

Responsible Gold Auditing

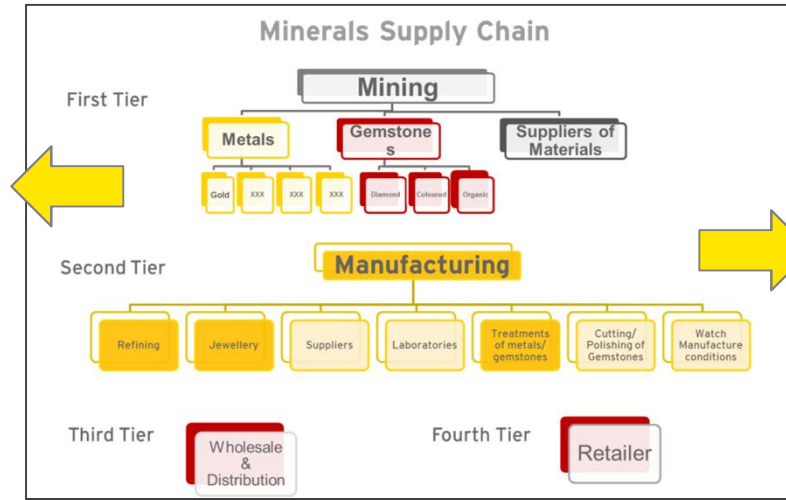
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Setting the Context

Conflict Minerals - Key Concern Areas:

- ▶ Money Laundering
- ▶ Funding Illegal Conflicts, Supporting Armed Groups
- ▶ Child, Forced Labour
- ▶ Human Rights Abuses
- ▶ Economic Loss to Host Country & Political Instability
- ▶ Biodiversity Loss
- ▶ Operational Inefficiencies – Mining, Refining



Unorganized Sector - Key Concern Areas:

- ▶ Formal or informal industry standards are lacking;
- ▶ Health, Safety, security & environment (HSSE)/ Conflict Minerals guidelines / monitoring lacking;
- ▶ Working conditions, wages, health and safety aspects a concern;
- ▶ Child labour and youth employment is a common practice;
- ▶ Mixing of conflict-free & conflict minerals is a big risk; can undermine efforts being taken by the organized sector;

Conflict Minerals: Yet Another Supply Chain Challenge



As lawmakers target conflict minerals, companies could face significant costs to comply. The focus is on four metals extracted from the war-torn Democratic Republic of Congo and adjoining countries.

Manufacturers will face significant raw material cost pressures as lawmakers target conflict minerals. The legislators' current focus is on the war-torn Democratic Republic of Congo (DRC) and adjoining countries.

