Conflict Minerals: Risk Management

ILTAM Conflict Minerals Seminar

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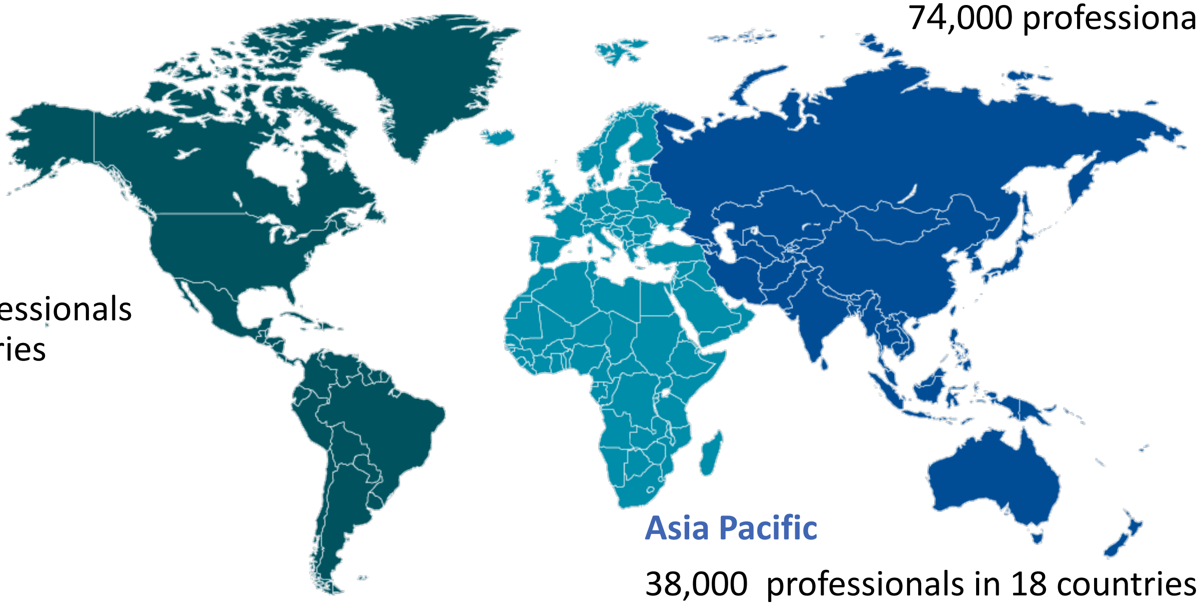
Europe, Middle East & Africa
74,000 professionals in 119 countries

