

## AIAG Conflict Minerals Frequently Asked Questions (FAQs)

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## 1. What laws and rules govern conflict minerals?

On July 16, 2010, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), which was primarily designed to address financial reform and regulation for U.S. corporations. Section 1502 of this new law directed the U.S. Securities and Exchange Commission (the “SEC”) to establish rules requiring companies that file certain reports with the SEC to provide an annual disclosure as to the source of certain materials designated as “conflict minerals” in their products.

- The SEC adopted new rules, as required by this law, on August 22, 2012.
- The new rules provide that companies who file certain reports with the SEC must file SEC-mandated conflict minerals disclosures every calendar year by May 31, that cover products manufactured in the prior calendar year.

## 2. What is the purpose of this new legislation and these SEC rules?

- Congress included this provision in the Dodd-Frank Act in an effort to further the humanitarian goal of ending violent conflict in the Democratic Republic of the Congo (the “DRC”) and the adjoining region. This conflict has been partially financed by the trade of certain minerals, known as “Conflict Minerals,” in the DRC and in adjoining countries, which include Angola, Burundi, Central African Republic, the Republic of the Congo, Rwanda, South Sudan, Tanzania, Uganda and Zambia (the “Covered Countries”).
- Congress chose to use the U.S. securities laws disclosure requirements to promote the exercise of due diligence on the source of conflict minerals in supply chains, and to persuade companies to procure conflict minerals from sources that do not finance or benefit armed groups in the Covered Countries.

## 3. What minerals are “Conflict Minerals?”

- “Conflict Minerals” currently include gold, as well as tin, tantalum and tungsten, the derivatives of cassiterite, columbite-tantalite, and wolframite, respectively. These conflict minerals are referred to as “3TG.”
- The Dodd-Frank Act authorizes the U.S. Secretary of State to designate additional minerals if it is determined that trade related to those minerals is being used to finance conflict in the Covered Countries.
- The term “conflict minerals” applies to all 3TG minerals, whether or not they originated in the Covered Countries.

## 4. What products typically contain the 3TG conflict minerals?

- Conflict Minerals are used in a wide range of products, including but not limited to, mobile phones, computers, digital cameras, video game consoles, jewelry, light bulbs, pipes, electronic circuits and automobiles.

## **5. Do the Dodd-Frank Act or the SEC rules make it illegal for us to use conflict minerals if they originate in the DRC or from the other Covered Countries?**

- No. The Dodd-Frank Act and the new SEC rules relate to disclosure only, and they do not prohibit the use of conflict minerals in your products, even if those conflict minerals originated in the DRC or other Covered Countries.
- The SEC has provided specific guidance that it does not intend for companies to cease all procurement of conflict minerals in the DRC and other Covered Countries, which could ultimately cause economic collapse in the DRC region. Rather, it is the SEC's goal to target the procurement of conflict minerals from sources that can verify that its funds are not used to fund armed conflict in the region.
- You, your direct customers, or your indirect customers may be obligated to make disclosures regarding the source of conflict minerals in your products, and companies may therefore establish company standards or policies requiring that conflict minerals be procured only from sources that can demonstrate that they do not fund or benefit armed conflict in the DRC and the other Covered Countries.
- You should be vigilant as to your customers' expectations related to conflict minerals, as embodied in company policies, standards or terms and conditions, as these may be changing in response to these new disclosure requirements.

## **6. We do not file reports with the SEC. Is my company affected by the conflict minerals rules?**

- Probably, yes. The disclosure requirements are aimed at companies who file certain public reports with the SEC. In order for those SEC filers to make those disclosures, they will need information from the companies who supply them with materials and/or components. Therefore, even if your company is private and/or does not file reports with the SEC, as long as you are a direct or indirect supplier to a company that files certain reports with the SEC, you may be asked to provide information regarding the uses and sources of conflict minerals in your products
- Depending on your customer base and the type of products you manufacture or distribute, you may be asked to cascade an inquiry to your own suppliers as a means to investigate the source of your materials and components, and to complete a questionnaire based upon the results of your inquiry. If you do not manufacture or assemble any products but are merely a service provider, you may not be asked to make any disclosures. If, however, you are a distributor or reseller of products, you may be asked by your customer to assist them in seeking information from your suppliers regarding the use of conflict minerals in the products you procure on their behalf.
- You must make a reasonable inquiry to determine the source of conflict minerals in your company's products. Customer expectations as to what constitutes "reasonable" will vary. Questions as to whether or not the responses you receive from your suppliers are sufficient (as in the quality of the answers or the response rate) should be directed to your customer. It should be noted, however, that you cannot ignore signs that conflict minerals were sourced from the Covered Countries, even if a supplier does not disclose that information in response to an inquiry.