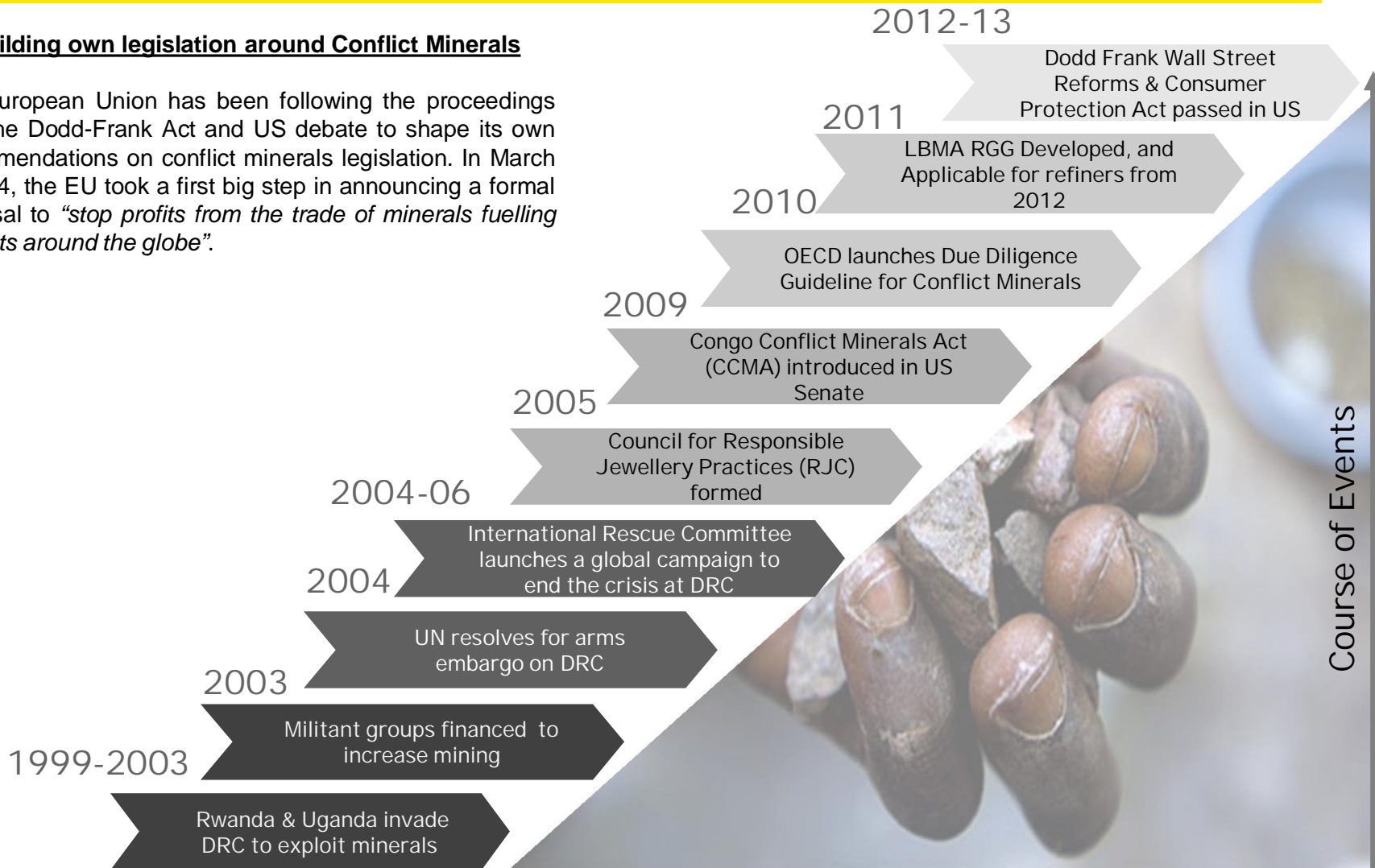
In the recent past, the supply of and demand for raw materials forced manufacturers to cope with radical market-price fluctuations for commodities such as iron ore and steel; as they formulated successful market strategies, the impact of commodity price spikes became manageable. More recently, procurement professionals have been tested by the scarcity of rare earth metals such as scandium, yttrium, and cer. China, which has the world's largest known deposits of these metals, has exacerbated the challenge by enacting stringent export caps. Again, manufacturers adjusted their strategies and are managing their predicament.

Now on the horizon is a new federal regulation to require companies that make products using certain minerals to disclose whether their supply comes from or near the Democratic Republic of Congo, where mining revenue has funded violent military groups. When this regulation passes, companies with global supply chains will face the daunting task of adapting once again.

Rising Global Consensus - Emerging Guidelines and Regulations

EU building own legislation around Conflict Minerals

The European Union has been following the proceedings over the Dodd-Frank Act and US debate to shape its own recommendations on conflict minerals legislation. In March of 2014, the EU took a first big step in announcing a formal proposal to *“stop profits from the trade of minerals fuelling conflicts around the globe”*.

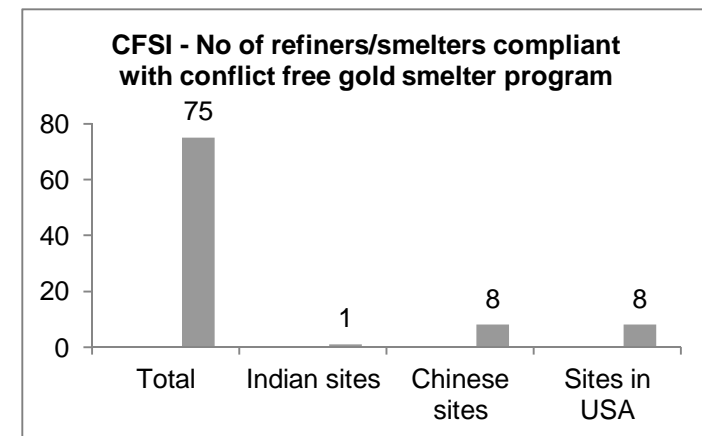
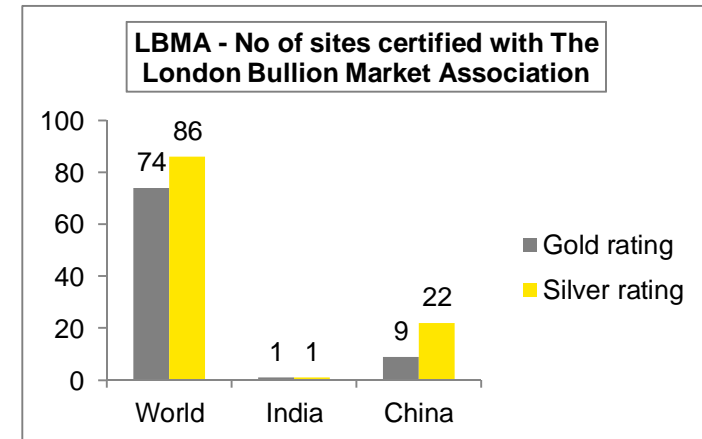


