

Summary Notes

RJC Standards Committee Meeting (face to face)

17-18 October 2017 – Mendrisio, Switzerland

Participants: Ainsley Butler (Co-chair), Alan Martin, Cecilia Gardner, Charles Chaussepied, Claire Piroddi, Claus Teilmann Peterson (Co-chair), Eleonora Rizzuto, Felix Hruschka, Hany Besada, Jennifer Hillard, Jennifer Horning, Marco Quadri, Purvi Shah, Wilfried Hoerner (RJC Chairman)

RJC Management Team: Anne-Marie Fleury (Standards Director), Andrew Cooper (Standards Specialist), Bethan Robson Herbert (Certification and Impacts Manager), Maria Mursell (Member and Stakeholder Training Manager)

Guest Speakers: Magali Barraja (BSR) - Teleconference

Apologies: Assheton Stewart Carter, Didier Backaert, Estelle Levin, Michelle Brulhart, Peter Nestor

Materials circulated prior to meeting: Meeting notes from committee meeting 14 September 2017, a draft of the revised CoC standard and guidance, and an agenda outline for the meeting in Mendrisio.

DAY 1- 17 Oct

1. Opening remarks

Co-chair Ainsley Butler welcomed participants to the meeting and reminded them of the RJC Anti-Trust policy. The purpose of the meeting is to approve final changes to the CoC standard. The minutes from the previous meeting, held on the 14 September 2017, were approved by Cecilia Gardner and Charles Chaussepied.

The Standards Director provided a short overview of the agenda and program for the two-day meeting, in addition to providing a description of the review process and key proposed changes to be discussed and agreed.

The prominence of due diligence and know your counterparty (KYC) in the standard was discussed. These provisions are now at the start of the standard to clarify that they apply to all the precious metals that an entity handles, not just the CoC eligible material. Committee members were reminded that these provisions are being reviewed for inclusion in the Code of Practices (COP). In the CoC these requirements apply to gold and platinum group metals (PGM) only, but when moved to the COP, will cover all materials in RJC's scope.

2. Due diligence provision

The Standards Specialist provided an overview of the CoC guidance section on due diligence. This is essentially an outline of the OECD 5 step framework and how it applies to RJC members at different points in the supply chain. These requirements are applicable to all areas of conflict and high-risk and are not limited to the Democratic Republic of Congo (DRC) and surrounding countries.

There was a discussion about the need to include downstream as well as upstream actors in due diligence, and that customers shouldn't be excluded. It was noted that greatest efforts should be placed where a company identifies high risks, which may include downstream actors.

The need to ensure consistency between audits on due diligence was discussed. The Standards Director referred to existing and planned auditor training on due diligence. She also described a new audit quality oversight project being introduced for RJC accredited audit firms/auditors.

It was noted that various other organisations have carried out work sourcing from conflict affected and high-risk areas (CAHRAs), especially in relation to sourcing from artisanal and small-scale miners (ASM). A recent project from Impact (formerly Partnerships Africa Canada) to export gold from the DRC was described as a successful example of this.

There was a question on the new requirement for refiners to supply RJC with data on the mine of origin, instead of country of origin. This approach has been taken to understand how CAHRAs are identified by CoC certified members. The specification that mine of origin data be collected was made in response to feedback from round 2 which indicated that country level data is not granular enough to identify conflict and high-risk areas. The information will be used internally by the RJC and, where applicable, shared with relevant partners for individual certificates being cross-recognised.

One participant commented that some countries require full disclosure of the buyers of minerals from that country, for example Peru. There was a question on obstacles to introducing a requirement to publish all counterparties. Confidentiality issues were discussed (the fear of “being cut out as the middleman”). There are also concerns that assumptions will be made about a business based on who they do/don’t sell to. It was suggested that in the next review of the CoC, further transparency on suppliers should be encouraged.

The question of why diamonds are not included in the CoC was raised. The revisions on due diligence and KYC in the COP was described as an important step in strengthening the business practices of all RJC members. The committee noted the action to schedule a review of this issue in Q1 of 2018 and emphasised the importance of this.

The committee approved the draft provision and guidance, with the following caveats:

- Clarifying that due diligence and KYC requirements apply to both suppliers and customers
- Clarifying that provision 1.2 (“appropriate to size and circumstances”) does not mean small parts of your business can be excluded from due diligence.

3. Know Your Counterparty (KYC) provision

The Standards Director provided an overview of requirements for the new KYC provision. The difference between ‘Know Your Counterparty’ and ‘Know Your Customer’ was described as a clarification rather than a change in application. The 2012 CoC used the term ‘Know Your Customer’ even though the practices applied to suppliers as well as customers. The term ‘counterparty’ is now used to avoid any ambiguity.

Commercial software tools are available to help companies identify individuals on sanctions lists, it was noted that these tools are generally designed for larger companies.

