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RJC CHAIN OF CUSTODY STANDARD - Supplementary Guidance

Frequently Asked Questions

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AUGUST 2021

RJC Chain of Custody Standard Supplementary Guidance Frequently Asked Questions – August 2021

1. Objective of Document

The objective of this document is to provide additional guidance in interpreting some of the elements of the CoC standard where members have raised queries about either the meaning or the practical application of requirements. There is also a requirement for additional guidance on how some points should be assessed either through the member's own due diligence or the certification audits.

This document cannot provide information on every scenario and where examples are given these should be interpreted as indicative of a range of situations that a member may face, however, the overarching principles of providing effective assurance to customers and consumers must take priority.

The current version of this document covers 5 points as follows:

- Potential for accepting the return of material sold as CoC back into the CoC chain.
- Risk assessment and assignment of risk level to outsourced contractors.
- Suggested sampling plan for deciding on the number of medium risk outsourced contractors.
- Necessity for the issue of transfer document to outsourced contractors
- Use of software for inventory control with considerations to physical segregation.

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Summary of what is new: N/A - First Issue

1. Return of sold CoC material and potential for this to remain included as CoC eligible

Queries have been raised by some members concerning the circumstances under which materials that have entered the CoC chain; and have either been sold or transferred to another party (either CoC certified or not) can be accepted back and re-enter the CoC certified chain retaining its original eligibility of either Mined, Recycled, Grandfathered or a mix.

Following consultation with different stakeholders the following criteria have been established for the conditions under which material can re-enter the CoC chain.

1.1. Overarching Principle

As an overarching principle there must be a clear process to identify that the material being returned is traceable to the specific material sold and that there is no risk that the material being returned has been substituted, modified or adulterated by the inclusion of non-CoC material. This may be through individual identification marks on each piece (e.g. logo and serial number); items being of a unique design or make-up that would make them identifiable; or being sealed in tamper evident packaging which is appropriately marked.

In the event that the member is selling visually similar or identical finished items or components in both CoC and non-CoC certified forms, consideration should be given to differentiating these through the use of different identifiers. A listing of the types of material and the potential identification methods is given in section 1.4 below.

1.2. Practical Considerations for the Member

Sale and return from a CoC certified member: Normally, when selling material to a CoC certified member, the material will be accompanied by a transfer document. The transfer document must be traceable to specific batches, lot numbers or other means of identifying the specific materials sold.

In the event that all or part of the consignment is returned this should then also be accompanied by a transfer document with clear reference to the original consignment and stating that this is a return of all or part of the material supplied. A warranty should be given that the material has been in the physical possession of the entity making the return.

On receipt of the return, the member must verify that the material is the same and retain records of the checks made which would include:

- Due diligence of the counterparty.
- Assessment of risk of substitution/modification or adulteration (this would mean that where the verification relied on tamper evident packaging, only sealed packs can be accepted).
- Verification of how material was stored while with the counterparty.
- Dates of all relevant transactions.

- Identification numbers (or other means of identification).
- Photographic evidence.
- Any other evidence including records of the reasons for the return.

In the event that the member is selling finished items or components in both CoC and non-CoC certified forms, particular care should be taken when accepting the return of such items to ensure that CoC material has been returned.

Sale and return from a non CoC certified entity by their nature pose a higher risk as the entity may not have effective segregation systems to support assurances in relation to the materials concerned.

In this case, the member will not have issued a transfer document with the materials that were sold and could not, therefore, receive a matching document with the return. In such cases the member must be able to provide evidence that the original consignment:

- was made up of CoC eligible material;
- that individual items, packages etc were identifiable when dispatched;
- that conditions concerning segregation were established in order to accept material for return if it was to re-enter the CoC chain.

If a consignment or part consignment is returned and the member wishes to accept this into their CoC eligible stocks, they will need to undertake and retain evidence of checks as described above under sales and return from a CoC certified member. In addition, the member will need to undertake additional due diligence of the entity's systems in relation to segregation of material which, depending on the outcome of the risk assessment, may include the need to audit the entity's ability to comply with the member's segregation requirements.