Americas
43,000 professionals
in 19 countries



Asia Pacific

38,000 professionals in 18 countries

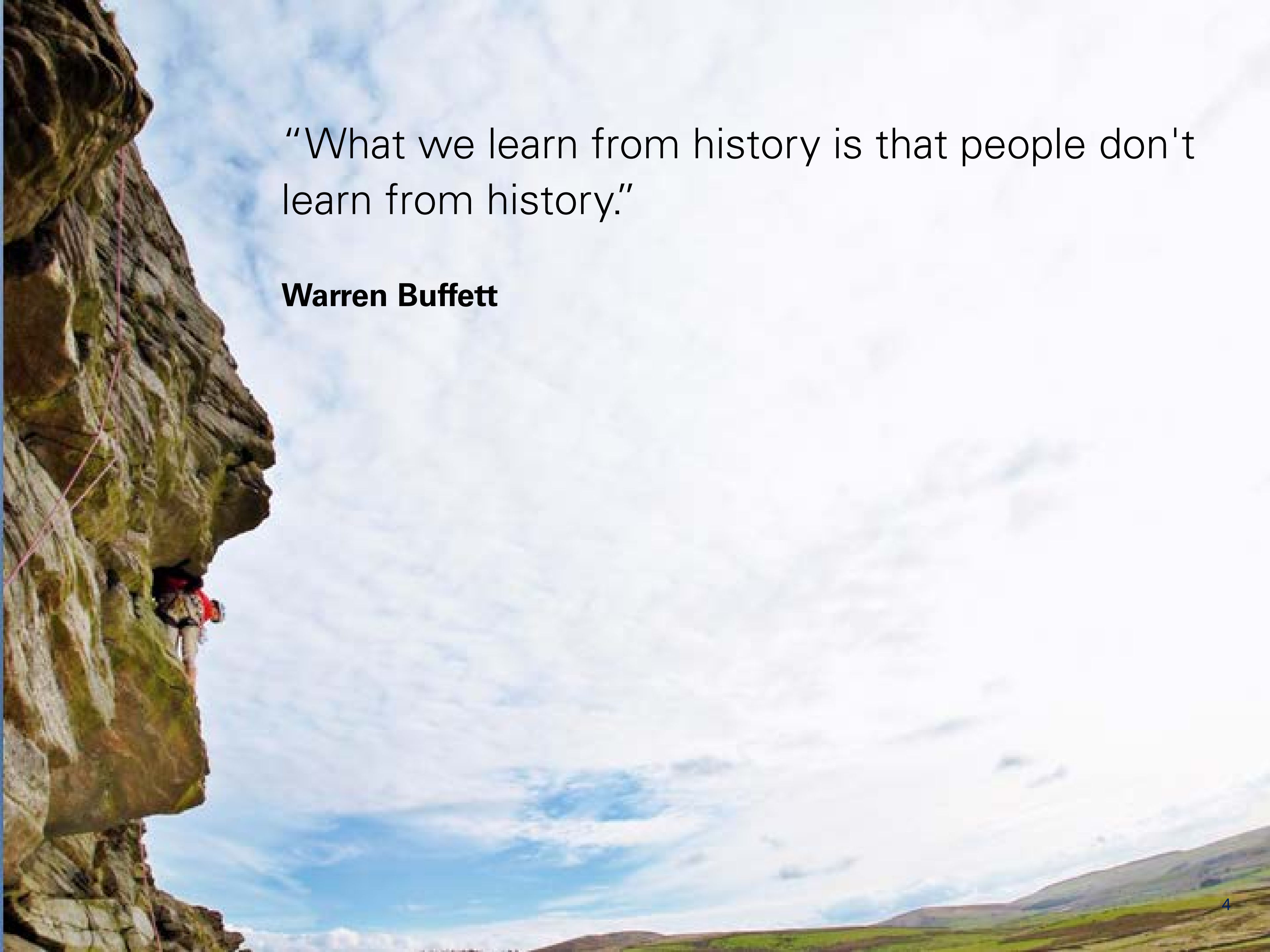
Somekh Chaikin is part of the KPMG global network of firms, employing over 1000 people with offices in Tel Aviv, Jerusalem, Haifa and Beer Sheva and serving thousands of clients in many sectors throughout Israel.

KPMG Somekh Chaikin – Advisory Services

As part of the KPMG network, our Israeli Advisory practice has access to global databases, leading practices, thought leadership, local and worldwide events. Our professionals come from a variety of backgrounds including: economics, accounting, industrial engineering, information systems, internal audit and law;

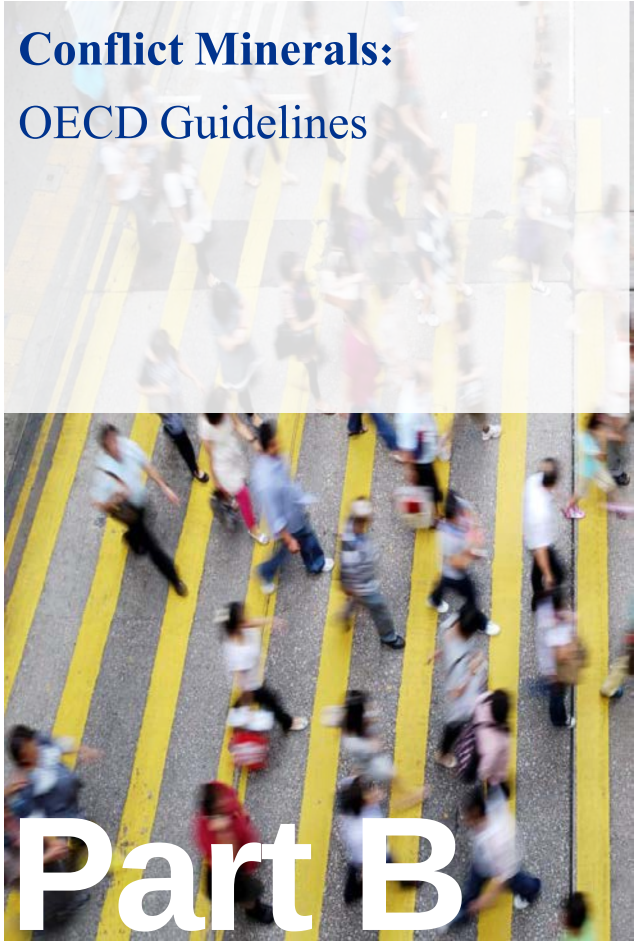
Internal Audit, Risk and Compliance Services (IARCS):

