Conflict Minerals Story
August 2013
AIA Conflict Minerals Working Group
AIA Conflict Minerals Story - Topics

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“Conflict Minerals” is the term used to describe certain minerals such as gold, wolframite, casserite, columbite-tantalite and their derivative metals, which include tin, tungsten and tantalum, that are sourced from mines under the control of violent forces in the Democratic Republic of Congo (DRC) or the surrounding countries. Tin, tungsten, Tantalum and gold are used in many aerospace components with various applications.

Section 1502 of the Dodd-Frank Act requires all publicly-traded companies to report annually to the SEC whether they use conflict minerals that are “necessary to the functionality or production” of a product that they either manufacture, or contract to be manufactured. The intention is to cut the funding to armed groups that commit violent human rights violations in eastern DRC.

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OECD Background and Activities

• The mission of the Organization for Economic Co-operation and Development (OECD) is to promote policies that will improve the economic and social well-being of people around the world.

• The Organization for Economic Cooperation and Development (OECD) is the primary world group that has been very active and involved in the support of responsible sourcing to help put an end to the Conflict Minerals challenge. Some of these important activities include the following:
  
  – Put forces on the ground in the Conflict Minerals regions to confirm the challenge.
  
  – Working in depth with companies and governments around the world to drive Conflict Minerals control.
  
  – Sponsored a Conflict Minerals Pilot Program that has been set up to help define the appropriate due diligence compliance requirements and how these compliance steps should be followed.

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In July 2010, President Obama signed into law the Wall Street Reform and Consumer Protection Act or Dodd-Frank Act. Section 1502 covers Conflict Minerals requirements.


The SEC has also published an initial list of frequently asked questions (FAQ’s) regarding Final Rule Compliance.

Please find information regarding how to download the SEC Final rule and the SEC FAQ’s on links slide.
SEC Final Rule – Flow Chart

Inside of the SEC Final Rule, you will find this flow chart which is an excellent summary of the steps involved with complying with the Final Rule.

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SEC Final Rule Compliance Steps (simplified)

Step 1.
Applicability
- US Public Company?
- Conflict Minerals are necessary to the functionality or production of product?

Step 2.
Reasonable Country of Origin Inquiry
- Conflict minerals only from recycled scrap or originated outside Covered Countries?

Step 3.
File SEC Form SD with Conflict Minerals Report
- Post Conflict Minerals Report on website for 1 year
- Use appropriate due diligence such as OECD guidance
- 3rd Party Audit of CM processes
- Describe Part DRC Conflict-free status
  - DRC Conflict Free | Not Confirmed to be DRC Conflict Free | DRC Conflict Undeterminable

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• The SEC has released the initial Frequently Asked Questions regarding the Final Rule that help to provide clarification for certain points which everyone should review.

• An important FAQ to highlight is FAQ #10:

  – QUESTION: If an issuer determines that products it manufactures, or contracts to manufacture, contain conflict minerals from the DRC, or adjoining country, but the products are “DRC Conflict Free” is that issuer required to file a form SD with a Conflict Minerals Report (CMR) and obtain an independent private sector audit of the CMR?

  – ANSWER: Yes. However, the issuer is not required to disclose the products containing those Conflict Minerals in its CMR or provide certain other disclosures specified in item 1.01(c)(2) of form SD because those products are “DRC Conflict Free”

• The Q&A for FAQ #10 may trigger an independent audit within the first two years for large businesses and within four years for small businesses.

• A company’s successful Due Diligence Strategy will mutually incorporate the OECD guidance balanced against the SEC Final Rule with clarification from the SEC FAQs.

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**Disclosure Timing**

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**First compliance period begins**

**Conflict minerals smelted or refined or outside of the covered countries before this date are exempt**

**First SD form must be filed with the SEC**

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The Aerospace Industries Association (AIA) represents the nation's leading manufacturers and suppliers of civil, military, and business aircraft, helicopters, unmanned aircraft systems, space systems, aircraft engines, missiles, materiel and related components, equipment, services and information technology.

The AIA and member companies have been very active and involved with the Conflict Minerals Challenge as part of these activities:

- Created the Conflict Minerals Working Group (CMWG) which is tasked to provide educational and best practices tools to help support Conflict Minerals control and responsible sourcing. This group is active and on-going.
- Attended the various OECD meetings on Conflict Minerals.
- Participated in the OECD Due Diligence Pilot Program.
- Attended the SEC Round Table meetings during the development of the SEC Final Rule.
- Authored two regulatory alerts regarding Conflict Minerals to all AIA member companies in support of providing awareness regarding this challenge.

The AIA and the CMWG will be sponsoring webinars and other support meetings to continue the support of Conflict Minerals control and compliance.

