SECURITIES AND EXCHANGE COMMISSION

17 CFR Parts 240 and 249b

[Release No. 34–67716; File No. S7–40–10]

RIN 3235–AK84

Conflict Minerals

AGENCY: Securities and Exchange Commission.

ACTION: Final rule.

SUMMARY: We are adopting a new form and rule pursuant to Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act relating to the use of conflict minerals. Section 1502 added Section 13(p) to the Securities Exchange Act of 1934, which requires the Commission to promulgate rules requiring issuers with conflict minerals that are necessary to the functionality or production of a product manufactured by such person to disclose annually whether any of those minerals originated in the Democratic Republic of the Congo or an adjoining country. If an issuer’s conflict minerals originated in those countries, Section 13(p) requires the issuer to submit a report to the Commission that includes a description of the measures it took to exercise due diligence on the conflict minerals’ source and chain of custody. The measures taken to exercise due diligence must include an independent private sector audit of the report that is conducted in accordance with standards established by the Comptroller General of the United States. Section 13(p) also requires the issuer submitting the report to identify the auditor and to certify the audit. In addition, Section 13(p) requires the report to include a description of the products manufactured or contracted to be manufactured that are not “DRC conflict free,” the facilities used to process the conflict minerals, the country of origin of the conflict minerals, and the efforts to determine the mine or location of origin. Section 13(p) requires the information disclosed by the issuer to be available to the public on its Internet Web site.

DATES: Effective Date: November 13, 2012.

Compliance Date: Issuers must comply with the final rule for the calendar year beginning January 1, 2013 with the first reports due May 31, 2014.

FOR FURTHER INFORMATION CONTACT: John Fieldsand, Special Counsel in the Office of Rulemaking, Division of Corporation Finance, at (202) 551–3430, 100 F Street NE., Washington, DC 20549–3628.

SUPPLEMENTARY INFORMATION: We are adopting new Rule 13p–1 and new Form SD under the Securities Exchange Act of 1934 (“Exchange Act”).

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I. Background and Summary

A. Statutory Provision

On December 15, 2010, we proposed a number of amendments to our rules to implement the requirements of Section 1502 (“Conflict Minerals Statutory Provision”) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Act”), relating to new disclosure and reporting obligations by issuers concerning “conflict minerals” that originated in the Democratic Republic of the Congo (“DRC”) or an adjoining country together with the DRC, the “Covered Countries.”

Section 1502 amended the Exchange Act by adding new Section 13(p). New Exchange Act Section 13(p) requires us to promulgate disclosure and reporting regulations regarding the use of conflict minerals from the Covered Countries. As reflected in the title of Section 1502(a), which states the “Sense of the Congress on Exploitation and Trade of Conflict Minerals Originating in the Democratic Republic of the Congo,” in enacting the Conflict Minerals Statutory Provision, Congress intended to further the humanitarian goal of ending the extremely violent conflict in the DRC, which has been partially financed by the exploitation and trade of conflict minerals originating in the DRC. This section explains that the exploitation and trade of conflict minerals by armed groups is helping to finance the conflict and that the emergency humanitarian crisis in the region warrants the disclosure requirements established by Exchange Act Section 13(p).

Similarly, the legislative history surrounding the Conflict Minerals Statutory Provision, and earlier legislation addressing the trade in conflict minerals, reflects Congress’s motivation to help end the human rights abuses in the DRC caused by the conflict. Other parts of the Conflict Minerals Statutory Provision also point to the fact that Congress intended to promote peace and security. For example, the Conflict Minerals Statutory Provision states that once armed groups no longer continue to be directly involved and benefiting from commercial activity involving conflict minerals, the President may take action to terminate the provision. To accomplish the goal of helping end the human rights abuses in the DRC caused by the conflict, Congress chose to use the securities laws disclosure requirements to bring greater public awareness of the source of issuers’ conflict minerals and to promote the exercise of due diligence on conflict mineral supply chains. By doing so, we...
provide information that is material to an investor's understanding of the risks in an issuer's reputation and supply chain.\textsuperscript{17}

\textit{Exchange Act Section 13(p) mandates that we promulgate regulations requiring that a "person described"\textsuperscript{18} disclose annually whether any "conflict minerals" that are "necessary to the functionality or production of a product manufactured by such person"\textsuperscript{19} originated in the Covered Countries, and make that disclosure publicly available on the issuer's Internet Web site.\textsuperscript{20} If such a person's conflict minerals originated in the Covered Countries, that person must submit a report ("Conflict Minerals Report") to us that includes a description of the measures taken by the person to exercise due diligence on the minerals' source and chain of custody.\textsuperscript{21}

Under Exchange Act Section 13(p), the measures taken to exercise due diligence "shall include an independent private sector audit" of the Conflict Minerals Report that is conducted according to standards established by the Comptroller General of the United States, in accordance with our promulgated rules, in consultation with the Secretary of State.\textsuperscript{22} The person submitting the Conflict Minerals Report must also identify the independent private sector auditor\textsuperscript{23} and certify the independent private sector audit.\textsuperscript{24}

Further, according to Exchange Act Section 13(p), the Conflict Minerals Report must include "a description of the products manufactured or contracted to be manufactured that are not DRC conflict free,"\textsuperscript{25} the facilities used to process the conflict minerals, the country of origin of the conflict minerals, and "the efforts to determine the mine or location of origin with the greatest possible specificity."\textsuperscript{26} Also, Exchange Act Section 13(p) dictates that each person described "shall make available to the public on the Internet Web site of such person" the conflict minerals information required by Exchange Act Section 13(p)(1)(A).\textsuperscript{27}

\textbf{B. Summary of the Proposed Rules}

We proposed rules to apply to certain issuers that file reports with us under Exchange Act Sections 13(p) and 13(q).\textsuperscript{28} Based on the Conflict Minerals Statutory Provision, we proposed a disclosure requirement for conflict minerals that would divide into three staff of these other agencies in developing our proposed rules. These agencies include, among others, the Government Accountability Office ("GAO"), which is headed by the Comptroller General of the United States, and the United States Department of State.

\textsuperscript{28} See Exchange Act Section 13(p)(1)(A)(ii) (stating that the issuer must provide a description of the "entity that conducted the independent private sector audit in accordance with" Exchange Act Section 13(p)(1)(A)(ii)).

\textsuperscript{24} As noted in Exchange Act Section 13(p)(1)(B), if an issuer is required to provide a Conflict Minerals Report that includes an independent private sector audit, that issuer "shall certify that the audit and that certified report constitute a critical component of due diligence in establishing the source and chain of custody of such minerals." The term "DRC conflict free" is defined in Exchange Act Section 13(p)(1)(A)(ii) and Exchange Act Section 13(p)(1)(D). Exchange Act Section 13(p)(1)(A)(ii) defines "DRC conflict free" as "the products that do not contain minerals that directly or indirectly finance or benefit armed groups in the Covered Countries. Similarly, Exchange Act Section 13(p)(1)(D) defines "DRC conflict free" as products that do "not contain conflict minerals that directly or indirectly finance or benefit armed groups in the Covered Countries. Hence, the definitions in the two sections are slightly different in that Exchange Act Section 13(p)(1)(A)(ii) refers to "minerals" without any limitation, whereas Exchange Act Section 13(p)(1)(D) refers specifically to "conflict minerals." We believe, based on the totality of the Conflict Minerals Statutory Provision, that "DRC conflict free" is meant to refer only to "conflict minerals," as that term is defined in Section 1502(e)(4) of the Act, that directly or indirectly finance or benefit armed groups in the Covered Countries, and not to all minerals that directly or indirectly finance or benefit armed groups in the Covered Countries.

\textsuperscript{26} See Exchange Act Section 13(p)(1)(A)(ii).

\textsuperscript{27} See Exchange Act Section 13(p)(1)(B).

\textsuperscript{25} See Exchange Act Section 13(p)(1)(D) (requiring in the Conflict Minerals Statutory Provision, that "DRC conflict free" is meant to refer only to "conflict minerals," as that term is defined in Section 1502(e)(4) of the Act, that directly or indirectly finance or benefit armed groups in the Covered Countries, and not to all minerals that directly or indirectly finance or benefit armed groups in the Covered Countries.

\textsuperscript{23} See Exchange Act Section 13(p)(1)(A)(ii).

\textsuperscript{22} See Exchange Act Section 13(p)(1)(A), (ii).

\textsuperscript{21} See Exchange Act Section 13(p)(1)(A), (i).

\textsuperscript{20} See id. (requiring in the Conflict Minerals Report "a description of the measures taken by the person to exercise due diligence on the source and chain of custody of such [conflict] minerals, which measures shall include an independent private sector audit of such report."). The Conflict Minerals Statutory Provision assigns certain responsibilities to other federal agencies. In developing our proposed rules, our staff has consulted with the

15 See Exchange Act Section 1502(c)(1)(B)(i) (stating that the Secretary of State, in consultation with the Administrator of the United States Agency for International Development, shall submit to Congress a plan to "promote peace and security" in the Covered Countries).

16 See 156 Cong. Rec. S3976 (daily ed. May 19, 2010) (statement of Sen. Feingold) ("Mr. President, I am pleased to be an original cosponsor of two amendments to the Restoring American Financial Stability Act that seek to ensure there is greater transparency around how international companies are addressing issues of foreign corruption and violent conflict that relate to their business. Creating these mechanisms to enhance transparency will help the United States and our allies more effectively address deep and complex problems, at the same time that they will also help American consumers and investors make more informed decisions.").

17 See, e.g., letters from Aditi Mohapatra of Calvert Asset Management Company, Inc. on behalf of 49 investors, including the Social Investment Forum and Interfaith Center of Corporate Responsibility (Mar. 2, 2011) ("SIF I"); Boston Common Asset Management, LLC, Calvert Asset Management Co., Inc., Interfaith Center on Corporate Responsibility, Jesuit Conference of the United States, Missionary Oblates of Mary Immaculate, Responsible Sourcing Network, Sustainalytics, Trillium Asset Management, and Tri-State Coalition for Responsible Investment (Feb. 1, 2012) ("SIF II"); Calvert Investments (Oct. 18, 2011) ("Calvert"); General Board of Pension and Health Benefits of The United Methodist Church (Mar. 20, 2011) ("VBRI Pension"); State Board of Administration of Florida (Feb. 3, 2011) ("FRS"); and Teachers Insurance and Annuity Association and College Retirement Equities Fund (Mar. 2, 2011) ("TIAA-CREF"). See also letters from Catholic Relief Services (Feb. 8, 2011) ("CRS I") ("We submit these comments with the hope the SEC will consider the need of investors to access information to make sound business decisions that

18 See Exchange Act Section 1502(c)(1)(B)(ii) (requiring in the Conflict Minerals Statutory Provision, that "DRC conflict free" is meant to refer only to "conflict minerals," as that term is defined in Section 1502(e)(4) of the Act, that directly or indirectly finance or benefit armed groups in the Covered Countries).
steps. The first step would have required an issuer to determine whether it was subject to the Conflict Minerals Statutory Provision. An issuer would have only been subject to the Conflict Minerals Statutory Provision if it was a reporting issuer for which conflict minerals were “necessary to the functionality or production of a product manufactured” or contracted to be manufactured by such person. If an issuer did not meet that definition, the issuer was not required to take any action, make any disclosures, or submit any reports. If, however, an issuer met this definition, that issuer would move to the second step.

The second step would have required the issuer to determine after a reasonable country of origin inquiry whether its conflict minerals originated in the Covered Countries. If the issuer determined that its conflict minerals did not originate in the Covered Countries, the issuer was to disclose this determination and the reasonable country of origin inquiry it used in reaching this determination in the body of its annual report. The issuer also would have been required to provide on its Internet Web site its determination that its conflict minerals did not originate in the Covered Countries, disclose in its annual report that the disclosure was posted on its Internet Web site, and disclose the Internet address on which this disclosure was posted. It would further have been required to maintain records demonstrating that its conflict minerals did not originate in the Covered Countries. Such an issuer would not have any further disclosure or reporting obligations with regard to its conflict minerals.

If, however, the issuer determined that its conflict minerals did originate in the Covered Countries, or if it determined that its conflict minerals were from recycled or scrap sources, the issuer would have been required to disclose this conclusion in its annual report. Also, the issuer would have been required to note that the Conflict Minerals Report, which included the certified independent private sector audit report, was furnished as an exhibit to the annual report; furnish the Conflict Minerals Report; make available the Conflict Minerals Report on its Internet Web site; disclose that the Conflict Minerals Report was posted on its Internet Web site; and provide the Internet address of that site. This issuer would then have moved to the third step.

Finally, the third step would have required an issuer with conflict minerals that originated in the Covered Countries, or an issuer that was unable to conclude that its conflict minerals did not originate in the Covered Countries, to furnish a Conflict Minerals Report. The proposed rules would have required an issuer to provide, in its Conflict Minerals Report, a description of the measures it had taken to exercise due diligence on the source and chain of custody of its conflict minerals, which would have included a certified independent private sector audit of the Conflict Minerals Report that identified the auditor and was furnished as part of the Conflict Minerals Report. Further, the issuer would have been required to include in the Conflict Minerals Report a description of its products manufactured or contracted to be manufactured containing conflict minerals that it was unable to determine did not “directly or indirectly finance or benefit armed groups” in the Covered Countries. The issuer would identify such products by describing them in the Conflict Mineral Report as not “DRC conflict free.” If any of its products contained conflict minerals that did not “directly or indirectly finance or benefit” these armed groups, the issuer would be permitted to describe such products in the Conflict Mineral Report as “DRC conflict free” whether or not the minerals originated in the Covered Countries. In addition, the issuer would have been required to disclose in the Conflict Minerals Report Report the facilities used to process those conflict minerals, those conflict minerals’ country of origin, and the efforts to determine the mine or location of origin with the greatest possible specificity.

The proposed rules would have allowed for different treatment of conflict minerals from recycled and scrap sources. An issuer with such conflict minerals would have been required to furnish a Conflict Minerals Report that described the measures taken to exercise due diligence in determining that its conflict minerals were from recycled or scrap sources and to provide the reasons for believing, based on its due diligence, that its conflict minerals were from recycled or scrap sources. Such an issuer would also have been required to obtain a certified independent private sector audit of the Conflict Minerals Report.

C. Summary of Comments on the Proposed Rules

The Proposed Rule requested comment on a variety of significant aspects of the proposed rules. The original comment period in the Proposing Release was to end on January 31, 2011. Prior to that date, however, we received requests for an extension of time for public comment on the proposal to allow for, among other matters, the collection of information and to improve the quality of responses. On January 28, 2011, we extended the comment period for the proposal from January 31, 2011 to March 2, 2011. Additionally, in response to suggestions from commenters, we held a public roundtable on October 18, 2011 (“SEC Roundtable”) at which invited participants, including investors, affected issuers, human rights organizations, and other stakeholders, discussed their views and provided input on issues related to our required rulemaking. In conjunction with the SEC Roundtable, we requested further comment. We received approximately 420 individual comment letters in response to the proposed rules, with approximately 145 of those letters being received after the SEC Roundtable, and over 40 letters regarding the Conflict Minerals Statutory Provision prior to the

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30 Exchange Act Section 13(p)(2).

31 The definition of the term “DRC conflict free” in our proposed rules would be identical to the definition in Exchange Act Section 13(p)(1)(D).


34 See, e.g., letter from United States Chamber of Commerce (Feb. 28, 2011) (“Chamber I”).


proposed rules.37 We also received approximately 13,400 form letters from those supporting “promptly” implementing a “strong” final rule regarding the Conflict Minerals Statutory Provision,38 with approximately 9,700 of those letters requesting some specific requirements in the final rule,39 and two petitions supporting the proposed amendments with an aggregate of over 25,000 signatures.

The comment letters came from corporations, professional associations, human rights and public policy groups, bar associations, auditors, institutional investors, investment firms, United States and foreign government officials,40 and other interested parties and stakeholders. In general, most commentators supported the human rights objectives of the Conflict Minerals Statutory Provision and the proposed rules.41 As discussed in greater detail throughout this release, however, many of these commentators provided recommendations for revising the proposed rules and suggested modifications or alternatives to the proposal. Only a few commentators generally opposed the Conflict Minerals Statutory Provision and/or our adoption of any rule based on the provision.42 One commentator recommended that the proposed rules be withdrawn entirely “and that the potential costs, supply chain complexities, and other practical obstacles to implementation be more fully analyzed before new rules are proposed.” 43

Also, although they may have offered their support of the human rights concerns underlying the Conflict Minerals Statutory Provision and the proposed rules, some commentators were concerned about potentially negative effects of the Conflict Minerals Statutory Provision and the resulting rule. In this regard, some of those commentators argued that the provision and/or rule could lead to a de facto boycott or embargo on conflict minerals from the Covered Countries,44 other of these commentators suggested that the

37 To facilitate public input on rulemaking required by the Act, the Commission provided a series of email links, organized by topic, on its Web site at http://www.sec.gov/spreadsheets/regfors/comments/s7-40-10/s74010.shtml (“Proposing Release Web site”). The comments relating to the Conflict Minerals Statutory Provision are located at http://www.sec.gov/comments/ftitle-xv/specialized-disclosures/specialized-disclosures.shtml (“Pre-Proposing Release Web site”). These comments were before we made public the Proposing Release or proposed rules and are different from the comments we received after we published the Proposing Release and proposed rules, which are located at http://www.sec.gov/comments/s7-40-10/s74010.shtml (“Post-Proposing Release Web site”). Many commentators provided comments on both the pre- and post-Proposing Release Web sites. Generally, our references to comment letters refer to the comments on the Pre-Proposing Release Web site. When we refer to a comment letter from the Pre-Proposing Release Web site, however, we make that clear in the footnote.

