LBMA RESPONSIBLE SOURCING PROGRAMME

DISCLOSURE GUIDANCE

NOVEMBER 2022

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Acronyms

3TG	Tin, Tantalum, Tungsten and Gold
AML-CFT	Anti-Money Laundering – Combatting the Financing of Terrorism
ASM	Artisanal and Small-Scale Mining
CAHRA	Conflict-Affected and High-Risk Area
EITI	Extractive Industries Transparency Initiative
GDL	Good Delivery List
GRI	Global Reporting Initiative
KYC	Know Your Counterparty
LBMA	London Bullion Market Association
LSM	Large and Medium Scale Mining
OECD	Organisation for Economic Cooperation and Development
RGG	Responsible Gold Guidance
RJC	Responsible Jewellery Council
RSG	Responsible Silver Guidance
RSP	Responsible Sourcing Programme
RMI	Responsible Minerals Initiative
UNGP	United Nations Guiding Principles on Business and Human Rights
VPSHR	Voluntary Principles on Security and Human Rights

Introduction

Purpose

This Guidance has been developed to support LBMA GDL Refiners (Refiners) in the implementation of the Responsible Sourcing Programme (RSP) reporting and disclosure requirements. The Guidance provides greater alignment with the OECD Due Diligence Guidance[1] Step 5 reporting requirements and, in instances, goes beyond this to encourage more transparent and meaningful communication by Refiners.

This Guidance should be interpreted as a minimum threshold upon which Refiners should build and continually improve reporting and disclosure practices. It forms part of the Refiners Toolkit and, as such, Refiners are expected to implement it on a comply or explain basis.

Scope

The Disclosure Framework (see figure 1) sets out the components that Refiners should implement to meet the RSP's expectations for Step 5 annual reporting and ongoing disclosure.

FIGURE 1: DISCLOSURE FRAMEWORK

Compliance Report

The Compliance Report is the subject of the annual third-party assurance as stipulated in the Responsible Sourcing Guidance (RSG) documents. Section 2 of this Guidance sets out the disclosure requirements to be included for Refiners to conform with the RSG. A selection of illustrative examples from existing reporting has been included in Appendix 1.

Country of Origin Annex

The Country of Origin (COO) Annex is also subject to the annual third-party assurance as stipulated in the RSG documents. This document, however, is only sent to LBMA and is not required to be made publicly available. Section 3 of this Guidance sets out the template for Refiners to complete their COO Annex disclosures.

[1] OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas

Ongoing disclosure

Refiners are expected to adopt disclosure practices that enable them to reflect the ongoing nature of due diligence, beyond annual reporting. This also includes responding to responsible sourcing-related allegations that may be connected to a Refiner. Section 3 outlines recommendations and principles for ongoing disclosure.

Proportional Application

Each Refiner must apply this Guidance proportionally to its own business activities and to those directly involved in its precious metals supply chains. Proportionate application does not mean different standards for different institutions – it is a recognition of the differing levels of size, complexity, nature of engagement and sophistication of precious metals producers and refiners worldwide. The Guidance is therefore fit to be flexible enough to adapt to the operational context and supply chain of the Refiner.

Guidance effective date

This Disclosure Guidance is aligned to the requirements of the Responsible Gold Guidance (RGG) version 9 and supplements Step 5 of the RGG. As Refiners have until 31 December 2022 to fully implement the new requirements of RGG version 9, this Disclosure Guidance should be implemented for reporting for the year ending 31 December 2022. It is noted, however, that Refiners may not have certain systems and processes in place to produce quantitative data and/or qualitative data that is outlined in the Disclosure Guidance (but may not be covered in RGG version 9). As such, Refiners have until 31 December 2023 to address this aspect of the Guidance.

For the avoidance of doubt, Step 5 of RGG version 9 (page 38), says: The Country of Origin Annex should, as a minimum, meet the requirements outlined in the Disclosure Guidance documents in the Refiners Toolkit. Minimum information includes:

a) List of gold sources by country and by type of material sourced, and related information.
b) Total gold sourced by type of material (LSM, ASM, Recycled Gold, Grandfathered Stocks) in the reporting period.
c) The identity of the Refiner and the local exporter, if located in high-risk locations, should always be disclosed except in cases of disengagement.

This minimum information is required as part of the RGG version 9 implementation. Refiners will have until 31 December 2023 to meet the additional Country of Origin requirements highlighted in the Disclosure Guidance.

Audience

The primary target audience of this Guidance is the GDL Refiner, but it can also be considered as a reference point for other refiners seeking to be aligned with LBMA's RSP. LBMA Approved Assurance Providers may also find this Guidance useful for the disclosure expectations of the Step 4 Third-Party Assurance.

Refiner Compliance Report

Table 1 lists the requirements that must be satisfied by Refiners in order to demonstrate compliance with the RSP. Mandated information can also be bolstered by signposting reporting on company websites or other corporate reporting (e.g., sustainability report, annual report and press releases).

Illustrative examples are provided in Appendix 1 of this Guidance.

TABLE 1: SUMMARY OF ACTIVITIES TO DEMONSTRATE COMPLIANCE
STEP 1: COMPANY MANAGEMENT SYSTEMS
1.1 Has the Refiner adopted a supply chain policy regarding due diligence for supply chains of gold and/or silver?

The Refiner should:
• Outline the scope of the reporting with respect to the group/company structure, including relevant facilities and business units.[2]
• Confirm that a Responsible Sourcing Policy has been documented and that the Policy includes:
  ○ All threat financing risks, including OECD Annex II risks, per Step 1.1 of the Responsible Gold/Silver Guidance (RGG/RSG).
  ○ Environmental, social and governance (ESG) factors considered in its gold primary supply chains, per Step 1.1 of the Responsible Gold Guidance.
• Make clear that the supply chain policy is:
  ○ Approved at a senior level.
  ○ Reviewed annually and updated as and when circumstances require.
  ○ Publicly available on the website, in English (link to policy), and communicated to all relevant staff.

1.2 Has the Refiner set up an internal management structure to support supply chain due diligence?

The Refiner should provide:
• A description of the organisational structure and clarify that:
  ○ Authority and accountability for supply chain due diligence are assigned to the Board, or a committee appointed by the Board.
  ○ The Board has sufficient skills and experience, and training is provided for the Board to carry out its oversight of responsible sourcing activities effectively.
  ○ A suitably experienced Compliance Officer has been appointed to take responsibility for the implementation of the supply chain due diligence processes.

[2] It is understood that, where two refineries belong to the same structure, then the reports may repeat the information on the organisational chart.

- There is sufficient availability of the necessary resources and skills to support and monitor due diligence processes.

The Refiner should report on the:

- Percentage and/or number of relevant employees trained on supply chain due diligence matters during the reporting period.
- Related training topics, contextualised and proportionate to the company due diligence structure and supply chain.
- Where relevant, the number of material violations of the internal due diligence process that have been escalated and whether internal sanctions (e.g., warnings, penalties, etc.) have been taken, or could be taken, with regards to (failures in) due diligence implementation.

