

***Where companies stand on  
their compliance efforts—  
this year and beyond***  
2014 Conflict minerals survey

April 2014

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### ***About the survey***

- Fielded during February 2014, available online and emailed to relevant stakeholders.
- 700 responses, representing 15 industries.
- Participants varied in size from less than \$1 billion in revenue to more than \$20 billion.
- Four main sectors—industrial products and manufacturing, technology, energy and mining, and retail and consumer—accounted for 55 percent of all responses.



## ***Introduction and highlights***

### ***Recap of the rule***

The conflict minerals rule requires SEC registrant companies to determine (or disclose) if the origin of their conflict minerals (tantalum, tin, tungsten, and gold) may have originated in the Democratic Republic of the Congo (DRC) region, and if so, to determine whether these minerals in their products are 'conflict-free' or not. It was mandated by Section 1502 of the Dodd-Frank Act and is intended to provide transparency for consumers as to whether the products may be directly or indirectly linked to funding for armed groups involved in human rights violations in the DRC and surrounding countries (covered countries). Affected companies must file a new Form SD and, in certain cases, a Conflict Minerals Report (CMR), with the first filing deadline on May 31, 2014. Many private companies in the supply chain of an SEC registrant are affected due to inquiries from registrants downstream in their supply chain. For additional information, visit [www.pwc.com/us/conflictminerals](http://www.pwc.com/us/conflictminerals).

### ***Court challenge***

The conflict minerals rule continues to be challenged in court, which adds further uncertainty to companies' compliance efforts. After the lower-level court upheld the rule, the decision was appealed, with oral arguments held in January 2014. The appeals court has no timetable set for their decision and most observers have concluded that a decision before the May filing deadline is unlikely. Even if it is rendered, the SEC has the opportunity to appeal. Companies should therefore continue with their compliance efforts.

*With the deadline for conflict minerals reporting and disclosure fast approaching, will companies be ready to comply with the new regulations?*

While the SEC issued its rule in August 2012, results from our second conflict minerals compliance survey indicate that companies continue to find the journey to compliance challenging at nearly every step: scoping, surveying suppliers, performing due diligence, drafting filings.

In short, many companies will need to rush to comply with the regulations required by Dodd-Frank Section 1502.

## **Key findings**

### **Many companies still lag behind**

A quarter of respondents were still in the early stages of compliance: 26% were either finalizing scoping or planning and performing their reasonable country of origin inquiry (RCOI) but had yet to evaluate RCOI responses. With 11% still in the product scoping stage, and with just over two months to the filing deadline, some respondents may have a rapidly narrowing window for action.

### **Many companies have full-time staffers assigned to conflict minerals**

Also, 62% of respondents reported that they have one to two full-time resources working on their conflict minerals compliance efforts, with 21% indicating they had three to five full-time resources and 6% having more than five full-time resources. This represents a substantial evolution over the last year and reflects the recognition that companies understand that the necessary tasks extend beyond

a simple survey process. Indeed, while many anticipated the RCOI survey as being the focus for their efforts, the majority now saw the evaluation of the RCOI results, performing additional due diligence, implementing risk mitigation measures, and reporting as being more demanding than they expected. As many had predicted, compliance with the rule is a resource-intensive process.

### **Most companies will not require an independent audit**

Here, 67% of respondents anticipated not needing an independent private sector audit in the first two years, either because they source their conflict minerals from outside the covered countries or they expect those minerals to be DRC conflict undeterminable. Of the remainder, a further 21% were not sure whether the audit will be needed. Our expectation is that a very small percentage of companies will require an audit over the coming year by having one or more products concluded to be conflict-free or not-conflict-free.

*“Time is running out and companies need to move fast. Those that are just beginning to gather information and draft their filing are at risk of not only falling behind, but of missing opportunities in terms of supply chain improvements, competitive advantage and enhanced customer and stakeholder trust.”*

*– Bobby Kipp, Conflict minerals leader*

## Companies are focused on compliance but finding opportunities to make the best of it

Twice as many respondents as in our previous survey, or 90%, saw their efforts as a compliance exercise. However, it is encouraging to note the number of companies seeing opportunities has also increased: 13% of respondents (6% in 2013) saw opportunities for supply chain improvements, 7% planned to use this as a competitive advantage, and 19% believed that this is something demanded by customers and stakeholders. Technology, industrial products, and manufacturing were the industries with the most optimism regarding potential opportunities resulting from the rule. In some sectors, such as retail and consumer, companies are recognizing for the first time that they don't have enough insight into their products, their suppliers, or their supply chain. And some are starting to see that by combining their efforts with those of other teams and initiatives, such as supply chain or sourcing performance management, compliance, resilience, sustainability and quality efforts, they can create benefits for everyone involved.

## Many companies are pushing for conflict-free sourcing

Almost half (45%) of respondents have plans to become conflict-free, with 7% planning to do so within the next two years. However, most others had not yet made any decision on this, so of respondents who had, the number planning to become conflict-free is a much higher 92%. While it shows a larger proportion than we anticipated, the result reflects the trend of companies evolving their stance on conflict minerals, often as a result of their industry peers or the expectations of downstream customers who have a conflict-free goal.

The drive toward conflict-free correlates closely with the number of respondents expecting revenue-impacting consequences if they are not ultimately found to be conflict-free. These include 36% concerned about loss of customers, 31% concerned about the risk to their brand, and 8% concerned about product boycotts.

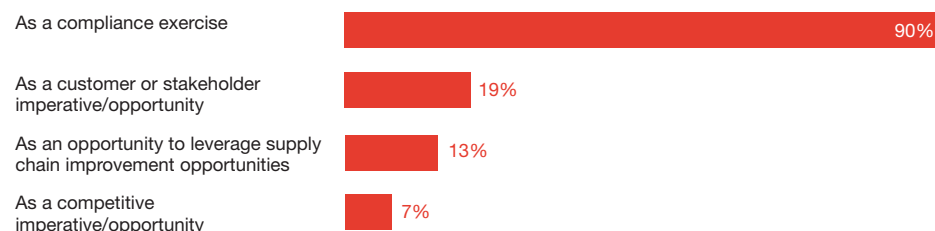
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Although nearly all companies recognize conflict minerals as a compliance exercise, many are seeing emerging opportunities

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How does your company view its efforts related to the conflict minerals rule?

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Respondents were asked to select all that apply

*“We found that 90 percent of survey respondents see this as a compliance exercise. However, those in the technology, industrial products, manufacturing and retail and consumer industries, while focused on compliance, are uncovering the potential business opportunities that conflict minerals compliance can provide.”*

*– Bobby Kipp*

Overall, while many continue to struggle with what has proven to be a more challenging endeavor than they anticipated, companies are clearly seeing both opportunities and consequences resulting from their efforts to comply with the conflict minerals rule.