38 See form letters A (urging us to institute “strong rules”), B (urging that the final rule not allow the legislation’s intent to be compromised and to keep the “LEGISLATION STRONG” (emphasis in original)), E (indicating “deep disappointment and concern” that the final rule had not been adopted, and urging us to “release a strong, final rule”), F (urging us to “promptly issue strong final regulations”), G (stating that delays in adopting a final rule “significantly hinder progress toward a legitimate mining sector in eastern” DRC, and urging us to “urgently release final regulations on conflict minerals”), H (calling on us to “release a strong, final rule as soon as possible”), and I (urging us to “issue strong final rules as soon as possible”).

39 See form letters A (stating that the final rule should, among other requirements, include gold and metals mining companies, apply to all possible companies, require that conflict minerals disclosures be filed, include strong and defined due diligence and supply chain recycled metals as 100% post-consumer metals), G (stating that the final rule should “incorporate the UN Group of Experts and OECD due diligence guidelines’ concept of mitigation”), H (stating that the final rule must, among other requirements, reject any delays or phased-in implementation, adopt the “OECD due diligence standard,” have equal reporting for all conflict minerals, and require companies regarding for size, define terms narrowly, define the reasonable country of origin inquiry, have issuers file reports, and not include a de minimis category for conflict minerals)), and I (stating that the final rule must, among other requirements, reject an indeterminate origin category, define the reasonable country of origin standard, and adopt the “OECD Due Diligence standard”).
provision and/or rule could compel speech in a manner that violates the First Amendment, and at least one such commentator indicated that the final rule would adversely affect employment in the United States. One commentator, however, suggested that there could be some "business benefits" from complying with the final rule beyond the humanitarian benefits discussed by Congress. This commentator argued that such benefits could include eliminating any competitive disadvantage to companies already engaged in ensuring their conflict mineral purchases do not fund conflict in the DRC, providing an opportunity to improve a company's existing risk management and supply chain management, stimulating innovation, supporting companies' requests for conflict minerals information from suppliers through legal mandate, and preparing companies to meet a new generation of expectations for greater supply chain transparency and accountability.

We have reviewed and considered all of the comments that we received relating to the rulemaking. The final rule reflects changes from the proposed rules made in response to many of these comments. As discussed throughout this release, we are adopting final rules designed to provide flexibility to issuers to reduce their compliance costs. At the same time, our final rules retain the requirements from our proposed rules that create the disclosure regime mandated by Congress by means of Exchange Act reporting requirements. We discuss our revisions with respect to each proposed rule amendment in more detail throughout this release.

D. Summary of Changes to the Final Rule

We are adopting a three-step process, as proposed, but some of the mechanisms within the three steps have been modified in response to comments. We recognize that the final rule will impose significant compliance costs on companies who use or supply conflict minerals, and in modifying the rule we tried to reduce the burden of compliance in areas in which we have discretion while remaining faithful to the language and intent of the Conflict Minerals Statutory Provision that Congress adopted. A flowchart presenting a general overview of the conflict minerals rule that we are adopting is included following the end of this section. The chart is intended merely as a guide, however, and issuers should refer to the rule text and the preamble's more complete narrative description for the requirements of the rule.

The first step continues to be for an issuer to determine whether it is subject to the requirements of the Conflict Minerals Statutory Provision. Pursuant to the Conflict Minerals Statutory Provision, the Commission is required to promulgate regulations requiring certain conflict minerals disclosures by any "person described," which, under the Conflict Minerals Statutory Provision, includes one for whom "conflict minerals are necessary to the functionality or production of a product manufactured by such person". In our proposal, under the final rule this includes issuers whose conflict minerals are necessary to the functionality or production of a product manufactured or contracted by that issuer to be manufactured. If an issuer does not meet this definition, the issuer is not required to take any action, make any disclosures, or submit any reports under the final rule. If, however, an issuer meets this definition, that issuer moves to the second step.

In the final rule, some aspects of the first step differ from the proposed rules based on comments we received. Consistent with the proposal, the final rule does not define the phrases "contract to manufacture," "necessary to the functionality" of a product, and "necessary to the production" of a product. In response to comments, however, we provide additional guidance for issuers to consider regarding whether those phrases apply to them. The guidance states that whether an issuer will be considered to "contract to manufacture" a product depends on the degree of influence it exercises over the materials, parts, ingredients, or components to be included in any product that contains conflict minerals or their derivatives. An issuer will not be considered to "contract to manufacture" a product if it does no more than take the following actions: (1) The issuer specifies or negotiates contractual terms with a manufacturer that do not directly relate to the manufacturing of the product (unless it specifies or negotiates taking these actions so as to exercise a degree of influence over the manufacturing of the product that is practically equivalent to contracting on terms that directly relate to the manufacturing of the product); (2) the issuer affixes its brand, marks, logo, or label to a generic product manufactured by a third party; or (3) the issuer services, maintains, or repairs a product manufactured by a third party.

Similarly, the determination of whether a conflict mineral is deemed "necessary to the functionality" or "necessary to the production" of a product depends on the issuer’s particular facts and circumstances, as discussed in more detail below. But to assist issuers in making their determination, we provide guidance for issuers. In determining whether a conflict mineral is "necessary to the functionality" of a product, an issuer should consider: (1) Whether the conflict mineral is intentionally added to the product or any component of the product and is not a naturally-occurring by-product; (2) whether the conflict mineral is necessary to the product’s generally expected function, use, or purpose; and (3) if conflict mineral is incorporated for purposes of ornamentation, decoration or embellishment, whether the primary purpose of the product is ornamentation or decoration.

In determining whether a conflict mineral is "necessary to the production" of a product, an issuer should consider: (1) Whether the conflict mineral is intentionally included in the product’s production process, other than if it is included in a tool, machine, or equipment used to produce the product (such as computers or power lines); (2) whether the conflict mineral is included in the product; and (3) whether the conflict mineral is necessary to produce the product. In this regard, we are modifying our guidance from the proposal such that, for a conflict mineral to be considered "necessary to the production" of a product, the mineral must be both contained in the product and necessary to the product’s production. We do not consider a conflict mineral “necessary to the production” of a product if the conflict mineral is used as a catalyst, or
in a similar manner in another process, that is necessary to produce the product but is not contained in that product.

Further, in a change from the proposal and in response to comments suggesting that including mining would expand the statutory mandate, the final rule does not treat an issuer that mines conflict minerals as manufacturing those minerals unless the issuer also engages in manufacturing. Additionally, the final rule exempts any conflict minerals that are “outside the supply chain” prior to January 31, 2013. Under the final rule, conflict minerals are “outside the supply chain” if they have been smelted or fully refined or, if they have not been smelted or fully refined, they are outside the Covered Countries. In response to comments, the final rule allows issuers that obtain control over a company that manufactures or contracts for the manufacturing of products with necessary conflict minerals that previously had not been obligated to provide a specialized disclosure report for those minerals to delay reporting on the acquired company’s products until the end of the first reporting calendar year that begins no sooner than eight months after the effective date of the acquisition.

As suggested by commentators, the final rule modifies the proposal as to the location, timing, and status of any conflict minerals disclosures and any Conflict Minerals Report. The final rule requires an issuer to provide the conflict minerals disclosures that would have been in the body of the annual report in the body of a new specialized disclosure report on a new form, Form SD. An issuer required to provide a Conflict Minerals Report will provide that report as an exhibit to the specialized disclosure report. Additionally, based on comments that it will reduce the burdens on supply chain participants, the final rule requires that the conflict minerals information in the specialized disclosure report and/or in the Conflict Minerals Report cover the calendar year from January 1 to December 31 regardless of the issuer’s fiscal year end, and the specialized disclosure report covering the prior year must be provided each year by May 31. Further, in a change from the proposal, urged by multiple commentators, the final rule requires Form SD, including the conflict minerals information therein and any Conflict Minerals Report submitted as an exhibit to the form, to be “filed” under the Exchange Act and thereby subject to potential Exchange Act Section 11 liability. The proposal would have required the information to be “furnished.”

The second step continues to require an issuer to conduct a reasonable country of origin inquiry regarding the origin of its conflict minerals. Consistent with the proposal, and the position of certain commentators, the final rule does not prescribe the actions for a reasonable country of origin inquiry that are required, as the required inquiry depends on each issuer’s facts and circumstances. However, in a change from the proposed rules, to clarify the scope of the required inquiry as requested by certain other commentators, the final rule provides general standards applicable to the inquiry. Specifically, the final rule provides that, to satisfy the reasonable country of origin inquiry requirement, an issuer must conduct an inquiry regarding the origin of its conflict minerals that is reasonably designed to determine whether any of its conflict minerals originated in the Covered Countries or are from recycled or scrap sources, and must perform the inquiry in good faith. The final rule requires an issuer that determines that its conflict minerals did not originate in the Covered Countries or did come from recycled or scrap sources to disclose in its specialized disclosure report its determination and in its specialized disclosure report briefly describe the reasonable country of origin inquiry it used in reaching the determination and the results of the inquiry. The requirement for an issuer to briefly describe its inquiry and the results of the inquiry is a change from the disclosure required in the proposed rules.

Also, in a change from the proposal, the final rule modifies the trigger for determining whether or not an issuer is required to proceed to step three under the rule. The proposed rules would have required an issuer to conduct due diligence on the source and chain of custody of its conflict minerals and provide a Conflict Minerals Report if, based on its reasonable country of origin inquiry, it determined that its conflict minerals originated in the Covered Countries or was unable to determine that its conflict minerals did not originate in the Covered Countries, or if its conflict minerals came from recycled or scrap sources. Under the final rule, an issuer must exercise due diligence on the source and chain of custody of its conflict minerals and provide a Conflict Minerals Report if, based on its reasonable country of origin inquiry, the issuer knows that it has necessary conflict minerals that originated in the Covered Countries and did not come from recycled or scrap sources, or if the issuer has reason to believe that its necessary conflict minerals may have originated in the Covered Countries and may not have come from recycled or scrap sources. As an exception to this requirement, however, an issuer that must conduct due diligence because, based on its reasonable country of origin inquiry, it has reason to believe that its necessary conflict minerals may have originated in the Covered Countries and may not have come from recycled or scrap sources, is not required to submit a Conflict Minerals Report if, during the exercise of its due diligence, it determines that its conflict minerals did not, in fact, originate in the Covered Countries, or it determines that its conflict minerals did, in fact, come from recycled or scrap sources. Such an issuer is still required to submit a specialized disclosure report disclosing its determination and briefly describing its inquiry and its due diligence efforts and the results of that inquiry and due diligence efforts, which should demonstrate to the Commission that the conflict minerals did not originate in the Covered Countries.

or that they did come from recycled or scrap sources. On the other hand, if based on its reasonable country of origin inquiry, an issuer has no reason to believe that its conflict minerals may have originated in the Covered Countries, or, based on its reasonable country of origin inquiry, an issuer reasonably believes that its conflict minerals are from recycled or scrap sources, the issuer is not required to move to step three. In another change from the proposal, the final rule does not require an issuer to retain reviewable business records to support its reasonable country of origin conclusion, although maintenance of appropriate records may be useful in demonstrating compliance with the final rule, and may be required by any nationally or internationally recognized due diligence framework applied by an issuer.

As noted above, if the issuer knows that it has necessary conflict minerals that originated in the Covered Countries, or if the issuer has reason to believe that its necessary conflict minerals may have originated in the Covered Countries and may not have come from recycled or scrap sources, the issuer must move to the third step. The third step, consistent with the proposal, requires such an issuer to exercise due diligence on the source and chain of custody of its conflict minerals and provide a Conflict Minerals Report describing its due diligence measures, among other matters. As noted above, however, the final rule requires an issuer to provide its Conflict Minerals Report as an exhibit to its specialized disclosure report on Form SD, instead of as an exhibit to its annual report on Form 10–K, Form 20–F, or Form 40–F, as proposed.

Generally, the content of the Conflict Minerals Report is substantially similar to the proposal. One modification from the proposal, based on comments we received, is that the final rule requires an issuer to use a nationally or internationally recognized due diligence framework, if such a framework is available for the specific conflict mineral. We are persuaded by commentators that doing so will enhance the quality of an issuer’s due diligence, promote comparability of the Conflict Minerals Reports of different issuers, and provide a framework by which auditors can assess an issuer’s due diligence.34 This requirement should make the rule more workable and less costly than if no framework was specified. Presently, it appears that the only nationally or internationally recognized due diligence framework available is the due diligence guidance approved by the Organisation for Economic Co-operation and Development (“OECD”).55

As proposed, the final rule requires an independent private sector audit of an issuer’s Conflict Minerals Report. However, in response to comments, we modified the proposal such that the final rule specifies an audit objective. The audit’s objective is to express an opinion or conclusion as to whether the design of the issuer’s due diligence measures as set forth in the Conflict Minerals Report, with respect to the period covered by the report, is in conformity with, in all material respects, the criteria set forth in the nationally or internationally recognized due diligence framework used by the issuer, and whether the issuer’s description of the due diligence measures it performed as set forth in the Conflict Minerals Report, with respect to the period covered by the report, is consistent with the due diligence process that the issuer undertook. Also, consistent with the proposal, the final rule refers to the audit standards established by the GAO. The GAO staff has indicated to our staff that the GAO does not intend to establish new standards for the Conflict Minerals Report audit. Instead, the GAO plans to look to its existing Government Auditing Standards (“GAGAS”), which is commonly referred to as “the Yellow Book.”56

Unlike the proposed rule, which would have required descriptions in the Conflict Minerals Report of an issuer’s products that “are not ‘DRC conflict free,’” where “DRC conflict free” means that they “do not contain minerals that directly or indirectly finance or benefit armed groups in the Covered Countries,” the final rule requires descriptions in the Conflict Minerals Report of an issuer’s products “that have not been found to be ‘DRC conflict free.’” We believe this change will lead to more accurate disclosure.

As suggested by a number of commentators, the final rule also modifies the proposal by providing a temporary transition period for two years for all issuers and four years for smaller reporting companies.57 During this period, issuers may describe their products as “DRC conflict undeterminable” if they are unable to determine that their minerals meet the statutory definition of “DRC conflict free” for either of two reasons: First, they proceeded to step three based upon the conclusion, after their reasonable country of origin inquiry, that they had conflict minerals that originated in the Covered Countries and, after the exercise of due diligence, they are unable to determine if their conflict minerals financed or benefited armed groups in the Covered Countries; or second, they proceeded to step three based upon the conclusion, after their reasonable country of origin inquiry, that they had a reason to believe that their necessary conflict minerals may have originated in the Covered Countries and may not have come from recycled or scrap sources and the information they gathered as a result of their subsequently required exercise of due diligence failed to clarify the conflict minerals’ country of origin, whether the conflict minerals financed or benefited armed groups in those countries, or whether the conflict minerals came from recycled or scrap sources. These issuers will have already conducted a reasonable country of origin inquiry, and their undeterminable status would be based on the information they were able to gather from their exercise of due diligence. However, if these products also contain conflict minerals that the issuer knows directly or indirectly financed or benefited armed groups in the Covered Countries, the issuer may not describe those products as “DRC conflict undeterminable.” Also, during the transition period, issuers with products that may be described as “DRC conflict undeterminable” are not required to have their Conflict Minerals Report audited. Such issuers, however, must still file a Conflict Minerals Report describing their due diligence, and must additionally describe the steps they have taken or will take, if any, since the end of the period covered in their most recent prior Conflict Minerals Report, to mitigate the risk that their necessary conflict minerals benefit armed groups.

34 The proposed rules would not have required the use of a particular due diligence framework, but the Proposing Release indicated that an issuer whose conduct conformed to a nationally or internationally recognized set of standards of, or guidance for, due diligence regarding its conflict


57 “Smaller reporting company” is defined in Rule 12b-2 (17 CFR 240.12b-2) under the Exchange Act.
including any steps to improve their due diligence.

This temporary provision will apply for the first two reporting calendar years after effectiveness of the final rule for all issuers that are not smaller reporting companies, and for the first four reporting calendar years after effectiveness of the final rule for smaller reporting companies. We believe it is appropriate to allow a two-year temporary period, in recognition that, as commentators noted, the processes for tracing conflict minerals through the supply chain must develop further to make such determinations for the issuer community at large. Also, we believe it is appropriate to allow an additional two years to this temporary period for smaller reporting companies because, as commentators noted, smaller companies may face disproportionately higher burdens than larger companies and a longer temporary period may help alleviate some of those burdens. After the four-year period for smaller reporting companies and two-year period for all other issuers, issuers that have proceeded to step three but are unable to determine that their conflict minerals did not originate in the Covered Countries or are unable to determine that their conflict minerals that originated in the Covered Countries did not directly or indirectly finance or benefit armed groups must describe their products containing those conflict minerals as not having been found to be “DRC conflict free.”

Unlike the proposed rules, the final rule requires issuers with necessary conflict minerals exercising due diligence regarding whether their conflict minerals are from recycled or scrap sources to conform the due diligence to a nationally or internationally recognized due diligence framework, if one is available for a particular recycled or scrap conflict mineral. A gold supplement to the OECD’s due diligence guidance has been approved by the OECD.58 This gold supplement is presently the only nationally or internationally recognized due diligence framework for any conflict mineral from recycled or scrap sources of which we are aware. Therefore, we anticipate that issuers will use the OECD gold supplement to conduct their due diligence for recycled or scrap gold. We are not aware that the OECD or any other body has a similar recycled or scrap due diligence framework for the other conflict minerals. Issuers with conflict minerals without a nationally or internationally recognized due diligence framework are still required to exercise due diligence in determining that their conflict minerals were from recycled or scrap sources. The due diligence that must be exercised regarding such conflict minerals focuses only on whether those conflict minerals are from recycled or scrap sources. In such circumstances where a nationally or internationally recognized due diligence framework becomes available for any such conflict mineral, issuers will be required to utilize that framework in exercising due diligence to determine that conflict minerals are from recycled or scrap sources.