- Refiners should also include a description of their cash payment policy and record-keeping policies with reasoned justifications for deviations from the requirements of Step 1.2 of the RGG.

1.3 Has the Refiner established a traceability system over gold and/or silver supply chains, including chain of custody mapping and identification of supply chain actors?

The Refiner should describe:

- The methods for identifying all counterparties down to the precious metal's origin, as defined in the RGG for various sources of precious metals.

- The traceability system used, including the information recorded (such as counterparties, origin, type of materials, date of arrival and finalisation, weight, etc.) and documents collected and stored (such as airwaybills, packing list, pro forma invoices, export forms).

- Any instances of incidents relating to counterparties' identification, origin and traceability of precious metals, and the measures or procedures followed by the Compliance Officer to address these.

-

1.4 Has the Refiner strengthened company engagement with gold and/or silver supplying counterparties, and, where possible, assisted gold and/or silver supplying counterparties in building due diligence capabilities?

The Refiner should describe:

- How it shares information and expectations about due diligence with counterparties (e.g., contractual clauses, training on specific due diligence issues, company internet campaign).

- The types of expectations communicated to counterparties.

- The due diligence issues on which suppliers/counterparties were specifically engaged during reporting period, if any.

- The Refiner should also, if and where relevant, convey its support to the implementation of the EITI Principles (as provided for under Step 1, 4 of the RGG) and indicate whether the Refiner buys mined gold from a State-Owned Enterprise operating in an EITI country.[3]

- The Refiner is encouraged to disclose all first trades payments made to State-Owned Enterprises for the purchase of mineral resources during the reporting period. (Note: this is a recent EITI requirement for buyers, see key insight 5).

1.5 Has the Refiner established a company-wide confidential grievance mechanism?

The Refiner should describe:

- The grievance mechanism in place, including:
  - Whether it is accessible to internal and external parties.
  - How it can be accessed (e.g., via email, mailbox, hotline).
  - Whether it can be used anonymously by employees or external parties.
  - How grievances are managed and resolutions are communicated to stakeholders.

The Refiner should disclose:

- The number and nature of relevant grievances that were received through the relevant platforms or the Refiner's own grievances channel and that were closed during the reporting period.

- The steps taken to resolve grievances and refer, where relevant and appropriate, to the nature of corrective and preventative actions taken in response to grievances. For instance, Refiners can report that external investigations, assessments, inquiries with suppliers, checks about internal procedures, etc. are ongoing, with due respect for confidentiality.

- The plan and expectations for closing out remaining grievances.

STEP 2: RISK IDENTIFICATION AND ASSESSMENT

2.1 Does the Refiner have a due diligence process to identify risks in the supply chain?

The Refiner should describe:

- The systems and controls in place to identify risks related to the supply chain, including:
  - The procedures and tools for undertaking Know Your Counterparty (KYC) assessments.
  - The resources, skills and experience of the team conducting the risk assessments and continuous monitoring, and how applicable systems and personnel communicate their assessments and checks to inform others.
  - The review and sign-off procedures for the risk assessments.

2.2. How does the Refiner classify identified risks in light of the standards of its due diligence system?

[3] Note: this might not be relevant to all Refiners.

The Refiner should describe:

- The processes in place and the definitions/criteria (e.g., context, Politically Exposed Persons, beneficial owners, sanctions) used to determine when precious metals or counterparties are from a CAHRA or are considered high-risk (including the ESG criteria used for the gold primary supply chain).

The Refiner should disclose:

- The number and/or percentage of zero-tolerance and high-risk suppliers identified.
- The nature of the zero tolerance and high risks.
- The steps taken to mitigate these risks, including any communication with the regulators or LBMA, and the Enhanced Due Diligence procedures followed. It is understood that these cases may be sensitive and confidential. Disclosures are not expected to breach any legal requirements.

2.3 Has the Refiner undertaken EDD measures for identified high-risk supply chains?

The Refiner should describe:

- The EDD procedure and tools used for the different types of precious metals bearing material.
- The site visits procedures undertaken, including:
  - An understanding of the resources, skills and experience of those undertaking the on-site visits (e.g., external specialist agencies, joint assessment teams, in-house personnel).
  - The timing and frequency of the on-site visits.
  - The procedures implemented in instances where it is not possible to conduct mandatory on-site visits.
- The EDD procedures implemented for high-risk Recycled Gold from Intermediate Refiners with high-risk supply chains.

The Refiner should disclose:

- The number of all on-site visits to (high-risk) counterparties/areas for risk assessment purposes and the percentage that were conducted by external assessors, while keeping due regard to business confidentiality and other competitive concerns.
- The nature of the specific underlying issues, if any, that led to on-site visits being carried out and the nature of high risks identified during site visits - split by topic such as conflict, environment, social, governance, etc.

  The number of Intermediate Refineries with high-risk supply chains that supplied independent assurance reports and the plan for obtaining the remainder.
- The frequency for conducting risk assessments.

STEP 3: RISK MANAGEMENT

Does the Refiner have a process to respond to the identified risks by either (i) mitigating the risk while continuing to trade, (ii) mitigating the risk while suspending trade or (iii) disengagement from the risk?
The Refiner should describe: • The company's risk management strategy according to the risk's nature, including the reasons to continue, suspend and/or disengage with a counterparty. • The company's internal risk classification. The Refiner should disclose: • The number of counterparties, and the context and nature of related risks for which mitigation measures have been applied. • The efforts made by the company to monitor and track performance for risk mitigation. • The steps taken to strengthen chain of custody or traceability systems for supply chains under risk mitigation instances and the results of the follow-up of improvement plans after six months to evaluate significant and measurable improvement. • The number of instances where the company has decided to disengage with counterparties, without disclosing the identity of those suppliers, except where the company deems it acceptable to do so in accordance with applicable laws.[4] • The cases of cooperation with national or local government authorities (having regard for confidentiality and the potential harmful effects for stakeholders, and in accordance with applicable laws). • The reporting mechanism to the Board of Directors/Board Committee on high-risk supply chains, counterparty under risk mitigation strategies and status of risk mitigation strategies, and the progress and effectiveness of improvement plans.
STEP 4: INDEPENDENT THIRD-PARTY ASSURANCE
The Refiner should describe: • The assurance provider selection process. • How the Board has fulfilled its responsibility to ensure assurance provider independence. The Refiner should disclose: • High and medium-risk non-conformances identified during the current audit cycle and how these have been/are planned to be resolved. • Progress on high/medium-risk non-conformances identified in the previous audit cycle that remain to be mitigated. • Reasons for compliance when partial high/medium-risk non-compliances have been raised.

[4] Consistent with Annex II

- Where the assurance report will be available to the public.

Country of Origin Annex

The Country of Origin Annex template is shown below. The file is available in the Refiners Toolkit on the LBMA website. The annex must be submitted as an xls file.

