

**Deloitte.**

# Conflict minerals The technology sector perspective

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# Current state – the technology sector

Consumers worldwide seem to have an insatiable appetite for the latest and greatest, making the technology sector increasingly susceptible to the discretionary spending of consumers. The onset of the digital omnivore, a term used to describe those who not only own multiple technology devices, but use them to do more, has increased consumer influence as the need to have the most current technology applies to a consumer's multiple devices. Additionally, consumers have the ability to tell others their opinions, whether that be related to the products they buy, their customer service experience, or other information the consumer has related to the technology registrant.

In trying to keep up with the demand when new products release, many technology registrants have often faced challenges within their supply chains. In meeting the immediate demands of consumers, many technology registrants are often faced with the sudden demand of a new product launch, requiring that suppliers provide a lot of product almost immediately. As a result, many technology registrants have faced increased scrutiny due to the exposure of the labor practices in their downstream supply chains.

With their reputations on the line, and consumers' ability to access information on demand (often on the cell phones, computers, and tablets that many technology registrants sell), technology registrants are becoming aware of the impacts their supply chain practices have on their bottom line. Technology registrants have been forward-thinking to assess their supply chains further to determine additional risks and even potential opportunities.



# The conflict minerals environment and the technology sector

## The current state of conflict minerals

Another step in the movement around supply chain transparency was added when the Securities and Exchange Commission (SEC) issued its final rule on Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Final Rule”). As the marketplace attention around conflict minerals continues to evolve, so will expectations for greater transparency around registrants’ broader supply chain risk management practices. Technology registrants will be well-served by developing more comprehensive and integrated approaches to supply chain compliance activities and disclosure practices in a manner that permits flexibility in adapting to changing and evolving regulations and disclosure requirements. Technology registrants should consider how to integrate their conflict minerals compliance program with other supply chain compliance activities (e.g., Foreign Corrupt Practices Act, California Transparency in Supply Chains Act, Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), Restriction of Hazardous Substances (RoHS), etc.) to leverage potential efficiencies and proactively get in front of new regulations.

Many technology registrants are now asking how to translate the Year 1 filing results and lessons learned into next steps they can take to improve their conflict minerals compliance activities and reporting process going forward. Year 1 filings revealed tremendous diversity in approaches to preparing Form SD and the Conflict Minerals Report (CMR), from the organization of content, to the depth of data analysis and disclosure, to commitments regarding continuous improvement, to name a few.

## The heightened expectations

Prior to the Final Rule going into effect, the technology sector had already been focused on gaining greater visibility into their supply chain practices given the reputational implications of multiple instances of bad publicity received when certain labor practices of the manufacturers in the downstream supply chain were brought to the public’s attention. Responding to the increased focus on supply chain transparency and in an effort to mitigate the reputational risk, many technology registrants began investigating their conflict minerals supply chain prior to the Final Rule’s effective date.

The Final Rule requires certain registrants to follow a three-step process for evaluating conflict minerals (tin, tantalum, tungsten, or gold – commonly referred to as 3TG) contained in their products and to file a Form SD annually by May 31, describing their process for conducting a reasonable country of origin inquiry (RCOI) regarding the origin of its conflict minerals<sup>1</sup>. Due to the accelerated progress technology registrants have made in gaining visibility into the 3TG supply chain, leading the way for many other industries, the efforts have focused in on ways to influence better sourcing practices at the smelter or refiner (SOR) directly through engaging with the SORs themselves to affect change.

**Engaging with the SORs**

Many technology registrants have historically committed to participation in leading industry initiatives, such as the Electronics Industry Citizenship Coalition (EICC). The EICC and the Global e-Sustainability Initiative (GeSI) promoted an initiative which has now become the Conflict Free Smelter Initiative (CFSI) to advance the most recognized SOR certification initiative. Other ways technology registrants engaged with SORs included the following:

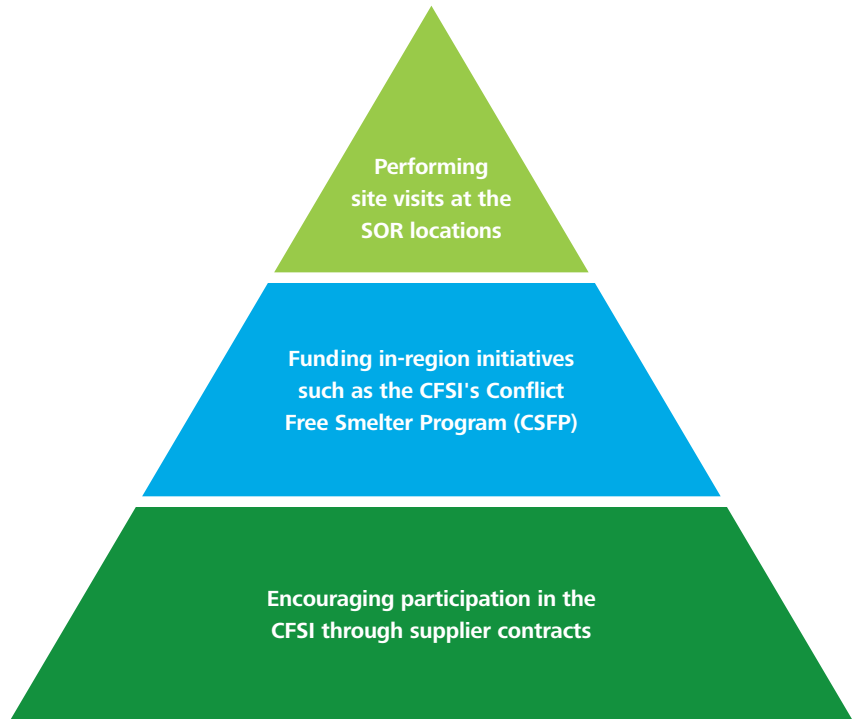
Considering the significant efforts many technology registrants undertook at that SOR level, a shift in focus to greater transparency in communicating the relevant process steps and findings in the CMR, as reinforced by the Final Rule and supplemental guidance, will likely become essential in year 2.

**Transparent reporting**

The majority of the first conflict minerals filings were criticized as vague and lacking information on the steps taken to understand the supply chain<sup>2</sup>. To address the transparency issues and also take credit for the RCOI and due diligence measures performed, technology registrants will likely look to enhance the level of detail of disclosures made within the CMR. With the Independent Private Sector Audit (IPSA) requirement on the horizon, it is important to provide transparent disclosures in a manner that will be enable the performance of the IPSA. The table to the right provides considerations to provide more transparency into the technology registrant’s conflict minerals compliance program:

**Document, document, document!**

With disclosure comes the requirement to support the statements made in the CMR should the registrant be subject to the IPSA or otherwise challenged on the disclosures. Technology registrants will need to maintain a level of documentation to support the design and execution of their conflict minerals compliance program. A critical element of documentation to maintain includes an OECD Framework<sup>3</sup> mapping to demonstrate the design of the technology registrant’s conflict minerals compliance program in accordance with the OECD Framework – including the 3T and gold supplements. It is important for technology registrants to support not only the activities they performed to address the OECD Framework, but also the design of their program (thus supporting objective 1 of the IPSA). Additionally, it is important to document consideration of the 3T and gold supplements because these supplements are part of the overall OECD Framework.



| Example Disclosure  | Considerations  |
|---|---|
| The company relies on the CFSI’s CFSP to perform audits of SORs.  | While this may be an appropriate activity for many registrants, technology registrants should consider more active participation in the CFSI, including membership.   |
| The company contacted SORs that had not received a conflict free designation to encourage their participation in the CFSP.  | <ul style="list-style-type: none"> <li>• Provide the number of SORs contacted</li> <li>• Elaborate on what “encouraging participation” means (i.e., stating that in an e-mail or switching sourcing to a different SOR that has been identified as conflict free</li> </ul>   |
| The company conducted site visits of SORs to establish action plans with the SORs to prepare for certification by the CFSI. | <ul style="list-style-type: none"> <li>• Provide the number of site visits performed</li> <li>• Provide examples of what was included in the action plans and how monitoring of those action plans occurred</li> <li>• Elaborate on the work performed during the site visit so the work performed is evident to the reader of the CMR</li> </ul> |

# The road ahead

## Leading practices among technology registrants emerging from Year 1

We observed a tremendous diversity in approaches to conflict minerals compliance programs during the 2013 calendar year; however the following leading practices emerged among technology registrants in complying with the Final Rule during the first reporting year:

- Taking a proactive approach and building on information obtained about the supply chain in previous years' (prior to 2013) to determine the SOR and identify risks
- Establishing a conflict minerals steering committee and a cross-functional team of representatives from the various business areas affected by the requirements
- Creating a conflict minerals policy that supports conflict free sourcing and taking measures to work with smelters to promote the CFSI's CFSP
- Engaging with industry groups such as the EICC and CFSI to gain access to leading industry practices

- Employing a conflict minerals technology solution to facilitate supplier surveys, track responses, and gather data for reporting
- Establishing a risk-based approach to guide due diligence measures with suppliers and/or SORs
- Conducting training with suppliers to promote higher quality, more accurate and complete supplier responses

