

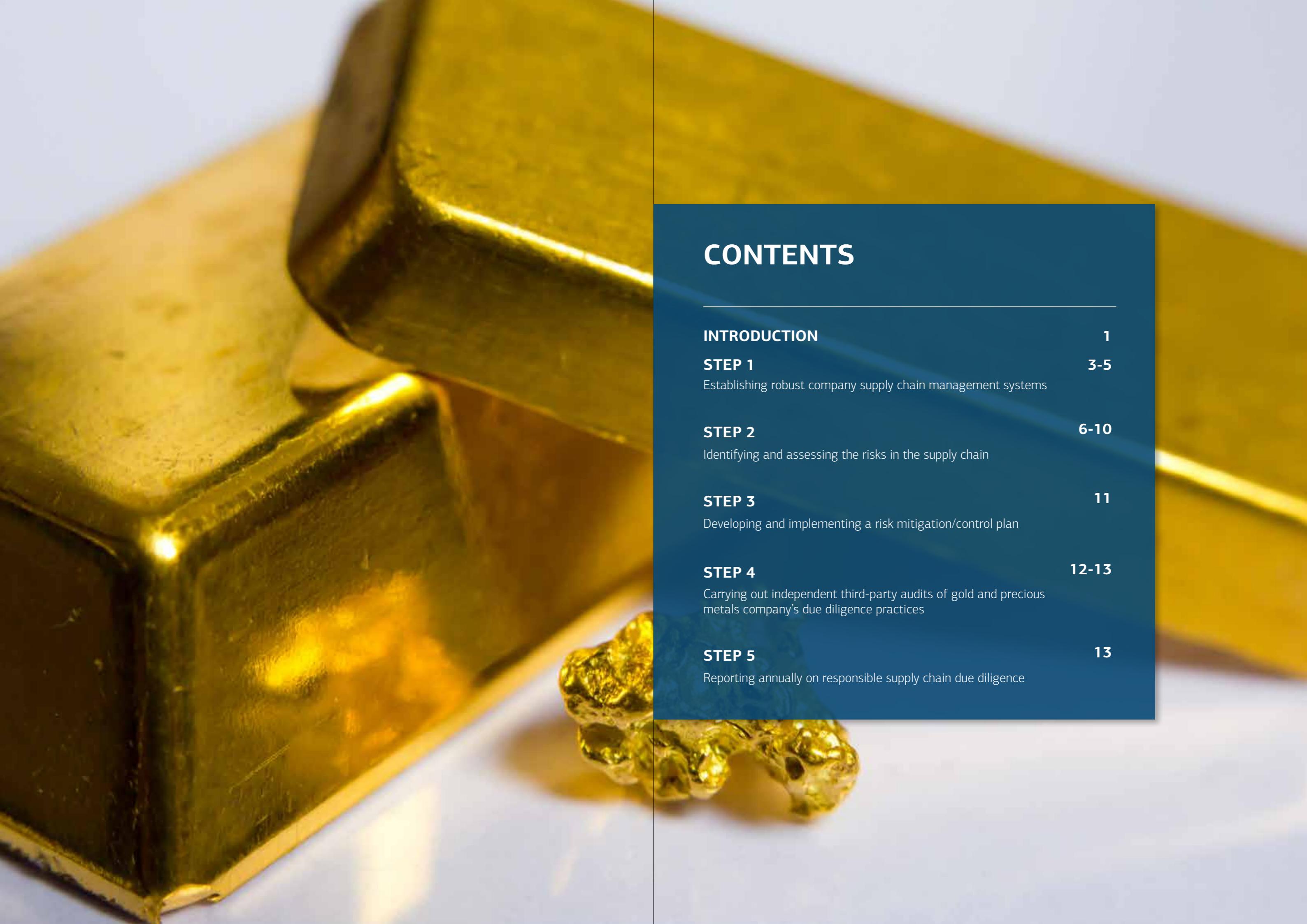


PRACTICAL GUIDANCE

MARKET PARTICIPANTS
IN THE GOLD AND PRECIOUS
METALS INDUSTRY

VERSION 1 - APRIL, 2012



The background of the slide features a large, polished gold bar on the left and several smaller, irregular gold nuggets on the right, all set against a soft, warm-toned background.