Return of material from an outsourced contractor. Where material has been provided to an outsourced contractor and surplus stock is being returned, the member can make use of the existing risk assessment and due diligence used to define the contractors risk level to also assess the level of due diligence required when accepting returned material.

Depending on whether a transfer document was issued with the material supplied; the member will need to be able to provide evidence that they have verified that the material being returned has come from an original consignment, and that it is still identifiable either through the items or components being of a unique nature or the packaging remaining intact. In addition, they will need to conduct this verification, retain evidence and be able to provide this for verification at any audit.

1.3. Practical Guidance for Auditors

RJC accredited auditors are required to verify that any material accepted into the CoC chain is eligible in accordance with the Chain of Custody Standard 2017 and that they are being correctly described in any eligible material declarations or subsequent transfers.

In addition to the normal checks required by the CoC standard; in the event that material has been accepted back into the member's stock through any of the routes described above, the auditor must verify that the member has undertaken sufficient verification prior to this inclusion and in particular, review:

- The risk assessment completed and whether this has identified all potential risks of substitution, modification or adulteration.
- The due diligence conducted by the member on any relevant counterparties and how they have verified the procedures implemented these counterparties in relation to segregation of material.
- The communication of requirements to counterparties who may return material.
- Effectiveness of training provided to employees involved in the receipt and verification of returned material.
- Systems for recording outward and inward flow of materials and how material that has been returned in this way is identified.
- Evidence retained by the member of the checks they have made on receipt of such material and, in particular:
 - how they have verified that the material returned matches what was issued;
 - the robustness and integrity of data retained;
 - dates of all relevant transactions;
 - identification numbers (or other means of identification) used;
 - photographic evidence;
 - any other evidence including records of the reasons for the return.

1.4. Material Types and Identification Methods

Material Type	Potential Identification	Comments
Bar	Maker's mark; potentially serial number; applied on individual bars.	
Grain	Tamper evident sealed packages with unique ID.	Must be returned in complete package, original weight to be matched, no evidence of having been opened.
Finished components	Unique design and marking; potentially with serial number components in sealed tamper <u>or</u> evident packaging.	Where components are identifiable via design or marking evidence that no alteration has been made. Where tamper evident packaging is used matching weight/number and no evidence of having been opened.
Semi-finished components	Unique design and marking; potentially with serial number <u>or</u> components in sealed tamper evident packaging.	Where components are identifiable via design or marking evidence that no alteration has been made. Where tamper evident packaging is used matching weight/number and no evidence of having been opened.

2. Risk Level Assignment to Outsourced Subcontractors

Auditors and members are asking for more guidance on how to assess risk and allocate a risk rating to outsourced contractors and steps required to mitigate such risks. The RJC Assessment Manual specifies that:

"All RJC members seeking CoC certification must assess the risks of non-conformance by their outsourced subcontractors. Risk is assigned dependent on activities of the outsourced subcontractor. You must visit all high-risk outsourced contractors to verify the risk assessment and ensure they conform to the necessary CoC provisions. You must visit a sample of medium risk outsourced subcontractors to verify the risk assessment and ensure they conform to the necessary CoC provisions. You may elect to visit low risk outsourced subcontractors to verify the risk assessment and ensure they conform to the necessary CoC provisions. The more preparatory work you conduct with your outsourced contractors, the more likely they are to conform to the relevant CoC provisions."

The definition of High and Medium Risk is given as:

- High-risk outsourced subcontractors are classified as those that change the physical properties of the material or product. Outsourced contractors who do not change the physical properties of the product are not high-risk.
- Medium risk outsourced subcontractors are classified as those that add or adapt the physical properties of the material or product, such as plating, stone setting or similar.
- Low risk outsourced subcontractors are classified as those that do not change, adapt or add to the physical properties of the material or product such as polishing, engraving and hall marking.

This is a very broad definition and does not take into account the specific nature of any changes being made, and whether these are of a nature or extent to have a genuine impact on the CoC eligibility of the materials.

Current activities and ratings would be defined per the table below. However, given the wide range of activities that may be included some additional considerations have been highlighted that should be taken into account in defining the rating.