The key to success is for companies to make and be able to demonstrate strong, steady progress in their conflict minerals efforts to meet both compliance requirements and audit obligations. As many non-governmental organizations (NGOs) and others have shared, the key to companies' filings in this first year is less about the result, and more about telling the story of their compliance journey.

For many, clear opportunities are emerging from their enhanced visibility into the supply chain and it is vital that companies take advantage of that, take the next step and begin to drive real, tangible business benefits from their compliance efforts.

Continue reading for more detailed findings from our survey, addressing the following areas:

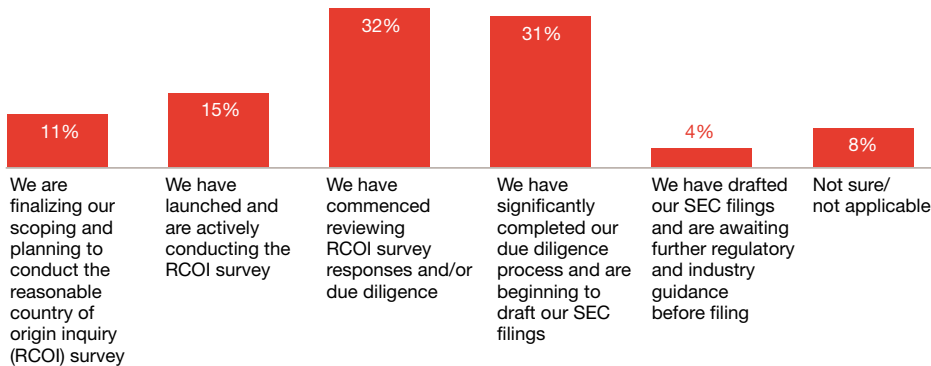
- Companies' overall progress;
- Scoping, RCOI, and due diligence;
- Conflict minerals program support;
- Reporting and audits;
- Technology; and
- The broader impact of conflict minerals regulation.

## *Overall progress*



### Many companies are still in the early stages of their compliance exercises

Which of the following statements best represents the current status of your conflict minerals program?



Data was rounded to the nearest whole number

The task of conflict minerals compliance has proven more intensive than many companies initially anticipated. In our 2013 survey, the majority of respondents said they were in the early stages, and companies reported that they anticipated the process would take three to four months. This year, our results show that while the majority of respondents are making substantive progress, many aren't as far along as they had originally intended to be.

With only 4% reporting that they had completed a draft of their filings, and less than two months before the filing deadline, companies need to make rapid progress to complete their efforts.

Perhaps more surprising are the quarter of respondents still in the scoping phase or early in the RCOI process. With the filing deadline looming, these companies need to rapidly move to begin drafting their SEC filings.

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## *Scoping, RCOI, and due diligence*

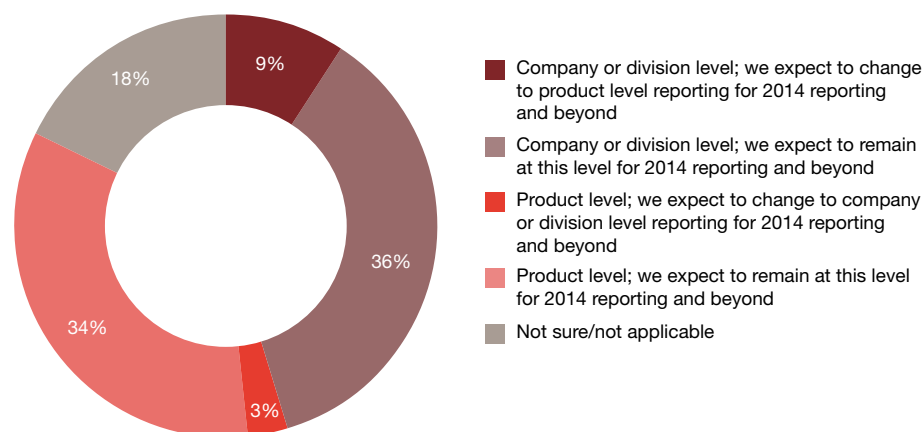
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More than two-thirds of companies plan to remain at their current level of reporting for 2014 and beyond

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At what level will you request—or have you requested—your suppliers to respond to the RCOI?

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One of the early decisions management needs to make is to establish the level at which to perform the RCOI, a centralized or decentralized process using a product- or company-level inquiry. While the conflict minerals rule requires that the conflict status determination is made by product, requesting information at the product level can be very difficult, if not impossible, for some companies, given the volume of different products they obtain from a single supplier. Asking a supplier to complete an RCOI for 10,000 different products, for example, would be extremely time-consuming. Similarly, a company's suppliers are likely facing the same challenges in managing the data. With the majority of companies not implementing a technology solution beyond

Excel or Access this year, many are simply unable to meet detailed customer reporting expectations.

As a result, we see a fairly equal split of respondents who intend to follow the same processes next year. In our experience, while we have seen many companies requesting product-level declarations, they are regularly receiving a company-level response from their upstream suppliers.

It is notable that 9% of respondents are anticipating moving to a product-level declaration next year, likely as a result of recognizing where they or their suppliers stand in their conflict minerals efforts. Many complex organizations recognize that this is likely to be a multi-year effort and a clear result may be only an aspiration.

Companies that request product-level information should anticipate significant time between their request and a completed response, as well as lower overall response rates. Regardless of the option chosen, the company needs to follow a consistent process to obtain responses that they can evaluate as being reasonably reliable and be able to apply those responses to the products they source.

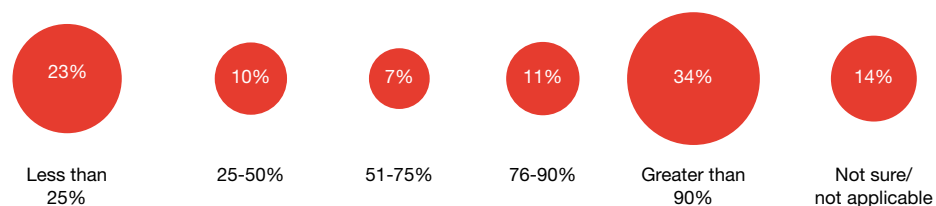
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*“The approach companies take should reflect the complexity and structure of their operations, the scope of their products affected by the rule, and the supply chain for those products.”*

*– Kelvin Harris, Supply chain specialist*

Companies have taken a range of approaches when determining what extent of their supplier base to survey

To what percentage of your direct material (tier 1) “in-scope” suppliers have you sent or do you plan to send an RCOI survey for the 2013 filing period?