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INTRODUCTION

PURPOSE AND SUMMARY

DMCC has issued this practical guidance to assist DMCC licensed members and non-members within the UAE's gold and precious metals industry on the implementation of the OECD guidelines on conducting due diligence and developing a risk management framework for responsible supply chain management of gold and precious metals when sourcing from conflict-affected and high risk areas.

The guidance provides a common reference for all actors in the supply chain on a step-by-step basis to ensure responsible sourcing and chain of custody of the gold and precious metals and to eliminate the risk of direct or indirect support to any kind of conflict in accordance with international standards.

SCOPE

All DMCC members and non-members dealing with gold and precious metals should apply this DMCC guidance that incorporates the OECD management on responsible supply chain.

REFERENCES

OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (Final Draft Supplement on Gold)

THE '5-STEP' FRAMEWORK FOR RISK BASED DUE DILIGENCE IN THE GOLD AND PRECIOUS METALS SUPPLY CHAIN



STEP 1: ESTABLISHING ROBUST COMPANY SUPPLY CHAIN MANAGEMENT SYSTEMS

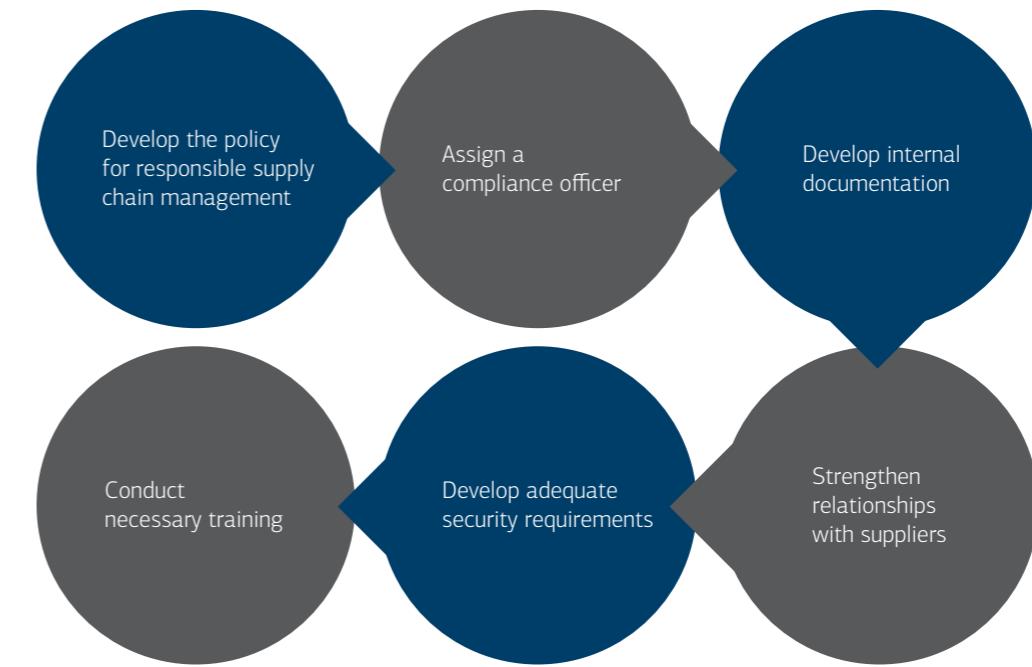
Objective: to ensure that existing due diligence and management systems of companies in the gold and precious metals supply chain are adequate to conduct effective due diligence on the company's supply chain.

