

## RJC Certification Scope – Guidance Note for Members and Auditors

### Key Points:

- RJC Certification Scope is based on the concept of “Control”
- Control of a business entity can be exercised in several ways, including majority ownership, the power to exercise more than half the voting rights or the key appointments of a business entity, or through day to day executive management of the entity
- Business relationships such as Contractors (unless they are covered by one of the above criteria) and Business Partners do not constitute “Control”
- Some requirements in the Code of Practices apply to the Member’s management of the relationship with Contractors and Business Partners, but this does not mean a Member’s Contractors or Business Partners are part of the Certification Scope

### Introduction

A key step in the RJC Certification process is the determination of the Member’s Certification Scope. The Certification Scope must include all Entities, Facilities and Business Activities under the Member’s Control that actively contribute to the Diamond, Gold and/or Platinum Group Metals Jewellery supply chain.



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Identifying the Certification Scope must be done by each Member when they apply for Membership. Details must be provided within the Application Form:

## Section II: Company Information

### 9. List of Entities and/or Facilities covered under Application

The information in this section assists the RJC to understand which Entities and/or Facilities are covered within your Commercial Membership of the Council. This allows us to ensure that all relevant parts of the applicant's business receive access to RJC Member benefits, including training on the Certification System.

Name of Business Entity and/or Facility	Location	Category

The Auditor will verify the accuracy of the Member's Certification Scope in accordance with the definitions provided in the Code of Practices. Details on the Certification Scope for each Certified Member are then published on the RJC website following a successful Certification audit.

Business circumstances may at times be complex and questions may arise about whether a business should or should not be part of a Member's Certification Scope. This note provides guidance for Members and Auditors in addressing such questions. Examples relevant in India are provided below to provide further assistance.

The purpose of this guidance note is to assist Members and Auditors in understanding and interpreting the terms and definitions that are relevant to the definition of a Member's Certification Scope for the Code of Practices. If there are uncertainties about specific cases, Members and Auditors may also bring them to the attention of the RJC for guidance.

### The Certification Scope is based on the concept of "Control"

All businesses or Facilities that are under the Member's Control are to be included in the Certification Scope. According to the definition set out in the Code of Practices, Control by a Member consists of:

- 1) *Direct or indirect ownership, or Control (alone or pursuant to an agreement with other Members) of 50% or more of the voting equities/rights (or equivalent) of the Controlled business or Facility; and/or*
- 2) *Direct or indirect (including pursuant to an agreement with other Members) Control of the Board of the directors or management (or equivalent of the Controlled business or Facility; and/or*
- 3) *Day-to-day or executive management of the Controlled Business Activity or Facility such as by setting workplace standards and enforcing their application; or*

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- 4) Any legally recognised concept of 'Control' analogous to those described in (1) to (2) above in a relevant jurisdiction.
- 5) Although the above defines 'Control' in a corporate context, the same principles will apply by analogy to other organisational arrangements, including Franchisees, Licensees and Control by an individual or a family, where applicable.

Following is some additional guidance for interpretation of the definition of Control.

Indirect Control includes Control of a business entity that is established through a relationship that is not primary or direct, such as through an intermediate company.

Indirect Control may also be established through an agreement with a business entity that gives the Member the power to remove, nominate or appoint at least half of the members of the Board of the directors or management.

Whether direct or indirect, any arrangement that gives a Member the power to exercise more than half the voting rights or the key appointments will mean that the Member has Control of an entity.

Control through day-to-day or executive management means that a Member exercises ongoing decision-making authority over the operation of a business entity or Facility.

Executive management applies at the level of the business entity or Facility as a whole. Authority that is exercised only over certain activities at a business entity or Facility would not constitute executive management and would not therefore constitute Control.

Evidence of Control through day-to-day executive management, without having ownership or voting rights greater than 50%, should be based on a formal document that establishes this authority. Although it is possible that day-to-day executive management could be exercised through informal, undocumented arrangements, it would be impractical to determine on a consistent and objective basis where these conditions apply.

Other arrangements, such as licensing agreements or franchises that give a Member powers over the governance and/or operation of a business entity at the executive level will also establish a situation of Control.

### **Business relationships that do not constitute Control**

The RJC Code of Practices (COP) sets out certain requirements for Contractors, Business Partners and Related Companies. These types of business relationships do not meet the criteria for Control and therefore do not trigger inclusion in the Member's Certification Scope.

A Contractor carries out work or performs services pursuant to a contract for services for a Member. A Contractor, including Contractors who may work exclusively for a Member at

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the Member's Facility, is not under the Control of the Member. The only exception to this would be a situation where the relationship also meets at least one of the criteria listed in the definition of Control, such as the Member owning the Contractor or having day to day executive management over the Contractor as a whole.

The Code of Practices does however require the Member to ensure that Contractors, when working on the Members' Facilities, comply with the Member's policies, systems and procedures relevant to the Code of Practices. In this type of situation, the procedures and practices that apply to the Contractor when working on the Member's Facility are included in the Certification Audit, but this does not mean that the Contractor, as a business entity, is part of the Certification Scope.