Refiner:

Time Period Covered:

Metal:
GOLD

Weight Converter:
1 kg = 32.1507465 troy ounces

Country	Material Type	Fine Gold Weight (kgs)
Afghanistan	ASM	-
	LSM	-
	Unprocessed Recyclable Gold	-
	Melted Recyclable Gold	-
	Industrial By-Product	-
	Mixed Material	-
	Grandfathered Stocks	-
Åland Islands	ASM	-
	LSM	-
	Unprocessed Recyclable Gold	-
	Melted Recyclable Gold	-
	Industrial By-Product	-
	Mixed Material	-
	Grandfathered Stocks	-
Albania	ASM	-
	LSM	-
	Unprocessed Recyclable Gold	-
	Melted Recyclable Gold	-
	Industrial By-Product	-
	Mixed Material	-
	Grandfathered Stocks	-
Algeria	ASM	-
	LSM	-
	Unprocessed Recyclable Gold	-
	Melted Recyclable Gold	-
	Industrial By-Product	-
	Mixed Material	-
	Grandfathered Stocks	-

Ongoing Disclosure

Supply chain due diligence is an ongoing process and Refiners should adopt disclosure practices that enable them to reflect the ongoing nature of due diligence, beyond annual reporting.

The following recommendations and principles are provided to guide Refiners on enhancing their due diligence disclosure:

- A wider meaning to due diligence: communicating on due diligence outside the annual cycle of reporting is an opportunity for Refiners to demonstrate their efforts on environmental, social and governance issues, beyond strict application of due diligence. Refiners can, for instance, report on their greenhouse gas emissions and efforts to reduce these, or on leverage exerted with counterparties to reduce mercury use in the supply chain, to demonstrate due diligence considerations and progress towards their environmental impacts throughout the supply chain.
- Transparency: mention the nature of the risks that are being dealt with and give information as to the context in which they might occur. For instance, provide the location in the supply chain and broader geographical area.
- Proactive engagement: opt for proactive disclosure, rather than reactive communication with regards to potential risks in the supply chain.
- Acknowledge the complexity of risks: welcome and publicly acknowledge any (new) source of material information with regards to possible risks in the company supply chain and provide external stakeholders with an understanding of the challenges related to the management of these risks.
- Ongoing communication: show the company efforts in raising awareness about the complexity of the issues.
- Accountability: assure external stakeholders of the responsibility of the company in managing the potential risks in its supply chain.
- Predictability: regularly communicate to external stakeholders on the issues that were identified and on the due diligence steps to be implemented, as per the company due diligence and risk management strategy.

Example: Ongoing communication

This example from a Valcambi – 2019 Press Release explains the sourcing of Colombian ASM gold and related engagement with upstream suppliers on risk mitigation, and also provides some insights in terms of related mitigation efforts.

> *"To date, five hundred Barequeros have received support from the on-the-ground BGI implementation team to attain the SBGA criteria of socially and environmentally responsible mining practices. As part of the scheme, the miners are subject to strict due diligence before they can sell their gold to Anexpo. The metal is then shipped to Switzerland where Valcambi refines it and Chopard finally uses it in the production of its precious watch and jewellery creations. The programme ensures that the Barequeros receive not only a competitive price but also a special SBGA Better Gold Incentive of 0.70 per gram for them to reinvest into improving their living and working conditions. In addition, this value chain allows them to know the exact destination of their gold.*
>
> *In El Chocó, Colombia's second-largest gold producing region and also one of the country's poorest, artisanal gold mining is an ancestral livelihood for the population of predominantly Afro-Colombians. The Barequeros, comprising 46 percent women, use local traditional alluvial mining techniques with hand equipment such as sluices and panning. No mercury is used, protecting the region's biodiversity which is among the most unique in the word. To be legally registered, the Barequeros need to obtain a special permit that allows them to produce manually and sell up [to] 420 grams of gold per year."*

Example: Transparent communication

In this example, Argor Heraeus explains its approach for continuing to source from CAHRAs.

> "Mining is an important industry for the local population. Argor-Heraeus has therefore made it a priority to support better environmental standards and improve labour and living conditions of workers in legal local mining operations. As an example, the "Better Gold Initiative" rewards small mining entities in Peru that implement exemplary environmental, labour and social standards."

KEY INSIGHT: RESPONDING TO A RESPONSIBLE SOURCING-RELATED INCIDENT

Refiners should follow as much as possible a proactive approach to disclosure (i.e., disclosing information in a timely manner and according to stakeholders' expectations). However, when facing allegations related to their responsible sourcing practices, there are a few basic questions that Refiners can address to disclose key, relevant information to external stakeholders and maintain transparency.

At a minimum, Refiners' communication when responding to an incident should seek to answer the following questions:

- What is the incident about? What are the underlying issues and risks?
- Why is the issue important?
- Who are we talking about? Who are the stakeholders affected by the incident?
- Where is the incident located? Where in the supply chain was the problem identified?
- When was the problem occurring and when was it identified? When is the problem going to be addressed?
- How will it be addressed, by whom and over what period? Will other parties be involved?

When addressing the above questions in a response to an incident, it is important to keep the following key principles in mind:

- Control the narrative: be factual and accurate.
- Remain accountable: be engaged and empathetic.
- Communicate next steps: be progressive and forward-looking.

Appendix 1. Refiner Compliance Report: Illustrative Examples

This section provides key insights and illustrative examples for Steps 1 to 4 of the Responsible Sourcing Guidance, including key insights and good practice disclosure by Refiners and other industry actors. The examples provided should be seen as guidance for the specific related requirement; they do not imply any judgement from LBMA on any given company's general disclosure practices.

Step 1. Company Management Systems

KEY INSIGHT 1: DOES THE PUBLIC SUPPLY CHAIN POLICY NEED TO BE A COMPREHENSIVE STAND-ALONE DOCUMENT?

According to the RGG/RSG, the supply chain policy needs to be reviewed each year and updated as necessary and made publicly available online in English. Refiners are encouraged to update the supply chain policy in accordance with changes in their operations, counterparties, business model, projects and commercial relationships. However, the supply chain policy does not have to be a stand-alone document. It can incorporate policy commitments from various company documents, including the code of ethics, wider human rights policy or annual sustainability report.

Example: Threat financing risks
This example from Argor-Heraeus – 2018 Responsibility Report, page 21, refers to Argor-Heraeus' supply chain policy referring to all key OECD Annex II risks.

Example: ESG risks
The following is an example from the UMICORE – Sustainable Procurement Charter, which includes environmental, social and governance considerations, and communication of expectations to suppliers.

> You comply with the applicable environmental laws and regulations in the territories in which you operate, and you possess all the necessary environmental permits and registrations, as a minimum standard.
>
> You strive to minimize environmental impact, including on climate, while safeguarding the health and safety of your employees and of the public.
>
> You maintain an environmental management system which enables you to continuously improve environmental performance. Documentation about this management system is updated and available.
>
> You have procedures in place to prevent incidents. Your procedures are designed to mitigate consequences on the environment, should an incident occur. You identify and assess potential emergency situations and you implement an emergency response procedure to minimize their impact.