E. Flowchart Summary of the Final Rule

II. Discussion of the Final Rule

A. “Conflict Minerals” Definition

1. Proposed Rules

The Conflict Minerals Statutory Provision defines the term “conflict mineral” as cassiterite, columbite-tantalite, gold, wolframite, or their derivatives, or any other minerals or their derivatives determined by the Secretary of State to be financing conflict in the Covered Countries.59 We used the same definition of this term in the proposed rules. As we discussed in the Proposing Release, cassiterite is the metal ore that is most commonly used to produce tin, which is used in alloys, tin plating, and solders for joining pipes and electronic circuits.60 Columbite-tantalite is the metal ore from which tantalum is extracted. Tantalum is used in electronic components, including mobile telephones, computers, videogame consoles, and digital cameras, and as an alloy for making carbide tools and jet engine components.61 Gold is used for making jewelry and is used in electronic, communications, and aerospace equipment.62 Finally, wolframite is the metal ore that is used to produce mineral as a conflict mineral. Therefore, the conflict minerals include only cassiterite, columbite-tantalite, gold, wolframite, or their derivatives.

59 Section 1502(e)(4) of the Act. Presently, the Secretary of State has not designated any other mineral as a conflict mineral.


tungsten, which is used for metal wires, electrodes, and contacts in lighting, electronic, electrical, heating, and welding applications. Based on the many uses of these minerals, we expect the Conflict Minerals Statutory Provision to apply to many companies and industries and, thereby, the final rule to apply to many issuers.

2. Comments on the Proposed Rules

Several commentators requested that the final rule set forth the specific conflict derivatives that would trigger the rule’s disclosure and reporting obligations. Many of these commentators recommended that the final rule limit the derivatives of columbite-tantalite, cassiterite, and wolframite to tantalum, tin, and tungsten, respectively, unless the State Department determines subsequently that additional specific minerals or their derivatives are financing or benefitting armed groups.

One of these commentators pointed out that such a limit is appropriate because, although conflict minerals have other derivatives, tantalum, tin, and tungsten are the only economically significant derivatives of the conflict minerals. For example, one commentator noted that oxygen and iron are derivatives of wolframite that could be subject to the final rule, but wolframite is not currently a significant commercial source for oxygen or iron. Another commentator noted that niobium is a derivative of columbite-tantalite that, absent clarification to the contrary, could be subject to the final rule as well. Some commentators, however, asserted that the final rule should not solely be limited to tantalum, tin, tungsten, or gold.

One commentator recommended that the definition of “conflict mineral” not include organic metal compounds formed from a conflict mineral metal derivative, such as tin and tungsten, because these substances are no longer metals or alloys and “use of these chemical compounds is too attenuated from the original source of the mineral.” According to the commentator, these organometallic compounds, which include catalysts, stabilizers, and polymerization aids, are commodity chemicals used in the production of materials such as silicones, polyurethanes, vinyls, and polyesters. For example, the commentator noted that tin is used in a reaction with chlorine gas, after which the intermediate tin tetrachloride compound undergoes further chemical reactions with any number of organic substrates to produce an organotin compound with the final compounds becoming substances such as stannous octoate, monobutyl tin trichloride, and diocyltitan dilaurate. These substances contain tin but have several organic groups chemically bound to the tin nucleus and are compounds that are materially and chemically distinct from metallic tin. According to the commentator, the use of organotin in many manufacturing sectors has not yet been recognized by manufacturers, supply chains, or regulators, which may increase costs of the final rule if organic tin compounds are included in the definition of “conflict minerals.”

In addition, a number of commentators recommended that the final rule selectively use the term “conflict mineral” because not doing so would unfairly stigmatize the four minerals and unjustifiably hurt some companies’ reputations. These commentators noted that the term “conflict mineral” in the proposed rules provides no clear distinction between the named minerals and their derivatives that did not benefit or finance armed groups, and those that did finance or benefit armed groups. Specifically, one of these commentators noted, “refer[ring] to all cassiterite, wolframite, gold, and tantalum in the world, regardless of its origin and relationship to conflict actors” as “conflict minerals,” imposes “a reputational taint on these entire industries,” and “makes it highly challenging for companies in these industries to communicate effectively with investors and the public.”

Commentators suggested that we limit the final rule’s definition of “conflict minerals” only to minerals that financed or benefited armed groups and that the final rule use another name to describe minerals that did not finance or benefit armed groups, such as “potential conflict minerals,” “suspect conflict minerals,” “subject minerals,” or “covered minerals.” Additionally, for the same reasons, some commentators indicated that the final rule should change the names of the required headings from “Conflict Minerals Disclosure” to “Country of Origin Disclosure” and change the name of the Conflict Minerals Report to “Report on Minerals Sourced from Central Africa.”

3. Final Rule

After considering the comments, we are revising the proposal in the final rule. We are clarifying our position as to which derivatives are conflict minerals, which appears consistent with the views of various stakeholders. See, e.g., letters from H.E. Ambassador Liberata Mulamula, International Conference on the Great Lakes Region, Angel Gurrı´a, Secretary-General, Organisation for Economic Co-operation and Development, and Fred Roharts, Coordinator, United Nations Group of Experts on the Democratic Republic of the Congo (Jul. 29, 2011) (“OECD I”) (“We consider that the OECD and UN GoE due diligence recommendations, as integrated into the framework of the ICGLR Regional Initiative against the Illegal Exploitation of Natural Resources and the Regional Certification Mechanism, can be used by persons subject to Section 1502 of the Dodd-Frank Act (‘issuers’) to reliably determine whether the tin, tantalum, tungsten or gold in their products originate from the DRC or adjoining countries, and if so, to determine the facilities used to process those minerals, the country of origin, and the mine or location of origin with the greatest possible specificity, and describe the products manufactured or contracted to be manufactured that are not DRC Conflict Free.”), and OECD, Due Diligence Guidance, gold, wolframite, or their derivatives originating from the Covered Countries and that do not directly or indirectly finance or benefit armed groups in the Covered Countries.

See letter from SPI.

suggested, our failure in the proposal to specify the 3T derivatives (tantalum, tin, and tungsten, which are known as the “3Ts”) would have introduced too much ambiguity in our rule, which would have expanded the Conflict Mineral Provision’s reach, cost, and complexity without increasing its effectiveness. The term “conflict mineral” in the final rule is defined to include cassiterite, columbite-tantalite, gold, wolframite, and their derivatives, which are limited to the 3Ts, unless the Secretary of State determines that additional derivatives are financing conflict in the Covered Countries, in which case they are also considered “conflict minerals.” Any other minerals or their derivatives determined by the Secretary of State to be financing conflict in the Covered Countries.

Additionally, despite the suggestion by certain commentators that we limit the definition of the term “conflict mineral” to minerals that financed or benefited armed groups, the final rule continues to use the term “conflict mineral” to refer to columbite-tantalite, cassiterite, gold, wolframite, and their derivatives, and any other mineral or its derivatives determined by the Secretary of State to be financing conflict in the Covered Countries.

However, issuers whose conflict minerals did not finance or benefit armed groups may describe their products containing those minerals as “DRC conflict free” in their specialized disclosure report, provided that the issuer is able to determine on the basis of due diligence conducted in accordance with a nationally or internationally recognized due diligence framework that such products are “DRC conflict free” as defined in the final rule.

B. Step One—Issuers Covered by the Conflict Mineral Provision

1. Issuers That File Reports Under the Exchange Act

a. Proposed Rules

As we discussed in the Proposing Release, we recognize there is some ambiguity as to whom the Conflict Minerals Statutory Provision applies given that the provision states that the Commission shall promulgate regulations for any “person described” and that a “person is described if “conflict minerals are necessary to the functionality or production of a product manufactured by such person.” Therefore, the Conflict Minerals Statutory Provision could be interpreted to apply to a wide range of private companies not previously subject to our disclosure and reporting rules. Given the provision’s legislative background, its statutory location, and the absence of Congressional direction to apply the provision to companies not previously subject to those rules, however, we believe the more appropriate interpretation is that the rules apply only to issuers that file reports with the Commission under Section 13(a) or Section 15(d) of the Exchange Act, and that is what we proposed. Also, consistent with the statutory language, our proposed rules would have applied equally to domestic companies, foreign private issuers, and smaller reporting companies.


78 See letter from SEMI.

79 See letters from IPC II and NRF II.
traded company by a significant percentage” and that being able to declare a company’s products as “DRC conflict free” could become a competitive advantage.88 Further, in response to our request for comment in the Proposing Release, all four commentators that discussed the issue agreed that an issuer with a class of securities exempt from Exchange Act registration pursuant to Exchange Act Rule 12g-3–2(b)89 should not be subject to the final rule.90 One commentator recommended “that entities with Over-The-Counter American Depository Receipts (OTC ADRS) that file an annual report with the SEC should also be required to file a ‘Conflict Minerals Disclosure’ report.”91

Some commentators stated that the final rule should not necessarily require private companies to submit to us their conflict minerals information, but the final rule should provide mechanisms that allow private companies to report voluntarily on their conflict minerals in a manner similar to Sections 13(a) and 15(d) issuers,92 which could include working with other agencies that regulate non-reporting companies to have those agencies require their filers to provide similar conflict minerals information.93 Moreover, the State Department commented that it would encourage private companies not subject to the final rule to disclose voluntarily conflict minerals information.94 Other commentators disagreed with the proposed rules and indicated that the final rule should apply to more than just issuers that file reports under Sections 13(a) and 15(d) issuers.95

A comment letter submitted jointly by two of the co-sponsors of the legislation stated that their “intent was for the requirements of Section 1502 to apply to all companies that fall under the jurisdiction of the SEC, including those issuer classes of securities otherwise exempt from reporting.”96

ii. Smaller Reporting Companies

Many commentators agreed that the final rule, as we proposed, should not exempt smaller reporting companies.97 In this regard, one commentator noted that, although there would be additional costs for smaller reporting companies to comply with the rules, the increased costs will apply also to larger companies.98 Another commentator asserted that compliance costs for small issuers “will be relatively modest” due to their smaller scale and lower complexity of their businesses.99 One commentator did not believe that the proposed rules would impose higher costs on smaller companies significant enough to justify an exemption because smaller reporting companies would have fewer products to track than a larger company, which would decrease their compliance costs.100 The commentator based its belief on the fact that, although it was a small human rights group with a modest budget, it regularly undertakes field investigations and supply chain research that is very similar to the due diligence measures it recommended the Commission adopt. According to this commentator, if it is able to perform due diligence with a small staff, so too can a smaller reporting company.

Some commentators noted that exempting smaller reporting companies from the final rule could increase the burdens on larger reporting companies because the larger reporting companies may be less able to require their smaller reporting company suppliers to provide the conflict minerals information needed by the larger reporting companies.101 One of these commentators noted also that permitting limited disclosure and reporting obligations for smaller issuers is unlikely to reduce significantly their burdens because larger companies would likely impose contractual obligations on them to track and provide their conflict minerals information for the larger companies.102 Other commentators supported exempting smaller reporting companies because these companies would be less


86 See, e.g., letters from Howland, IPCC I, ITIC I, NMA II, National Retail Federation (Mar. 2, 2011) (“NRF II”); TIC; and TriQuint I.87 Letter from Howland (noting that “private companies (non-reporters) will likely need to provide the same conflict minerals information to their customers who will need the information for their reports,” and that providing conflict minerals information is “likely to become a de facto standard similar to RoHS (EU Restriction of Hazardous Substances) for electronics”) and TIC (“Further, provided that the regulations apply to large and small issuers, they will form a critical mass which will, in practice, create sufficient commercial pressure on private companies and individuals who manufacture products involving potential conflict minerals. Noncompliant companies will be unable to withstand the political and consumer pressures. Accordingly, there is no need for the SEC to seek to expand its jurisdiction.”).88 See letter from Green II.


96 Id.

97 See, e.g., letters from BCIMC, Calvert, CRS I, Earthworks, Global Witness I, Howland, IPCC I, JVC et al. II, Rockefeller, Sen. Durbin/Rep. McDermott, SIF I, State II, TIAA–GCEF, TIC, and TriQuint I.98 See letter from Howland.99 See letter from Green II. See also letter from ICAR et al. II (stating that “because these issuers are smaller, it stands to reason that they will have fewer products that contain conflict minerals, thus reducing the amount of products that must undergo a reasonable country of origin inquiry and supply chain due diligence”).100 See letter from Global Witness I.101 See, e.g., letters from IPCC I and TriQuint I.102 See letters from IPCC I.
able to compel their suppliers to provide conflict minerals information due to their lack of leverage, and because it would be more expensive for smaller reporting companies to comply with the rule relative to their revenues than for other companies. However, one commentator argued that, although such issuers may lack leverage, this disadvantage may be reduced through the influence exerted over their suppliers by larger issuers that use the same supplier base and that have more leverage to request such information. Some commentators argued that smaller reporting companies should be allowed to phase-in the rules or that the implementation date of the final rule should be deferred for them.

iii. Foreign Private Issuers

A number of commentators believed that the final rule should not exempt foreign private issuers. As one commentator noted, exempting foreign private issuers from the final rule could increase domestic issuers’ burdens by making it very difficult for them to compel their foreign private issuer suppliers to provide conflict minerals information. As another commentator noted, exempting foreign private issuers from the final rule could also result in a competitive disadvantage for domestic issuers because foreign private issuers would not be subject to the final rule. Further, this commentator indicated that not exempting foreign private issuers could actually motivate foreign companies to advocate for similar conflict minerals regulations in their home jurisdictions to reduce any competitive disadvantages they may have with companies from their jurisdictions that do not register with us. Finally, the commentator suggested that exempting foreign private issuers may hurt conflict minerals supply chain transparency, which would be contrary to the intent of Congress.

Only one commentator, a foreign private issuer, stated specifically that foreign private issuers should be exempt from the final rule. This commentator argued that any Congressional intent to give laws extraterritorial effect must be clearly expressed and stated, which the Conflict Minerals Statutory Provision fails to do. Also, the commentator noted that the proposed rules would violate international principles of diplomatic comity and could put diplomats from countries with foreign private issuers in jeopardy. Another commentator suggested that, if the final rule would cause “more than an insignificant number of foreign private issuers to leave the U.S. markets or not to enter the U.S. markets,” we should consider exempting all or some foreign private issuers from the final rule. A further commentator stated that, although it recommended that the final rule not exempt foreign private issuers, it expects that the final rule “will represent just one more strong disincentive for such issuers to access the U.S. markets.”

c. Final Rule

After considering the comments, we are adopting the final rule as proposed. Therefore, the final rule applies to any issuer that files reports with the Commission under Section 13(a) or Section 15(d) of the Exchange Act, including domestic companies, foreign private issuers, and smaller reporting companies. We believe the statutory language is clear on this point and believe that it only applies to issuers that file reports with the Commission under Section 13(a) or Section 15(d) of the Exchange Act. There is no clear indication that Congress intended to cover issuers other than those that file such reports. Although we appreciate the views expressed in the comment letter submitted jointly by two of the co-sponsors of the legislation, the legislative history only refers to companies that file with or report to the Commission or that are listed on a United States stock exchange. The location of the statute adopted by Congress in the section of the Exchange Act dealing with reporting issuers reflects a more limited scope, as well. The statute is silent with respect to any distinction among issuers based on the issuer’s size or domesticity. Although not specifically in the context of smaller reporting companies or foreign private issuers, some commentators suggested that we use our general exemptive authority under Exchange Act Section 3(a) to exempt certain classes of companies from full and immediate compliance that requires the President to determine such waiver or revision to be in the national security interest and limits such a Commission exemption to two years. In our view, the high standard set for this statutory waiver, as well as its limited duration, evinces a congressional intent for the Conflict Minerals Statutory Provision to apply broadly and exempting large categories of issuers would be inconsistent with this intent. We also recognize that section 1502 is not simply a disclosure obligation for issuers, but a comprehensive legislative scheme that contemplates coordinated statutory provisions “is a narrow SEC reporting requirement” and referring only to “SEC reporting requirements” in discussing the provision; and 156 Cong. Rec. S3846–17 (daily ed. May 17, 2010) (statement of Sen. Durbin) (stating that the provision “would require companies listed on the New York Stock Exchange to disclose in their SEC filings”). The Statutory Provision “is a narrow SEC reporting requirement” and referring only to “SEC reporting requirements” in discussing the provision; and 156 Cong. Rec. S3846–17 (daily ed. May 17, 2010) (statement of Sen. Durbin) (stating that the provision “would require companies listed on the New York Stock Exchange to disclose in their SEC filings”).
action by a number of federal agencies aimed at making public information about conflict minerals from the Covered Countries.\textsuperscript{119} We are concerned that any broad categories of exemptions would be inconsistent with this scheme and the statutory objective of reducing the use of conflict minerals from the Covered Countries that contribute to conflict.\textsuperscript{120} Congress chose to pursue this goal through the implementation of a comprehensive disclosure regime. In order to allow the provision to have the effect we understand Congress intended, we believe the rules must be consistent with the statutory language and not exempt broad categories of issuers from its application. Thus, we are not exempting smaller reporting companies or foreign private issuers.

Additionally, it is unclear whether exempting smaller reporting companies in particular would significantly reduce their burdens because smaller reporting companies could still be required to track and provide their conflict minerals information for larger issuers.\textsuperscript{121} Moreover, to the extent there are benefits to smaller companies from an exemption, such an exemption could increase the burden on larger companies that rely on smaller reporting company suppliers to provide conflict minerals information needed by the larger reporting companies.