Audit Developments and Regional Perspective

Auditing Standards and Regulations

- ▶ International brands, such as Tiffany & Co. and LVMH, want their suppliers & vendors to be certified. Many of them are pushing Responsible Jewellery Council (RJC) and World Gold Council (WGC) guidelines to be followed.
- ▶ Industry associations upped the anti on conflict minerals cause; LBMA launched stand-alone Responsible Gold Guidance for refiners in 2011. This framework is mandatory for all refiners wishing to sell into the London Bullion Market.
- ▶ Similarly, Conflict Free Sourcing Initiative (CFSI), currently having more than 200 companies and trade associations as members, promotes Conflict Free Smelter Program, developed according to leading global standards such as OECD guidelines.
- ▶ The US senate signed into federal law in July 2010 the Dodd-Frank Act. Within the Act, Section 1502 deals specifically with the use of conflict minerals. On 22 August 2012, the US SEC issued a final rule to implement the new disclosure requirements required by Dodd-Frank. The SEC estimates that around 6,000 issuers will be directly impacted by the rule
- ▶ EU is now developing its own regulation for Conflict Free Minerals. Mostly in line with the Dodd-Frank Act, it deviates at one major aspect. Rather than starting at the brand level, the EU proposed to focus on self-certification of direct importers and smelters of the 3T's and Gold because they are closer to the source of the minerals. However, after recent rejection by the European parliament, it is likely that the proposed law would require mandatory due diligence by smelters & refiners.

Industry Response



Why Focus on Supply Chain- Risks and Related Ask

Strategic Differentiation Risk

- Does SCO provides me with competitive advantage?
- Does it assist me in reducing cost and waste?
- Does it address climate change & sustainability agenda of the company?
- Does the company's climate change agenda appropriately covered in audit plan?

Compliance Risk

- Sustainable labor policies?
- Conflict minerals?
- Sales lost due to non-compliance?
- Sales improved due to compliance?
- Risk of compliance on directors & KMPs?

Financial Risk

- Cost of purchase?
- Margins?
- Volume increases?
- Fund raising?
- Investors agenda?

Reputation Risk

- SCO errors impact on reputation?
- Advertisement & publicity strategy for SCO strengths?
- Good practices v/s best practices?

Operational Risk

- Quality considerations- cost of conversion?
- Talent impact?

Value-Adds of Responsible Gold Audit

Responsibly sourced gold enables **TRANSPERANCY** throughout the supply chain. This ensures that gold is sourced from conflict free zones and is delivered to the investor/customer without any possibility of blending with gold sourced from conflict regions.

Miner / Refiner

- License to enter and sell in certain markets
- Develop a long term business relationship with their commercial partners;
- Get a fair price for the gold
- Fairtrade practices lead to improved economical, social and environmental performance

Supplier

- Fulfil requirement of customers for conflict free gold
- Ink long term agreements with their clients
- Associate with leading trade associations and organizations globally

Broker / Retailer

- Ensure credibility of the gold
- Provide a conflict free gold to customers with confidence
- Establish sustainable supply chain of conflict free gold

Customer

- Customers that are looking for conflict free gold are ensured that their gold comes from a conflict free region
- Contribute towards a sustainable tomorrow

Opportunities for Indian Gold Sector

Current State:

India continues to be a major consumer of gold, however most demand is met through import

India often imports around 600 to 900 tonnes per annum, which is roughly 25 per cent of the global annual production of bullion

Despite this high demand, at present there are only 32 refiners in India.