1. Develop the policy and process to include common principles, standards and processes for responsible supply chain. The policy should include the following:
 - a. Scope
 - b. Responsibilities
 - c. Criteria for supply chain due diligence
 - d. Main elements of Know-Your-Customer (KYC) process
 - e. Monitoring and surveillance
 - f. Training
2. Assign a dedicated compliance or risk officer (supply chain officer) with the following conditions:
 - a. Senior staff member
 - b. Have the necessary competence, knowledge, experience and training in supply chain due diligence
 - c. Ensure s/he is equipped with the necessary resources to perform the relevant duties
 - d. Able to communicate critical information to top management, staff and suppliers

Duties of the dedicated compliance or risk officer (supply chain officer) are as follows:

- a. Review the gold and precious metals supply chain due diligence
 - b. Assess the supply chain due diligence processes
 - c. Ensure that the supply chain due diligence processes are adequate
 - d. Incorporate additional due diligence measures if necessary
 - e. Train employees with respect to responsible supply chain due diligence
 - f. Update the responsible supply chain due diligence policy and related processes
3. Develop internal documentation and records of supply chain due diligence to cover internal inventory and transactional documentation which should be as follows:
 - a. Physical form, type and physical description of gold and precious metals including any imprints and/or hallmarks
 - b. Weight and assay of gold and precious metals after proper own verification and/or through third party verification
 - c. Full KYC due diligence of all suppliers including their due diligence practices, which need to conform to the company policy and the DMCC practical guidance. The KYC form should also include the company's suppliers and their locations
 - d. Unique reference number for each entry/input and exit/output
 - e. Name, stamp and logo of refiner/producer/manufacturer (if applicable)
 - f. Year of refining/production (if applicable)
 - g. Dates of purchases and sales
 - h. Inventory list classified as per supplier

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- i. All documentation to be kept for at least five years
 - j. Mechanism for tracing products back to purchased material ‘Track and Trace’ should be as follows:
 - I. Receiving shipping/transportation documentation
 - II. Sales documents with specific lot numbers
 - III. Mining license and related permissions
 - IV. Import/export license and form
 - V. Reconciliation of documentation
4. Strengthen relationships with suppliers through the following:
- a. Maintaining adequate KYC due diligence process for suppliers including reviewing suppliers' own due diligence practices
 - b. Establishing long-term relationships c. Sharing with suppliers the DMCC practical guidance and acknowledging the receipt and compliance of the suppliers
 - d. Incorporating the provisions of the DMCC practical guidance into contracts and/or agreements and KYC forms with suppliers
 - e. Trying to support and build capabilities of suppliers, if needed, to ensure compliance with the company's responsible supply chain policy and process and also with the DMCC practical guidance.
- If supplier does not show enough conformity in this respect, document and seek disengagement**
- f. Additionally on a confidential basis, report any concerns with evidence wherever possible, in this respect to DMCC ('whistle blowing' mechanism; e-mail to: **responsiblesupplychain@dmcc.ae**)
5. Develop adequate security requirements as follows:
- a. Using identifiable sealed security boxes for each shipment to avoid any tampering or removal of content
 - b. Physically segregating the different shipments until verification is done and confirmed
- c. Reporting any inconsistencies to top management, and the dedicated compliance/supply chain officer
 - d. If issues reoccur with same supplier, document and seek disengagement
 - e. Ensure that the assessors of the shipment(s) are independent from any conflict of interest
6. Conduct necessary training for all persons involved in the responsible supply chain due diligence.
- Regular training for new staff and refresher sessions for existing staff to be conducted based on the level of risks and job profiles in engaging with the supply chain participants



STEP 2: IDENTIFYING AND ASSESSING THE RISKS IN THE SUPPLY CHAIN

Objective: companies in the gold and precious metals' supply chain should use the strong management system that they developed in Step 1 to identify and assess the risks associated with gold and precious metals which they produce, distribute, transport, export and/or purchase.

Conducting a risk assessment on each party included in the supply chain from the mines (mined gold and precious metals) to the company including suppliers, exporters and transporters (mined/recycled gold and precious metals) using a risk-based approach.