The committee approved the draft provision and guidance, asking a review of the term ‘known money launderers’ and the addition of reference to the financial intelligence list to the guidance note.

There was also a suggestion to review in the COP how KYC applies to counterparties providing services (cleaning, provisions) and potential labour risks in their businesses.

4. Eligible mined material

The Standards Director discussed proposed changes for validating eligible mined material sources. She pointed out a change since Round 3 consultation which now limits the validation approach to RJC

accepted mining assurance schemes only. RJC's harmonisation approach was described as a key driver for introducing 'accepted mining assurance schemes'. The current lack of CoC certified mines was also noted.

A member asked about potential cross-recognition between the accepted mining assurance schemes (ICMM and TSM) and RJC. The Standards Director indicated that neither ICMM nor TSM fully align with RJC's COP requirements at this time. However, she described a willingness from all parties to explore the option of joint audits.

She also described the biggest difference as being greater coverage of labour and working conditions in the COP compared with ICMM and TSM. This is unsurprising as both ICMM and TSM only cover large scale mining which is capital intensive and formal. These activities don't have the same labour/working risks found in the labour intensive, small-scale businesses which the COP is designed to address (eg, in diamond cutting or jewellery manufacturing).

There was a question on the number of gold mines and potential quantity of material that would become CoC eligible as a result of this new provision. This estimation has been made by the RJC Management Team and will be made available to the Committee.

Subsequent note on estimate: ICMM mines = 66 sites, up to 638 t/year; TSM Level A = 8 sites, 45t/year

ICMM's system includes adherence to 10 principles and Global Reporting Initiative (GRI) and is quite high level. A member questioned if these provide sufficient overlap with RJC. Other ICMM elements supplement the 10 principles and GRI, including the ICMM position statements which outline a number of commitments on biodiversity, Human Rights, etc as well as the Assurance Procedure which goes beyond GRI verification requirements.

The need to continue recognising ASM certification and support schemes was highlighted. The recognition of Fairmined and Fair Trade is a very important part of RJC's approach to supporting the ASM sector. No new ASM schemes have been identified for potential recognition at this time, but continued support to Fairmined and Fair Trade was confirmed as well as openness to new schemes.

One committee member congratulated the team for developing this new approach which ensures the integrity of CoC certification while promoting harmonisation with mining schemes.

The committee approved the provision and guidance.

5. Eligible recycled material

The Certification and Impacts Manager provided an overview of updates and changes to the eligibility criteria for recycled material. There was a long discussion on the inclusion of investment material and bullion bank gold as recycled CoC material. Feedback from the consultation process was polarised on this question. The concerns with including investment products as *recycled* material relate to the fact that most bullion bank gold comes from mined sources. Some members strongly expressed the view that LBMA Good Delivery status is sufficient in managing this risk. Others expressed the concern that this allows mined gold to 'short-circuit' the full CoC requirements for mined material which include environmental and social aspects. It was also argued that it would be difficult for brands to make marketing claims about recycled gold if investment products were mixed in with this.

One member pointed out that it is common practice for refiners to source ingots from bullion banks to fulfil demand. The exclusion of bullion bank gold from the CoC would seriously affect the availability of CoC eligible material.

There was a suggestion to consider in the definition of recycled material the concept of ‘surrendering’ (i.e. the material leaves the factory even if it re-enters the same supply chain later). This was discussed in the context of re-using internal scrap and how this cannot qualify as recycled content.

There was agreement that both bullion bank material and private investment products are different to recycled material and should not be in the same category. The Standards Director proposed revising the current ‘grandfathered’ category to ‘investment material’ as way to provide greater transparency on the type of CoC material involved. One member pointed out that this would likely result in brands ‘picking and mixing’ their preferred types of CoC material. Another indicated that this is already happening and is not necessarily an issue.

A participant requested that the environmental risks in e-waste recovery be added to the guidance (eg, production of dioxins from burning iphones).

The standards committee approved the provision and guidance on recycled material, the approval of the new category of eligible investment gold was postponed to the following day.

DAY 2 – 18 Oct

6. Silver (COP)

The Standards Director presented some background research on the inclusion of silver in the COP. She noted that the Exco has in principal approved including silver in RJC’s scope and this will be the subject of an upcoming public announcement. She described the difficulty of assessing how this will affect members’ fees, however the relatively lower value of silver (compared to gold and diamonds) should make this increase in cost minimal for most members. The co-chair clarified that the decision to add silver to RJC’s scope is not a revenue driving exercise.

This expansion of scope means silver will be included in the COP and certification audits. This won’t be carried out as separate or additional audits.