## 7. What tools or forms are available to help our company comply with the conflict minerals rules?

- The CMRT (Conflict Minerals Reporting Template) is a free, standardized reporting template developed by the Conflict-Free Sourcing Initiative that facilitates the transfer of information through the supply chain regarding mineral's country of origin and smelters and refiners being utilized. The template also facilitates the identification of new smelters and refiners to potentially undergo an audit via the CFSI's Conflict-Free Smelter Program.

<http://www.conflictreesourcing.org/conflict-minerals-reporting-template/>

- Software solutions based on the CMRT can help with the roll up process such as iPoint's Conflict Minerals Platform (iPCMP), or other software solutions as designated by your customer.
- The automotive industry, through the Automotive Industry Action Group (AIAG), is constantly working to provide latest information and link to knowledgeable resources to the supply chain, which help them to fulfill the necessary obligations of automotive manufacturers who must file conflict minerals disclosures with the SEC.

## 8. What are companies that report to the SEC required to do?

If your company is an "SEC filer" that files periodic reports with the SEC such as Forms 10-K and 10-Q (including foreign private issuers who file Form 20-F, smaller reporting companies and emerging growth companies), you are required to disclose information regarding conflict minerals in products you manufacture or contract to manufacture by filing a new Form SD by May 31, covering products manufactured in the previous calendar year.

- Compliance with these disclosure obligations is complicated, and SEC filers are urged to seek legal guidance in obtaining information from suppliers and preparing disclosures for the SEC. It should, in particular, be noted that the Form SD and its exhibits are "filed" and not "furnished" to the SEC. As a result, heightened liability under Section 18 of the Securities Exchange Act of 1934 applies for any fraud or misstatements.
- Your Form SD will have to be filed by every May 31, and will be based on manufacturing activity that occurred in the prior calendar year, even if your fiscal year is different.
- The information contained in the Form SD that is filed with the SEC must also appear on your company's publicly available website for one year, and the Form SD itself must contain a link to that website.
- The content of the disclosures you make in the Form SD, as well as your company's potential obligation to file an audited Conflict Minerals Report, will depend upon your suppliers' responses as to the source(s) of conflict minerals they use in manufacturing products for your company.
- The rules do not define the term "contract to manufacture," but the SEC has indicated in its guidance that the determination of whether a company contracts to manufacture a product depends upon the extent to which the company influences the selection of the

materials contained in the product. For example, generic, off-the-shelf products to which you affix your company logo are likely outside the scope of the rule.

- Additional guidance for SEC filers is available at: AIAG MICROSITE

## **9. Do the results of our inquiry to our suppliers have to be audited?**

- Only SEC filers who make a definitive disclosure with the SEC that their products are “DRC Conflict Free” (or not) are required to obtain a third-party audit of the inquiry made to suppliers. Even with such a definitive disclosure, the required third-party audit only evaluates whether the SEC filer has adequately performed due diligence by designing and disseminating an appropriate inquiry process and following that process. The required audit is not designed to verify the content of the disclosure, and need not necessarily be conducted by a certified public accountant.
- The standard for the adequacy of due diligence in a third-party audit must be measured in the context of an accepted due diligence framework. Currently, the only accepted such framework was designed by the Organisation for Economic Cooperation (“OECD”). More information about the OECD framework may be obtained at:
  - <http://www.oecd.org/daf/internationalinvestment/guidelinesformultinationalenterprises/46740847.pdf>
  - <http://www.oecd.org/daf/internationalinvestment/guidelinesformultinationalenterprises/GoldSupplement.pdf>(gold supplement).

## **10. Do we need to develop a company policy regarding conflict minerals?**

- The decision as to the appropriate content for a conflict minerals policy will inevitably vary widely from company to company, and will take into account a number of factors, such as the company’s industry, products, competitive position, customer base, supply chain complexity, size and location.
- If you are an SEC filer, any policy you have in place or that you choose to adopt may factor into your SEC disclosures, and you are therefore strongly urged to seek legal guidance to assist you in deciding the appropriate policy decision(s) for your company.