Baring a few, most refiners are not following any of the leading global guidelines on conflict minerals

MMTC-PAMP is the first and the only London Bullion Markets Association accredited gold and silver refinery in the country

Opportunities:

Considering the amount of Gold held by Indian households, ~25,000 Tonnes, and the high demand, India Gold sector anticipates many more refineries for monetising and attracting foreign direct investment (FDI)

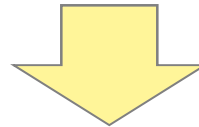
With growing international pressure and focus on conflict minerals, the FDI is expected to flow to responsible players in the sector; existing and new players will have to demonstrate strong compliance with international guidelines on Responsible Gold

Considering changing Indian regulatory landscape, New Company's Act 2013, SEBI-National Voluntary Guidelines on Responsible Business, Draft Gold Monetization Scheme, Financial Reporting under IFRS equivalent Standards, GST, ICDS etc., the focus is increasing on the industry for transparency. It is the perfect time for the Indian Gold Industry to improve its practices and align itself with International standards

Approaching Responsible Gold Audit

Establish strong company management system

- Define your stand and policy
- Management structure and systems
- Review and disclosure mechanisms
- Establish communication channel with supply chain counterparts



Identify and assess risks in the supply chain

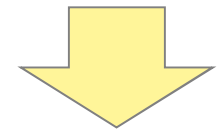
- Identify risks in Gold supply chain
- Assess risks in light of global standards



Design and implement a management strategy to respond to risks

- Define strategy of risk management
- Identify responsibility holders and actions