Activity	Change of physical properties?	Potential Addition of material?	Current RJC Rating	Additional Considerations
Alloying	Yes	Yes	High	
Refining	Yes	Yes	High	
Stamping	Yes	No	High	
Pressing	Yes	No	High	
Welding	Yes	Yes	Medium	Full nature of what is being welded needs to be assessed – e.g. if 2 CoC eligible components are being welded the amount of welding paste which is being added may be insignificant in which case the risk rating could be lower.
Plating	No	Yes	Medium	Risk assessment of the contractor needs to review in greater detail the nature of the plating, the amount and type of material being added, whether this is being excluded in the CoC declarations etc to define the level of risk. A low risk rating may be applied depending on the result of the assessment.
Surface Treatment	No	Yes	Medium	Risk assessment of the contractor needs to review in greater detail the nature of the plating, the amount and type of material being added, whether this is being excluded in the CoC declarations etc to define the level of risk. A low risk rating may be applied depending on the result of the assessment.
Varnishing	No	Yes	Medium	Risk assessment of the contractor needs to review in greater detail the nature of the process, the amount and type of material being added, whether this is being excluded in the CoC declarations etc to define the level of risk. A low

Activity	Change of physical properties?	Potential Addition of material?	Current RJC Rating	Additional Considerations
				risk rating may be applied depending on the result of the assessment.
Stone Setting	No	Sometimes	Medium	Stone setting is specifically called out by the manual as medium risk. However, the gemstones are not included in the COC and the stones may be precision set into a mount – the risk assessment must identify the actual activity and materials used to define the correct risk level.
Engraving	No	No	Low	
Polishing	No	No	Low	

2.1. Practical Considerations for the Member

In order to establish the level of due diligence required, the member must conduct a full risk assessment to establish a valid risk rating. It is important that this risk assessment is conducted by someone who has been understands the processes being undertaken and the requirements of the CoC provision 5.

The risk assessment may in itself require a visit to the contractor to understand how the activity is operating and the potential impact to the components and/or finished item.

The member must retain full details of the methodology used, the qualification/training of the individual or team who conducted the risk assessment and the rationale for the final outcome so as to be able to provide this to the CAB, ideally at the point where the scope of certification and assessment are being decided.

Depending on the outcome, this may lead to a requirement for a formal assessment of the contractor's systems for segregation etc. so that all contractors deemed high risk are audited.

For the contractors deemed medium risk, a standard sampling methodology must be applied for the systems to be assessed as described under Point 3 below. It is also recommended that where a contractor has been moved from medium to low risk based on the additional data gathered per the above, some additional verification data be obtained, whether from self-assessment or other methods to ensure that the correct rating has been applied.

2.2. Practical Considerations for the Auditor

The auditor must verify the risk assessment conducted by the member to:

- ensure that this has been conducted by an appropriately trained and experienced individuals;
- verify that a balanced and consistent approach has been taken;
- establish that the risk ratings are consistent with the guidance from RJC.

Based on the agreed risk ratings, the auditor will then need to visit all the high-risk contractors and establish a sample of the medium risk contractors to visit. The example sampling plan included under 3 below can be used for this purpose. It is recommended that this sample should include some of the entities visited by the member (to verify the thoroughness of their assessment) as well as some that had not been visited previously.

The auditor should also specifically check how the low risk ratings have been arrived at and the validity of this assessment.

3. Recommended Sampling Plan for Medium Risk Outsourced Contractors

As mentioned in section 2 above, all high-risk outsourced contractors must be visited at each certification and surveillance audit. For an extension to scope, any new high-risk outsourced contractors must be visited as part of the audit. Consideration should also be given to whether the extension includes an addition of materials or an increased risk in the activities that would require existing high or medium risk contractors to be revisited.

For medium risk outsourced contractors, a sample is to be selected but the sample size is not defined which could lead to divergent approaches between different members and CABs.

In order to provide greater consistency, it is recommended that the member and the auditor base their approach on the square root of the number of medium risk contractors weighted as follows:

- Square root * 0.8 rounded to the nearest whole number for the initial audits and recertifications.
- Square root * 0.6 rounded to the nearest whole number for surveillance visits.