Further, as discussed in greater detail below, the final rule temporarily will permit all issuers that are unable to determine that their conflict minerals did not originate in the Covered Countries or that are unable to determine that their conflict minerals that originated in the Covered Countries did not directly or indirectly finance or benefit armed groups to describe their products as \textquoteleft\textquoteleft DRC conflict undeterminable,\textquoteright\textquoteright, and temporarily will not require such issuers to obtain an independent private sector audit of their Conflict Minerals Report with respect to those minerals. This temporary accommodation will be available to all issuers for the first two years of reporting under the final rule. The final rule extends that period for smaller reporting companies for an additional two years, providing a temporary four-year provision for smaller reporting companies. This approach is consistent with some commentators' recommendations as to the applicability of the reporting requirement to smaller reporting companies.\textsuperscript{122} Similarly, we are not exempting foreign private issuers because we do not believe that it would give effect to Congressional intent of the provision. As commentators noted, exempting foreign private issuers could make it difficult for issuers to compel their foreign private issuer suppliers to provide conflict minerals information, result in a competitive disadvantage for domestic issuers, and hurt conflict minerals supply chain transparency.\textsuperscript{123} Also, we note that including foreign private issuers in the final rule does not give the Conflict Minerals Statutory Provision an extraterritorial effect because it applies only to foreign private issuers that enter the securities markets of the United States.

2. \textit{Manufacture} and \textit{Contract to Manufacture} Products

a. Proposed Rules

The Conflict Minerals Statutory Provision applies to any person for whom conflict minerals are necessary to the functionality or production of a product manufactured by that person. The proposed rules would likewise have applied to reporting persons for whom conflict minerals are necessary to the functionality or production of products they manufacture. We did not define the term \textquoteleft\textquoteleft manufacture\textquoteright\textquoteright in the proposed rules, because we believed the term to be generally understood.\textsuperscript{124}

In addition, based on the text of the Conflict Minerals Statutory Provision as well as statutory intent, the proposed rules would apply to issuers that contract to manufacture products. As discussed in the Proposing Release, one section of the Conflict Minerals Statutory Provision defines a \textquoteleft\textquoteleft person described\textquoteright\textquoteright as one for which conflict minerals are \textquoteleft\textquoteleft necessary to the functionality or production of a product manufactured by such a person.\textsuperscript{125} while another section of the provision requires an issuer to describe \textquoteleft\textquoteleft the products manufactured or contracted to be manufactured\textquoteright\textquoteright that are not DRC conflict free.\textsuperscript{126} The absence of the phrase \textquoteleft\textquoteleft contract to manufacture\textquoteright\textquoteright from the \textquoteleft\textquoteleft person described\textquoteright\textquoteright definition raised some question as to whether the requirements apply equally to those who manufacture products themselves and those who contract to have their products manufactured by others. Based on the totality of the provision, however, we expressed in the Proposing Release our belief that the legislative intent was for the provision to apply both to issuers that directly manufacture products and to issuers that contract the manufacturing of their products for which conflict minerals are necessary to the functionality or production of those products. The proposed rules, therefore, would have applied equally to issuers that manufacture products and to issuers that \textquoteleft\textquoteleft contract to manufacture\textquoteright\textquoteright their products. We noted that this approach would allow the \textquoteleft\textquoteleft contracted to be manufactured\textquoteright\textquoteright language to have effect in the Conflict Minerals Report.

In the Proposing Release, we explained that the proposed rules would apply to issuers that contract for the manufacturing of products over which they had any influence regarding the manufacturing of those products. As proposed, they also would have applied to issuers selling generic products under their own brand name or a separate

\textsuperscript{119}Sections 1502(c) and (d) of the Act. We recognize that Congress also required the Comptroller General to periodically report on, among other things, publicly available information regarding persons who \textquoteleft\textquoteleft are not required to file reports * * * pursuant to Section 13(p)(1)(A)\textquoteright\textquoteright and who manufacture products for which \textquoteleft\textquoteleft conflict minerals are necessary to the functionality or production of products.\textquoteright\textquoteright (Stating that although no single company working alone can determine whether minerals in its products supported armed groups, large and small companies working together can make such a determination), id. at 22 (Statement of Bennett Freedman (arguing that companies across the value and supply chain should be covered by the rule because disclosures by all companies are important to investors). See also id. at 62, 92, and 103 (Statements of Andrew Matheson, Benedict S. Cohen, and Representative James McDermott, respectively) (assuming that small issuers would be covered by the rule).

\textsuperscript{120}See letters from Global Witness I and State II and letters from IPC I.

\textsuperscript{121}See letter from Howland (stating that, although \textquoteleft\textquoteleft[the] phrase \textquoteleft\textquoteleft contract to manufacture\textquoteright\textquoteright may be disproportionately higher for small companies, but increased costs will also apply to large firms\textquoteright\textquoteright, a way that the final rule can \textquoteleft\textquoteleft mitigate the cost is to phase in the acceptable level of risk for due diligence over several years and based on company size\textquoteright\textquoteright) See also letter from JVC et al. II (stating that, \textquoteleft\textquoteleft[w]ith respect to smaller reporting companies, it is reasonable to assume that the costs of compliance may disproportionately harm them by comparison with any concomitant benefit in achieving the statutory goals, since these companies lack the leverage to pressure suppliers and smelters to certify regarding the source of a particular conflict mineral, so \textquoteleft\textquoteleft we believe it would be appropriate to allow smaller reporting companies even more time in which to adapt the results of these broader global initiatives to their individual facts and circumstances\textquoteright\textquoteright).

\textsuperscript{122}See letters from NEI and TriQuint I.

\textsuperscript{123}For example, the Second Edition of the Random House Webster's Dictionary defines the term to include the \textquoteleft\textquoteleft making goods or wares by hand or machinery, esp. on a large scale\textquoteright\textquoteright. Random House Webster's Dictionary 403 (2d ed. 1996).

\textsuperscript{124}Exchange Act Section 13(p)(2)(B).

\textsuperscript{125}Exchange Act Section 13(p)(1)(A)(ii).
brand name that they had established, regardless of whether those issuers had any influence over the manufacturing specifications of those products, as long as an issuer had contracted with another party to have the product manufactured specifically for that issuer. We did not, however, propose that the rules would apply to retail issuers that sell only the products of third parties if those retailers had no contract or other involvement regarding the manufacturing of those products, or if those retailers did not sell those products under their brand name or a separate brand they had established and did not have those products manufactured specifically for them.

b. Comments on the Proposed Rules

i. “Manufacture”

Many commentators agreed with the proposed rules that the final rule should not define the term “manufacture” because that term is generally understood.127 Many other commentators, however, believed that the final rule should define the term,128 and most of these commentators provided their recommendations for the definition. A number of commentators indicated that the definition should mirror the North American Industry Classification System (“NAICS”).129 which classifies entities as manufacturers if they engage in the mechanical, physical, or chemical transformation of materials, substances, or components into new products from raw materials that are products of agriculture, forestry, fishing, mining, or quarrying.

Some commentators stated that the final rule should define the term inclusively or broadly so as to include all steps in the supply chain, from mining to manufacturing the product, because otherwise it would become exponentially more difficult for

130 See letters from Columbia Center et al., Metalsmiths, and TriQuint I.
131 See letter from Earthworks.
132 See letters from Enough Project I and SIF I.
133 See letter from Enough Project I (citing to its earlier letter submitted Sep. 24, 2010 on the Pre-Proposing Release Web site).
134 See letter from Jeffrey Trott (Jan. 31, 2011) (“Trott”).
135 See letter from Retail Industry Leaders Association (Nov. 1, 2011) (“RILA”).
136 See letter from National Association of Real Estate Investment Trusts (Nov. 23, 2011) (“NAREIT”).

manufacturing issuers downstream in the supply chain to comply with the final rule. One commentator indicated that the term should include all steps from mining, refining, and production to the importing, exporting, or sale of ingredients, materials, and/or processes. A few commentators indicated that the final rule should provide a definition consistent with the U.S. Controlled Substances Act, which includes the production, preparation, assembling, propagation, combination, compounding, or processing of a drug or other substance, either directly or indirectly or by extraction from substances of natural origin. One of these commentators stated that such a consistent definition would include the “production, preparation, assembling, combination, compounding, or processing of ingredients, materials, and/or processes such that the final product has a name, character, and use, distinct from the original ingredients, materials, and/or processes.”

One commentator asserted that the definition should include any entity “involved in the process of changing a product * * * from one form to another.” One commentator suggested that the definition “should be tailored only to include OEM’s and those who design and specify bills of materials for products with control over the procurement or fabrication of the same products’ bill of materials and specification of the constituent materials of the components.” One commentator urged us to provide clear guidance indicating that real estate development does not constitute manufacturing.

ii. “Contract to Manufacture”

Not all commentators agreed on whether the final rule should include an issuer that contracts to manufacture a product. However, many commentators that agreed that the final rule should include an issuer that contracts to manufacture a product, or did not agree but argued in the alternative, recommended that no issuer should be required to have some amount of control or influence over the manufacturing process before the final rule considers that issuer to be contracting to manufacture a product. A number of commentators suggested the level of control necessary to be considered contracting to manufacture a product under the final rule. In this regard, some commentators suggested that only an issuer with direct, close, active, and/or substantial involvement or control in the sourcing of materials, parts, ingredients, or components to be included in its products or in the manufacturing of those products should meet the minimum control threshold necessary to be considered contracting to manufacture a product. One commentator recommended that an issuer should be considered to be contracting to manufacture a product only if it exercises “a sufficient level of influence, involvement or control over the process to be able to control, in a meaningful manner, the use of conflict minerals, or to evaluate and influence the use of conflict minerals.” Some commentators asserted that the minimum control threshold should be met only if the issuer explicitly specifies the inclusion of conflict minerals in the product. Another commentator advised that the contracting activities that should trigger conflict minerals reporting should include designing the product, controlling the approved materials or vendor lists for the product, and including the issuer’s name on the product.

Some of these commentators, as well as others, suggested that an issuer should not be considered to meet the control threshold to the extent that the product is not manufactured to meet an issuer’s custom specifications, but rather is manufactured to meet industry-standard specifications common to the issuer’s competitors generally. For example, a group of jewelry industry commentators argued in one letter that a jewelry retail issuer ordering products from jewelry manufacturers should not be considered contracting to manufacture for those products if the retail issuer specifies only weight, karat, or other indicators of
quality. As another example, a mobile phone service provider asserted that it should not be considered contracting to manufacture its mobile phones even though it specifies to its manufacturers that the phones must be compatible with their networks and have certain cosmetic design requirements.

Some commentators suggested that the final rule should not consider an issuer to be contracting to manufacture products if the issuer is selling products under its own brands, labels, trademarks, or licenses if it had little or no influence in manufacturing those products. Other commentators recommended that the final rule should consider such issuers to be contracting to manufacture those products. One commentator asserted that generic products should be held to the same standard as branded products and that the final rule should avoid using any definitions that create a perverse incentive for an issuer to work with special purpose entities designed to follow the technical requirements of the law but evade its intent. Another commentator suggested that the final rule should apply to issuers selling generic products under their own name or a separate brand name, but not to retailers who do not do so and have no influence over the manufacturing of products they sell.

Some commentators recommended that an issuer should be considered to be contracting to manufacture a product only if the issuer has a direct contractual relationship with the manufacturer of the product to be sold by the issuer, the issuer has substantial control over the manufacturer and the material specifications of the product and specifies the conflict minerals to be used in the product, the product will be manufactured exclusively for the issuer, and the product will be sold by the issuer under its own brand name or a brand name owned by the issuer or exclusively licensed to the issuer by the owner of the brand. One of these commentators went on to assert that an issuer should not be considered to be exerting "substantial control" over manufacturing by "merely attaching a brand label to a generic good, contracting for the exclusive distribution of goods, or specifying the form, fit or function of a product," and should not be considered to be contracting to manufacture a product solely by "attaching a brand label to a generic good, contracting for the exclusive distribution of goods, or specifying the form, fit or function of a product.

Other commentators stressed that the final rule should not apply to any issuer contracting to manufacture its products. These commentators argued generally that the statute does not include an issuer that contracts to manufacture its products because the phrase does not appear in the subsection of the Conflict Minerals Statutory Provision discussing a "person described." Instead, the phrase appears only in the subsection that describes the disclosures required in a Conflict Minerals Report. Therefore, Congress's intent in including the phrase was only to ensure that a manufacturer otherwise subject to the Conflict Minerals Statutory Provision could not intentionally evade its reporting obligation merely by distancing itself, through contracting, from the manufacturing process.

c. Final Rule

i. "Manufacture"

After considering the comments, we are modifying the proposed rules, in part. The final rule, as proposed, applies to any issuer for which conflict minerals are necessary to the functionality or production of a product manufactured, including conflict minerals in a component of a product. The final rule does not define the term "manufacture" because we continue to believe, as discussed in the Proposing Release, that the term is generally understood. We note, however, that we do not consider an issuer that only services, maintains, or repairs a product containing conflict minerals to be "manufacturing" a product; this interpretation is not a change from the Proposing Release, but a clarification in response to comments.

We believe narrowing or expanding the definition of "manufacture" as suggested by some commentators would be inconsistent with the language and framework of Section 1502. For example, the NAICS definition, which a number of commentators suggested, appears to exclude any issuer that manufactures a product by assembling that product out of materials, subassemblies, or components that are not in raw material form. Such a definition would exclude large categories of issuers that manufacture products through assembly, such as certain auto and electronics manufacturers, whom we believe are intended to be covered by the Conflict Minerals Statutory Provision. As another example, the manufacturing definition put forth by one commentator appears to include "importing, exporting, or sale of conflict minerals," which would expand the definition to include issuers that clearly do not manufacture products. Also, many of the other suggested definitions simply expand upon the generally understood meaning of the term, which we do not believe we need to define.

ii. "Contract to Manufacture"

Consistent with the proposal, the final rule applies to any issuer for which conflict minerals are necessary to the functionality or production of a product contracted by that issuer to be manufactured, including conflict minerals in a component of a product. In general, the question of whether an issuer contracts to manufacture a product will depend on the degree of influence exercised by the issuer on the manufacturing of the product based on the individual facts and circumstances surrounding an issuer's business and industry. The final rule does not define when an issuer contracts to manufacture a product because, although we believe this concept is intuitive at a basic level, after considering comments and attempting to develop a precise definition, we concluded that, for "contract to manufacture" to cover issuers operating in the wide variety of the impacted industries and structured

143 See letter from JVC et al. II.
144 See letter from AT&T. See also letter from BCE (stating that the commentator, a distributor of a wide range of telecommunication and electronic products supplied by hundreds of manufacturers, "exerts no substantial control over the design or the technical requirements of the products or any control, direct or indirect, over the supply chains, which may be quite complex, of such manufactures," and its "sole input into the manufacturing process relates to providing brand name manufacturers with certain technical specifications to ensure compliance with applicable Canadian regulatory standards or to pesting special product features, cosmetic in nature, to meet Canadian consumer market demands").
145 See letters from AT&T, BCE, Cleary Gottlieb, CTIA, Industry Group Coalition I, JVC et al. II, NAM I, NCTA, and NRF I.
146 See letters from Enough Project I, Howland, NEI, SIF I, State II, and TriQuint I.
147 See letter from Axam Trade (Feb. 10, 2011) ("Axam").
148 See letter from NYCBan II.
149 See letters from CERC and RILA.
150 See letter from RILA.
151 See, e.g., letters from BCE, CERC, CTIA, Davis Polk, NCTA, RILA–CERC, TIC, and United States Telecom Association (Mar. 2, 2011) ("US Telecom").
152 See letters from AT&T, CTIA, and RILA–CERC.
153 See letter from JVC et al. II (commenting that "certain assembly and repair functions commonly performed by jewelry retailers" should not be defined as manufacturing).
154 See, e.g., letter from ABA (commenting that the Commission "should, either in the final rule or in the corresponding adopting release, provide additional guidance as to activities that will not be considered to be the manufacturing of a product for the purposes of the rule").
in various manners, any definition of that term would be so complicated as to be unworkable. We do, however, provide guidance below on some general principles that we believe are relevant in determining whether an issuer should be considered to be contracting to manufacture a product.

As a threshold matter, consistent with the proposal, we believe the statutory intent to include issuers that contract to manufacture their products is clear based on the statutory obligation for issuers to describe in their Conflict Minerals Reports products that are manufactured and contracted to be manufactured that do not meet the definition of “DRC conflict free.”

We recognize that commentators asserted that the statute does not include an issuer that contracts to manufacture its products and that the sole intent behind including the phrase in the provision was to keep manufacturers from intentionally evading reporting requirements by contracting the manufacturing of their products to third parties. Nonetheless, Exchange Act Section 13(p)(1)(A)(ii) requires issuers that must file a Conflict Minerals Report to describe their “products manufactured or contracted to be manufactured that are not DRC conflict free” (emphasis added). In our view, the inclusion of products that are “contracted to be manufactured” in this requirement indicates that Congress intended the Conflict Mineral Statutory Provision to apply to such products, and including issuers who contract to manufacture their products in the scope of the rule effectuates this intent. We believe our reading is more consistent with the statute than the alternative reading—that Congress required a description of products that were “contracted to be manufactured” and were not “DRC conflict free,” but did not require issuers that contracted to manufacture products to determine whether a Conflict Minerals Report was required to be filed. This would be internally inconsistent. It would significantly undermine the purpose of the statutory provision to fail to apply it to issuers that contract to manufacture their products.