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CMWG Sub-Teams

- Team topics identified during live workshop in February 2013
- Representatives from multiple companies on each team
- Monthly out briefs to CMWG

Sub-Team #1: Education of Aerospace Industry
- Current initiatives: development of websites tailored for AIA members and external parties

Sub-Team #2: Industry Associations Engagement
- Current initiatives: monitoring activities by other associations (e.g. NAM, EICC, AIAG, IPC) to identify opportunities for synergies/leveraging of information

Sub-Team #3: Common Supplier Survey / Common Data Content
- Current initiatives: evaluating pros and cons for use of EICC/GeSI template; identifying software tools

Sub-Team #4: Suggested Practices
- Current initiatives: compiling red flags and related examples; identifying suggested practices to address elements of OECD Due Diligence guidance; analysis of Form SD and Conflict Minerals reporting requirements

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AIA CMWG Timeline

- 02DEC11: AIA Regulatory Alert
- 22AUG12: SEC issued “Final Rule”
- 04SEP12: AIA Regulatory Alert
- 25FEB13: Workshop – Washington, DC
- 06/07AUG31: 2 day Workshop – Washington DC
- 31MAY14: Form SD to be Filed – SEC
- Monthly: CMWG all-team meeting
- Weekly/Bi-Weekly: CMWG Sub-Teams meetings
Due Diligence over Source and Chain of Custody

- The OECD has published a due diligence guidance which is recognized by the SEC as an acceptable tool to use when creating a due diligence plan.

- The OECD due diligence process consists of the following five primary steps:
  
  - Establish strong corporate management systems
  - Identify and assess risk in the supply chain
  - Design and implement a strategy to respond to identified risks
  - Third-Party Audit of Smelter/Refiners due diligence
  - Report annually on supply chain due diligence

- Proper due diligence requires “a reasonable country of origin inquiry” to determine whether the conflict minerals originated in a covered country or are from recycled or scrap sources.

- See the “Links” slide to find out how to download the guidance.

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RCOI

- SEC filers whose products contain conflict minerals necessary to their functionality and/or production must perform, in good faith, a Reasonable Country of Origin Inquiry (RCOI).

- The RCOI process must be designed to determine if those minerals originate in the DRC region, and if so, the smelting facility, or whether the minerals were from scrap/recycled sources.

- The RCOI design will vary according to a filer’s facts and circumstances.

- The filer is not required to reach a determination based on certainty. If reasonably designed and performed in good faith, a filer who receives representations indicating these minerals did not originate in the DRC region may conclude the same, even though it did not hear from all suppliers, as long as the filer does not ignore red flags, other warning signs or other suspicious circumstances.

- For those minerals known, or believed, to be sourced from the DRC region, the filer must then go on to conduct due diligence over the source and chain of custody.
Red Flags

- Identifying due diligence Red Flags are required as part of a company’s robust due diligence plan.
  - Red Flag development is referenced in the OECD Due Diligence Guidance.
  - Audit Firms may review a company’s Red Flags as part of their overall audit process.

- The AIA Conflict Minerals Working Group has identified examples of Red Flags for the following areas of business:
  - Company Governance
  - Smelter
  - Supplier Claims of Origin
  - Inconsistent Supplier Responses
  - Supplier Policies

- Please find the Red Flag examples via this = [LINK](#)

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The CMWG has reviewed the option to use a common supplier survey. Based on the following analyzed Pros, the recommendation is to use the EICC / GeSI template.

Pros

- Template adopted by Multiple Industries
  - Electronic, Medical, Automotive
- Familiarity of the Template by various industry players:
  - Auditing / Accounting firms
  - Materials Declaration Schema (IPC 175X)
  - Suppliers
- 3rd party support for data analysis capabilities
- Integration of CFS Approved smelter list
- Standard Format (Excel)
- Development of instructions / definitions
  - Maintenance of information
- Linked to ANSI
  - Standard computing format
- Timeframe: Ready Now
- Incorporates RCOI and Due Diligence questions
- Similar requests being made to Supply base
- Spreadsheet compiler offered
- Simple quality check to ensure a completed form

To download the EICC Conflict Minerals Reporting Template (Common Survey) and a helpful video regarding how to use the template, please use the links under the Conflict Minerals Reporting Template section of this page:

www.conflictfreesmelter.org

This website will also provide current information about the Conflict Free Smelter Program.

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Audit Requirements

The objective of the audit is to express an opinion or conclusion as to whether:

• Your due diligence framework conforms, in all material respects, with the criteria in a national or internationally recognized framework (i.e. the OECD guidelines)
• The due diligence measures described in the CM Report are consistent with the due diligence process actually undertaken

The audit is of the Conflict Minerals Report and not Form SD (i.e. the focus is on the due diligence process as described in the Report). The audit scope does not include the determination reached as to whether a particular product was or was not DRC Conflict Free.

The language used in the CM Report should be objective rather than subjective in order to facilitate confirmation during the audit process (e.g. “we surveyed 100 suppliers” rather than “we conducted a comprehensive survey”)

Final SEC guidance on the audit standards is still pending, however, it will conform to Generally Accepted Government Auditing Standards.

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Helpful Links

Securities and Exchange Commission (SEC) Conflict Minerals Final Rule

SEC Conflict Minerals Frequently Asked Questions
www.sec.gov/divisions/corpfin/guidance/conflictminerals-faq.htm

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

State Department Conflict Minerals Map
hiu.state.gov/Pages/Africa.aspx

Conflict Free Smelter Program
www.conflictfreesmelter.org

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