1. Factors to take into consideration for conducting the risk assessments are as follows:

1.1 Geographical location of gold and precious metals:

- a. Origin and transportation
- b. The level of government regulation and supervision
- c. The extent of cash transactions used in the country
- d. The level of conflicts or human rights abuses
- e. Payment systems used (formal banking vs. informal such as Hawalas)
- f. Level of involvement of criminal organisations
- g. Level of high risk businesses (such as gaming and casino, etc.)
- h. Level of access from a country to nearby markets or processing operations that are termed as conflict and/or high risk areas
- i. Level of enforcement of laws addressing significant criminal activity
- j. Existence of sanctions and/or embargoes that have been directed against the country and individuals/entities in that country

1.2 Counterparties in the supply chain:

- a. KYC information of the company's suppliers as identified in Step 1 should include information about the origin and transportation of the gold and precious metals
- b. Red flags (detailed in point 2 of this section) in any aspect of the entire supply chain
- c. Number of suppliers i.e. the greater, the higher the risk
- d. Level of control that the counterparty has over its suppliers
- e. Level and adequacy of due diligence practices of the counterparty
- f. Whether the counterparty due diligence practices have been audited by a qualified third party auditor
- g. For how long the counterparty has been in the gold and precious metals business (the longer, the lower the risk)
- h. No care for indication and/or disclosure of beneficial owners of the business
- i. Seeking anonymity by intermediating third parties such as lawyers, accountants, etc.
- j. Scale of mining operations of the supplier, if applicable
- k. Politically exposed persons that have been entrusted with prominent public functions or individuals who are closely related to such persons

2. Reviewing in-depth of all red flags with respect to locations and suppliers are as follows:

2.1 Location-based red flags of gold and precious metals related to origin and transportation are as follows:

- a. The gold and precious metals originate from or have been transported through a conflict-affected or high-risk area
- b. The gold and precious metals are claimed to originate from a country that has limited known reserves or stocks, likely resources or expected production levels of gold and precious metals (i.e. the declared volumes of gold and precious metals from that country are in excess of its known reserves and/or expected production levels)

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- c. The gold and precious metals are claimed to originate from recyclable/scrap or mixed sources and has been refined in a country where gold and precious metals from conflict-affected or high-risk areas is known or reasonably suspected to transit

In each of these location-based red flag considerations, the risk is increased when anti-money laundering laws, anti-corruption laws, customs controls and other relevant government laws are weakly enforced, informal banking systems operate, and cash is extensively used.

2.2 Supplier-based red flags:

- a. Suppliers or other known upstream companies operate in one of the red-flagged locations of gold and precious metals' origin and transportation, or have shareholder(s) or other interests in suppliers of gold and precious metals from one of the above-mentioned red flag locations of gold and precious metals' origin and transportation
- b. Suppliers or other known upstream companies are known to have sourced gold and precious metals from a red flagged location of gold and precious metals origin and transit in the last 12 months

2.3 Circumstances-based red flags:

- a. Anomalies or unusual circumstances that are identified through the information collected in Step 2 give rise to reasonable suspicion that the gold and precious metals may contribute to conflict or serious abuses associated with the extraction, transportation of and/or trading in gold and precious metals

- 3. Conducting enhanced research on red-flagged suppliers prior to engaging with them, which would include some or all of the below mentioned research methods based on the outcome of the risk assessments and the pertinent cost-benefit analysis in proportion to the level of the risks identified:

3.1 Desk research:

- a. Identifying each company in the supply chain
- b. Identifying the beneficial owner(s) of each company in the supply chain
- c. Obtaining financial information on each company in the supply chain
- d. Ensuring that each company in the supply chain holds the necessary permits and licenses
- e. Ensuring that each company in the supply chain is not listed on any sanctions and/or embargoes list

3.2 On-site visits to gold and precious metals suppliers and/or keeping independent or joint on-the-ground assessment teams to generate and maintain information on the circumstances and processes of the following activities:

- a. Gold and precious metals extraction (physical access to mines, mine capacity against recorded mine production and discrepancies)
- b. Gold and precious metals processing (consolidation, blending, crushing, milling, smelting, refining, etc. and recording any discrepancies in the processing and/or production and related capacity of the facility to perform relevant activities)
- c. Handling of gold and precious metals (inventory, trans-shipment, relabeling, etc.)
- d. Transportation of gold and precious metals
- e. Trading (includes importing and exporting)
- f. The weight and assayed quality characteristics of the gold and precious metals that are used in the above mentioned activities

3.3 Random sample verification of all transactional records

- a. Risk mitigation process should be updated on at least an annual basis and/or in case of changes of any relevant circumstances

STEP 3: DEVELOPING AND IMPLEMENTING A RISK MITIGATION/CONTROL PLAN

Objective: to control the identified risk(s) in order to mitigate any adverse implications.