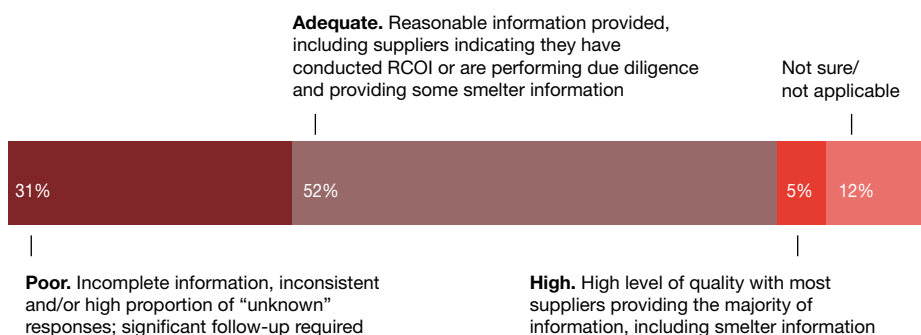
Data was rounded to the nearest whole number

In our experience, many companies choosing to survey less than 100% of their suppliers have done so by stratifying their vendors. The basis for stratification has been varied: some have done so based on vendor spend, first surveying the 25% of vendors comprising 90% of spend, for example, while others have done so based on influence over the products, such as directly manufactured, then contract manufactured, then licensed products. Still others have based their stratification on the product complexity and risk of the minerals being in those products.

Whichever option has been used, the key is for companies to have a clear rationale for their choice that can be effectively communicated in their filings. However, even with high response rates, the quality of the RCOI responses is lower than many anticipated, requiring subsequent follow-up for further information. This is just one area where companies are realizing the need for increased transparency into their supply chains, and reinforces why, looking forward, leading companies will likely integrate their conflict minerals compliance activities into broader supply chain / vendor management initiatives.

More than 80% of companies are dealing with quality issues in supplier responses

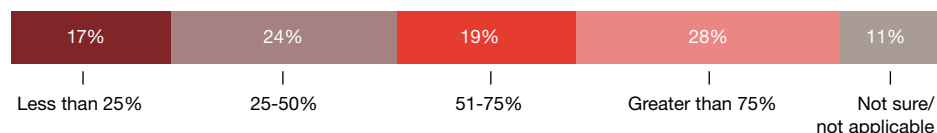
What is your general assessment of the quality of RCOI responses?



The majority of respondents indicated that their supplier responses were adequate. At the same time, almost a third reported poor-quality responses, meaning information provided was either incomplete or inconsistent, with a high number of ‘unknown’ responses. Only 5% of respondents said response quality was high, where suppliers provided the majority of the requested information, including smelter information.

Only half of companies have received fully completed RCOI responses from more than 50% of their suppliers

At this time, what percentage of fully completed RCOI responses have you received from your suppliers?



Data was rounded to the nearest whole number

For those responses that are incomplete, respondents will need to follow up with their suppliers to obtain missing information, including information about the smelters and origin of the minerals. Survey responses also indicate that most respondents don't plan to conduct due diligence beyond their tier one suppliers, likely due to confidentiality issues; this is supported by the quality of their suppliers' RCOI responses often limiting the opportunity to do this.

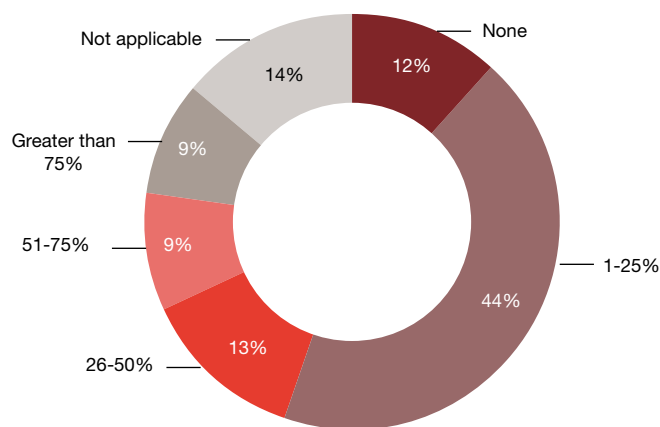
This overall picture of the RCOI landscape and quality is consistent with our observations. Some suppliers have successfully completed the RCOI survey and can clearly demonstrate they have their own conflict minerals program in place. Other suppliers have indicated no tantalum, tin, tungsten, and gold (3TG) in instances where there is clear evidence to the contrary. And, in

some instances, suppliers have refused to complete the RCOI and have only provided a representation letter.

This has led many to ask what they need to do now. At its core, this question comes back to the underlying requirement of needing to obtain a reasonably reliable response to the RCOI. What constitutes 'reasonably reliable' varies from company to company based on both qualitative and quantitative factors, including the relationship the company has with the supplier, where the supplier is based, and specific responses they provide in the RCOI response itself. Companies should have a documented process to evaluate the reliability of RCOI responses and should be able to demonstrate that they consistently evaluate each RCOI response against this framework and that they ultimately identify their smelters.

Fewer than 1 in 5 companies have had the majority of suppliers identify their smelters

What percentage of your in-scope suppliers have identified their smelters?



Data was rounded to the nearest whole number

The quality of RCOI responses should be balanced with how much progress companies have made in receiving fully completed RCOI responses from their suppliers. In this, most companies have also struggled to make substantial progress, with only 28% of companies getting a fully complete RCOI response from more than three-quarters of their suppliers, and 17% in the situation of having fully completed RCOI responses from less than a quarter of their suppliers. In our experience, we have seen many instances where obtaining a completed RCOI response has proven more challenging than companies have anticipated.

The majority of respondents clearly have a way to go in their efforts to obtain smelter information from their supply chain. Much of this is likely driven by the fact that most suppliers themselves are in the very early stages of developing conflict mineral programs and have challenges in understanding their own supply chains, as well as some instances we have seen where companies do not realize they should be tracing to the smelter.

We have also seen a number of suppliers indicating they simply cannot identify smelters because they have sourced their 3TG through ‘off-the-shelf’ retail purchases or from government entities. These situations have resulted in companies requesting that suppliers find alternatives for their sourcing.

The responses to these questions do point to a slight disconnect between the reported quality of supplier responses and the lack of provided smelter information. While nearly 60% of respondents assessed supplier response quality as high or adequate, close to half also reported that less than 25% of suppliers had disclosed smelter information.