In selecting the contractors to visit, members and auditors should try to rotate and visit different sites across subsequent audits to ensure that contractors are in compliance with the CoC requirements.

Example of the sample to take for different numbers of medium risk outsourced contractors is given below.

Number of Medium Risk Contractors	Initial and Recertification Audits	Surveillance Visits
1-4	1	1
5-8	2	2
9-19	3	2
20-35	4	3
36-49	5	4
50-65	6	5
66-79	7	5
80-100	8	6
>100	Square root * 0.8 to nearest whole number	Square root * 0.6 to nearest whole number

4. Need for Transfer Documents to accompany material issued to Outsourced Contractors

The CoC standard currently states that a CoC transfer document must accompany and, wherever possible, be physically attached to each shipment or transfer of CoC material dispatched to other certified entities, outsourcing contractors or service companies. Some members have queried the necessity of this in the case of outsourced contractors, especially those who are not themselves CoC certified as they do not clearly understand the requirements and how to complete the documents. Other members who heavily utilise subcontractors within their business have questioned the need to include individual detail of the shipments' movements between each subcontractor, especially for shipments that are subject to a large number of subcontracted processes. Moreover, both of these requirements are seen as an unnecessary administrative burden and a "tick box" exercise.

This guidance provides an approach to allow a suspension on the issue of such intermediate transfer documents while providing the required transparency to clients.

4.1. Overarching Principles

While the CoC transfer document is an important mechanism for ensuring the transparency of the movement of material that is being sold; it is understandable that where ownership of the material remains with the member, the document itself may be considered as an additional administrative requirement. Especially where IT systems which effectively record the transfer and return of the work, other important information about activities undertaken and any change to weights or the nature of the items.

In such cases where the member retains ownership but is sending components to outsourced contractors, the use of the transfer document may, therefore, be suspended as long as these details are being recorded and are traceable in the internal systems. Additionally, the individual recording of each subcontracting process on the final transfer document can be suspended and replaced with an overarching statement when a consignment has been sold and legal ownership is transferring to another company / individual.

4.2. Practical Considerations for the Member

If the member is not going to issue a transfer document to accompany a consignment to an outsourced contractor the following conditions must be met:

- Ownership of the material must not pass to the contractor.
- The information normally recorded in the transfer document must be recorded and retained e.g:
 - Material.
 - Type of CoC material (Mined, Recycled, Grandfathered, Mixed).
 - Description of the material (e.g. grains, description of components, identification marks).
 - Weight(s) of different elements.
- On return of the material, the member must verify that the consignment matches what was sent and that there has been no substitution or change to the material other than what was intended – information on verification to be made would be similar to what is included in the section on Returns in 1.2 above.
- A record must also be made of the nature of the return with particular reference made to any change in the form of the material and the weight as a result of the activity.
- When sending the shipment to the new legal owner of the shipment the transfer document must include a statement as detailed below:

“The CoC-eligible product / material associated with this document has been subject to subcontracted processes, which may include, plating, engraving, hallmarking, polishing, stone setting, alloying, refining, stamping, pressing, welding, surface treatment, varnishing (AMEND / DELETE WHERE APPLICABLE). These processes were conducted at one or more of the following verified subcontractors’ locations; X CITY, Y COUNTRY, X CITY, Y COUNTRY, X CITY, Y COUNTRY, X CITY, Y COUNTRY (AMEND / DELETE WHERE APPLICABLE). If there are unexplained inconsistencies between the information recorded on this transfer document and the physical consignment it accompanies, such as differences in weight, or substitution of materials, then the supplier may have failed to maintain segregation and the receiver should make enquiries to satisfy themselves that the material or products can still qualify as CoC eligible.”

4.3. Practical consideration for auditors

RJC accredited auditors must pay specific attention to cases where transfer documents have not been used and verify that a full description of the outward and return flows are recorded together with detail of the changes that the material has undergone.

Auditors should also pay attention to the statement (if included) that members utilise on the transfer document, that it includes all of the applicable activities conducted by subcontractors and locations of subcontractors. Members do not have to individually list subcontractors, for example if they utilise the service of three stone setting subcontractors all in the same location, they can be described once.