As another threshold matter, we believe the phrase “contract to manufacture” captures manufacturers that contract the manufacturing of components of their products. Generally, we believe that manufacturing issuers that contract the manufacturing of certain components of their products should, for purposes of the Conflict Minerals Statutory Provision, be viewed as responsible for the conflict minerals in those products to the same extent as if they manufactured the components themselves. We believe it is inconsistent with the Conflict Minerals Statutory Provision to allow these manufacturers to avoid the final rule’s requirements by contracting out the manufacture of components in their products that contain conflict minerals. As two of the co-sponsors of the Conflict Minerals Statutory Provision noted, “[m]any companies use component parts from any one of several suppliers when assembling their products” to “help drive down the price for parts through competition.”

In the proposal, we expressed our belief that an issuer that does not manufacture a product itself but that has ‘any’ influence over the product’s manufacturing should be considered to be contracting to manufacture that product. Also, we expressed our belief that an issuer that offers a generic product under its own brand name or a separate brand name should be considered to be contracting to manufacture that product so long as the issuer had contracted to have the product manufactured specifically for itself. We had believed that these issuers should have been considered to be contracting those products to be manufactured because the issuers would implicitly influence the manufacturing of the products. However, we are persuaded by commentators that this level of control set forth in the Proposing Release was “overbroad” and “confusing” and would impose on such an issuer “significant,” “unrealistic,” and “costly” burdens.

Consistent with our approach in the Proposing Release, we believe that “contract to manufacture” is intended to include issuers that have some actual influence over the manufacturing of their products. However, we have modified our view as to the circumstances under which an issuer is considered to be contracting to manufacture a product. An issuer is considered to be contracting to manufacture a product depending on the degree of influence it exercises over the materials, parts, ingredients, or components to be included in any product that contains conflict minerals or their derivatives. The degree of influence necessary for an issuer to be considered to be contracting to manufacture a product is based on each issuer’s individual facts and circumstances. However, based on comments we received, we believe an issuer should not be viewed for the purposes of the Conflict Minerals Statutory Provision as contracting to manufacture a product if its actions involve no more than:

(a) Specifying or negotiating contractual terms with a manufacturer that do not directly relate to the manufacturing of the product, such as training or technical support, price, insurance, indemnity, intellectual property rights, dispute resolution, or other like terms or conditions concerning the product, unless the issuer specifies or negotiates taking these actions so as to exercise a degree of influence over the manufacturing of the product that is practically equivalent to contracting on terms that directly relate to the manufacturing of the product; or

(b) Affixing its brand, marks, logo, or label to a generic product manufactured by a third party; or

(c) Servicing, maintaining, or repairing a product manufactured by a third party.

For example, we agree with commentators that an issuer that is a service provider that specifies to a manufacturer that a cell phone it will purchase from that manufacturer to sell at retail must be able to function on a certain network does not in-and-of itself exert sufficient influence to “contract to manufacture” the phone for purposes of the final rule. Under the proposed rules, however, such an issuer may have reached the “any” influence threshold. Conversely, we do not agree with commentators that an issuer must have “substantial” influence or control over the manufacturing of a product before the issuer is considered to be contracting to manufacture that product. Such a standard would significantly limit the coverage of the Conflict Minerals Statutory Provision for issuers that contract to manufacture products, and we do not believe that such a narrow scope is consistent with the intent of the Conflict Minerals Statutory Provision. For example, if there are specifications made by an issuer to a manufacturer that it contracts with for the inclusion of a particular conflict mineral in the product, the

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158 See, e.g., letters from AT&T, Corporate Secretaries I, Davis Polk, and Verizon. See also letter from NRF I (stating that our proposed approach would be “draconian”).

159 See, e.g., letters from AT&T, Corporate Secretaries I, CTIA; JWC et al. II, NRF I, and Verizon.
issuer might not be viewed as exerting “substantial” influence on the overall manufacturing of the product. However, we would view such an issuer as covered under the final rule as contracting to manufacture the product. In addition, we disagree with commentators that suggested that the final rule should apply only to issuers that explicitly specify that conflict minerals be included in their products. We believe this is too narrow an interpretation of the statutory provision and, read in this manner, the statute would be illogical. For example, as commentators argued, Congress inserted “contract to manufacture” in the disclosure of products to prevent manufacturers from skirting the disclosure requirements by contracting to manufacture certain products. However, if “contract to manufacture” is not included in the definition of “person described,” an issuer may evade the statute by contracting its manufacturing to a third party. Therefore, an issuer would never be required to disclose its minerals because the issuer would not qualify for steps two and three.

Moreover, in contrast to our approach in the Proposing Release, we do not consider an issuer to be contracting to manufacture a product for the purposes of our rule solely if it offers a generic product under its own brand name or a separate brand name without additional involvement by the issuer. We are persuaded by commentators that such an issuer would not necessarily exert a sufficient degree of influence on the manufacturer to be considered as contracting to manufacture the product for purposes of the Conflict Minerals Statutory Provision. As one commentator noted, it seems that such a relationship between an issuer and manufacturer is better characterized as one in which the manufacturer is using the issuer as a “sales channel” as opposed to one in which the issuer is “outsourcing manufacturing to” the manufacturer. Such a relationship limits the issuer’s influence on the product, and in this context, the extent to which it puts the issuer in a similar position to that of a pure retailer. One commentator noted that the purposes of the Conflict Minerals Statutory Provision are not served by classifying such an issuer as contracting to manufacture a product. We agree. However, an issuer with generic products that include its brand name or a separate brand name and that has involvement in the product’s manufacturing beyond only including such brand name would need to consider all of the facts and circumstances in determining whether its influence reaches such a degree as to be considered contracting to manufacture that product.

3. Mining Issuers as “Manufacturing” Issuers
   a. Proposed Rules

Under the proposed rules, we would have considered an issuer that mines conflict minerals to be manufacturing those minerals and an issuer contracting for the mining of conflict minerals to be contracting for the manufacture of those minerals. In this regard, we proposed in an instruction to the rules that mining issuers be considered to be manufacturing conflict minerals when they extract those minerals. We did, however, request comment on this point.

b. Comments on the Proposed Rules

A number of commentators stated specifically that the final rule should consider any issuer that mines conflict minerals as “manufacturing” those conflict minerals as “products.” A few commentators noted that mining issuers should be included as manufacturers because they begin the conflict minerals supply chain and other reporting issuers must rely on them for information. As such, without the final rule including mining issuers, other issuers would have a very difficult time complying with the rules, which would eliminate transparency from the supply chain and undermine the provision.

Other commentators indicated that the final rule should not treat mining issuers as manufacturers of the conflict minerals they extract. Some of these commentators argued that the final rule should incorporate the NAICS definition of “manufacturing,” which they noted does not include mining as a type of manufacturing activity. Certain commentators noted that mining of conflict minerals, especially gold, shares no characteristics with the manufacturing of products. Finally, some commentators asserted that Congress did not intend to include mining issuers as manufacturers based on previous versions of the Conflict Minerals Statutory Provision, legislative statements, and a plain reading of the statute. As some of these commentators noted, the Conflict Minerals Statutory Provision was preceded by other legislative proposals that were drafted to include mining issuers, but the Conflict Minerals Statutory Provision was not drafted in such a manner. One such commentator indicated that these previous bills “explicitly applied not only to companies using covered minerals in their manufacturing processes, but also to persons engaged in ‘the commercial exploration, extraction, importation, exportation, or sale’ of the covered minerals.” According to the commentator, the fact that Congress chose not to include extraction activities in the Conflict Minerals Statutory Provision demonstrates that Congress’s intent was not to have the Conflict Minerals Statutory Provision include mining as manufacturing.

c. Final Rule

After considering the comments, we are modifying the proposal. We do not consider an issuer that mines or contracts to mine conflict minerals to be manufacturing or contracting to manufacture those minerals unless the issuer also engages in manufacturing, whether directly or indirectly through contract, in addition to mining. In this regard, we do not believe that mining is “manufacturing” based on a plain reading of the provision. We agree with the commentators concerned that the statutory language does not explicitly include mining anywhere in the Conflict Minerals Statutory Provision and including mining would expand the statutory mandate. The Conflict Minerals Statutory Provision does not specifically refer to mining and, as one

See Industry Guide 7 (17 CFR 229.802(g)) (implying that companies may “produce” minerals from a mining reserve).


See letters from Global Witness I and TriQuint I (noting that mining companies do, in fact, engage in a transformative process such that they transform natural resources into ores, which should be considered “manufacturing”).

See letter from Enough Project I.


See letters from AngloGold and WGC II.

See letters from AngloGold and Barrick Gold.


See, e.g., letters from AngloGold and NMA II.

Letter from NMA II (referring to S. 891 and S.A. 2707 (2009)).
commentator noted, “[t]o extend the terms ‘manufacture’ of a ‘product’ to include the mining of conflict minerals contorts the plain meaning of those terms.” 173

As discussed by commentators, legislative history demonstrates that Congress did not intend to include issuers that solely mine conflict minerals in the Conflict Minerals provision because it removed references to such activities from prior versions of the provision. For example, one commentator in two comment letters noted that prior versions of the Conflict Minerals Statutory Provision explicitly applied to anyone either using covered minerals in their manufacturing processes or engaging in “the commercial exploration, extraction, importation, exportation or sale of the covered minerals.” 174 However, the final version of the Conflict Minerals Statutory Provision omits any reference to extraction-related activities and refers solely to manufacturing. 175 As this commentator stated, Congress’s omission of mining activities evidences its intent “to address the manufacturing of goods which use or contain, as opposed to the extracting and processing of, the covered minerals.” 176

Therefore, based on both the plain reading of the provision and the legislative history of the provision, we are persuaded that it would be inconsistent with the language in the Conflict Minerals Statutory Provision to include mining issuers as manufacturing issuers under the final rule unless the mining issuer engages in manufacturing, either directly or through contract, in addition to mining.

4. When Conflict Minerals Are “Necessary” to a Product

The Conflict Minerals Statutory Provision requires us to promulgate regulations requiring that any “person described” disclose annually whether conflict minerals that are “necessary” originated in the Covered Countries and, if so, submit to us a Conflict Minerals Report. 177 The provision further states that a “person is described” if “conflict minerals are necessary to the functionality or production of a product manufactured by such person.” 178 The provision, however, provides no additional explanation or guidance as to the meaning of “necessary to the functionality or production of a product.” Likewise, we did not propose to define when a conflict mineral is necessary to the functionality or production of a product. We did, however, request comment on whether and how our rules should define this phrase and we provided some guidance as to the meaning of “necessary to the production of a product.”

a. Proposed Rules

Although we did not propose to define “necessary to the functionality or production” in the rules, we noted in the Proposing Release that, if a mineral is necessary, the product was included within the scope of the rules without regard to the amount of the mineral involved. Further, we indicated in the Proposing Release that conflict mineral would be considered necessary to the production of a product if the conflict mineral was intentionally included in a product’s production process and was necessary to that process, even if that conflict mineral was not ultimately included anywhere in the product. On the other hand, as proposed, a conflict mineral necessary to the functionality or production of a physical tool or machine used to produce a product would not be considered necessary to the production of that product, even if that tool or machine was necessary to producing the product. For example, if an automobile containing no conflict minerals was produced using a wrench that contains or was itself produced using conflict minerals necessary to the functionality or production of that wrench, the proposed rules would not consider the conflict minerals in that wrench necessary to the production of the automobile.

That the conflict minerals must be “necessary to the functionality or production” of an issuer’s products is the only limiting factor in the Conflict Minerals Statutory Provision. 179 The provision has no materiality thresholds for disclosure based on the amount of conflict minerals an issuer uses in its manufacturing processes. Therefore, we did not propose to include a materiality threshold for the disclosure or reporting requirements in the proposed rules. We did, however, request comment in the Proposing Release as to whether there should be a de minimis threshold in our rules based on the amount of conflict minerals used by an issuer in a particular product or in its overall enterprise and, if so, whether such a threshold would be consistent with the Conflict Minerals Statutory Provision.

b. Comments on the Proposed Rules

Many commentators suggested that the final rule explicitly define the phrase, “necessary to the functionality or production of a product.” 180 While other commentators indicated that the final rule should not define the phrase. 181 Several commentators suggested possible definitions. 182 One commentator noted that manufacturers make certain deliberate choices about products, such as how they look, function, perform, cost, or are supplied, so when there has been a choice to incorporate conflict minerals into a product, the final rule should consider the conflict minerals “necessary” to the product because the designer has regulated them to be so. 183 A second commentator was concerned that the proposed rules did not provide any guidance as to either the phrase “necessary to the functionality or production” or the term “product.” 184 As such, this commentator noted that the proposed rules could apply to financial products that are backed by gold or other mineral commodities, such as futures contracts for gold bullion, shares in mutual funds that invest in gold mining stocks, or gold bullion storage agreements with vault service providers.

i. “Necessary to the Functionality”

A number of different commentators indicated that a conflict mineral should be considered “necessary to the functionality” of a product if that conflict mineral is intentionally added to the product. 185 Of these commentators, however, many were open to other potential requirements. For example, many commentators

173 See letter from AngloGold.
174 See letters from NMA II and NMA III. These letters discuss two legislative proposals introduced in the Senate in 2009 that were similar to the Conflict Minerals Statutory Provision. See Congo Conflict Minerals Act of 2009, S. 891, 111th Cong. (2009) and S. 1707, 111th Cong. (2009). Both of these earlier conflict minerals proposals explicitly applied to companies using conflict minerals in their manufacturing processes and also to persons engaged in “the commercial exploration, extraction, importation, exportation, or sale” of conflict minerals.
175 See letters from NMA II.
176 Id.
177 Exchange Act Section 13(p)(1)(A).
182 See, e.g., letters from Cleary Gottlieb, Global Witness I, FITC I, State II, and WGC II.
suggested further requirements in addition to, or instead of, being intentionally added before a conflict mineral should be considered “necessary to the functionality” of a product. Many of these commentators indicated that a conflict mineral must be intentionally added and/or necessary either for the product’s use, purpose, or marketability, financial success, or some combination thereof.186 A few commentators asserted that a conflict mineral must be intentionally added and essential to the product’s function.187 One commentator stated that a conflict mineral must be intentionally added and have a concentration in the product that exceeds 1,000 ppm per homogeneous material.188

Only a few commentators proposed guidance as to when a conflict mineral would be considered “intentionally added” to a product, and they disagreed on when a conflict mineral should be considered “intentionally added.” One commentator stated that a conflict mineral should not be considered intentionally added if it was unilaterally included in a sub-component acquired by the issuer from a sub-contractor.189 Two of the co-sponsors of the Conflict Minerals Statutory Provision, however, took the opposite position and stated that a conflict mineral should be considered intentionally added if it is intentionally added in sub-components that an issuer contracts to manufacture through third parties or subsidiaries.190 Several commentators agreed that a conflict mineral occurring naturally in a product should not be considered intentionally added to that product.191 Instead of being intentionally added to a product, some commentators provided other bases for concluding that a conflict mineral is “necessary to the functionality” of a product. Some commentators indicated that a conflict mineral should be considered “necessary to the functionality” of a product if that conflict mineral is necessary for the product’s basic function.192 Other commentators stated that the basic function test would be unworkable because there is no meaningful distinction between a product’s basic and auxiliary functions.193 Some commentators stated that a conflict mineral should be considered “necessary to the functionality” of a product if that conflict mineral is required either for the financial success or marketability of the product.194 One commentator noted that “necessary to the functionality” should be defined broadly enough that it encompasses uses necessary to the product’s economic utility,195 while others disagreed due to the subjective nature of what provides economic utility to a product.196 In this regard, one commentator asserted that a conflict mineral should be considered “necessary to the functionality” of a product if the issuer “uses” conflict minerals in any manner in a product, regardless of how those conflict minerals relate to the product’s function, because any other test would be too subjective.197

ii. “Necessary to the Production”

Many commentators agreed that a conflict mineral should be considered “necessary to the production” of a product if it is intentionally added to the production process, and should not be considered “necessary to the production” of a product if it is unintentionally added to a product or naturally occurring in a product.198 Some commentators agreed with the proposal to consider such conflict minerals “necessary to the production” of a product even if the minerals are washed away or consumed in the production process and do not end up in the product, such as with a catalyst.199 As one of these commentators suggested as an example, a “catalyst used to make a substance or a die containing [conflict mineral] metals used to make a part” should be considered “necessary to the production” of the product using that part because the “part is made with of that product,” and stating that it does not “believe that ‘basic function’ in this regard needs to be defined since it will differ for each product”).