This may be caused by confusion about the rule itself, and what respondents consider to be a reasonable representation from a supplier. Many companies also find discrepancies in the origin information provided by their suppliers; for example, a common mistake is to receive a conflict-free smelter name and assume the smelter country is the originating country of the minerals. In addition, the same smelter disclosed by different suppliers may have different reported origin information (if any origin information is provided for the smelter).

For any registrant, it ultimately comes down to performing reasonable due diligence, and for the company to define what it believes is the threshold for reasonable due diligence and ensure that it follows their definition of “reasonable” when executing due diligence in their program.

Identifying a smelter or refiner and confirming that they are smelting or refining 3TG minerals and that the same 3TG minerals ultimately appear in a registrant’s products is often a difficult proposition, leading companies to draw an undeterminable conclusion while continuing to seek further information.

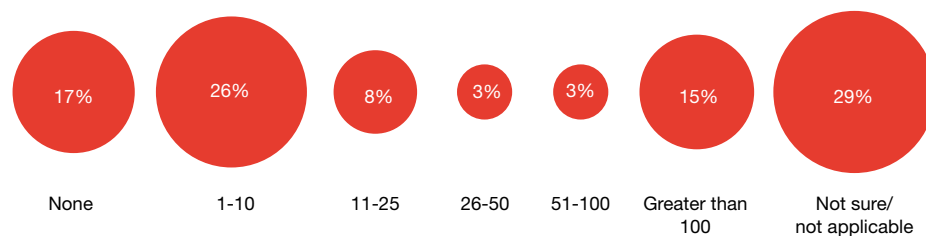
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#### Companies have identified varying numbers of smelters for their product

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How many smelters have you identified to date?

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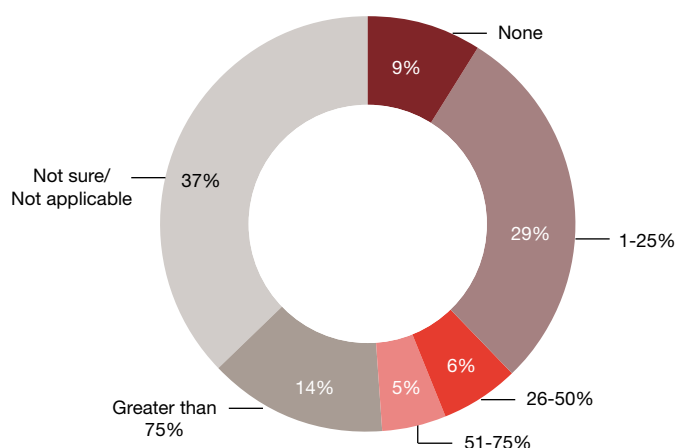
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Looking further into other responses, there is a very broad range of progress being made by companies in identifying the number of smelters for their products: from 26% of respondents identifying 10 or fewer smelters to 15% of respondents indicating they had identified over 100 smelters. This should be viewed in the context of a total global population estimated at several hundred smelters and refiners for conflict minerals.

Companies from the technology, energy and metals industries appear to be farthest along in this process: they have the most smelters identified because their supply chains are shorter (e.g., metals companies) or because they have been conducting the RCOI since the initial proposed rule was released (e.g., technology companies), and in some cases earlier.

**Many companies have significant remaining progress to make in identifying conflict-free smelters**

What percentage of identified smelters are certified to be conflict-free (whether sourcing from the DRC region or not)?



Industrial products and manufacturing, metals, and technology industries are among those identifying the greatest proportion of conflict-free smelters. Many of the smelters identified by registrants come from the EICC-GeSI (Electronic Industry Citizenship Coalition, Incorporated and Global e-Sustainability Initiative) Conflict Minerals Reporting Template (<http://www.conflictreesourcing.org/conflict-minerals-reporting-template>), which, as of March 2014, contained fewer than two hundred smelters.

There is a concern from some registrants that the EICC-GeSI template enables suppliers to more easily pick from the supplied lists, and this consideration should be factored into a company's approach to performing reasonable due diligence, often driving them to perform a level of further investigation on their responses and supply chain.

In addition, to complete the RCOI requirements in the rule, and to potentially fulfill the country of origin requirement for the Conflict Minerals Report, registrants need to either conduct further due diligence to obtain the originating country of the minerals for the smelters/refiners disclosed by their suppliers or join initiatives such as the Conflict-Free Sourcing Initiative (CFSI) to obtain this information for those smelters/refiners that have been certified as conflict-free.

Currently, conflict-free certification is still in its inception and is expected to progress over the next several years. While no targets have been set for this and cross-certification is taking longer than was originally hoped between programs such as CFSI, Responsible Jewellery Council (RJC), London Bullion Market Association (LBMA), and Tungsten Industry—Conflict Minerals Council (TI-CMC), steady progress has already been made and this balanced pace is likely to continue. For example, during the last six months, to March 2014, the number of conflict-free smelters in the CFSI program rose from 44 to 79.

As a result of these complexities, and as our survey confirms, the majority of respondents do not anticipate disclosing conflict-free products in their current filings.

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***Conflict minerals  
program support***



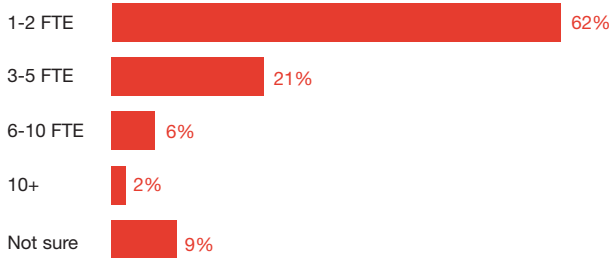
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### Compliance with the conflict minerals rule requires significant effort

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How many internal full-time equivalents (FTEs) do you have assigned to your conflict minerals efforts?

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Nearly all of the companies surveyed had five or fewer FTEs working on conflict mineral compliance, with the level of effort involved driven by the complexity of the business and the number of in-scope products and suppliers. We have found it interesting to see the ebb and flow of resources across a typical conflict minerals program: the initial effort to ramp up the conflict minerals program usually takes more resources, but this often changes to a lower number as RCOI surveys are released. Then more resources are needed to review and follow up on the supplier responses and, later, during the preparation of filings. Resources are typically shared with, or borrowed from, other functions

within the respondents' companies (68% of responses) and less often are fully dedicated to supporting the conflict minerals efforts (11% of responses). Sharing resources does not appear surprising, given the semi-seasonal nature of the role: many companies that do not have significant numbers of products or vendors impacted don't anticipate the work occurring across the whole year, so the resources often have other roles within the organization, and many are anticipating the effort to become more streamlined as they progress in future years and integrate conflict minerals more fully into their operational and compliance processes.