KEY INSIGHT 2: DOES THE BOARD ACCOUNTABILITY FOR RESPONSIBLE SOURCING MEAN THE BOARD UNDERTAKES THE DAY-TO-DAY MANAGEMENT FUNCTIONS?

RGG version 9 explicitly states that the Board should be assigned authority and accountability for the company's responsible sourcing programme. The Board may delegate responsibility to a Board Committee to carry out its duties. It is critical, however, that the Board or Board Committee has sufficient executive-level oversight to ensure responsible sourcing is receiving the necessary attention.

Example: Board accountability, Compliance Officer responsibility

This example from the Royal Canadian Mint – 2018 Compliance Report, page 2, refers to a public report illustrating the position of the senior staff responsible for due diligence and shows their ability (e.g., relevant knowledge, competence or experience) to oversee supply chain due diligence.

> The Chief Anti-Money Laundering Officer has been designated as the Compliance Officer for the Responsible Metals Program. The Compliance Officer is responsible for providing independent oversight and support of the day-to-day execution of the Responsible Metals Program activities by the Bullion and Refinery, Tax and Compliance and the Director, Regulatory Affairs (Compliance) provide support to the Compliance Officer in fulfilling these obligations.
>
> The Compliance Officer has delegated responsibilities to the Senior Program Manager, Compliance and the Director, Regulatory Affairs (Compliance). The Senior Program Manager is responsible for managing the program and ensuring its implementation in order to identify and assess the risks related to all suppliers of gold or silver-bearing refining deposits (hereafter "suppliers"). Where a material concern has been identified with respect to a supplier's activity, it is to be communicated by Mint employees to either the Senior Program Manager, the Director, Regulatory Affairs (Compliance) or Compliance Officer. The Senior Program Manager, the Director, Regulatory Affairs (Compliance) and Compliance Officer ensure that the Senior Leadership Team and Board of Directors, where applicable, are also briefed regarding said concern.

KEY INSIGHT 3: DOES THE REFINER ALSO HAVE TO REPORT ON INTERNAL TRAINING CARRIED OUT WITH EMPLOYEES AND WITH COUNTERPARTIES?

Refiners must communicate the actions they have taken to apply due diligence and exert leverage across the supply chain. Refiners should describe the steps taken to manage capability training, if any, and the involvement of affected stakeholders. Training is only one of the many possibilities for doing so (e.g., contractual clauses, spot-checks, improvement plans, disengagement, etc.). Disclosure of these actions reinforces transparency of the supply chain.

The disclosure of engagement with suppliers/counterparties has the potential to address both the Step 1 disclosure requirement (e.g., through the disclosure of due diligence expectations communicated to counterparties) and the Step 3 risk mitigation disclosure requirements (e.g., by exerting leverage on suppliers for enhanced mitigation). Though, for the latter, the company would have to demonstrate that this engagement logically followed a corresponding risk assessment requiring such mitigation efforts.

Example: Internal training

The chart below provides an example of reporting on employee due diligence training. Reporting on due diligence training can be contextualised to demonstrate employees directly involved in due diligence tasks and related responsibilities.

Example: Supplier training

This example from the Nadir Metal Rafineri – 2019 Compliance Report, page 5, illustrates issues on which suppliers/counterparties were trained and/or specifically engaged.

> Nadir Metal is carrying out works through media and trainings to raise awareness of local precious metal market players in this context. Nadir Metal has been the main sponsor of the translation of 'OECD Due Diligence Guidance for Responsible Supply Chains' into Turkish together with Borsa Istanbul as well as of the 'Train the Trainer' workshop organised by Borsa Istanbul and OECD.

Example: Supporting ASM

This example from the Italpreziosi – 2019 Sustainability Report, page 31, illustrates a refiner expressing its commitment to working with ASM communities and to support them to eliminate the use of mercury. Refiners can also form part of industry committees or working groups (e.g., ARM, CRAFT, Planet Gold) to support the ASM sector. However, such disclosure should provide as much evidence of specific actions undertaken and roles/responsibilities as possible to support the related commitment or initiative.

KEY INSIGHT 4: WHAT DOES THE REFINER NEED TO DISCLOSE WITH RESPECT TO COMMUNICATION REQUIREMENTS FOR ITS COUNTERPARTIES

Disclosing the types of requirements communicated to counterparties could, for instance, include:

- Security management (such as the Voluntary Principles on Security and Human Rights) to large-scale mining counterparties.
- Cyanide management (such as those reflected in the International Cyanide Management Code) or biodiversity management (e.g., about preservation of World Heritage Sites) to mining counterparties.
- Use of mercury (such as those reflected in the Minamata Convention on Mercury) to ASM counterparties.
- Formalisation, health and safety or child labour (e.g., referring to existing standards or initiatives such as the CRAFT Code or Fairmined) to small-scale mining counterparties .

Example: Counterparty communications
This example shows how such requirements are communicated by Heimerle + Meule GmbH:

"Heimerle + Meule GmbH supports an artisanal and small-scale mining (ASM) cooperative in Latin America with the goal of implementing a closed pipe LBMA-compliant supply chain. This support includes e.g.:

- encouraging our counterparties to make use of our grievance mechanism in case of suspicion
- collaborating with local Mining Authorities to mitigate corruption risks
- providing financial support in order to facilitate health and safety measures
- engaging with the Mining Authority for transfer of knowledge and capacity building

The closed pipe agreement includes a Letter of Intent and cooperation agreement. This requires our contract partner to adhere to our supply chain policy and to implement the Code of Risk mitigation for ASM engaging in Formal Trade (CRAFT), based on the OECD Due Diligence Guidance, with the help of an NGO."

KEY INSIGHT 5: DOES THE REFINER HAVE TO REPORT ON PAYMENTS TO GOVERNMENTS?

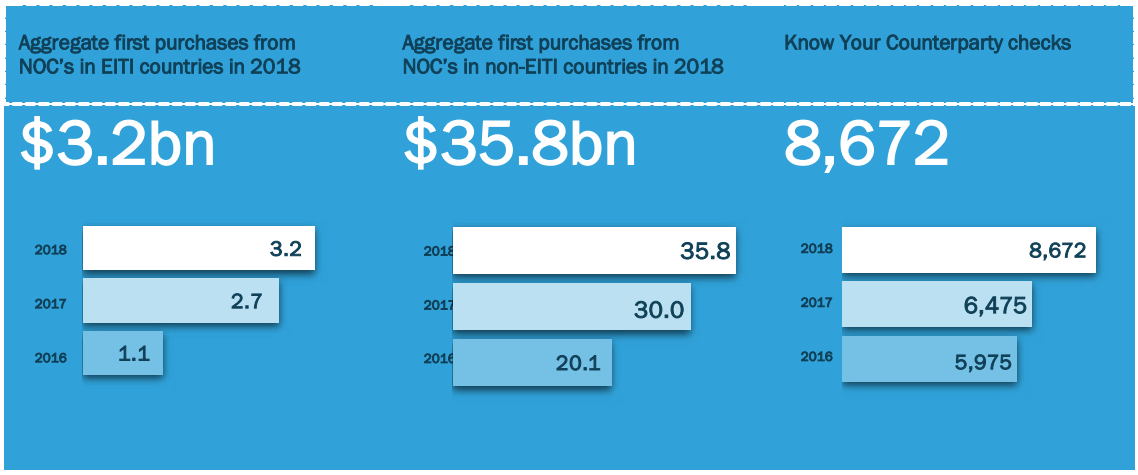
In 2019, EITI disclosure requirements for buyers were updated: "Buying companies are encouraged to disclose their payments to the state (or SOEs [State-Owned Enterprises]) for commodity purchases."