A high-level assessment of silver issues in the COP followed. Further research and consultation is needed for RJC to draft COP requirements, for example on the question of following LBMA’s ‘de minimus’ approach which exempts material with silver content of less than 15% from the requirements of the standard. There were concerns that this approach will exclude a lot of sources of recycled silver which are low percentage but high volume.

Additional silver stakeholders were suggested including the American Gem Society, Goldsmiths and Stellar.

7. Training

The Member and Stakeholder Training Manager provided an overview of training activities. In response to a question on the uptake of training support services by members, she described the situation as improving as a result of greater one-to-one engagement.

On the question of which provisions generate the most helpdesk questions, the RJC team indicated the CoC as a whole. Enquiries are not recorded in a centralised system and are handled and resolved by different members of the RJC team, making it difficult to have an overall assessment of queries. A new IT system should help improve this understanding and feed into training and member support.

Plans to develop more practical guidance were discussed. No standalone country specific guidance is available or anticipated at this time, the approach of including this in the guidance document will continue to be used.

Some members pointed out that the self-assessment tool is complicated and cumbersome and that a review and move to an IT platform would be beneficial.

Another member suggested more engagement with French, Italian and Spanish speaking stakeholders. Working with relevant trade associations in these countries for training purposes could be a good approach.

8. Product Claims and Intellectual Property

The Standards Director described changes to this provision relating to products not made entirely of CoC material.

There was a recommendation to differentiate between the claim made at point of sale and the need to provide full information on the nature of the claim. The full information should be clearly available (e.g. on website), even if it is not all included in the claim itself.

The approach to allowing claims on products with non-CoC material was discussed at length. One member recommended replacing the word 'some' with 'main' in describing the components which must be made of CoC material. There was a discussion on the potential to use a 'mass balance' approach for claims, where a minimum percentage of CoC material must be included in a product before a claim can be made. There was a concern about the potential complexity of this approach and introduction of confusion as the CoC does not use a mass balance approach for the rest of the standard.

A member suggested developing a list of components which could be excluded from CoC material. This is similar to the approach used in the US FTC guide where certain components of a jewellery product are exempted from assay.

The committee approved the provision, subject to adding a list of exempted components to the guidance.

9. Gender issues (COP)

The Standards Director introduced Magali Barraja from BSR who dialled in by teleconference to present BSR's project on gender inclusion in the COP. Magali provided an overview of women's empowerment in the jewellery supply chain. The project reviewing the COP will include interviewing key stakeholders and Hany Besada, Cecilia Gardner, Purvi Shah and Jennifer Horning volunteered to participate.

10. ExCo strategy – beyond 1000 members

Charles Chaussepied provided an overview of ExCo strategy development for RJC now that membership has exceeded 1000 companies. A review was carried out of the structure and role of the board and committees as well as the internal organisational tools and systems. This is ongoing work with the following actions identified to date:

- A draft strategy paper has now been written
- There is a team working on the membership strategy i.e. how can we engage in China and how can we attract membership from large non-member retailers?
- A new Business Development Manager has been appointed.

- An RJC representative for the US and Asia (China or Hong Kong) will also be appointed but these positions have not yet been filled.
- A new IT system for RJC will be implemented to streamline all processes.
- The auditing and accreditation programs will be reviewed and harmonised.
- The number of committees will be reduced (though not the standards committee)
- The governance handbook will be reviewed and updated by the end of 2017
- Greater collaboration and harmonisation with other organisations such as CIBJO and LBMA

The RJC MoU with DMCC was discussed. Recent efforts from DMCC to address some of the historical issues managing responsible sourcing have been a driver in RJC's closer relationship with them. A committee member commented that engaging with DMCC could expose the RJC to reputational risks and recommended caution.

Another member of the committee asked if the strategy paper will be publicly shared, and if the board is open to non-industry membership. A more open governance structure could help to strengthen the system and external credibility of the RJC. These comments were noted, but other committee members commented that this is not something the Board is currently considering.

11. Eligible investment material

The Standards Director presented a newly drafted category of eligible investment material. This approach was described as not necessarily addressing everyone's concerns regarding bullion bank gold coming from mined sources. However, the approach is transparent and a workable compromise. The option of adding a minimum time limit for investment material before it can become eligible CoC was proposed. There were questions on what would constitute a sufficient time limit for the 'mined status' of investment material to 'expire' and doubts about the ability of this measure to address the concerns.

The committee approved the proposed text.

12. Summary

The Standards Director summarised meeting agreements, noting that all changes to the CoC standard and guidance documentation had been approved. She also indicated a need to examine the review cycle for the RJC standards (currently every 5 years) to make the process more dynamic.

There was a request for the committee to review the edited version of the CoC to address potential inadvertent changes in meaning from the editing. There was a question on the timing for auditors to be sufficiently trained to audit against the new standard.

Actions:

- **Edited CoC to be shared with committee**
- **RJC to clarify when first audits against the new CoC standard will take place.**