Some commentators disagreed and stated that such tools, machines, or similar equipment should be considered necessary to the production of an issuer’s product.200 Only a few commentators addressed whether a conflict mineral necessary to the production of the tools, machines, or similar equipment that are used to produce an issuer’s product should be considered “necessary to the production” of the issuer’s product.201 A small number of commentators disagreed and stated that such tools, machines, or similar equipment should be considered necessary to the production of an issuer’s product.202 One of these commentators specified that direct involvements of the [conflict mineral] metal and then the part/material is used in the product,” even if the conflict mineral does not end up in the product.203 Other commentators, however, did not believe that conflict minerals used in the production of a product should be considered necessary to that production process if they are washed away or consumed in the process.204 As one of these commentators pointed out, it would be “impossible for a retailer to know whether his supplier’s supplier’s supplier used and washed away a conflict mineral” because “there is no meaningful measurement capability or audit trail, especially as a product moves through dozens of suppliers in a supply chain.”205

A number of commentators addressed whether a conflict mineral necessary to the production of the tools, machines, or similar equipment that are used to produce an issuer’s product should be considered “necessary to the production” of the issuer’s product.206 The large majority of these commentators, including those from industry associations, a multi-stakeholder group representing both human rights organizations and industry,207 and institutional investors,208 agreed with the proposed rules that such tools, machines, and other production equipment should not be considered necessary to the production of the issuer’s products.209 A small number of commentators disagreed and stated that such tools, machines, or similar equipment should be considered necessary to the production of an issuer’s product.208 One of these commentators specified

186 See, e.g., letters from AAEL, Bario-Neal, Brilliant Earth, Earthworks, Enough Project I, Hacker Jewelers, Hoover & Strong, MSG I, Peace, and SIF I, and TIAA–CREF.
187 See, e.g., letters from Howland, NAM I, and NRF I.
188 See letter from TriQuint I.
189 See letter from SEMI.
192 See letters from AAFA, NYCBAR I, and WGC II. See also letter from NYCBAR II (stating that a “component in a product necessary to its functionality if it is needed for either its basic function or another commercially valuable function

193 See letters from NEI, SEMI, and TIC.
194 See, e.g., letters from Enough Project I, MSG I, Peace, and TIAA–CREF.
195 See letter from CRS I (suggesting “that necessary to the functionality or production of a product’ be defined broadly enough that it encompasses uses necessary to the economic utility and/or marketability of that product”).
196 See, e.g., letters from NEI, SEMI, and TIC.
197 See letter from Koot.
199 See, e.g., letters from Howland, MSG I, Niotan I, PCP, SEMI, and TriQuint I.
200 See letter from Howland.
201 See, e.g., letters from Industry Group Coalition I, IPC II, NAM I, Griffin Teggeman (Dec. 16, 2010) (“Teggeman”), and WGC II.
202 See letter from Teggeman.
204 See, e.g., letters from AAFA, Industry Group Coalition I, IPC I, ITIC I, Japanese Trade Associations, NAM I, RMA, SEMI, and TIC.
205 See letter from MSG I (stating that “when conflict minerals are present in tooling or other production machinery, they should not be considered to be necessary to production of the product”). The letter from MSG was signed by a number of human rights groups, including Enough Project, Free the Slaves, and Friends of the Congo, among others.
206 See, e.g., letters from NEI, SIF I, and TIAA–CREF.
207 See, e.g., letters from AAFA, Industry Group Coalition I, IPC I, ITIC I, Japanese Trade Associations, NAM I, NEI, RMA, SEMI, SIF I, TIAA–CREF, and TIC.
208 See letters from Niotan I and TriQuint I.
that tools, machines, or similar equipment purchased going forward should be considered necessary to the production of the issuer’s product, although an issuer’s existing production equipment should not be deemed necessary to production.209 Another commentator stated that production equipment should not be considered necessary to the production of an issuer’s products unless the issuer intentionally and explicitly required the producer of the tools, machines, or other production equipment to include conflict minerals.210

In this regard, one commentator stated that the final rule should not consider any indirect equipment, such as computers or power lines, as necessary to production.211 Another commentator indicated that conflict minerals used in products that are “not intended to be sold into commerce,” such as those utilized solely for research and development purposes, components provided at cost on a business-to-business basis, or products or components used only for engineering or testing purposes, should not be considered necessary to the production of the product that is ultimately placed in the stream of commerce.212

iii. De Minimis Threshold

We received mixed comments regarding whether the final rule should have a de minimis threshold exception, with some commentators opposed to a de minimis exception,213 and other commentators supporting it.214 Some commentators provided a legal basis for including a de minimis exception despite the lack of a de minimis exception in the Conflict Minerals Statutory Provision.215 Generally, these commentators asserted that, as long as legislation does not forbid establishing a de minimis threshold, an agency’s regulations may allow for one. Also, one commentator noted that we have “inherent authority to employ de minimis exceptions to avoid unreasonable and absurd results in crafting [the] final rule,” which is “inherent and clearly established by precedent.”216

Some commentators provided recommendations on possible de minimis thresholds. Two commentators suggested that there should be a de minimis exception if the cost of the conflict minerals in an issuer’s products make up less than 1% of the issuer’s consolidated total production costs.217 Other commentators recommended a de minimis exception for trace, nominal, or insignificant amounts of conflict minerals in an issuer’s products.218 One commentator suggested a de minimis exception when the end product derived from conflict minerals reflects less than a certain percentage of the value of the product, such as if the value was 5% or less of the total manufacturing costs.219 Another commentator recommended a de minimis exception relating to the inability of an issuer to determine the origin of its minerals, such as allowing that issuer’s product to be considered “DRC conflict free” where the issuer is unable to determine the origin of only 5% of the product’s minerals.220 One commentator noted that the final rule should permit a de minimis exception, but indicated that the value used for the de minimis exception should be based on how the phrase “necessary to the functionality or production” of a product is to be defined in the final rule.221 Another commentator recommended that the final rule permit a de minimis exception for products containing less that 0.1% by weight of a conflict mineral.222 One commentator provided three possible de minimis scenarios in which an issuer would be excepted from reporting, specifically: If an issuer’s conflict minerals comprised less than 0.1% of a component or product, if an issuer’s global usage of conflict minerals comprised less than 0.01% of its materials, or if an issuer comprised the bottom 20% of its industry’s conflict minerals use.223

c. Final Rule

After considering the comments, we are adopting a final rule that, like the proposed rules, does not define when a conflict mineral is “necessary to the functionality” of a product or when it is “necessary to the production” of a product.224 However, as we did in the Proposing Release, we are providing guidance regarding the interpretation of these phrases. The guidance is modified a degree from the guidance in the Proposing Release based on comments we received. Whether a conflict mineral is deemed “necessary to the functionality” of a product or “necessary to the production” of product depends on the issuer’s particular facts and circumstances, but there are certain factors we believe issuers should consider in making their determinations.

As described below, in determining whether its conflict minerals are “necessary to the functionality” of a product, an issuer should consider: (a) Whether a conflict mineral is contained in and intentionally added to the product or any component of the product and is not a naturally-occurring by-product; (b) whether a conflict mineral is necessary to the product’s generally expected function, use, or purpose; or (c) if a conflict mineral is incorporated for purposes of ornamentation, decoration or embellishment, whether the primary purpose of the product is ornamentation or decoration. Based on the applicable facts and circumstances, any of these factors, either individually or in the aggregate, may be determinative as to whether conflict minerals are “necessary to the functionality” of a given product. In determining whether its conflict minerals are “necessary to the production” of a product, an issuer should consider whether a conflict mineral is contained in the product and intentionally added in the product’s production process, including the production process of any component of the product; and whether the conflict mineral is necessary to produce the product. We describe changes to our guidance regarding “necessary to the functionality” and “necessary to the production” below.

209 See letter from TriQuint I.
210 See letter from SEMI.
211 See letter from Howland.
212 See letter from ITIC I. See also letter from TechAmerica (Nov. 1, 2011) (“Industry Group Coalition II”) (suggesting that the final rule should exclude “research and development equipment made available on a business-to-business basis from the scope of the rule”).
214 See, e.g., letters from AAFA, Advamed I, AngloGold, Chamber I, Davis Polk, IPC I, IPC II, IPMI I, NAM I, NRF I, PCP, Rep. Bachus et al., Roundtable, SEMI, Teggeman, TIC, and WGC II.
215 See letters from Materion, NAM I, and NRF I.
216 See letter from TriQuint.
217 See letters from IPC I.
218 See letters from AngolaGold and WGC II.
219 See letters from Davis Polk, NRF I, and Roundtable.
220 See letter from TIC.
221 See letter from IPMI I.
222 See letter from SEMI (stating that, if the phrase was limited to materials explicitly or intentionally added to a product or caused to be added to a product, the de minimis threshold should be one gram per year of necessary minerals, but if the final rule included a “more conservative” meaning, of the phrase, a higher de minimis should be used, such as 0.1% of the weight of any particular component acquired as a whole by the issuer).
223 See letter from IPC I.
224 As a threshold matter, we believe that the Conflict Minerals Statutory Provision requires separate consideration as to whether a conflict mineral is “necessary to the production” of a product from whether a conflict mineral is “necessary to the functionality” of the product, because the Conflict Minerals Statutory Provision includes both phrases. See infra Part II.B.4.c.iii. See also Exchange Act Sections 13(p)(1)(A) and 13(p)(2).
i. Contained in the Product

After considering the comments and reviewing the Conflict Minerals Statutory Provision, as described below, we are persuaded that only a conflict mineral that is contained in the product should be considered “necessary to the functionality or production” of that product. We believe this approach is appropriate in light of the Conflict Minerals Statutory Provision’s statutory construction. As discussed above, the Conflict Minerals Statutory Provision requires issuers with conflict minerals “necessary to the functionality or production” of a product manufactured or contracted by the issuer to be manufactured that originated in the Covered Countries to provide a Conflict Minerals Report.226 The provision includes two distinct subsections, Exchange Act Section 13(p)(1)(A)(ii) and Exchange Act Section 13(p)(1)(A)(iii), regarding the information required in that Conflict Minerals Report. Generally, Exchange Act Section 13(p)(1)(A)(ii) deals with an issuer’s description of its due diligence measures on the source and chain of custody of its conflict minerals, including the independent private sector audit, and Exchange Act Section 13(p)(1)(A)(iii) requires the issuer’s description of its products that have not been found to be “DRC conflict free.” The Conflict Minerals Statutory Provision defines “DRC conflict free” to mean “products that do not contain minerals that directly or indirectly finance or benefit armed groups” in the Covered Countries.226 The use of the term “contain” indicates that the disclosures required under Exchange Act Section 13(p)(1)(A)(ii) are limited to issuers with conflict minerals actually contained in their products.227 We believe it is appropriate to include this limitation in interpreting when a conflict mineral is necessary to the functionality or production of a product. We note that Exchange Act Section 13(p)(1)(A)(i) does not include a similar limitation that the product must “contain” the necessary conflict minerals. As a result, it is possible to interpret the Conflict Minerals Statutory Provision such that the term “contain” in Exchange Act Section 13(p)(1)(A)(ii)

does not mean that a conflict mineral must be included in the product for it to be “necessary to the functionality or production” of the product. However, we do not believe that such an interpretation would be the proper construction. Following that approach, the provision could be interpreted to require issuers with conflict minerals that are “necessary to the functionality or production” of a product but are not included in that product to submit an audited Conflict Minerals Report describing their due diligence, as required under Exchange Act Section 13(p)(1)(A)(ii), but not describing any products produced using those minerals that directly or indirectly financed or benefited armed groups in the Covered Countries as having not been found to be “DRC conflict free” because the conflict minerals are not “contained” in the product.

We do not believe, however, that such an interpretation is the better construction. It would mean that the Conflict Minerals Statutory Provision envisions a situation in which an issuer with a conflict mineral that is “necessary to the functionality or production” of its product originated in the Covered Countries and benefited armed groups in those countries would be required to submit a Conflict Minerals Report describing its due diligence on the source and chain of custody of that mineral but would not have to describe its products as having not been found to be “DRC conflict free.” We believe the better interpretation that gives meaning to the term “contain” is that only conflict minerals contained in the product would be considered “necessary” to that product, so only those minerals trigger the requirement to conduct a reasonable country of origin inquiry. Additionally, we do not believe the final rule should include conflict minerals “necessary to the functionality or production” of a product that are not contained in the product because we appreciate commentators’ concerns that the application of the provision to minerals that do not end up in the product is especially challenging. As noted above, commentators were mixed in their views regarding how the rule should treat catalysts and other conflict minerals necessary to the production of a product that do not appear in the product. However, we note that there are products where a catalyst is used and is not completely washed away.228

226 Id. (emphasis added). See also Section 1502(e)(4) of the Act (defining the phrase in the same manner as Exchange Act Section 13(p)(1)(A)(ii), except that Section 1502(e)(4) of the Act refers to “conflict minerals” instead of just “minerals”).
227 We note that the Second Edition of the Random House Webster’s Dictionary defines “contain” to include the “to hold within a volume or area.” Random House Webster’s Dictionary, 142 (2d ed. 1996).
228 See letters from Industry Group Coalition I and NAM I (referred specifically to situations in which catalysts are used to chemically react with and produce products, and trace levels of the catalyst are found in the reacted manufactured product, but the catalysts do not contribute to the performance of the product).
230 See letter from SEMI.
231 See letter from Sen. Durbin/Rep. McDermott (indicating that a car manufacturer must report on any conflict minerals in the car’s radio, even if there are no conflict minerals elsewhere in the car).
manufactured originally by a third party.

iii. “Necessary to the Functionality”

In addition to being contained in the product and intentionally added, another factor in determining whether its conflict minerals are “necessary to the functionality” of a product is whether the conflict mineral is necessary to the product’s generally expected function, use, or purpose.

Some commentators suggested that we limit an issuer’s consideration of whether its conflict minerals are “necessary to the functionality” of a product to the “basic function” or “economic utility” tests. However, we believe limiting a determination to those tests would not provide greater certainty or clarity to issuers required to make such determinations. As one commentator noted, “the distinction between a ‘basic function’ and an ancillary function is murky and undefinable.” Similar to another commentator noted, “[e]conomic utility is very subjective and it can be the unforeseen consequence of a derivative buried deep within a sub-component.” Therefore, we believe these tests are so subjective as to be mostly unworkable. We believe it is more appropriate instead to focus on a product’s generally expected function, use, or purpose, recognizing that there are situations in which a product has multiple generally expected functions, uses, and purposes. In such situations, a conflict mineral need only be necessary for one such function, use, or purpose to be necessary to the product as a whole. For example, a smart phone that has multiple generally expected functions, uses, and purposes, such as making and receiving phone calls, accessing the internet, and listening to stored music. If a conflict mineral is necessary to the function, use, or purpose of any one of these, it is necessary to the functionality of the phone.

Another factor in determining whether its conflict minerals are “necessary to the functionality” of a product is whether the conflict mineral is incorporated for purposes of ornamentation, decoration, or embellishment. If a primary purpose of the product is mainly ornamentation or decoration, it is more likely that a conflict mineral added for purposes of ornamentation, decoration or embellishment is “necessary to the functionality” of the product. For example, the gold in a gold pendant hanging on a necklace is necessary to the functionality of the pendant because it is incorporated for purposes of ornamentation, decoration, or embellishment, and a primary purpose of the pendant is ornamentation or decoration. Conversely, if a conflict mineral is incorporated into a product for purposes of ornamentation, decoration, or embellishment, and the primary purpose of the product is not ornamentation or decoration, it is less likely to be “necessary to the functionality” of the product. As one commentator noted, “if, for example, gold is used in an article as an ancillary feature [of a product] strictly for purposes of ornamentation, then it is unrelated to the functionality of the product and would be exempt from the reporting requirements of the statute.”

We would agree that these facts would tend to indicate that the conflict mineral is not necessary to the functionality of the product, provided that the primary purpose of the product is not for ornamentation or decoration. Even so, this would only be one factor among all the facts and circumstances in the issuer’s overall determination as to whether the conflict mineral is necessary to the functionality of the product.

iv. “Necessary to the Production”

As with determining whether a conflict mineral is “necessary to the functionality” of a product, determining whether a conflict mineral is “necessary to the production” of a product involves consideration of an issuer’s particular facts and circumstances. As noted above, the conflict mineral must be contained in the product to trigger the determination of whether the conflict mineral is “necessary to the production” of the product. Consistent with this approach, we do not consider a conflict mineral used as a catalyst or in another manner in the production process of a product to be “necessary to the production” of the product if that conflict mineral is not contained in the product, even though, based on the facts and circumstances, the conflict mineral would have otherwise been considered “necessary to the production” of the product had the conflict mineral been included in the product. As one commentator noted for gold, and we believe this is applicable for the other conflict minerals as well, the “use of gold as a catalyst in producing products which do not in themselves contain gold will broaden the reach of the regulations beyond what Section 1502 envisaged.”

We do, however, consider a conflict mineral used as a catalyst or in another manner in the production process of a product to be “necessary to the production” of the product if that conflict mineral otherwise is necessary to the production of the product and is contained in any amount, including trace amounts, in the product.

As we indicated in the Proposing Release, we continue to believe that a conflict mineral in a physical tool or machine used to produce a product does not fall under the “necessary to the production” language in the Conflict Minerals Statutory Provision. One commentator asserted that the language in the Conflict Minerals Statutory Provision is intended to cover conflict minerals in tools or machines that are necessary for the production of a product and, “[i]n the absence of such specificity, the rule will fail to ensure reporting on the use of such tools or catalysts, thus leaving out a significant market for the minerals and undermining the purpose of the law.”

We do not believe that a conflict mineral in a tool or machine is captured by the Conflict Minerals Statutory Provision because, although the conflict mineral may be included in the tool or machine, it is the tool or machine and not the conflict mineral that is necessary to the production.

Additionally, the tool or machine is

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232 See letter from TIC.
233 See letter from SEMI.
234 See letter from Niotan I.
235 See WGC II.
236 We note that this interpretation continues to bring catalysts within the scope of the reporting requirements when they are necessary to the production of the product. We understand that not all catalysts are washed away in the production process, and the remaining minerals may not be “necessary to the functionality” of the product. See letters from Industry Group Coalition I and NAM I (referring specifically to situations in which catalysts are used to chemically react with and produce products, and trace levels of the catalyst are found in the reacted manufactured product, but the catalysts do not contribute to the performance of the product).
237 As described above, we consider a conflict mineral that is “necessary to the functionality” of a component product also to be “necessary to the functionality” of any subsequent product that incorporates the component product. We recognize that this could be seen as a two-step analysis, and thus could be asserted that the conflict mineral in the component product is not necessary to the functionality of the subsequent product. We disagree with this view, however, because a component added to a subsequent product becomes part of that subsequent product, which removes any segregation from the component and the subsequent product and makes the conflict mineral directly necessary to the functionality of the subsequent product.
unlikely to be contained in the final product.