1. Develop the policy and processes so that it includes the internationally accepted common principles, standards and processes for responsible supply chain management. The policy should include the following:
 - a. Reporting mechanism for risks identified to company's senior management and the concerned compliance or risk (or supply chain) officers
 - b. Enhancing engagement with suppliers through establishing a chain of custody and/or traceability system from a red-flagged supply chain
 - c. Enhancing the physical security practices as mentioned in earlier point 5 of Step 1
 - d. Physically segregating and securing shipments from a red-flagged supply chain
 - e. Incorporating the right to conduct additional checks on red-flagged suppliers, as and when required

- f. Continuing trading activities while developing mitigating controls such as:
 - I. Building and/or exercising leverage over the players in the supply chain who can most effectively and directly mitigate the risks
 - II. Temporarily suspending trading activities with the red-flagged supplier(s) while pursuing ongoing measurable risk mitigation procedures
 - III. Disengaging with a red-flagged supplier in case they fail to comply with the mitigating controls, and/or disengaging if such controls are not feasible and/or unacceptable in light of the cost-benefit analysis and the capabilities of the company conducting the due diligence

| RISK LEVEL | CONTROL MECHANISM |
|------------|---|
| Low | Start or continue trading activities |
| Medium | Start or continue trading activities whilst mitigating the identified risks |
| High | Suspend trading activities whilst mitigating the identified risks by obtaining additional information/data confirming or refuting the adverse risk assessments Disengagement from the red-flagged company and/or sources of the risk |

STEP 4: CARRYING OUT INDEPENDENT THIRD-PARTY AUDITS OF GOLD AND PRECIOUS METALS COMPANY'S DUE DILIGENCE PRACTICES

Objective: to ensure that the gold and precious metals company is abiding by the standards appearing in the DMCC guidance.

1. Scope of the auditor is to verify the following:
 - a. Adequacy of the related policies and processes to implement the DMCC guidance
 - b. Adequate external and internal controls to mitigate risks
 - c. To ensure conformity to DMCC guidance in all communications with players in the entire supply chain
 - d. Establishing the chain of custody and traceability of information for all activities
 - e. Ongoing risk assessment using a risk based approach and accordingly respond promptly to the outcome(s) of the risk assessments
2. The party conducting the audit of the gold and precious metals company should have the following characteristics:
 - a. Independent from the company that is being audited
 - b. No conflict of interest between the auditors and auditee (business or financial relationships)

- c. No specific services provided to the company in relation to due diligence exercise, other than general related guidance
 - d. Competent to carry out such an audit
3. The activities that form part of the auditing process are as follows:
 - a. Audit preparation: developing the audit plan
 - b. On-site investigations including
 - I. The company's facilities
 - II. A list of the company's suppliers
 - c. Consultations with the company's risk assessment team
 - d. Audit conclusion: validate, report and document findings that determine the level of conformity of the company's supply chain due diligence with the DMCC guidance
 - e. Provide recommendations for the company to improve their due diligence practices
 - f. To include the audit summary in the company's annual report on supply chain due diligence
 4. Company's implementation of an audit programme to conform to the DMCC guidance on responsible supply chain due diligence:
 - a. Draft audit standards in conformity of the DMCC guidance
 - b. Engage the auditing party to conduct the audit
 - c. Oversee and fully cooperate with the auditing party
 - d. Implement all recommendations issued by the auditing party
 - e. Publish summary of audit reports along with the annual report on supply chain due diligence

STEP 5: REPORTING ANNUALLY ON RESPONSIBLE SUPPLY CHAIN DUE DILIGENCE

Objective: to publicly report on due diligence for responsible supply chain to generate public confidence in the measures that the company has implemented. The report should include all the measures taken by the company to respond to Steps 1, 2 and 3.





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