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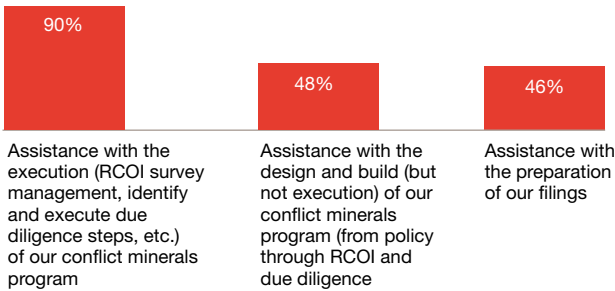
*"We've found that larger companies, or those with complex supply chains, often need both internal and external resources, as few have the required knowledge in-house across all areas – or the resources to spare."*

*– Kelvin Harris*

Also, 16% of respondents indicated they outsource all or part of the work. In our experience, these tend to be larger companies, while smaller companies leaned more heavily on their internal resources. Almost all respondents that leveraged third-party service providers used them for assistance with the execution of their conflict minerals program (90%), with approximately half also seeking assistance with the design and build-out of their program. Nearly half of all respondents plan to use third-party providers to help draft their SEC filings.

A significant number of companies are using outside parties to help execute their conflict minerals programs

Which of the following statements best describes the role of outsourced/ third-party support?



Respondents were asked to select all that apply

Companies need to plan carefully to maximize the benefit of using third-party providers for management of their conflict minerals program. Key considerations include:

**Defining the company’s position on key areas.** For example, some areas already mentioned include defining what constitutes “reasonably reliable representations,” what is “reasonable” due diligence,

and so on. We often see companies that outsource a significant part of their program rely on third parties to define this for them, and in our experience this can sometimes result in a lack of understanding on the company’s position.

**Understanding the work that the third party will perform.** The third party will often define how many follow-ups they perform,

*Companies need to plan carefully to maximize the benefit of using third party providers for management of their conflict minerals program.*

*Ultimately, outsourcing still requires companies to remain involved.*

after which it then becomes the company's responsibility. We have also seen instances in third-party contracts where the company has committed to perform subsequent follow-ups without being fully aware that they had committed to do so.

**Recognizing the limitations of the third parties.** Third-party vendors at times do not understand all the nuances required in interpreting regulations. For example, we have seen a number of technology vendors approach conflict minerals with an automated offering, not recognizing that the conflict status conclusion is a subjective decision. Similarly, smaller consulting providers and technology vendors are often unaware of or lack sufficient experience with SEC filings or how to effectively document the conflict minerals process and its execution so that it's subsequently auditable.

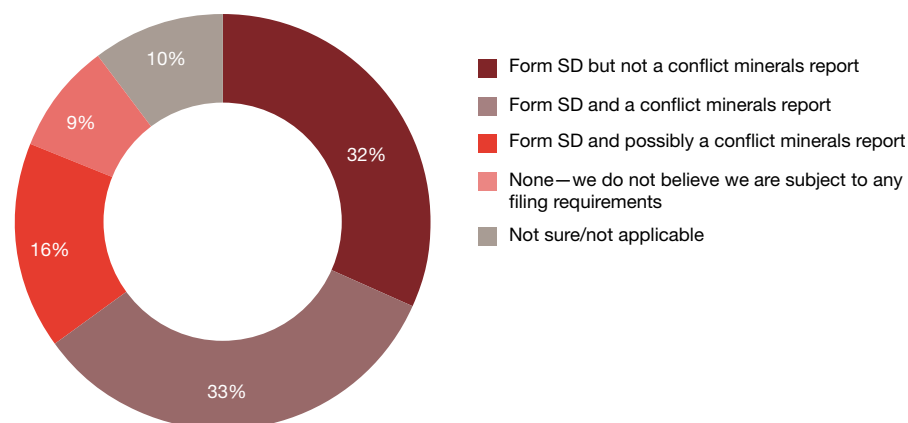
Ultimately, outsourcing does not mean not being involved, and some are realizing they may not have all the supporting materials required to effectively draft their Form SD and CMR. Those responsible for compliance within a company need to understand and participate in the process, be involved and make key decisions, and take responsibility for the design and execution of the program. Similarly, management must have access to and retain documentation for a five-year period and recognize that they are responsible for compliance with the rule.

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## *Reporting and audits*

### Almost half of companies may or will file both a Form SD and CMR

For calendar year 2013, what type of filing do you expect to submit to the SEC?



Approximately one-third of respondents expected to file only the Form SD for the 2013 reporting period. This is an increase from about a year ago, when only 18% of respondents were in this position.

A further third of respondents planned to file both the Form SD and the CMR, as they have confirmed (for example, through obtaining mine origin information) or have reason to believe that the conflict minerals in their products are sourced from covered countries. In some cases, we have also observed

companies feeling they do not have a sufficient basis to conclude that their minerals are outside the covered countries and choosing, as a result, to follow the “DRC Conflict Undeterminable” requirements in the Conflict Minerals Report.

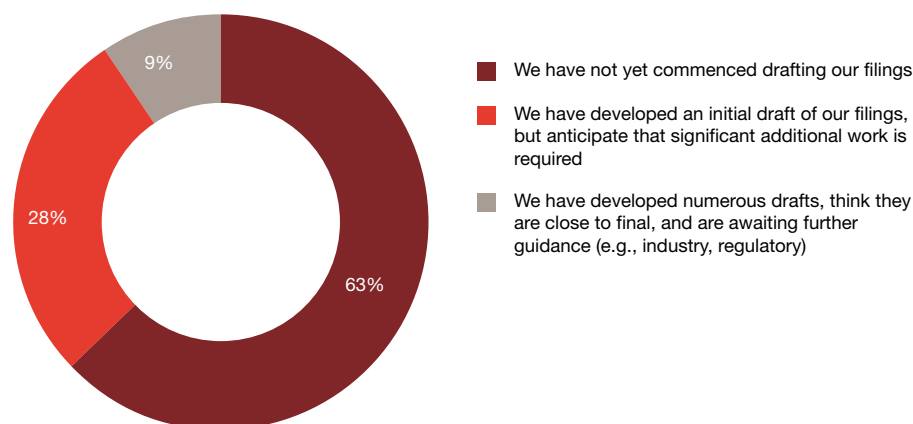
It is worth noting that we’re seeing an increasing trend of companies concluding that they simply do not know the source of their 3TG and that there may be a possibility of sourcing from the DRC and covered countries, and therefore planning to file a CMR. In these

instances, many are drafting a CMR from the perspective that:

- If they are required to file a CMR next year, it won’t be perceived by some external stakeholders that their program regressed since this year; or
- It enables them to clearly demonstrate the actions they have taken.