Periodic Cycle



Transparency: Report on findings and improvement aspects identified

- Disclose on findings
- Devise action plan and timeline for observations

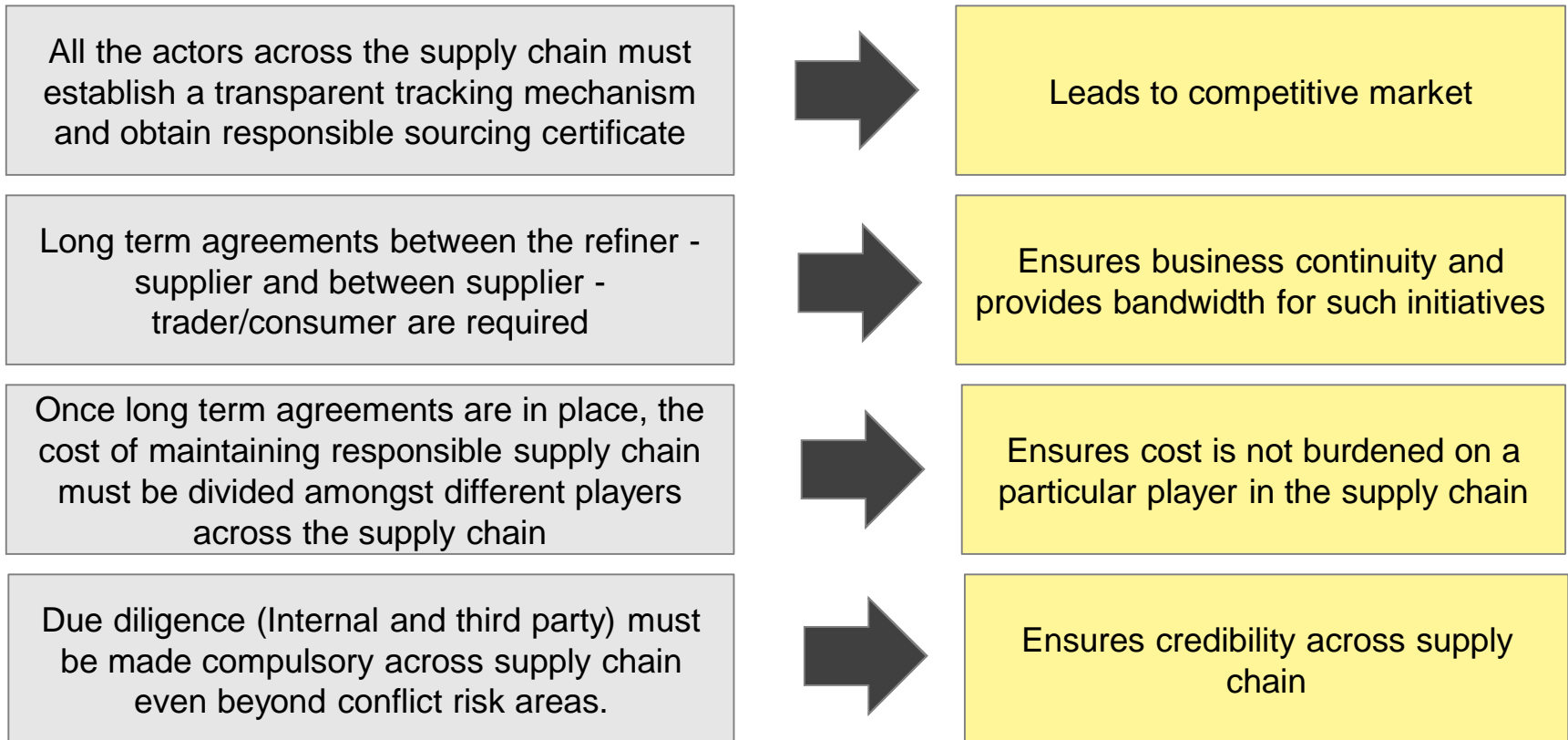


Arrange for an independent third-party audit of supply chain

- Identify accredited, authorized auditors

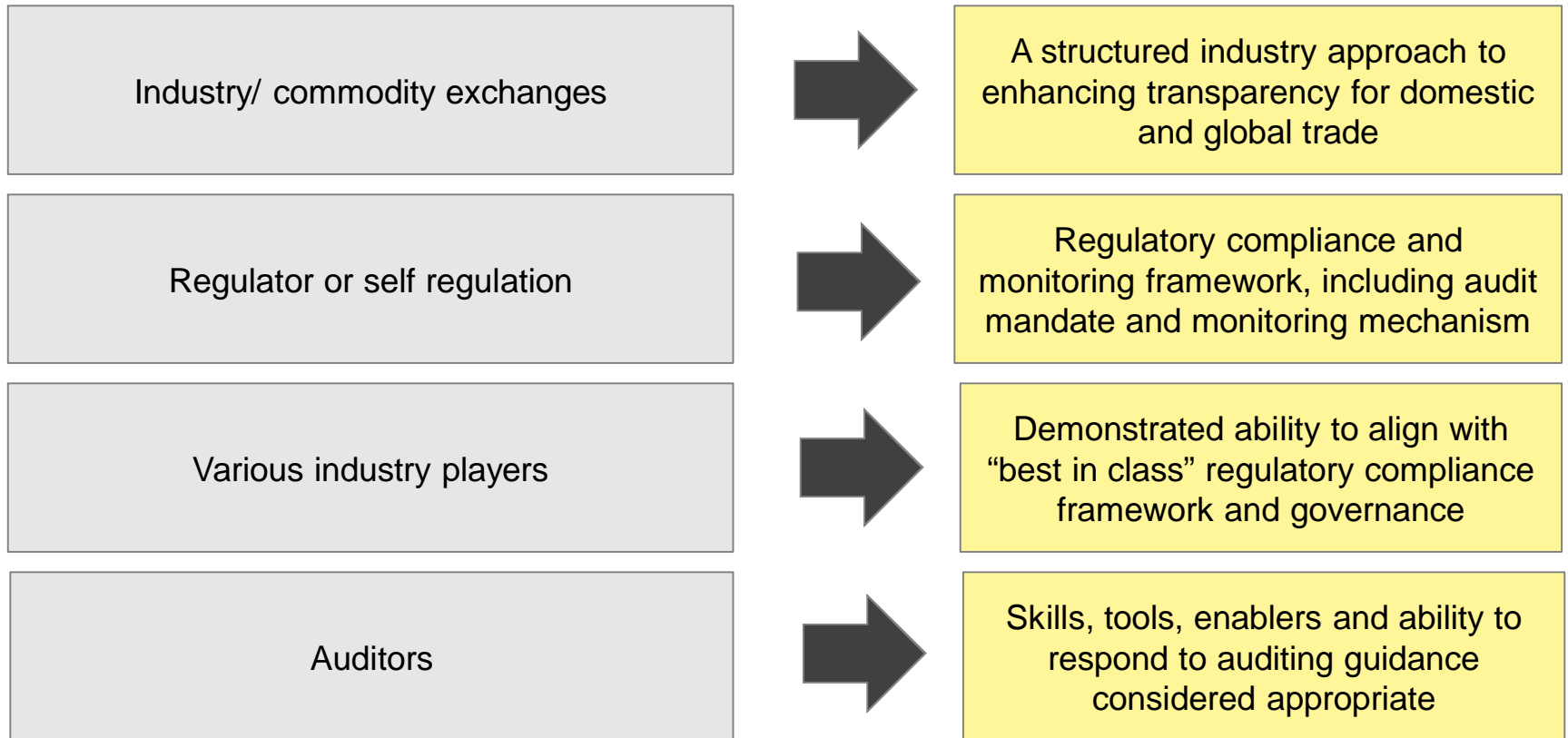
Way Forward - Roadmap

The consumers and traders are becoming aware and active players of responsible sourcing supply chain of gold. Therefore, it is inevitable for Indian gold refiners, smelters and traders to adopt practices that are in line with the global trend.



So the next important question is whether the Indian Gold Sector is ready and willing to participate in such initiatives which will enable them to attain International Standards...

Way Forward - Roadmap for India- Key Stakeholders & actions



Let's continue the conversation:

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