Specifically, section 4.2.c of the 2019 EITI requirements says: "Companies buying oil, gas and/or mineral resources from the state, including SOEs (or third parties appointed by the state to sell on their behalf), are encouraged to disclose volumes received from the state or state-owned enterprise and payments made for the purchase of oil, gas and/or mineral resources (i.e. the purchases of the state's share of production). This could include payments (in cash or in kind) related to swap agreements and resource-backed loans. The published data could be disaggregated by individual seller, contract, or sale. The disclosures could for each sale include information on the nature of the contract (e.g., spot or term) and load port."

This disclosure requirement should be applicable to extractive SOEs regarding the buying of mineral resources but not for example to central banks for conversion services. ***Precious metals Refiners are encouraged to disclose on payments to governments if they directly buy mined gold from SOEs operating in EITI member countries.*** They should also exert leverage, and report accordingly, on their counterparties operating in EITI member countries for them to declare their own payments of taxes, royalties or licence fees to governments. Refiners can also encourage their counterparties to disclose these payments even if they operate in non-EITI countries.

Example: EITI disclosure

This example from the Trafigura – 2019 Responsibility Report performance indicators cover page illustrates an example of disclosure aligned with EITI requirements on purchases from SOEs operating in the oil sector.



KEY INSIGHT 6: DOES THE REFINER HAVE TO REPORT ON THE GRIEVANCE MECHANISM IF NO GRIEVANCES OCCURRED DURING THE REPORTING PERIOD?

Yes. According to the RGG/RSG, Refiners should report on the existence of the mechanism and how it functions. An operational grievance mechanism should be publicly available and describe how this grievance mechanism can be used by employees or external parties, preferably anonymously. Explaining how the mechanism works and the means of accessibility improves transparency and reinforces engagement with stakeholders. It is also good practice to report the number of grievances received in the audit period, even if this is nil.

However, if the numbers of grievance mechanisms received is consistently low or nil, this may potentially indicate weaknesses in the Refiner's outreach with stakeholders regarding the existence of the grievance mechanism.

Example: Grievance process

Boliden's website confirms the anonymous nature of complaints by stating that:

> All information received in connection with a report will be treated discreetly, strictly confidential and as speedy as possible. Any attempt to identify a whistle-blower who has chosen to be anonymous is strictly forbidden. For more information about WhistleB's security measures please visit the link https://whistleb.com/trustcentre/.

Example: Number and types of grievances raised

This example from the Cerrejon – 2018 Sustainability Report, page 30, reports on the number and nature of complaints received during the reporting period and percent closed. Cerrejon formed part of the UN pilot project conducted in 2009 and 2010 to test the applicability of a set of principles for non-judicial grievance mechanisms. Cerrejon's grievance mechanism is aligned with the UN Guiding Principles on Business and Human Rights and reports to this level of detail due to the complexity of its operations and demand of stakeholders.

COMMUNITY COMPLAINTS
(SAFETY, HEALTH, AND ENVIRONMENT)

WATER/SOIL	3	1%
THREATS TO LEADER/COMMUNITY MEMBER	5	2%
ANIMALS STRUCK BY TRAIN	261	85%
NOISE/VIBRATIONS	5	2%
GASES/DUST/ODOURS	10	3%
MOBILITY	9	3%
OTHERS	12	4%
PEOPLE STRUCK BY TRAIN OR VEHICLE	2	1%
THIRD-PARTY FATALITIES	1	0%

Managing Complaints

In 2018, 330 complaints were filed:

- 84.2% are closed, 13.3% are in resolution, 2.1% are agreed on, and 0.3% were transferred.
- 98.5% of the complaints were of medium-high complexity, 0.6% of high complexity, 0.6% of low complexity, and 0.3% of medium-low complexity.
- 93% of complaints concerned community topics (security, health, and environment), 2% concerned resettlements, 2% physical safety, 1% land, 1% labour issues, and 1% other topics.
- 79% of complaints (261) from communities concern animals struck by the train.

Example: Grievances typology

In addition, Refiners can provide a typology of the grievances they can report annually in their grievance policy.

- Human rights violations
- Health and safety, working conditions
- Extraction, trade, handling and export of precious metals
- Environmental risks
- Corruption and bribery
- Money laundering and terrorism financing
- Compliance and legal affairs.

Refiners can also reference the existing Minerals Grievance Platform – the cross-industry platform designed to address grievances linked to smelter and refinery supply chains, of which LBMA is a partner together with the RMI and RJC – as a further escalation step for grievance management.

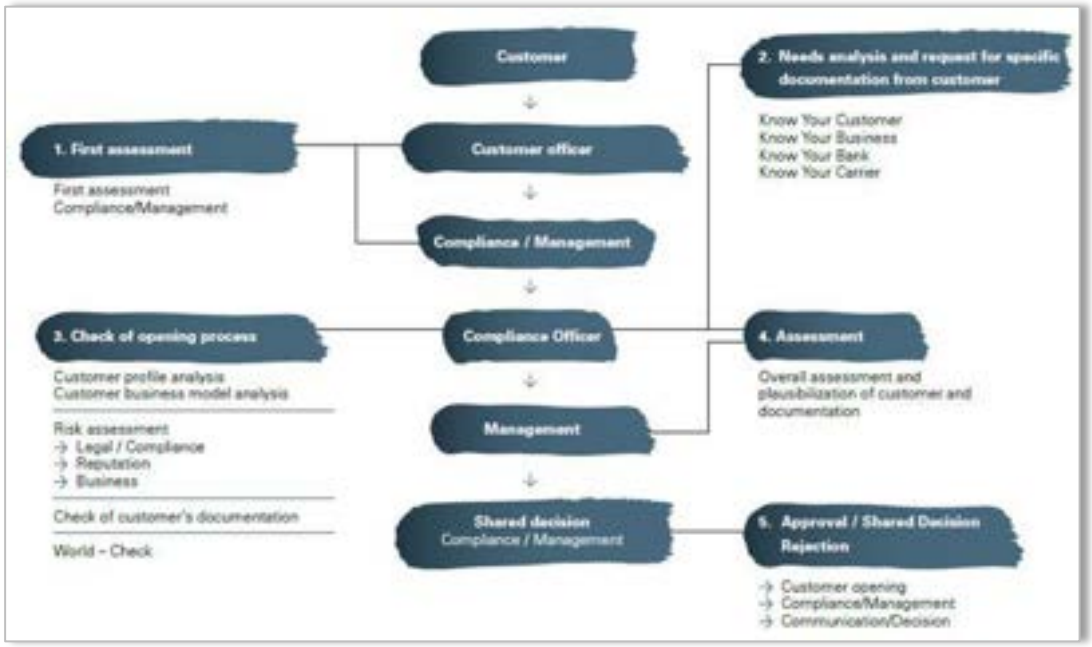
Step 2. Risk Identification and Assessment

KEY INSIGHT 7: DOES THE REFINER HAVE TO DISCLOSE THE SOURCES USED TO IDENTIFY HIGH RISKS?