Like tools and machines, indirect equipment used to produce a product, such as computers and power lines, does not bring the product that is produced with the equipment into the “necessary to the production” language.

We do not consider a conflict mineral necessary to the functionality or production of such indirect equipment to be necessary to the production of the product because that conflict mineral is only tangentially necessary for production of the product. Similarly, we do not require issuers to report on the conflict minerals in materials, prototypes, and other demonstration devices containing or produced using conflict minerals that are necessary to the functionality or production of those items because we do not consider those items to be products. Once an issuer enters those items in the stream of commerce by offering them to third parties for consideration, the issuer will be required to report on any conflict minerals necessary to the functionality or production of those products.

v. De Minimis Threshold

Finally, after considering the comments, the final rule does not include a de minimis exception. The statute itself does not contain a de minimis exception, and for several reasons we believe it would be contrary to the Conflict Minerals Statutory Provision and Congressional purpose to include one in the final rule. First, we note that the Conflict Minerals Statutory Provision does include an express limiting factor—namely that a conflict mineral must be “necessary to the functionality or production” of an issuer’s product to trigger any disclosure regarding those conflict minerals.

As discussed above, this standard focuses on whether the conflict mineral is “necessary” to a product’s functionality or production; it does not focus on the amount of a conflict mineral contained in the product. We believe that Congress understood, in selecting the standard it did, that a conflict mineral used in even a very small amount could be “necessary” to the product’s functionality or production. If it had intended that the provision be limited further, so as not to apply to a de minimis use of conflict minerals, we think Congress would have done so explicitly. In this regard, we note that in Section 1504 of the Act, which adds Exchange Act Section 13(q) as part of the same title (Title XV) of the Act (“Miscellaneous Provisions”), Congress did explicitly include a de minimis threshold for the requirement to disclose certain payments by resource extraction issuers.

In addition, we believe that the purpose of the Conflict Minerals Statutory Provision would not be properly implemented if we included a de minimis exception in our final rule. As the State Department noted in its comment letter, “[i]n light of the nature” of the conflict minerals, they are often used in products “in very limited quantities,” so including a de minimis threshold “could have a significant impact on” the final rule. Consistent with the views of the State Department, we believe Congress intended the disclosure provisions to apply to the use of even small amounts of conflict minerals originating in the Covered Countries.

We are cognizant of the fact that, by including a de minimis exception, even minute or trace amounts of a conflict mineral could trigger disclosure obligations. However, a de minimis amount of conflict minerals triggers disclosure obligations only if those conflict minerals are necessary for the functionality or production of a product. Therefore, consistent with the proposal, our final rule applies to issuers for which any conflict minerals are necessary to the functionality or production of a product manufactured or contracted by the issuer to be manufactured regardless of the amount of the conflict mineral.

We recognize that not including a de minimis exception in the final rule will be more costly for issuers than if we included one. As described above, however, we are of the view that Congress intended for a de minimis exception, and including one in the final rule would therefore thwart, rather than advance, the provision’s purpose. Further, we believe focusing on whether the mineral was intentionally added addresses some of the concerns regarding de minimis amounts of minerals. For example, according to one commentator, a number of metal alloys, including the high volume materials of cold rolled steel, hot rolled steel, and stainless steel, contain tin only as a contaminant, such that it is not part of the specification of these alloys. Therefore, the tin in these alloys is not intentionally added, and we do not consider the tin “necessary to the functionality or production” of any product containing those alloys.

C. Location, Status, and Timing of Conflict Minerals Information

Once it is determined that conflict minerals are necessary to the functionality or production of a product manufactured or contracted by the issuer to be manufactured, the issuer will have to submit conflict minerals information in accordance with the final rule.

1. Location of Conflict Minerals Information

a. Proposed Rules

Our proposed rules would have required issuers to provide their disclosure about conflict minerals in their annual reports on Form 10–K for a domestic issuer, Form 20–F for a foreign private issuer, and Form 40–F for a Canadian issuer that files under the Multijurisdictional Disclosure System, with their Conflict Minerals Reports as an exhibit to their annual report. Section 1502 requires issuers to disclose information about their conflict minerals annually, but does not otherwise specify where this disclosure must be located, either in terms of which form or in terms of where within a particular form. Our proposed rules would have required this disclosure in the existing Form 10–K, Form 20–F, or Form 40–F annual report because issuers were already required to file these reports so we believed this approach would be less burdensome than requiring a separate annual report.

240 However, the issuer that manufactures or contracts to manufacture the indirect equipment would likely already be within the definition of either “necessary to the functionality” or “necessary to the production” for the indirect equipment.

241 See Exchange Act Sections 13(p)(1)(A) and 13(p)(2)(B).

242 See Exchange Act Sections 13(q)(1)(A) and 13(q)(1)(C) states that “the term ‘payment,’ means a payment that is made to further the commercial development of oil, natural gas, or minerals; and not de minimis.”

243 See Section 1504 of the Act and Exchange Act Section 13(q). The Exchange Act Section 13(q)(1)(C) states that “the term ‘payment,’ means a payment that is made to further the commercial development of oil, natural gas, or minerals; and not de minimis.”

244 See State II (“In light of the nature in which the covered minerals are often used in products, i.e. often in very limited quantities, such a change could have a significant impact on the proposed regulations. A de minimis threshold should not be considered under current circumstances.”.)


246 17 CFR 249.310.

247 17 CFR 249.220f.

248 17 CFR 249.240f.

249 In the Proposing Release, we indicated that, by requiring an issuer to provide its Conflict Minerals Report as an exhibit to its annual report, the proposed rules would enable anyone accessing the Commission’s Electronic Data Gathering, Analysis, and Retrieval system (the “EDGAR” system) to determine quickly whether an issuer furnished a Conflict Minerals Report with its annual report.
To facilitate locating the conflict minerals disclosure within the annual report without over-burdening investors with extensive information about conflict minerals in the body of the report, our proposed rules would have required issuers to include brief conflict minerals disclosure under a separate heading entitled “Conflict Minerals Disclosure” and more extensive information in a separate exhibit to the annual report.

We proposed to require that an issuer disclose in its annual report under a separate heading, entitled “Conflict Minerals Disclosure,” its determination as to whether any of its conflict minerals originated in the Covered Countries, based on its reasonable country of origin inquiry, and, for its conflict minerals that did not originate in the Covered Countries, a brief description of the reasonable country of origin inquiry it conducted in making such a determination. The proposed rules would not have required an issuer that determined that its conflict minerals did not originate in the Covered Countries, based on its reasonable country of origin inquiry, to provide any further disclosures. We also proposed that an issuer include brief additional disclosure in the body of the annual report if the issuer’s conflict minerals originated in the Covered Countries or if the issuer could not determine that its conflict minerals did not originate in the Covered Countries, based on its reasonable country of origin inquiry. As proposed, these rules would have required an issuer to disclose that its conflict minerals originated in the Covered Countries, or that it was unable to conclude that its conflict minerals did not originate in the Covered Countries, that its Conflict Minerals Report had been furnished as an exhibit to the annual report, that the Conflict Minerals Report, including the certified independent private sector audit, was publicly available on the issuer’s Internet Web site, and the issuer’s Internet address on which the Conflict Minerals Report and audit report were located.

The Conflict Minerals Statutory Provision requires that each issuer make its Conflict Minerals Report available to the public on the issuer’s Internet Web site.250 Consistent with the statute, we proposed rules to require an issuer to make such a report, including the certified audit report, available to the public by posting the text of the report on its Internet Web site. As proposed, the rules would require that the text of the Conflict Minerals Report remain on the issuer’s Web site at least until it filed its subsequent annual report. Although the proposed rules would have required an issuer that furnished a Conflict Minerals Report to provide some disclosures in the body of its annual report regarding that report, we would not have required that an issuer post this disclosure on its Web site. We believed this was appropriate because any information disclosed in the body of the annual report would also be included in the Conflict Minerals Report, which would have been required to be posted on the issuer’s Internet Web site.

b. Comments on the Proposed Rules

We received mixed comments on the proposal. While many commentators believed that the final rule should not require an issuer’s conflict minerals information to be provided in that issuer’s annual report, other commentators believed that an issuer’s conflict minerals information should be provided in that issuer’s annual report, as proposed.252 Commentators that did not want the conflict minerals information included in the annual report generally agreed that the information should be provided either in a newly created report or form, or in a current report on Form 8–K253 or Form 6–K254 instead,255 A small number of commentators stated that an issuer’s conflict minerals information should be provided solely on its Internet Web site.256 Some commentators suggested that the final rule should allow issuers to submit their conflict minerals information on a separate form or in a current report, noting that the Conflict Minerals Statutory Provision does not require explicitly that the information be submitted in a Form 10–K, Form 20–F, or Form 40–F annual report.257 As one commentator noted, this requirement contrasts with the one in Section 1503 of the Act,258 which states that mine safety disclosure be provided in “each periodic report filed with the Commission under the securities laws.”259 Therefore, these commentators reasoned that if Congress intended the Conflict Minerals Statutory Provision to require an issuer to provide the conflict minerals information in the annual report on Forms 10–K, 20–F, or 40–F, Congress would have used language similar to that in Section 1503. Certain commentators asserted that the subject matter underlying the conflict minerals information is both very specialized and substantively different from the financial and business information in the annual report on Forms 10–K, 20–F, or 40–F.260 Some of these commentators stated that the existing Exchange Act reporting system is designed to provide investors with material information from a financial perspective, whereas the Conflict Minerals Statutory Provision uses the securities disclosure laws to provide conflict mineral supply chain information for the purpose of stopping the humanitarian crisis in the Covered Countries.261 Commentators suggested that the processes with which to obtain and provide conflict minerals information should be different from those processes developed for current year-end reporting.262 Other commentators argued that the disclosures required by the final rule should be treated no differently than other disclosures required by the Exchange Act.263 In this regard, one such commentator agreed that the final rule should require that an issuer’s conflict minerals information be included in the issuer’s annual report because such a requirement is inherent in the policy goals underlying the Conflict Minerals Statutory Provision and would foster consistency in the form, location, and timing of the information.264 Similarly, another such commentator stated that not requiring

250 See Exchange Act Section 13(p)(1)(E), which is entitled “Information Available to the Public” and states that “[e]ach person described under paragraph (2) shall make available to the public on the Internet Web site of such person the information disclosed by such person under subparagraph (A).”


252 See, e.g., letters from Earthworks, Enough Project I, Global Witness I, Methodist Pension, Peace, and TIAA-CREF.

253 17 CFR 249.308.

254 17 CFR 249.306.


256 See letters from Corporate Secretaries I, CTIA, NCTA, and Tiffany.


258 Section 1503 of the Act.

259 See letter from AngloGold.

260 See, e.g., letters from Barrick Gold, CII I, Cleary Gottlieb, Davis Polk, Ford, ITIC I, JVC et al. II, NAM I, NMA II, NY State Bar, PCP, Taiwan Semi, and SEMI.

261 See, e.g., letters from CEI I, NY State Bar, and Taiwan Semi.

262 See letters from Davis Polk and NAM I.


264 See letter from Global Witness I.
conflict minerals information in the annual report on Forms 10–K, 20–F, or 40–F would inhibit the public’s ability to monitor an issuer’s use of conflict minerals and allow issuers to hide their conflict minerals information. In this regard, a number of commentators believed that there is little or no difference in the purposes of the Conflict Minerals Statutory Provision and the rest of the Exchange Act, in that both require the disclosure of meaningful supply chain and reputational information about an issuer for the benefit of investors. For example, the co-sponsors of the legislation stated explicitly that the purposes of the Conflict Minerals Statutory Provision and the rest of the Exchange Act are “very much the same” because they both “‘assure a stream of current information about an issuer for the benefit of purchasers * * * and for the public.’” As another example, a commentator asserted that “conflict minerals disclosures are material to investors and will inform and improve an investor’s ability to assess social (i.e., human rights) and reputational risks in an issuer’s supply chain.”

Some commentators were concerned about providing conflict minerals information in the annual report on Forms 10–K, 20–F, or 40–F due to the timing of filing an annual report. These commentators noted that the increased burden on issuers in collecting and reporting conflict minerals information could cause those issuers to be unable to file their annual reports in a timely manner. Some commentators offered an alternative scheme in which an issuer would be permitted to provide its conflict mineral information on either a new report or form, an amended annual report, or a current report on Form 8–K or Form 6–K within a certain number of days following the end of the issuer’s fiscal year. A few of these commentators pointed out that the Commission permits delays in providing certain information on an annual report, such as with prospective incorporation by reference of information from an issuer’s proxy statement under General Instructions G(3) of Form 10–K and prospective incorporation by reference of separate financial statements of consolidated entities under Item 3–09 of Regulation S–X. Commentators proposed a variety of time periods, including 120, 150, and 180 days after an issuer’s fiscal year-end, in which an issuer could be required to provide its conflict minerals information as part of its annual report. Similarly, as discussed in greater detail below, some commentators suggested that the final rule should require an issuer to provide conflict minerals information in its annual report. In this regard, one commentator stated that, if the final rule requires an issuer to provide conflict minerals information in its annual report, the Commission should amend rules 13a–14(a) and (b) and 15d–14(a) and (b) under the Exchange Act to acknowledge that the various officer certifications required by those rules do not extend to any conflict minerals information provided either in or as an exhibit to the annual report. Another commentator stated that, if we required conflict minerals disclosure in the existing annual reports, we should include “a clear statement in the rules or the adopting release that the officer certifications required to be included as exhibits to the existing annual reports would not apply to the conflict minerals disclosure.”

Some commentators were concerned about the negative effects that providing the information in the annual report on Forms 10–K, 20–F, or 40–F would have on form or other eligibility, incorporation by reference into Securities Act filings, and home country reporting in the case of foreign private issuers. Some commentators indicated that, regardless of where the information was provided, they wanted the conflict minerals information in a location that was easily available to the public or on the Web sites of both the issuer and the Commission. In this regard, certain commentators recommended that the final rule require an issuer to post its Conflict Minerals Reports and/or its audit reports on its Internet Web site, as we proposed. However, some of these commentators suggested that the final rule should require an issuer to keep that information on its Internet Web site longer than until the issuer filed its subsequent annual report. Other commentators noted that the final rule should not require an issuer to post its audit report online because, as one of the commentators noted, such
a requirement would increase costs without increasing benefits.

Finally, some commentators suggested that the final rule should address how an issuer must handle a situation in which it acquires or otherwise obtains control over a company that manufactures or contracts to manufacture products with conflict minerals necessary to the functionality or production of products that previously had not been obligated to provide conflict minerals information to us. These commentators noted that the acquirer may not have any processes in place to determine the origin of conflict minerals in its products and, therefore, the acquiring issuer would most likely need a “reasonable amount of time” to establish those processes before it could provide an accurate specialized disclosure report that included the acquired company’s supply chain. Some commentators recommended that the issuer not be required to report on the products manufactured by the acquired company until the end of the first reporting period that begins no sooner than eight months after the effective date of the acquisition. One commentator suggested that the issuer not be required to report on the products manufactured by the acquired company until the end of the first reporting period that begins no sooner than 18 months from the date of the acquisition. Another commentator recommended that the issuer not be obligated to report with respect to the products manufactured by or for the acquired entity “until the first fiscal year beginning after the fiscal year in which the acquisition is consummated.”

c. Final Rule

After considering the comments, we are revising the proposed rules to require that an issuer provide its conflict minerals information in a new report on a new Exchange Act form. As proposed, however, the final rule requires an issuer to provide its Conflict Minerals Report as an exhibit, and not in the body of the new report. In this regard, we continue to believe that providing the Conflict Minerals Report as an exhibit to the specialized disclosure report will enable anyone accessing the EDGAR system to determine quickly whether an issuer provided a Conflict Minerals Report with its specialized disclosure report. We proposed requiring disclosure regarding conflict minerals in an issuer’s annual report because we believed that this approach would be less burdensome than requiring that an issuer provide a separate report. Based on the comments we received, however, it appears that issuers will find it less burdensome to provide their conflict minerals information on a new report that is separate from the annual report and due later than the annual report. For example, one commentator explained that “between an issuer’s fiscal year end and the date the issuer is required to file its audited annual financial statements, the issuer’s accounting and financial reporting teams focus their resources on preparing the issuer’s annual report,” so “[r]equire the conflict minerals disclosure to be furnished at the same time as the issuer’s Exchange Act annual report would put further strain on these resources at a time when they are likely already to be operating near full capacity.” Another commentator noted that issuers are going to be required to utilize “significantly different processes to comply with the new reporting requirement that are outside the scope of processes developed for regular year-end reporting, and it may be a burden to complete the necessary inquiry and due diligence pertaining to conflict minerals on the same timetable as” an annual report.

We considered commentators’ arguments that it would be easier for investors to locate the information in Forms 10-K, 20-F, and 40-F. We believe, however, that new Form SD should provide ready access to the information. Indeed, it may be easier for investors to find the information when it is included in the new Form SD, rather than as one of potentially dozens of exhibits in a voluminous Form 10-K, Form 20-F, or Form 40-K. Therefore, the final rule requires an issuer with conflict minerals necessary to the functionality or production of a product it manufactures or contracts to be manufactured to provide us a specialized disclosure report on Form SD by May 31 of each year, reporting on the preceding calendar year. The specialized disclosure report is due later than when an annual report is due for calendar year end issuers so as not to interfere with such issuer’s preparation of its Exchange Act annual report, as requested by a number of commentators. Also, as discussed in greater detail below, the final rule requires each issuer to provide its conflict minerals information for each calendar year, rather than its fiscal year.