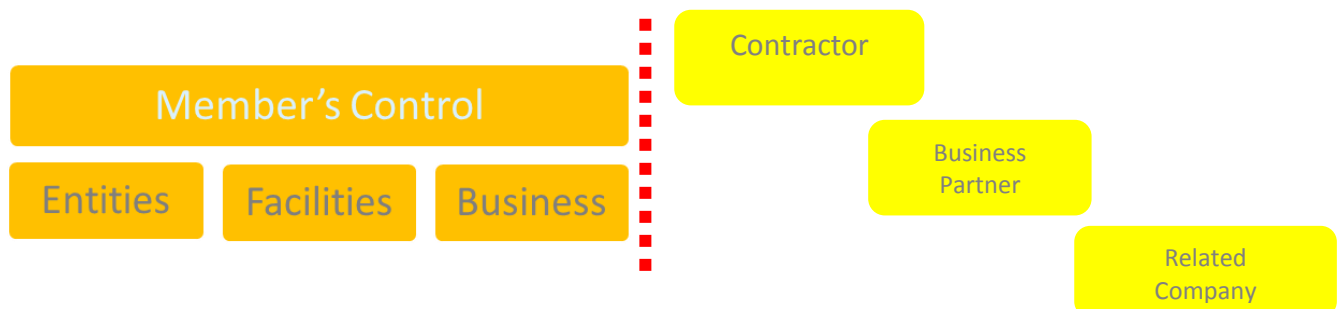
A Business Partner is an entity that a Member has direct business relations with and that buys and/or sells a product or service that directly contributes to the Jewellery supply chain. Business Partners include Contractors, agents, customers, suppliers and joint venture partners. Because of the way the terms are defined by the RJC, a Business Partner is by definition not an entity that is under the Control of a Member, as such entities fall under the Member's Certification Scope.

The Code of Practices requires that Members use their best endeavours, commensurate with their ability to influence, to promote responsible business practices among their significant Business Partners.

In the 2013 Code of Practices, 'Business Partners' is covered in provisions 5.1 & 5.2, whereas in the 2009 Code of Practices, it was covered in provision 4.3.

Related companies are companies that are related to a Member and that contribute to the diamond, gold, and/or precious metals jewellery supply chain, but are not Controlled by the Member. Examples include parent and sister companies of a Member in a larger corporate group.

Members must provide information about any Related Companies in the Self Assessment for COP 2013. Auditors will draw on this information in the Audit Report to the RJC, such that a short description of any relevant related companies can be included in the Member's Certification Information on the RJC website.



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### **Examples where the Entity or business is part of the Certification Scope**

- A Member has more than 50% of the voting rights of 123 Pvt. Ltd., and 123 Pvt. Ltd. has more than 50% of the voting rights of PQR Inc.
  - The Member has direct Control over 123 Pvt. Ltd. and indirect Control over PQR Inc.
  - *Both companies will be part of the Member's Certification Scope.*
- A Member uses a Contractor for cutting and polishing on a dedicated floor of the Member's factory. The Contractor may also work at other factories owned by other companies. The Member has five directors, and three of them collectively own more than 50% of the Contractor.
  - Through this ownership by a majority of the Member's directors, the Contractor is Controlled by the Member.
  - *The Contractor will be part of the Member's Certification Scope.*
- A Member owns less than 50% of a manufacturing Facility, which the Member operates under a joint venture agreement. The agreement establishes that the Member is responsible for the day to day management of the Facility and workers at the Facility are employed by the Member.
  - The Member has Control through an agreement that provides it with executive management over the joint venture Facility.
  - *The Facility will be part of the Member's Certification Scope.*

### **Examples where the Entity or business is not part of the Certification Scope**

- A Member is a subsidiary of a larger corporate group, and "sister" companies in the group are also engaged in the jewellery supply chain.
  - The sister companies and the parent company are related to but not Controlled by the Member.
  - *These related companies are **not** part of the Member's Certification Scope.* They will be identified in the Member's Certification Information on the RJC website.
- One of a Member's owners, Mr. B, has a 30% ownership interest in DEF Co., which provides cutting and polishing services for the Member. Day to day management of DEF Co. is carried out by a CEO and is not directed by Mr. B.
  - DEF Co. is a Contractor and is not under the Control of the Member.
  - *The Contractor is **not** part of the Member's Certification Scope.*
- A Member is majority owned by Mr. C. A key supplier to the Member is BTB Pvt. Ltd., which is majority owned by Mr. D, who is Mr. C's brother.
  - BTB Pvt. Ltd. is a Business Partner, and is not under the Control of the Member.
  - *The Business Partner is **not** part of the Member's Certification Scope.*
- A Member uses a Contractor, MNO Pvt. Ltd., for cutting and polishing on a dedicated floor of the Member's factory. This is the only location where MNO Pvt. Ltd. has operations. The relationship is arm's length and contractual only. The Member has no ownership interest or other form of relationship with MNO Pvt. Ltd.
  - MNO Pvt. Ltd. is a Contractor and is not under the Control of the Member.
  - *The Contractor is **not** part of the Member's Certification Scope.*