Refiners are required to identify the high risks in their supply chains, both for mined and recycled material, in accordance with the RSP. The Compliance Report should provide information about the processes and methods that were followed to carry out KYC checks on counterparties and origin, and should provide information on whether high risks have been identified in the precious metals supply chain. These high risks can relate to any suspected OECD Annex II, but also to environmental and sustainability risks in the company's supply chain (i.e., at the mine, export, transport or trading level).

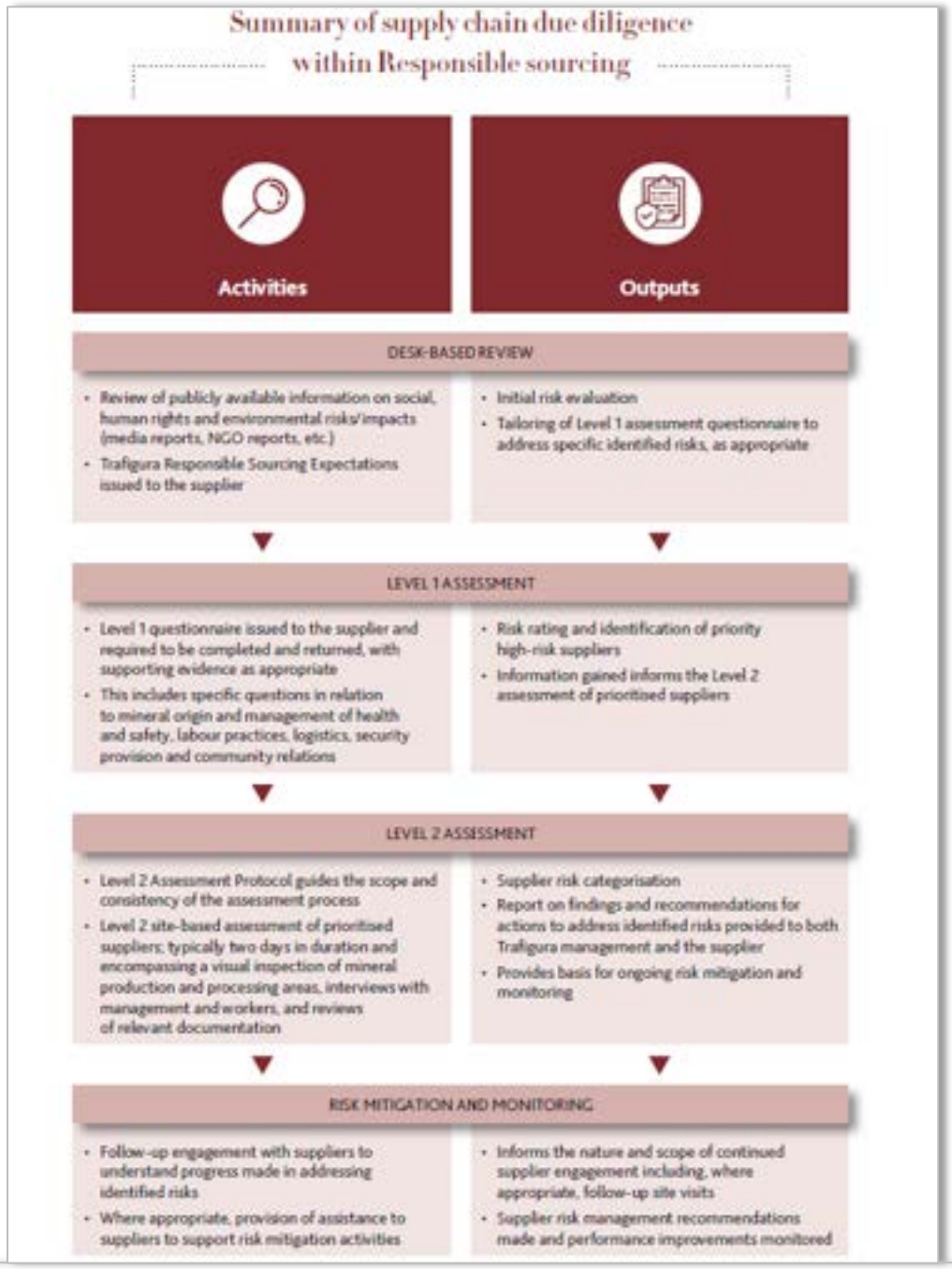
Example: Risk identification process

This example from the Argor-Heraeus – 2018 Sustainability Report, page 23, shows the method used by the company to assess the risks in its supply chain, including the procedures and methods to determine whether an on-site visit is required.



Example: Risk identification process

This example from the Trafigura – 2019 Responsibility Report, page 19, provides another illustration of the risk identification process.



Example: Risk assessment sources

This example from the annual reporting of a European 3T smelter, Wolfram Bergbau & Hütten AG – 2019 Step 5 report, page 7, describes some sources used for CAHRA identification.

> To assess a possible CAHRA status of the location of source and transport route in its supply chains, the company utilises tools like the
>
> • Heidelberg Institute for International Conflict Research – Conflict Barometer (hiik.de)
> • ControlRisks – Riskmap / Forecast of political and security risk (www.controlrisks.com)
> • INFORM / Index for risk management (www.inform-index.org)
>
> but is aware of the possible weaknesses of these tools when taken just at "face value". As the company visits all supplying mines by itself, it has, together with review of data provided by IPIS, ITSCI and the press in general, additional insight into the overall politics of the various countries in its supply chain.

KEY INSIGHT 8: DOES THE REFINER HAVE TO DISCLOSE ITS DEFINITION OF A CAHRA AND HOW IT APPLIES IT FOR ITS OWN DUE DILIGENCE?

Yes. Refiners should report on their methodology and process (including any tools they use) to determine the presence of CAHRAs in their supply chains, whether it be at the production, export, transport or recycling level.

Example: Integrated risk assessment

This example from the Jiangxi Copper Company Limited – RGG Compliance Report provides a description of an integrated approach to determine supply chain risks, considering country, company and commodity risks.

"The risk assessment of responsible gold and silver supply chain of Jianxi Copper consists of three aspects: Country Risks, Company Risks and Commodity Risks. Before proceeding the transactions, Trade Division need to conduct the risk assessment on the suppliers. The Country Risks include two risk issues, such as the gold-bearing material is originating from or transported through a conflict-affected or human right abuse area (cross-reference to Heidelberg Barometer).

