites with valuable information on due diligence practices.


- OECD Guidelines for Multinational Enterprises.
Investors’ Role to Push Due Diligence Forward

- **Require “conflict-free” supply chains.**
  - Push for implementation of Section 1502.
  - Ensure companies’ understanding of the importance of “conflict-free”.
  - Require high level of reporting from companies.

- **Encourage competition between companies for “conflict-free” supply chains.**
  - Identify best practices.
  - Encourage companies’ not legally required to fulfill due diligence.
  - Reward, reach out, or avoid.
Recommendations for Business Managers and Policy Makers

- **Business managers should improve risk-based due diligence**
  - Train (OECD Guidance) ➔ Collaborate (multi-stakeholders) ➔ Implement

- **Policy makers should improve and implement Section 1502**
  - Maintain Section 1502 ➔ Additional Guidance ➔ Inspire (EU, China)
WHERE ARE WE?
From a regulatory perspective

REGIONAL IMPACTS
Influence of change

HUMAN RIGHTS
CM is really a human rights issue

WHAT’S NEXT?
Anticipated actions
WHAT’S HAPPENED FROM A REGULATORY PERSPECTIVE

2012
LEGAL CHALLENGE

Nat’l Ass’n of Mfrs. V SEC, 748 F.3d 359 (DC Cir 2014)
First Amendment violation

APRIL 2014
SEC ISSUES STATEMENT

2014 SEC staff statement

MAY 2014
SEC FORMAL ORDER

Partial stay of CM rule
WHAT’S HAPPENED FROM A REGULATORY PERSPECTIVE

Leaked White House memo

APRIL 3, 2017
FINAL JUDGEMENT

Enforcement not recommended if no CMR filed

February 2017
SUSPENSION?

Issued by US District Court for the District of Columbia

APRIL 7, 2017
SEC STAFF STATEMENT
PUT IT ALL TOGETHER AND WHAT HAVE WE GOT?

Confusion

Doubt

Reluctance

Who’s on first?

Misinterpretation

Distractio

Hope

Hesitation

Distraction

Anticipation

Perplexity

Now what?

Uncertainty

Complication
THIS IS A HUMAN RIGHTS ISSUE

40 MILLION
People trapped as slaves last year

VULNERABLE POPULATIONS
Easily exploited

OPPORTUNITY TO LEAD
In all sectors

“Strong conflict minerals reporting benefits from a human rights approach rather than a compliance-only focus.”

Source: RSN Mining the Disclosures 2017
WHAT'S NEXT?

2018 & beyond

SUPPLY CHAIN COMPLIANCE AND TRANSPARENCY

BUSINESS AS USUAL
RY 2017 / FY 2018

TRANSPARENCY
WHETHER DRIVEN BY GOVERNMENT POLICY OR NOT

DUE DILIGENCE
LONGTERM RISK MANAGEMENT STRATEGY

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