- Internal audit outsourcing and co-sourcing,
- Advising on the integration of corporate governance policies and internal enforcement mechanisms including preparation of written procedures
- Advising on compliance with regulations such as SOX and ISOX
- ERM (Enterprise Risk Management) consulting and implementation
- Sustainability services including strategy, implementation and assurance reports.
- Contract Compliance Services to assist organization effectively manage royalty collections and payments
- Specialized task force services to prepare for large scale audits by multi-national organizations
- Advice to government offices on policies, legislation and enforcement


“What we learn from history is that people don't learn from history.”
Warren Buffett

Content


Enterprise Risk Management
Background
Part A


Conflict Minerals:
OECD Guidelines
Part B


Conflict Minerals:
CM Risk Management
Part C

Part A
KPMG Somekh Chaikin:
About

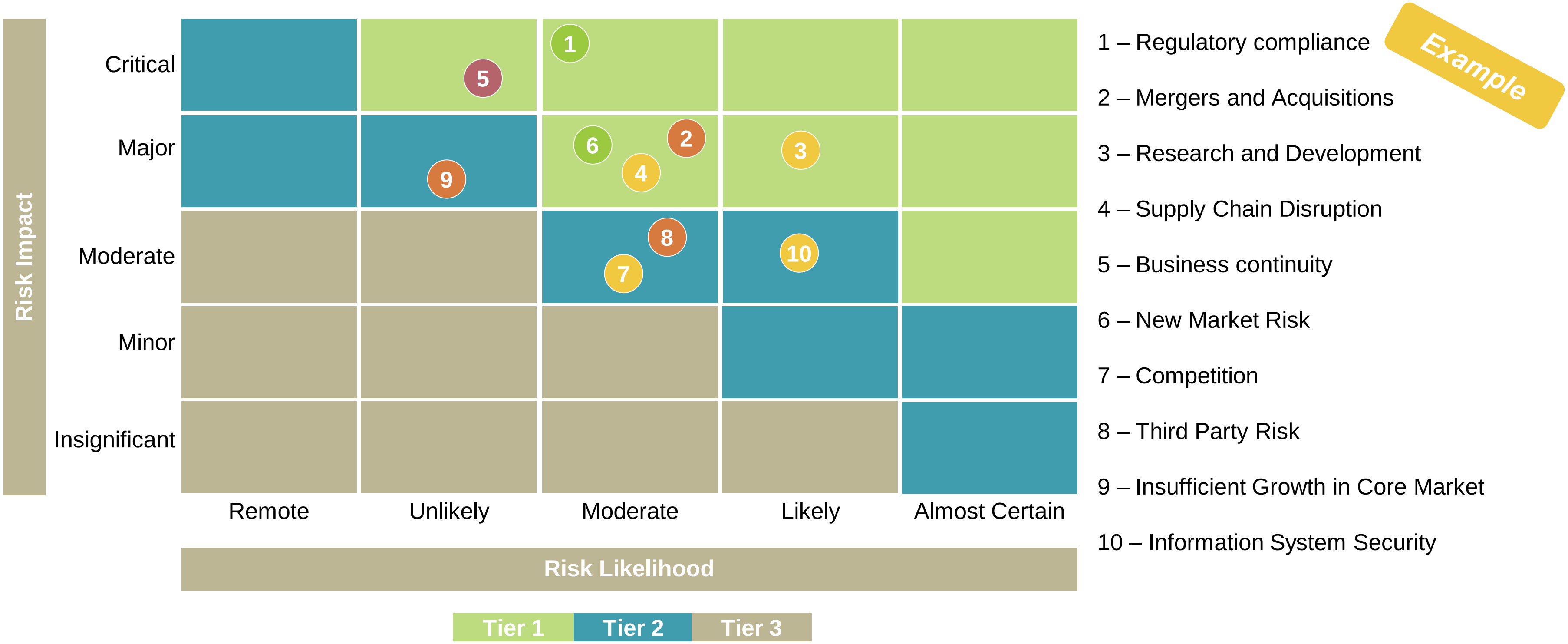
ERM fundamentals
What is Enterprise Risk Management?