## Many companies are likely behind in their filing preparations for the May 31st deadline

Where do you currently stand on your filing preparations?



Almost 90% of respondents either hadn't started drafting their SEC filings or had developed only initial drafts, with significant additional work still needed. Based on discussions with companies, the effort to complete such filings is fairly intensive: drafting the filing itself, reviews by marketing, internal communications, and investor relations, and final reviews by SEC counsel, disclosure committee, audit committee, and others.

While the conflict minerals rule outlines high-level disclosure

requirements, the requirements do not specify the precise level of detail to provide. Companies are eager to understand how their peers may report so that they do not report too much or too little. In addition, companies need to consider the story they want to tell that demonstrates not only compliance with the disclosure requirements but also a good faith effort to comply, given that most respondents are unable to report anything more than DRC conflict undeterminable.

In particular, many respondents were finding the process of drafting the CMR challenging because they are expected to tell the story of their compliance journey and there's often a delicate balance between what internal stakeholders want to disclose and the external audience that will subsequently review and analyze the CMR for benchmarking or compliance purposes. All of this leaves a lot of respondents with a rapidly narrowing window in which to begin and finalize their filings.

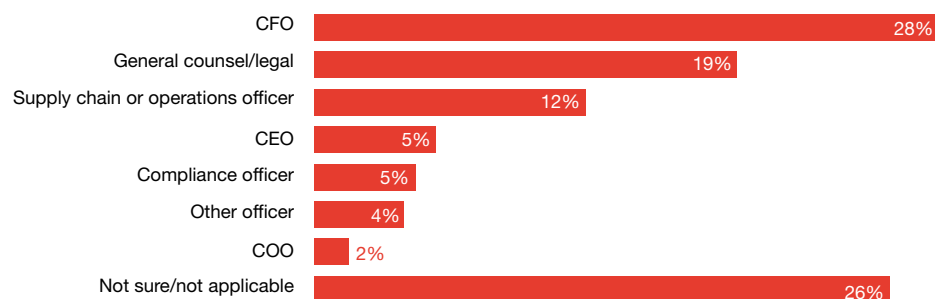
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CFOs and general counsels plan to sign most of the Form SDs, with supply chain officers close behind

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Which executive officer of the company will be signing the Form SD?

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Data was rounded to the nearest whole number

Companies must designate an executive officer (as defined by the SEC) to sign the Form SD. In a number of instances, the individual who signs other SEC disclosures is already the conflict minerals program sponsor, but there are often instances when the CFO will sign the Form SD and isn't involved in the conflict minerals efforts.

As our survey indicates, 28% of respondents anticipate that the CFO will sign the Form SD, with general counsel, who has often spearheaded the company's original efforts, being the next most popular choice at 19%. This is followed by the supply chain officer, who commonly leads the ongoing

operation of the conflict minerals program, coming in next at 12%. A common conundrum for companies is that while the supply chain or sourcing leader may be operating the program, they are not always an executive officer of the company, which then defaults responsibility back to general counsel or the CFO.

And one-fourth of respondents were not yet sure who would sign the filing. Companies should keep in mind that whomever is chosen to sign Form SD should have clear visibility into and understanding of the conflict minerals program, its requirements, and key decisions and judgments made by the company, and that this individual may have

additional review requirements that may impact the timing and sequencing of activities. This process can be further complicated when different business units or divisions may be providing details to a central team, with some companies using processes similar to internal certifications.

For those remaining uncertain about their filing preparation activities or the individual signing the Form SD, it's wise to plan these activities out and determine the filing signatories as soon as possible.

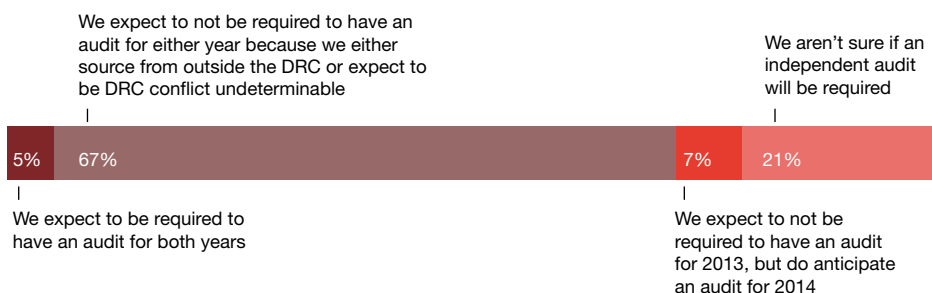
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*"Even if companies are still in the early stages of their compliance efforts, they should decide soon which executive will sign their Form SD."*

*– Bobby Kipp*

The number of companies that do not expect to require an audit for either 2013 or 2014 is increasing

What is your expectation regarding the independent audit requirement for this year and 2014?



Two-thirds of respondents did not expect to trigger the independent private sector audit (IPSA) requirement for either 2013 or 2014. Similar to expectations regarding filing the CMR, this number increased compared with last spring's survey, when only 26% of respondents did not expect to have an audit. This may be due to companies more fully understanding the audit triggers and therefore having a better appreciation for their conflict minerals exposure. However, as noted earlier, we have been seeing an increasing number of companies erroneously perceiving they do not source from the DRC or covered countries based on smelter country information alone, without determining the minerals' origin.

Also in line with our expectations is the low number, 5% of respondents,

who believed they need to obtain IPSA in their first year of compliance and a further 7% anticipating they will trigger the IPSA requirement in the second reporting year. This is likely the result of the challenging nature of obtaining higher-quality RCOI responses, coupled with obtaining reasonable confirmation from due diligence efforts that identified smelters are providing minerals that end up in a company's products. A further 21% of respondents were still not sure about IPSA applicability, which further supports the idea that they are seeking more reliable or complete information to be able to draw a conclusion other than undeterminable.