The Company Risks include seven risk issues, such as the supplier or its up-streaming company located in a high risk country that is related to money-laundering, criminal or corruption. The Commodity Risks include five risk issues in total, one of which is the route of gold-bearing material output, transit or transaction transport passes through areas of worldwide conflict or high risk violations of human rights. The security and logistics companies directly or indirectly supported by non-governmental armed groups or the security forces, such as shipping and trading process is illegal extortion or taxation.

In the sight of the risk events mentioned above, the risk identification and assessment are carried out according to the steps of self-produced gold and silver suppliers and purchased gold and silver suppliers in Due Diligence Management Policy. If evidence obtained from the risk identification and assessment are not sufficient to exclude the presence or potential possibility of a supplier with medium or high risk, an additional due diligence is essential. The additional due diligence procedures included on-site visit, investigation, and further verification for the gold and silver chain due diligence information, etc.

As at 31st December 2018, we finished the tasks of information collection, risk identification, and risk assessment for all gold and silver bullion suppliers. The results of the risk assessment were entirely recorded into corresponding LBMA Supply Chain Assessment Form, which includes the supporting documents of the assessments, the comments and dates of approval. In 2018, all the gold and silver bullion suppliers were identified as low risk.

Moreover, every year we select a portion of raw material suppliers to conduct onsite interview and onsite inspection by an inspection group which is comprised of corresponding personnel in charge from the Planning and Production Management Department, Trade Division, and Guixi Refinery Plant. In 2018, we selected one gold bullion suppliers, Jiangxi Self-Independence Environmental Protection Technology Co. Ltd as the subject of the onsite inspection. We confirmed that the current business conditions of this supplier above are well and explained that all the origins of gold are by-products from the copper refining process. Also, we summarized the result of the onsite inspection into the Second-party Raw Material Inspection Report (Year 2018)."

KEY INSIGHT 9: DOES THE REFINER HAVE TO DISCLOSE DATA RELATED TO THE PRECIOUS METALS' COUNTRIES OF ORIGIN?

Country of Origin data is only expected to be reported confidentially to LBMA as part of the RGG/RSG requirements. Refiners may choose to disclose Country of Origin data voluntarily in the annual reporting to provide transparency on worldwide gold supply chains and generate confidence amongst stakeholders. However, Refiners do not have to disclose additional commercially sensitive information.

KEY INSIGHT 10: CAN A LARGE-SCALE MINE (LSM) BE CONSIDERED AS HIGH-RISK? DOES THE REFINER NEED TO REPORT ON MITIGATION MEASURES FOR LSM COUNTERPARTIES LOCATED IN HIGH-RISK COUNTRIES?

Yes, a large-scale mine can be high-risk. Although LSM counterparties can have robust internal systems in place to address and manage risks, due diligence is also related to the context of operations and possible 'red flags'. If an LSM counterparty is under the risk mitigation strategy, the Refiner should disclose related risks and applied mitigation measures (e.g., referring to the LSM counterparty's own management systems to address the risks). However, Refiners do not have to disclose the names of their counterparties or commercially sensitive information, such as prices.

KEY INSIGHT 11: DOES THE REFINER HAVE TO REPORT ON SPECIFIC INCIDENTS RELATED TO DUE DILIGENCE CHECKS AND PROCESSES?

Mentioning key incidents that occurred during the reporting period in relation to compliance checks, and their underlying nature, is an excellent way to demonstrate robust implementation of due diligence to external stakeholders. Refiners can for instance report on the number of incidents related to traceability or KYC checks (e.g., Politically Exposed Persons, money laundering, etc.) while keeping due regard to business confidentiality and other competitive concerns.

By disclosing the number of instances and the reasons why due diligence issues have been escalated, the company thereby does not only demonstrate appropriate due diligence internal systems, but also their implementation within the company. Disclosure of this information also allows the company to assess performance and monitor progress of current practices against previous reporting years.

Example: Risk management
See the example from the annual reporting of a European 3T smelter, Wolfram Bergbau & Hütten AG – 2019 Step 5 report, page 11.

> WBH keeps a register of all incoming tungsten-bearing material in a customised MB Control database, with unique lot numbers generated for all discernible quantities of raw material. Individual lots can consist of between <1 and about 20t of WO3.
>
> In 2018, about 40% of the lots comprising external tungsten concentrates came from areas of elevated risk, with Rwanda being by far the most important country of origin for these supplies. With exception of a projects in commissioning stage which has been visited twice in 2017 and which provided less than 0.2% of the company's tungsten inflow, all mines in areas of elevated risk have been visited in person in 2018.
>
> Altogether, WBH mine visits in 2018 covered 78% of the tungsten content in external concentrates; together with off-site in-person meetings with mine owners/operators, this figure comes to >90%.
>
> Two new supply chains were established in areas of elevated risk in 2018, and work is continuing with two such chains started in 2017. Three of the four chains are operated without traceability provider, with one of these located in Central Africa. A risk assessment by a reputed supply chain consultancy is available, and the on-site material balance has been investigated in detail, and discussions are underway to provide additional assurance of origin. While this is still work in progress, WBH is reasonably certain that the supply chain is not contaminated by outside material. Of the two other supply chains, one comprises of a small industrial mine in commissioning stage, close to a tourist destination, with generally high crime rate possibly the biggest risk. The third supply chain relates to centralised processing of pre-concentrates sourced from several ASM operations (partly under direct control of the supplier) that is located in an altogether rather peaceful country with poor rating in respect of corruption and governance.

Risks of course are not limited to threat financing risks. For instance, Refiners can report on risks regarding counterparties where producing volumes do not correspond to the production data of the country of origin, or in relation to security and human rights issues happening at/near a counterparty's premises. Risk can also be related to environmental and sustainability considerations, such as deforestation issues, protection of biodiversity, mercury use or cyanide management.

Another good practice example of supply chain risk reporting is disclosure of risks beyond tier 1 counterparties. For example, while a direct counterparty might raise risks with regards to financial/beneficial ownership issues, the indirect counterparty might face other types of OECD Annex II risks, such as child labour.

Step 3. Risk Management and Mitigation

KEY INSIGHT 12: WHAT TYPES OF MITIGATION MEASURES SHOULD BE REPORTED?

The nature of mitigation measures depends on the risk to be managed. The OECD Due Diligence Guidance (DDG) states that companies may manage risk by (i) continuing trade throughout the course of measurable risk mitigation efforts, (ii) temporary suspension while pursuing ongoing risk mitigation or (iii) disengagement when mitigation is unfeasible or unacceptable. For the nature of the mitigation measures for each of the OECD Annex II risks, refer to the OECD DDG.

KEY INSIGHT 13: DOES THE REFINER HAVE TO REPORT ON MITIGATION MEASURES FOR RECYCLED MATERIAL COMING FROM TRANSIT COUNTRIES?

It depends on the transit country and counterparty. Refiners should conduct due diligence and identify whether the transit countries and counterparties have associated 'red flags' and should therefore be considered as high risk. For example, if there are allegations that the transit country trades precious metals from dubious sources, mitigation measures as per the RGG may be taken and disclosed. Likewise, if the counterparty in this country has been involved in allegations/issues regarding non-fraudulent misrepresentation of the origin of material, mitigation measures should also be taken and disclosed. However, Refiners do not have to disclose the names of their counterparties or commercially sensitive information, such as prices.