The definition of risk management by COSO ERM:

"… a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."

Creating Management Excellence

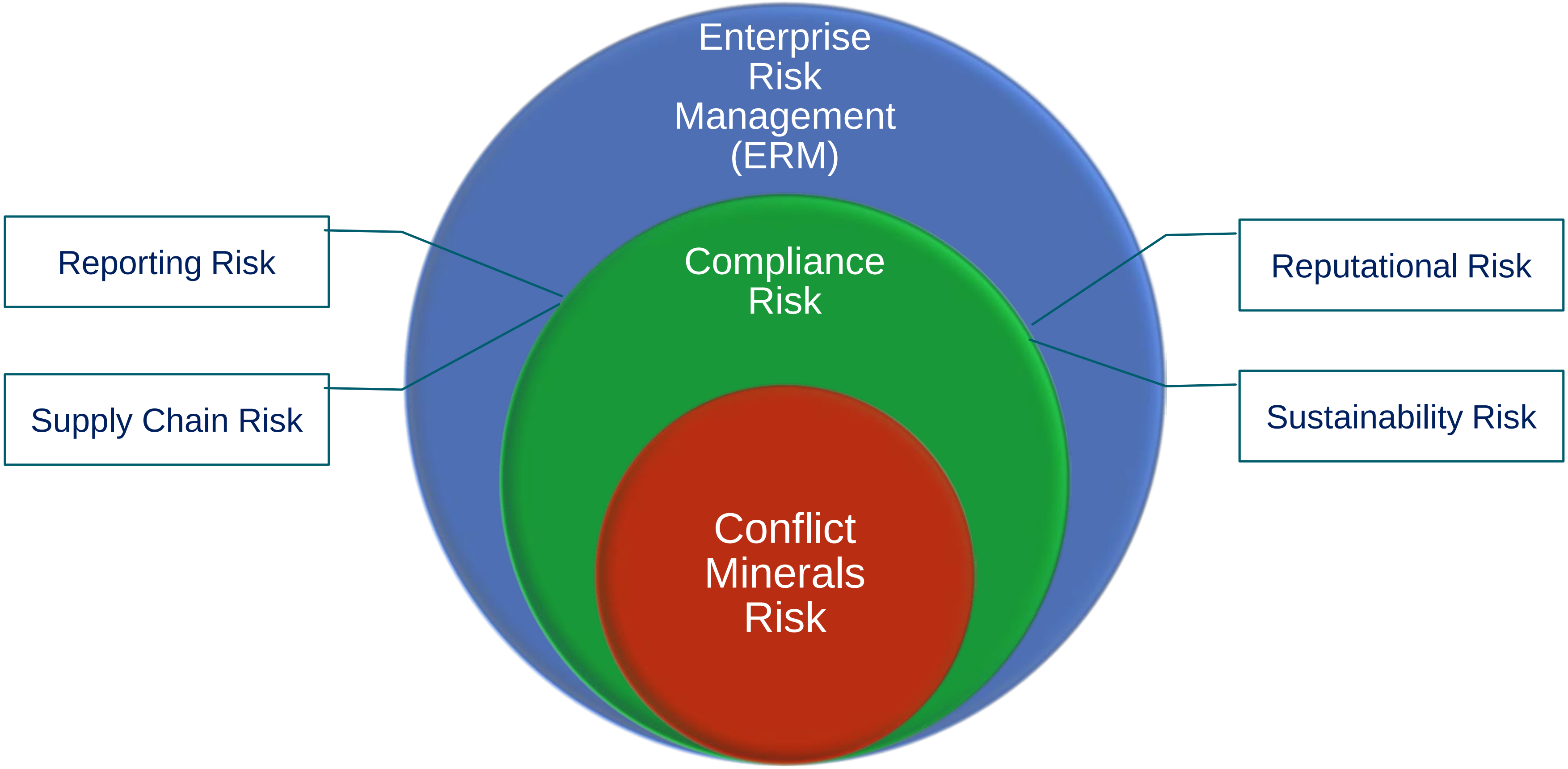
ERM fundamentals
Creating content: Example risk profile



1 – Regulatory compliance
2 – Mergers and Acquisitions
3 – Research and Development
4 – Supply Chain Disruption
5 – Business continuity
6 – New Market Risk
7 – Competition
8 – Third Party Risk
9 – Insufficient Growth in Core Market
10 – Information System Security