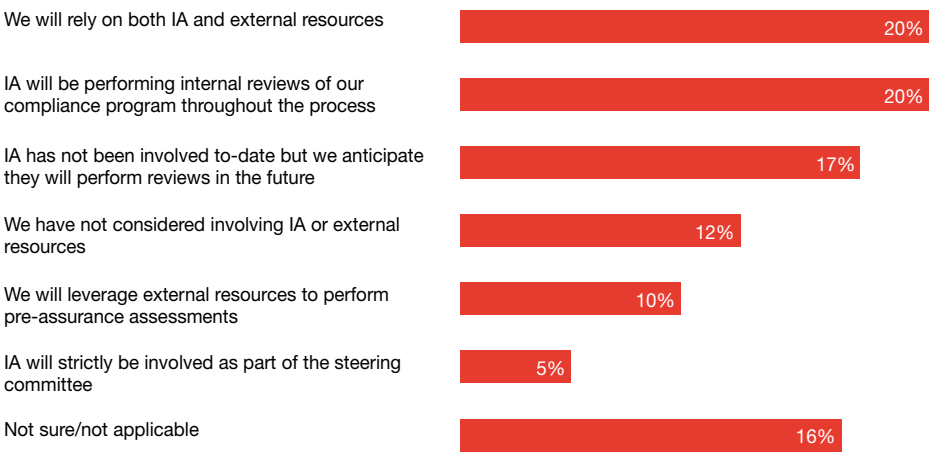
The small proportion of companies who were far enough along in their conflict minerals processes

to make a decision on their plan to obtain an audit were evenly split between opting for a performance audit or an attestation. While both a performance audit and an attestation engagement have the same objective, there are notable differences between the two, and companies need to be aware of them. Attestation opinions can be performed only by certified public accountants and use a standard opinion format and language. An attest opinion would simply state whether the issuer met the objectives of the audit; the American Institute of Certified Public Accountants (AICPA) has been issuing further guidance in this area. This will factor in more in coming years as more companies become subject to the audit requirements.



Internal audit and external resources are playing an important role in assessing compliance

Are you using or do you plan to use your internal audit (IA) department or external service providers to assess your program’s compliance with the conflict minerals rule?



Almost 60% of respondents currently used or planned to use their internal audit department to assess how well their conflict minerals program complies with the requirements of the rule.

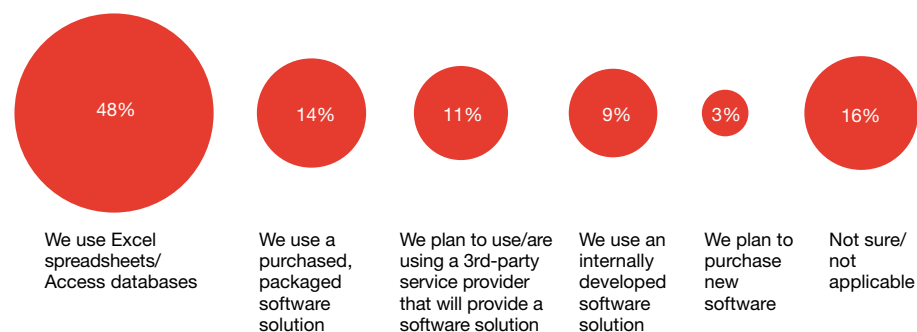
Some said they would also use external resources for this assistance, and we are observing an increasing number of companies requesting that PwC assess their programs’ adherence to the rule or to prepare for an audit in future years. These requests for external assistance are a result of the detailed conflict minerals rule knowledge required, or are based on the company wanting to obtain specialist input and guidance on the alignment of their program to SEC and OECD requirements and comparison to leading practices.

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## *Technology*

### Most companies are using low-tech solutions to support their efforts

Which of the following best represents the technology support you plan to utilize, or are utilizing, to support your conflict minerals compliance efforts?



Data was rounded to the nearest whole number

When it comes to technology tools used in conflict minerals compliance efforts, nearly half of the respondents (48%) used Microsoft Excel spreadsheets or Access databases. While these are well known and readily available, and we have observed that they are increasingly being used to assess RCOI responses, these tools have their shortcomings, particularly for an organization with a large number of suppliers.

Gathering results, tracking progress and decisions, managing the smelter data, and ultimately deriving a conflict minerals status by product can be manually intensive and require significant rigor and diligence to maintain a sufficient audit trail. In some instances, there has been a disconnect between the company and the technology vendor, with each anticipating that the other was performing these tasks.

At the same time, we have seen some companies rely too much on the technology provider's promises to be able to meet all requirements or not being clear about how the tool will provide reports and materials that will support the company's drafting the Form SD and CMR. The result has been some technology providers seeking to rapidly enhance their solutions to meet requirements that have only recently reached a clearer industry consensus.

In particular, many companies focused their search on a solution that could assist with the RCOI processes, perhaps assuming that this part of the conflict minerals program would be the most challenging.

As many companies have discovered, being able to manage the subsequent workflows is often more time-consuming. But the right technology

solution, or combination of solutions, can drive efficiencies and facilitate a clearly defined, consistently executed and auditable process and results.

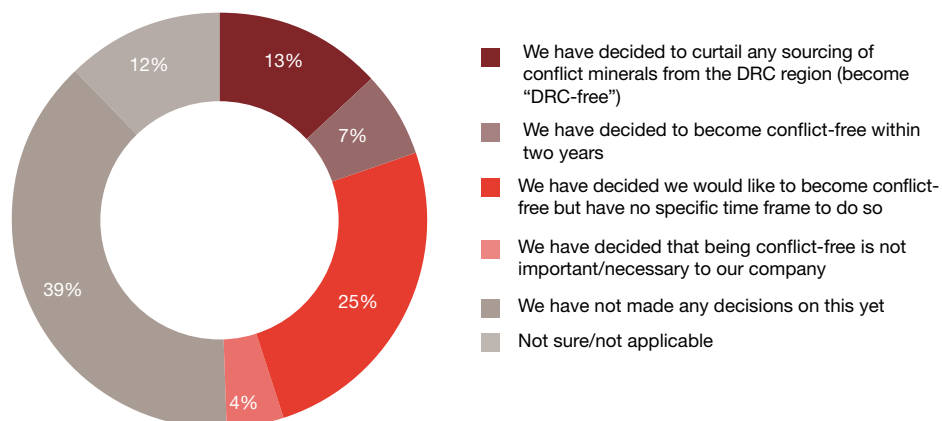
However, there continues to be no single technology tool that is able to meet all conflict minerals requirements, although many providers are enhancing their solutions in the hopes of doing so. A number of tools currently on the market do have robust capabilities and, in many cases, companies may have unknowingly licensed these tools for other areas of their organization. This is more commonly the case for those companies with long-established security, risk, or compliance initiatives.