In the same way that a sample of transfer documents is taken and matched, the same level of sampling should be applied to these additional movements. The auditor must also verify that the member has undertaken sufficient verification on return of the material and in particular, review:

- The level of detail recorded in the member’s systems (whether digitised or manual).
- The due diligence conducted by the member on their outsourced contractors and how they have verified the procedures implemented these counterparties in relation to segregation of material.
- The communication of requirements to counterparties who may return material.
- Effectiveness of training provided to employees involved in the receipt and verification of returned material.
- Systems for recording outward and inward flow of materials and how material that has been returned in this way is identified.
- Evidence retained by the member of the checks they have made on receipt of such material and, in particular:
 - how they have verified that the material returned matches what was issued;
 - the robustness and integrity of data retained
 - dates of all relevant transactions;
 - identification numbers (or other means of identification) used;
 - photographic evidence;
 - evidence of the changes to the material and in particular to form, weights etc.

5. Establishing Virtual Segregation where Effective Data Systems are In Place

Provision 4.1 of the RJC Chain of Custody Standard states that members must identify each point at which there is an opportunity for eligible and/or CoC material in its custody to become mixed with non-eligible and/or non-CoC material and put controls in place to ensure segregation. The question has arisen as to whether “segregation” means that the material must be kept physically separate, and the objective is to define more clearly how segregation can be proved virtually without physical separation.

5.1. Overarching Principles

Segregation of COC and non-COC materials is a fundamental requirement of the RJC Chain of Custody Standard. This has typically been interpreted as meaning that a physical separation is required and in many cases, this may be the most robust method to ensure that any risk of mixing is avoided. However physical segregation may not be essential where effective data recording and control systems exist through an ERP or equivalent & auditable data system and the material is identifiable and traceable at all times. Materials that cannot be identified and traced at all times (i.e. with a tag or engraved identification number, such as metal grain or other fungible material), must be physically segregated as the possibility of mixing with non-CoC material is of higher risk than that of a finished product.

Such virtual segregation can therefore be accepted as meeting the requirements of this provision if the member can demonstrate such traceability and the associated controls and training of relevant employees.

5.2. Practical Considerations for the Member

For a member to prove effective virtual segregation they will need to implement and demonstrate the following controls to the auditors:

- An ERP or equivalent & auditable data system which controls the receipt and movement of all material and allocates unique reference numbers to each item or batch so that each one can be physically identified.
 - The data recorded must be sufficient to clearly identify the material concerned. This should include a unique reference number so as to ensure that different items or batches cannot be mixed. This may include a photograph or other image that allows easy identification.
 - Where the material concerned is not individually identifiable (e.g. grains or similar) batches must be individually packed in tamper evident packaging appropriately labelled with the unique reference number.
 - Physical material may be “tagged” electronically to immediately allow an operative to “read” the reference number allocated, however, consideration should be given to also making the physical material immediately visibly identifiable for example by using different coloured packaging or other physical indicators.
 - Change of control to sub-contractor and change of control of the physical product should be recorded internally by the ERP or equivalent & auditable data system.
 - Change of ownership including all necessary information as per the CoC requirements (i.e. the selling by the CoC entity) should be recorded by the ERP or equivalent & auditable data system.
- Ability to trace all material forward from the ERP or equivalent & auditable data system to the physical location of the material and backwards from the physical material to the computer system.
- Evidence that the ERP or equivalent & auditable data system are tested from time to time to ensure that the controls are working, and records of such checks should be available.
- Effective training of relevant employees responsible for the storage and issue of materials so as to ensure that accidental mixing cannot occur.

5.3. Practical Consideration for Auditors

RJC accredited auditors must ensure that they fully investigate any ERP or equivalent & auditable data system to ensure that the relevant controls are in place. Controls on the ERP or equivalent & auditable data system to avoid the possibility of data being changed, corrupted or lost must also be evaluated.

The auditor must test the traceability systems to ensure that these are effective and that the location of material is identifiable and the movement of material is fully traced.

Training records must be reviewed to ensure that all relevant employees have been fully briefed and that this training has been effective. This should be further assessed through interview of relevant managers and employees to verify their understanding of the requirements and the control systems.