KEY INSIGHT 14: WHAT TYPES OF INDICATORS CAN A REFINER REPORT ON?

Refiners can report on a wide range of indicators to disclose more information on the outcomes oftheir risk management processes, including the following:

- Number of new/percent of suppliers identified as high risk.
- Number/percent of high-risk suppliers where site visits were undertaken.
- Number of non-conformances identified during site visits – split by topic such as conflict, environmental, social, governance, etc.
- Strategies deployed with suppliers. Number of relationships suspended/being monitored.
- Monitoring of previously reported high-risk suppliers and success of mitigation strategies.

Refiners can share information with government authorities regarding actions taken to manage and mitigate risks in the supply chain, as well as on forms to exert leverage on suppliers. Refiners can work, for example, with customs and intelligence units and/or compliance agency units to denounce and react to the occurrence of OECD Annex II risks.

KEY INSIGHT 15: HOW SHOULD A REFINER DISCLOSE THE EFFORTS IT UNDERTAKES TO MONITOR AND TRACK PERFORMANCE FOR RISK MITIGATION?

As part of Step 5, any risk mitigation efforts – individual or collective – must be tied to the disclosure of risk assessment outcomes. Refiners must therefore disclose information on risk management and monitoring in relation to the risks that were identified and assessed by the company. This would constitute robust disclosure of due diligence implementation and should not be limited to CSR or social investment activities.

Example: Step by Step Risk Mitigation

This example from the Trafigura – 2019 Responsibility Report, page 22, describes a risk management strategy in its copper and cobalt supply chain, as well as implementation of mitigation measures and follow-up.

Copper and cobalt suppliers in the DRC and Zambia

By the end of FY2018 we had completed site-based assessments on a majority of our copper and cobalt suppliers in the region, so our activities in 2019 primarily focused on assessing new suppliers, or evaluating the risk mitigation progress made by suppliers whom we had previously assessed.

During 2019 we:

- Completed and then refreshed desk-based due diligence of all current and prospective copper and cobalt suppliers. Important to note is that our chosen assessment format mirrors, in part, the type of assessments that the industry's financing banks are increasingly conducting, as standard;
- Completed multiple 'Level 1' supplier assessments, whereby 29 counterparts have now been requested to complete bespoke questionnaires for our review since the programme began;
- Conducted site based 'Level 2' assessments of certain suppliers, in some cases on multiple occasions, that were deemed to present a higher risk to Trafigura's supply chain; and
- Engaged with a limited number of suppliers on an ongoing basis to help raise their capacity to mitigate salient social and/or environmental risks.

"We have seen growing interest from downstream companies in understanding potential risks relating to cobalt production in the DRC."

Level 2 assessments of 'high-risk' suppliers that required 'close ongoing monitoring' were conducted, however the risk status of those suppliers at the time of reporting remained unchanged. It is regrettable to report that, while no evidence of serious abuses (such as child labour) were identified, their risk status remains unchanged. In light of this challenge, in 2019 we sought to deepen our relationship with the NGO Pact – leveraging and deploying their expertise in the mitigation of certain risks. We have confidence in this model and will continue to exercise commercial leverage to support enhanced supplier performance. We did not disengage from any suppliers during the year and have active dialogue with high-risk suppliers on options for risk mitigation.

In our 2018 report we noted that our due diligence engagement with suppliers on responsible sourcing was the first time many of these companies had experienced in-depth enquiries on these types of issues. During 2019, we have found that general awareness has grown significantly amongst producers operating in the region – this has been propagated in part by the LME's responsible sourcing initiative. Nevertheless, the need for constant reinforcement remains.

Step 4. Independent Third-Party Assurance

KEY INSIGHT 16: WHAT RESPONSIBILITY DOES THE REFINER HAVE TO ENSURE DELIVERABLES ARE CONSISTENT AND COMPLETE?

The Compliance Report must:

- Be consistent with other responsible sourcing reports: The Compliance Report, the Assurance Statement, the Management Report and any Corrective Actions Plan must all present consistent information and not display obvious contradictions. The Compliance Report should reflect any medium and high-risk non-conformance that has been identified during the audit and documented in the Management Report. The Assurance Statement should then either make reference to the disclosure of medium-risk non-conformances presented in the Compliance Report or specifically call out high-risk non-conformances in the Assurance Statement itself.

- Be transparent: The Compliance Report should appropriately describe details of the non-conformance(s) identified during the audit process and the means to address these. A detailed Corrective Action Plan addressing the non-conformance(s) can be provided confidentially to LBMA.

- Be complete and up-to date: The Refiner (or auditor) must send the updated Compliance Report and Corrective Action Plan, aligned to the assurance deliverables, to LBMA. The assurance deliverables should be provided following the Refiner's final approved version of the Compliance Report.

- Address corrective actions from previous audits/internal reviews.

Example: Consistent reporting

As an example of consistent interpretation of the RSG, the Compliance Report should not state "we have fully complied with Step 1", if the company supply chain policy is not available online.

This example from the Kazakhyms – 2018 Compliance Report appropriately reports on the absence of an appropriate supply chain policy. The corresponding Independent Assurance Statement referring to this non-compliance is consistent with the Compliance Report disclosure.

> Step 1: Establish strong company management systems
>
> Compliance Statement with Requirement:
>
> During the reporting year, we have partially complied with Step 1: Establish strong company management systems, as we did not have in place and appropriate silver supply chain policy, which is consistent with the model, set out in the Annex II of the Organisation for Economic Cooperation and Development ("OECD") Due Diligence Guidance and is recommended by the London Bullion Market Association (<<LBMA>>).

> **Emphasis of matter**
>
> Without modifying our conclusion, we draw attention to the description of the non-compliance contained within the Refiner's Compliance Report. This relates to the supply chain due diligence policy and nomination of the Compliance Officer that were implemented by the Refiner to be in line with the *Guidance's* requirements subsequent to the period end.

Example: Assurance non-conformance reporting

For an example of transparency regarding non-conformance, the Krastsvetmet – 2019 Compliance Report appropriately describes details of the non-conformance identified during the audit process and provides the Corrective Action Plan to address the non-conformance.

> According to LBMA Guidance, the Refiner must obtain information about ultimate beneficial owners, who holds 25% or more of the share capital in any corporate entity before entering into business relationship. The Refiner did not obtain information about ultimate beneficial owners of one company directly from them and obtained information about only foreign intermediate owners (holding companies). Thus the Company conducted alternative procedures and identified ultimate beneficial owners using other sources and it was confirmed that the ultimate beneficial owners are not included in sanction lists and Rosfinmonitoring's list of terrorists. The Company also checked gold-bearing raw materials origin and obtained evidence that is not relating to conflict regions. The Refiner assigned low risk for this deviation in accordance with the risk rating criteria stated in LBMA Guidance.