## **11. Will every use of 3TG be covered by this rule?**

- In most cases, if tin, tantalum, tungsten or gold is in your final product, those products are subject to reporting under the rule. The standard for the rule is whether the 3TG are intentionally added and “necessary to the “functionality or production” of a product. Therefore, if your company is an SEC filer who must make disclosures, it is for the company to decide whether the 3TG products it manufactures or contracts to manufacture is necessary to the functionality or production of that product. A company responding to a customer request should follow the instructions of their customer.
  - Current guidance provides that Conflict Minerals are “necessary to the functionality of a product” as long as they are:

- Intentionally added to the product and not a naturally occurring by-product of the manufacturing process
- Necessary to the product's generally expected function, use, or purpose
- Not incorporated primarily for the purpose of ornamentation or decoration
- Current guidance provides that conflict minerals are “necessary to the production of a product” as long as they are:
  - Intentionally included in the product's production process, but not in the form of a tool, machine or production equipment
  - Contained in the final product
  - Necessary to produce the product. Conflict minerals contained in a catalyst would not be subject to the rules, unless those minerals were incorporated into the final product
- Assuming you determine that Conflict Minerals are “necessary to the functionality or production” of your products, you will be expected to provide information to your customers (or, if you are an SEC filer, in your disclosure to the SEC) as to whether the Conflict Minerals used in your products originated from the Covered Countries, came from scrap or recycled sources, or were outside the supply chain prior to January 1 of every reporting year. Again, you should be sure to document all the steps you take in this inquiry and preserve that documentation. If you are unsure as to the standard for this inquiry, you should seek further guidance from your customer(s).
- It is important to note that the rules do not exclude de minimis use of Conflict Minerals. Even trace uses of Conflict Minerals are governed by the rules and are subject to disclosure.

## **12. A customer has asked us to indicate whether the conflict minerals obtained in our product(s) were sourced from conflict-free smelters. What is a conflict-free smelter?**

- The Conflict-Free Smelter Program (“CFSP”) is a certification program for smelters or refiners. The program was initiated by EICC and GeSI to assist the electronics industry in ensuring that Conflict Minerals used in their products do not originate from sources that fund armed conflict in the Covered Countries. The automotive industry supports this program, which was also recognized by the SEC in its guidance on the conflict minerals rule. The program requires that smelters or refiners represent the sources of the minerals they process as conflict-free, and those representations are then independently audited prior to certification.
- If you are able to determine that your conflict minerals originated solely from a certified conflict-free smelter, your products may be “DRC Conflict Free” under the Conflict Minerals rules.
- Unfortunately, only a limited number of smelters are certified at this time. Details regarding the certification process, as well as a list of certified smelters are available at <http://www.conflictreesmelter.org>.

## 13. What should companies do now to prepare for compliance with the rules?

- Ensure that you have valid, updated conflict minerals contact information for all your relevant suppliers.
- Review your product portfolio to determine which of your products may contain conflict minerals. The IMDS database may be one resource for product content information..
- Begin communicating with your suppliers regarding your expectations in helping you meet your obligations under these rules.
- Identify resources within your company who will engage with suppliers to obtain responses to inquiries.
- Explore the conflict minerals compliance tools AIAG has developed, and determine if those tools would be useful to your company. Information regarding these tools and training can be found at <http://www.conflict-minerals.com/en/start-page/>.
- Identify other resources outside your company as necessary to provide advice on policy, compliance, and disclosure issues.
- Direct any additional questions to AIAG, or volunteer to assist us with our efforts to coordinate an industry response to these rules, by contacting [conflictminerals@aiag.org](mailto:conflictminerals@aiag.org).

## Why do I have to complete the CMRT every year?

- The reporting requirement for SEC filing companies is to report for the 3TG used each calendar year, January 1 through to December 31. This means that all sources of 3TG need to be determined every year.
- Even if you do not change your supply chain the source of the 3TG could change, therefore a new inquiry each year is necessary.
- Reporting a previous year's CMRT to your customer is not considered an acceptable report as no new inquiry was made to your supply chain.

## If I do not have any 3TG in my products do I need to complete the CMRT every year?

- Yes if your customer requests a CMRT to be completed. Supply chains can change from year to year, so reporting annually is a way to keep your customer informed.

## Why is the smelter or refiner information so important?

- The SEC Rule requires that filing companies report the smelters or refiners in their supply chain as part of their annual filing.
- Smelters and refiners tend to be the easiest point in the supply chain to control the purchase and sale of 3TG.

## **17. Why do some companies request the mine location information in addition to the smelters and refiners?**

- The SEC Rule requires that filing companies report the mine location of any 3TG from Covered Countries with the greatest possible accuracy.

## **18. Why do I need to report smelters or refiners not located in the Covered Countries?**

- Regardless of where the smelter or refiner is located, that entity may be purchasing its 3TG from any mine in the world. The smelter or refiner's location does not guarantee the entities' conflict-free status.