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## ***The broader impact of conflict minerals regulation***

## A significant number of companies want to become conflict-free

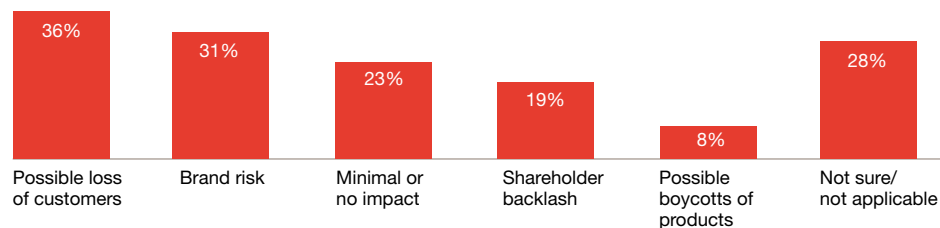
What decisions has your company made with respect to conflict minerals sourcing?



*"As organizations see the clear business opportunities in complying with the rule, they also understand the significant consequences that can result from conflict minerals sourcing. Visibility into a company's supply chain is becoming an expectation of various stakeholders and demonstrating conflict-free sourcing is escalating in importance across the board and within different industries."*

– Kelvin Harris

If your company's ultimate conclusion is that its conflict minerals are not conflict free, what possible repercussions is your company most concerned about?



Respondents were asked to select all that apply

Many companies are starting to realize that obtaining visibility into their supply chain is something that various stakeholders expect. This is one driver for the 36% of respondents who were concerned about loss of customers and 31% concerned about damage to the brand if the conflict minerals in their products are not conflict-free. And it is notable that 8% were even concerned about a boycott

of their products. As discussed earlier, these concerns are usually driven by industry peers planning to be conflict-free or by one or more upstream customers who are pushing suppliers to also be conflict-free.

However, almost a quarter of respondents saw minimal or no impact if they are found to not be conflict-free, often as a result of the complexity or magnitude

of their supply chain. Based on our experience, there is often no consistent industry, segment, or position in the supply chain for such companies, which can range from retailers to metals.

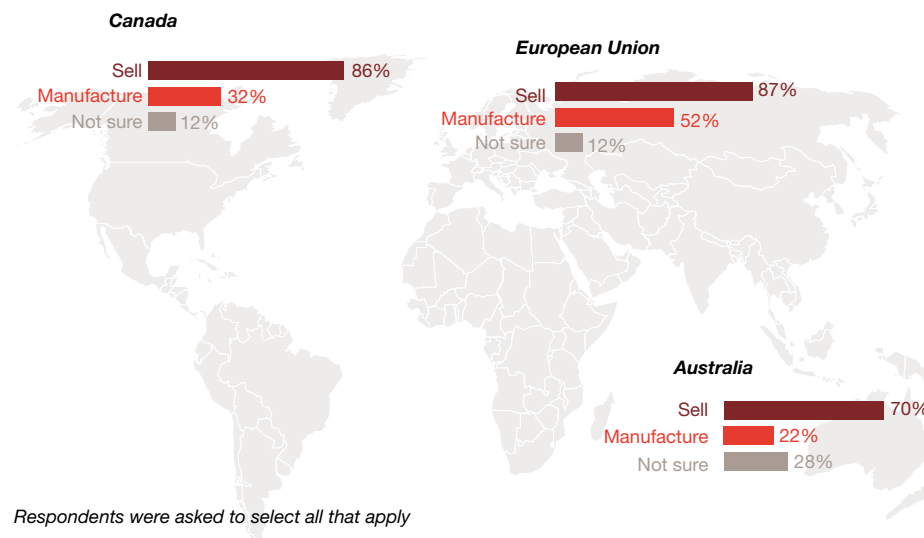
Irrespective of the position that companies take, some countries and regions continue to draft and propose legislation to improve transparency and reduce the risk of human rights abuses or conflicts. These matters continue to gain traction, and while few would argue with the goal of minimizing human rights violations, the means by which some are looking to achieve these results may present challenges for companies similar to those presented by the Dodd-Frank Act itself. Nonetheless, the European Union (EU), Canada, and Australia are taking steps to address their concerns about conflict minerals, focusing on various points in the supply chain.

As our survey demonstrates, should these steps come to fruition, a significant proportion of companies could be impacted, with a substantial majority selling in each country or region, and in the case of the EU, over half also having manufacturing facilities.

Some of this legislation remains in the proposal stage, while some is in the process of being passed. While some, such as the EU's proposal, are proposed to be voluntary and focus on upstream companies, there has been an indication from

As many companies may be impacted by emerging similar legislation, a pragmatic, flexible approach now will see benefits later

Looking ahead, the European Union, Canada and Australia are considering adopting their own conflict minerals rules. Do you sell products and/or operate manufacturing facilities in these areas?



the EU that purchasing decisions made by governments could require responsible sourcing practices.

How the legislative landscape will evolve remains to be seen. What is clear is that conflict minerals regulation, along with other supply chain regulation,\* will drive greater rigor in companies' supply chain compliance efforts

and likely increase the resources required to coordinate and support these efforts. Companies can drive efficiencies and reduce costs in these instances by integrating conflict minerals into existing programs, such as those focused on supply chain transparency, responsible sourcing, or supply chain resilience.

\* Supply chain regulations include those focused on environmental and social practices, supplier and vendor practices, network and route management, and source to finished product integrity. Many companies manage their supply chain compliance efforts in isolation or lack visibility into all their compliance obligations and how they manage them. Examples include regulations related to food safety, electrical compliance, counterfeit parts, and hazardous substances.

## ***Final thoughts***

In summary, many companies have a long way to go and must stay focused to meet the SEC's requirements. Hats off to those few who are close to finalizing their efforts for the current reporting year. However, even after this year's deadlines pass, it will be time to turn attention to next year's, and to realizing opportunities for efficiency and integration. As we move forward, stakeholders will become more demanding, require greater transparency, and likely push more companies toward conflict-free.

Those leading compliance efforts should concentrate on the keys to success laid out above:

- Continue driving strong, steady progress to meet both compliance requirements and audit obligations;
- Be able to demonstrate that progress and describe the company's journey to relevant stakeholders; and
- Take advantage of opportunities as they arise in order to realize tangible business benefits.

We hope these survey results are helpful for companies still in the midst of their conflict minerals compliance efforts. They provide data points and comparisons that may enable benchmarking of the progress and the critical decisions they are making. These results can also be used by companies beyond this year's compliance deadline as they continue to refine their programs, fill gaps, and continue on their journey to conflict minerals compliance.

## ***Additional resources***

More detailed information about the rule and its impact on issuers and companies in their supply chain, as well as the results of our previous 2013 conflict minerals survey, can be found at [www.pwc.com/us/conflictminerals](http://www.pwc.com/us/conflictminerals).

***To have a deeper conversation about  
how this subject may affect your business,  
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