## What to think about in Year 2

It is expected that Year 2 conflict minerals compliance activities will focus on driving improvements to Year 1 performance (e.g., increased supplier response rate, improvements to completeness and accuracy of data received, among others.) The following considerations should be contemplated by technology registrants when driving updates to their conflict minerals compliance program for Year 2:

|   |  |
|---|--|
| <p><b>Many technology registrants faced a lack of data quality in the information received from suppliers in Year 1</b></p>               | <p>There is a growing expectation that technology registrants work more closely and collaboratively with suppliers to achieve optimal results. Provide training to suppliers to reinforce expectations of the supplier to put in place a due diligence program aligned with the technology registrant's conflict minerals policy. Additional engagement with suppliers may also be necessary to achieve the technology registrant's conflict minerals objectives.</p>  |
| <p><b>Providing transparency in the CMR</b></p>   | <p>Disclose the activities undertaken as part of the conflict minerals compliance program, including program specifics such as number of suppliers and SORs, SORs identified in the technology registrant's supply chain, and details of site visits performed. As non-governmental organizations (NGOs) continue to encourage active participation in the region, technology registrants will be well served to join forces with the in-region initiatives to affect change. Disclosing in-region activities and joint initiatives with NGOs and others would also potentially bring more light to the issue and increase technology registrants' reputation on social responsibility topics.</p> |
| <p><b>Many technology registrants will still be subject to the IPSA requirement</b></p>   | <p>Prepare for the IPSA. Although currently the IPSA is only required if a registrant elects to label any of its products 'DRC conflict free', the transition period will expire in the near term and the IPSA will be required beyond just opting to declare 'DRC conflict free'. Technology registrants should be mindful of the IPSA objectives and take the necessary measures to enhance the level of documentation in place to support the design of the due diligence program to conform to the OECD Framework and to support the due diligence measures performed as disclosed within the CMR.</p>   |
| <p><b>Technology registrants should focus on the organization of the CMR content and the potential implications for a future IPSA</b></p> | <p>Consider more clearly defining where the RCOI ends and due diligence begins, and the corresponding OECD Framework steps used to guide each. Additionally, technology registrants should distinctly separate such disclosures within the CMR to clearly identify the subject matter within the CMR to be subject to the IPSA.</p>  |

# How can Deloitte help companies in the technology sector?

We are working with clients in various capacities supporting the development and implementation of a conflict minerals compliance program. Our breadth conflict minerals services includes the following:

- Assisting companies in assessing whether the Final Rule applies
- Assisting companies from start to finish in implementing a conflict minerals compliance program
- Providing advice and recommendations to companies as they proceed through their conflict minerals compliance program
- Performing gap analyses and IPSA readiness services for companies' conflict minerals compliance programs
- Providing advice and recommendations to companies on drafting the Form SD and CMR
- Performing the IPSA of the CMR

## Our eminence in conflict minerals

To keep up with current events related to conflict minerals, we publish thought leadership that helps our clients understand conflict minerals and be aware of further developments, including the following:

- **Conflict minerals: Evolving compliance challenges:** With the first conflict minerals filing deadline now behind us, it has become increasingly clear how challenging it is for registrants to gain visibility and transparency into the conflict minerals supply chain. As the marketplace attention around conflict minerals continues to evolve, so will expectations for greater transparency around registrants' broader supply chain risk management practices. This paper addresses what is required, Year 1 challenges and emerging trends, and considerations for Year 2.
- **Heads Up: Navigating Next Steps After the Year 1 Form SD and Conflict Minerals Reporting Cycle:** This Heads Up discusses findings from our analysis of registrants' first filing under the SEC's final rule on conflict minerals and provides insights for registrants as they consider conflict minerals compliance and reporting improvements for future filings in anticipation of an independent private sector audit.



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- All of the top 10\* computer hardware companies in the U.S.
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- All of the top six\* networking companies in the U.S.
- All of the top six\* IT services companies in the U.S.

\*By publicly reported revenue

- **Industry insights: Technology, Media & Entertainment, and Telecommunications (TMT) Conflict Minerals Year 1 Reporting Trends:**

This publication focuses on the TMT industry which represented the second largest industry of registrants filing a Form SD (approximately 30% of Year 1 filings). Based on Deloitte's analysis of the Year 1 filings submitted, we are sharing the insights regarding trends among the TMT industry sectors, including the technology sector.

This information, along with other materials, is published on our website at: [http://www.deloitte.com/view/en\\_US/us/Services/additional-services/deloitte-sustainability/Conflict-Minerals/index.htm](http://www.deloitte.com/view/en_US/us/Services/additional-services/deloitte-sustainability/Conflict-Minerals/index.htm)

# Endnotes

1. The covered countries include: Angola, Burundi, Central African Republic, the Democratic Republic of the Congo (DRC), the Republic of the Congo, Rwanda, South Sudan, Tanzania, Uganda, and Zambia
2. Source: Global Witness, June 2, 2014, "Global Witness warns that majority of inaugural conflict mineral reports are inadequate"
3. Organisation for Economic Cooperation and Development's (OECD) Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas



# Contact

For more information contact

**Kristen Sullivan**

Partner

Deloitte & Touche LLP

+1 203 708 4593

ksullivan@deloitte.com

**Jeff Torstenson**

Director

Deloitte & Touche LLP

+1 612 281 4000

jtorstenson@deloitte.com

**Donald Fields**

Director

Deloitte & Touche LLP

+1 615 313 4312

dfields@deloitte.com

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