Effectiveness of Controls/Mitigation

Conflict Minerals Risk as part of ERM:



Part B

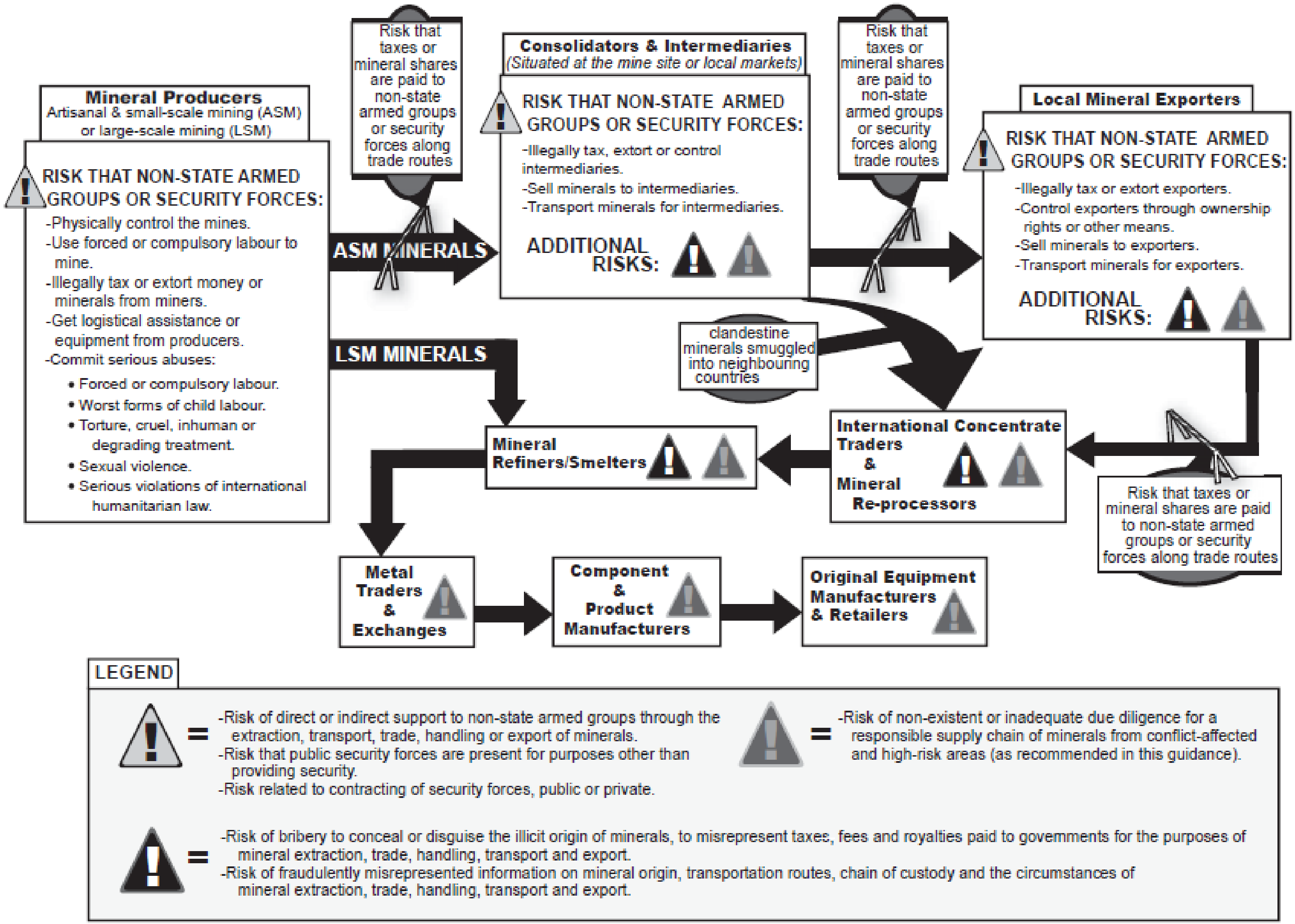
Conflict Minerals:

OECD Guidelines

OECD Due Diligence Guidelines

Risk Based Approach

Figure 1. **Risks in the supply chain of tin, tantalum and tungsten from conflict-affected and high-risk areas**



OECD Due Diligence Guidelines
5 step framework

- The SEC final rule requires an issuer's due diligence to *follow a nationally or internationally recognized framework*
- The Organization for Economic Co-operation and Development (OECD) has *the only framework currently recognized*
- OECD's is based on the following 5-step framework:

1 - Establish Management Systems	2 – Identify and Assess risks in the Supply Chain	3 - Respond to Identified Risks	4 - Audit opinion to address
Establish and communicate company policy Structure management to support supply chain DD Establish controls and transparency over the supply chain Establish early-warning risk awareness systems Strengthen supplier engagement	Identify smelters/refiners in supply chain if possible Identify risks in the supply chain Assess risk of adverse impacts Support promotion of supply chain transparency Support promotion of clear chain of custody	Report findings to Sr. Mgt. Devise risk management plan: System to address first-level suppliers and industry-wide initiatives to build leverage over sub-suppliers Track performance of risk mitigation efforts Re-assess based on changing circumstances	Whether the DD framework materially conforms with a national or internationally recognized standard Whether the issuer's description of the DD measures it performed are consistent with the DD process the issuer actually undertook

5 - Annually report on supply chain due diligence policies and practices
(U.S **G**overnment **A**ccountability **O**ffice has indicated existing **G**enerally **A**ccepted **G**overnment **A**uditing **S**tandards will apply)

OECD Due Diligence Guidelines
Upstream Vs. Downstream

- **The OECD guidelines distinguish the identification and assessment of risks in downstream and upstream companies.**
  - Downstream companies should:
    - Identify, to the best of their efforts, the smelters/refiners in their supply chain;
    - Identify the scope of the risk assessment of the mineral supply chain;
    - Assess whether the smelters/refiners have carried out all elements of due diligence for responsible supply chains of minerals from conflict-affected and high-risk areas;
    - Where necessary, carry out, including through participation in industry-driven programs, joint spot checks at the mineral smelter/refiner's own facilities.
  - Upstream companies are expected to:
    - Identify the scope of the risk assessment of the mineral supply chain;
    - Map the factual circumstances of the company's supply chain(s), under way and planned;
    - Assess risks in the supply chain.

OECD Due Diligence Guidelines
Strategy

A Risk Management strategy:

i) continuing trade throughout the course of measurable risk mitigation efforts; or

ii) temporarily suspending trade while pursuing ongoing measurable risk mitigation; or

iii) Disengaging with a supplier after failed attempts at mitigation or where a company deems risk mitigation not feasible or unacceptable.

Part C

Conflict Minerals:

CM Risk Management

Risk Management in the CM compliance process
Action Items

- **Risk management in the Conflict Minerals compliance process involves both internal and external measures that a company should consider adopting as part of its normal operation. Such measures may include:**
  - Designing a supply chain risk management policy/plan;
  - Incorporating risk management as part of its Standard Operating Procedure;
  - Surveying suppliers CMRT's with a risk based approach;
    - The role of the of the personnel who submitted the CMRT;
    - Further examination of suppliers with smelters/refiners from a certain geographical area;
    - Supplier history (length of the engagement, issues in the past, etc.)
    - Quantity/volume of products purchased.
  - Verifying that suppliers have a supply chain risk management policy;
  - Devising a risk mitigation plan that includes the identification and mitigation of red flags arising in the CM compliance process.

Risk Management in the CM compliance process

Action Items

- **In response to identified risks a company should consider:**
  - Design and formalize corrective action plans to mitigate identified risks, based on its risk tolerance and company objectives;
  - Implement its risk management plan;
  - Monitor and track performance of risk mitigation;
  - Report back to designated senior management;
  - Suspending or discontinuing engagement with a supplier after failed attempts at mitigation.

Risk Management in the CM compliance process
Lessons Learned

- A risk-based approach to compliance should help companies to gain deeper insights into their supply chain and to optimize their operations. knowing more about your supply chain, can only improve the way to run a business.

- By integrating conflict minerals reporting compliance with other regulations, companies should be able to see how regulatory risks are connected. A holistic approach to compliance should improve efficiency and help companies to manage risk more effectively.

- An integrated review of filings reduces the risk of inaccurate reporting and thus the risk of non-compliance; accurate reporting will help compliance.

- The risk of being found non-compliant with an important regulation affects a company's reputation. Public trust in a company's behavior is a priceless asset that can easily be jeopardized through a faulty compliance program. A rigorous approach to conflict minerals reporting can enhance a company's reputation.

Any Questions?

KPMG

cutting through complexity

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