We agree with the comments we received that a reasonable amount of additional time to submit the conflict minerals information is appropriate where an issuer acquires or otherwise obtains control over a company that manufactures or contracts to manufacture products with conflict minerals necessary to the functionality or production of those products that previously had not been obligated to provide conflict minerals information to us. We have added an instruction to the final rule to reflect this delay. Therefore, the final rule allows an issuer to delay the initial reporting period on the products manufactured by the acquired company until the first calendar year beginning no sooner than eight months after the effective date of the acquisition. This option appears to be a reasonable approach based on some of the comments we received. We note that a shorter period, such as requiring an issuer to report with respect to the products manufactured by or for the acquired entity during the first fiscal year beginning after the fiscal year in which the acquisition is consummated, may leave an issuer that acquires a company late in the year with an insufficient amount of time to establish...
systems to gather and report on the conflict minerals information.

Additionally, we are modifying the proposed rules regarding how long an issuer must keep its conflict minerals disclosure or its Conflict Minerals Report available on the issuer’s Internet Web site to reflect that the information is not to be included in an issuer’s annual report on Form 10-K, Form 20-F, or Form 40-F. The proposed rules would have required an issuer to keep its conflict minerals information on its Internet Web site until its subsequent annual report was filed. We intended this period to last only one year because, whether or not the issuer had any conflict minerals information to provide in its subsequent annual report, the issuer had to file the subsequent annual report one year after its prior annual report or cease to be a reporting issuer. However, with the final rule requiring an issuer to provide its conflict minerals information in a specialized disclosure report on Form SD, the period between specialized disclosure reports may be more than one year if an issuer has no reportable conflict minerals in its subsequent calendar year. If we did not modify the proposed rules, such an issuer may have been required to keep its conflict minerals information on its Internet Web site for more than one year, possibly indefinitely. Therefore, the final rule specifies that an issuer must make its conflict minerals disclosure or its Conflict Minerals Report available on the issuer’s Internet Web site for one year. In response to comments expressing by commentators that the information should be required to be mandated longer, we note that the issuer’s Form SD with the Conflict Minerals Report will be available on EDGAR indefinitely, so the information will continue to be widely available.

In another release we are issuing today, we are requiring issuers to disclose certain resource extraction payment information on Form SD.301 Because of the order of the releases, we are adopting the form in this release and amending it in the resource extraction release. We intend, however, for the form to be used equally for these two separate disclosure requirements.

2. “Filing” of Conflict Minerals Information

a. Proposed Rules

The proposed rules would have required an issuer’s conflict minerals information to be provided in the issuer’s annual report on Form 10-K, Form 20-F, or Form 40-F, as applicable, and the Conflict Minerals Report to be included as an exhibit to the issuer’s annual report. Certain proposed item requirements would have instructed an issuer to furnish its Conflict Minerals Report as an exhibit to its annual report. Additionally, as proposed, an issuer’s Conflict Minerals Report, which would have included the independent private sector audit report, would not be “filed” for purposes of Section 18 of the Exchange Act and thus would not be subject to potential liability of that section of the Exchange Act, unless the issuer stated explicitly that the Conflict Minerals Report and the independent private sector audit report were filed under the Exchange Act. Instead, these documents would only have been furnished to the Commission. Similarly, as proposed, the rules would not have considered the Conflict Minerals Report and the independent private sector audit report to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the issuer specifically incorporated them by reference into the documents. As noted above and in the Proposing Release, furnishing the Conflict Minerals Report would not have subjected the issuer to Section 18 liability,302 but the issuer would still have had liability for its conflict minerals information. Under Exchange Act Section 13(p)(1)(C), a failure to comply with the Conflict Minerals Statutory Provision would have rendered the issuer’s due diligence process “unreliable,” and, therefore, the Conflict Minerals Report would “not satisfy” the proposed rules.303 In this regard, as proposed, an issuer that failed to comply with the proposed rules would have been subject to liability for violations of Exchange Act Sections 13(a) or 15(d), as applicable.304

b. Comments on the Proposed Rules

A number of commentators stated specifically that the final rule should, as proposed, require an issuer to “furnish” rather than “file” its conflict minerals information.305 Many of these commentators believed that the nature and purpose of the conflict minerals disclosure is qualitatively different from the other disclosure required under Exchange Act Section 13 and the conflict minerals information is not material to investors.306 As one commentator explained, “[n]othing in the statute itself suggests that the ‘reasonable’ investor would find this information to be important in deciding whether to buy or sell” an issuer’s securities, which is “the touchstone of materiality under the federal securities laws.” 307 However, this commentator acknowledged that “socially conscious investors might well factor this information into an investment decision.” 308 Some commentators asserted that the conflict minerals information is different from other information in required filings, so the conflict minerals information should be “furnished.”309 Other commentators noted that, if the conflict minerals information is material to a reasonable person’s investment decision, it would have to be disclosed in an issuer’s filings even without the Conflict Minerals Statutory Provision, so any other information regarding conflict minerals should be “furnished.”310 Another commentator recommended that the conflict minerals information should be “furnished” because, whereas the data used to generate the financial statements in issuers’ “filed” periodic reports are generally within their control and subject to internal controls, issuers would be required to rely on third parties (suppliers, smelters, etc.) for their conflict minerals data that are mostly beyond the issuer’s control.311 Some commentators argued that the conflict minerals information should be “furnished” so that Exchange Act Section 18 liability would not attach to the conflict minerals information.312 One of these commentators asserted that Section 18 liability should not be available because there is no indication that Congress intended for an issuer’s conflict minerals information to be subject to such liability.313 In this regard, some commentators contended that, if “furnished,” issuers’ conflict minerals information would still receive significant attention and scrutiny, and the issuers’ disclosures regarding this information will still be subject to liability sufficient enough to deter


303 See Exchange Act Section 13(p)(1)(C).


307 See letter from JVC et al. II.

308 See id.


310 See letter from AngloGold and NMA II.

311 See letter from Ford.

312 See letters from Barrick Gold, Cleary Gottlieb, NMA II, Society of Corporate Secretaries and Governance Professionals (Aug. 16, 2011) (“Corporate Secretaries III”), and WGC II.

313 See letter from the WGC II.
abuse. The commentators pointed out that issuers would still be liable for any materially false or misleading statements under the antifraud provisions of the federal securities laws, including, Section 10(b) of the Exchange Act and Rule 10b–5 there under. They indicated further that failure to comply with the Conflict Minerals Statutory Provision would render the issuer’s due diligence “unreliable” and, therefore, the Conflict Minerals Report would not satisfy the final rule, which would subject the issuer to liability for violations of Exchange Act Sections 13(a) or 15(d), as applicable.

Conversely, other commentators indicated that the final rule should require an issuer to “file” its conflict minerals information. Two of the co-sponsors of the statutory provision noted that Congress intended for an issuer’s conflict minerals information, particularly the Conflict Minerals Report, to be “filed” rather than “furnished” so that the information would be subject to the liability provisions in Section 18 of the Exchange Act and, thereby, allow for private sector remedies for false and misleading statements. These co-sponsors asserted that, in the Proposing Release, we incorrectly reasoned that the Conflict Minerals Statutory Provision’s requirement that an issuer “submit” its Conflict Minerals Report means that Congress intended that the information be “furnished” instead of “filed.” They noted that the term “furnish” is included throughout the Act, and that term is “expressly not used in Section 1502,” which demonstrates that “Congress intended for the word ‘submit’ to be synonymous with ‘filed,’ not ‘furnished.’”

Similarly, another comment letter written by other members of Congress also emphasized that it was Congress’s legislative intent to the Conflict Minerals Report be “filed” not “furnished.” The letter stated that it was made clear “during the legislative process, meetings with the SEC, and in written comments to the Commission that Section 1502 was designed as a transparency measure to provide investors and the public the information needed to make informed choices.” Therefore, according to the letter, “[p]rotecting investor interests by making companies liable for fraudulent or false reporting of conflict minerals is critical—so the reports must be ‘filed,’ not ‘furnished.’”

Further commentators asserted that a plain reading of the Conflict Minerals Statutory Provision demonstrates that Congress intended that the term “submit” to mean “file.” The commentators argued that “submit” means “file” in the provision because new Exchange Act Section 13(p)(2)(A) states that conflict minerals disclosure is required if conflict minerals are necessary to the functionality or production of a product manufactured by a person described and the person described is required to “file” reports with us pursuant to the Conflict Minerals Statutory Provision. Also, one of the commentators noted that the term “furnish” is not in the text of the provision.

Additionally, some commentators asserted that requiring the conflict minerals information be “filed” would benefit investors by making an issuer’s conflict minerals information more transparent, accessible, accurate, and complete. In this regard, one of these commentators suggested that requiring the conflict minerals information to be “filed” would allow for private rights of action, which would permit investors to seek remedies for material misstatements regarding conflict minerals disclosures, and provide an incentive for issuers and others to conduct an appropriate due diligence. Another commentator noted that requiring issuers to “file” their conflict minerals information “promotes greater transparency, makes Section 1502 more effective,” and helps “facilitate access to this information.” In a further comment letter, a group of investors indicated that requiring issuers to “file” their conflict minerals information would “allow investors greater assurance that conflict minerals disclosure is as comprehensive, transparent and accurate as possible.”

Finally, some commentators argued that the conflict minerals information is material and, therefore, should be “filed.” A group of investors in one comment letter noted that the conflict minerals information is material to an investor in evaluating its investment decision, so the information should be “filed.” Specifically, the letter stated that “[g]iven the materiality of the data in evaluating a company’s risk, we urge the Commission to require all information outlined in the proposed rule to be filed in the body of the annual report rather than furnished as an exhibit.” Also, in another comment letter, an institutional investor indicated that the conflict minerals information is material to an investment decision and, therefore, “as material information[,] this report should be filed, not furnished as proposed by the Commission.” Moreover, one commentator argued that allowing the conflict minerals information to be “furnished” instead of “filed” would “send a regrettable signal that the Commission believes these disclosures to be of lesser importance at the very moment that issuers, regulators, investors, and governments around the world are looking to the Commission to help establish the way forward,” which would “scale back the vigor of issuer compliance and undermine the entire purpose of the statute” and “undermine the goals of ending the resource-related violence in the DRC and providing meaningful and reliable disclosures to the American consumer and investor.”

c. Final Rule

Although the proposal would have required the conflict minerals information to be “furnished,” after considering the comments, the final rule we are adopting requires issuers with necessary conflict minerals to “file” the conflict minerals information provided in their specialized disclosure reports, including any Conflict Minerals Reports and independent private sector audit reports. As discussed above, commentators disagreed as to whether the required information should be “furnished” or “filed,” and in our continuing action, we believe that the final rule as we are adopting will provide the information required to be furnished as proposed by the Commission and is therefore not ‘furnished.’”
view the Conflict Minerals Provision is ambiguous on this question. In reaching our conclusion that the information should be “filed” instead of “furnished,” we note particularly that although Section 13(p)(1)(a) states that a Conflict Minerals Report should be “submitted” to the Commission, the definition of a “person described,” who is required to submit a report, uses the term “file.” This reference in the statute indicates that the reports should be filed.

Additionally, commentators asserted that allowing the disclosure to be “furnished” would diminish the importance of the information, while “filed” would enhance the quality of the disclosures. Some commentators argued that the conflict minerals information should not be treated as of lesser importance than other required disclosures, and another commentator indicated specifically that the conflict minerals information is qualitatively similar to disclosures that are required to be “filed.”

Other commentators supporting the proposal that the disclosure be “furnished” argued that the information is not material to investors, while some argued that it was. Given the disagreement, and that materiality is a fact-specific inquiry, we are not persuaded that this is a reason to provide that the information should be “furnished.” Additionally, we appreciate the comments that the conflict minerals information should be “furnished” because issuers should not be held liable for the information when they are required to rely on third parties for their conflict minerals data and direct knowledge of relevant facts may not be available to them. We note, however, that section 18 does not create strict liability for filed information. Rather, it states that a person shall not be liable for misleading statements in a filed document if it can establish that it acted in good faith and had no knowledge that the statement was false or misleading.

Moreover, as discussed below, the final rule will include a transition period in which issuers that are required to perform due diligence and are unable to determine that their conflict minerals did not originate in the Covered Countries or unable to determine that their conflict minerals originated in the Covered Countries did not directly or indirectly finance or benefit armed groups in the Covered Countries may describe their products with such conflict minerals as “DRC conflict undeterminable.” We believe this period will allow issuers sufficient time to obtain more data on, and control over, their supply chain through revised contracts with suppliers and smelter verification confirmations, thereby mitigating this liability concern.

3. Uniform Reporting Period

The Conflict Minerals Statutory Provision requires, and we propose to require, that issuers provide their initial conflict minerals disclosure and, if necessary, their initial Conflict Minerals Report after their first full fiscal year following the adoption of our final rule. The report would be required to cover that first full fiscal year.

b. Comments on the Proposed Rules

We included a request for comment asking whether our rules should allow individual issuers to establish their own criteria for determining which reporting period to cover in any required conflict minerals disclosure or Conflict Minerals Report, provided that the issuers are consistent and clear with their criteria from year-to-year. Some commentators agreed that the final rule should allow individual issuers flexibility in choosing the appropriate criteria for determining the reporting period in which conflict minerals disclosures are made, provided that the issuer’s methodology is clear. Other commentators, however, asserted that the final rule should require that the conflict minerals reporting period correspond to the issuer’s fiscal year in its annual report.

We did not request comment specifically on whether an issuer’s conflict minerals reporting period should correspond to an issuer’s fiscal year. Even so, some commentators indicated that an issuer’s annual reporting period for conflict minerals disclosure should not be based on its fiscal year but, instead, should be based on a one-year period that is the same for all issuers. One of these commentators recognized that “synchronizing the timing of the information * * * from all issuers on a calendar year basis” * * would offer integrity and consistency throughout the various supply chains” and because “component manufacturers and others through the supply chain provide products for many customers who have different fiscal years, it would be more efficient and more accurate if the whole supply chain worked towards a common deadline.” Another commentator noted that a uniform calendar year reporting period “would clarify the reporting obligations, level the playing field among the various companies, and provide a clearer date of implementation for due diligence and related initiatives in the region.” A further commentator asserted that a “single reporting date will allow for
increased efficiency and thus lower costs, without reducing the effectiveness of the regulations.”

c. Final Rule

After considering the comments, the final rule will require each issuer to provide its conflict minerals information on a calendar year basis regardless of any particular issuer’s fiscal year end. The final rule requires an issuer to provide its annual conflict minerals information in its specialized disclosure report on Form SD for every calendar year from January 1 to December 31 and the specialized disclosure report will be due to the Commission on May 31 of the following year. In this regard, the first reporting period for all issuers will be from January 1, 2013 to December 31, 2013, and the first specialized disclosure report must be filed on or before May 31, 2014.

We agree with the commentators that explained that burdens on participants in the supply chain could be reduced if our final rule adopted a uniform reporting period. This requirement allows component suppliers that are part of a manufacturer’s supply chain to provide reports to their upstream purchasers regarding the conflict minerals in their components only once a year. Otherwise, if the due date of the Conflict Minerals Report was tied to an issuer’s fiscal year end, as proposed, component suppliers could have to provide reports regarding the conflict minerals in their components on a continuous basis throughout the year because their customers may have different fiscal year ends. If a component supplier has numerous purchasers, it might have to provide separate reports regarding the conflict minerals in its components every month, or even more often, which could be very burdensome and costly.

Additionally, requiring a uniform May 31 due date for the specialized disclosure report responds to concerns raised by certain industry commentators that there would not be sufficient time in the period between the end of an issuer’s fiscal year until its annual report is due to gather, report on, and have audited their conflict minerals information, as discussed above. The specialized disclosure report will be due later than an Exchange Act annual report is due for calendar year end issuers so as not to interfere with an issuer’s preparation of its Exchange Act annual report, as requested by commentators. Also, the final rule will require each issuer to provide its conflict minerals information for each calendar year, rather than its fiscal year. The May 31 due date is approximately 150 days after the calendar year end, which is consistent with a commentator’s suggested due date for an issuer to provide us with its conflict minerals information.

4. Time Period for Providing Conflict Minerals Information

a. Proposed Rules

The Conflict Minerals Statutory Provision requires issuers to provide the specified disclosure with respect to necessary conflict minerals “in the year for which such reporting is required.” We proposed that the date an issuer takes possession of a conflict mineral would determine which reporting year that issuer would have to provide its required conflict minerals information. Also, if an issuer contracted the manufacturing of a product in which a conflict mineral is necessary to the production of that product, but the conflict mineral would not be included in the product, the issuer would, under the proposal, have used the date it takes possession of the product to determine which reporting year the issuer would have to provide the required conflict minerals information.

b. Comments on the Proposed Rules

Some commentators suggested that, as proposed, an issuer should be required to provide its conflict minerals information in the reporting period during which the issuer took possession of its conflict minerals. Other commentators recommended, however, that the final rule should use some other determining factor. Some commentators did not provide alternative factors to consider in determining for which annual reporting period an issuer must report its conflict minerals information, but stated only that an issuer should be allowed the flexibility to establish its own criteria for determining when an issuer would be required to provide information on the conflict minerals it obtained.

Other commentators provided alternative factors, such as the year in which the mineral is purchased, the year the issuer takes possession and ownership of the mineral, or placing on the market the product containing conflict minerals is produced or placed on the market.

After considering the comments, the final rule is revised from the proposal such that possession is not the determining factor for deciding for which reporting year an issuer has to provide its required conflict minerals information. We are making this revision because we agree, as one commentator noted, that the “statutory requirement to report is triggered not by acquisition or possession of conflict minerals.” Instead, the final rule provides that an issuer must provide its required conflict minerals information for the calendar year in which the manufacture of a product that contains any conflict minerals is completed, irrespective of whether the issuer manufactures the product or contracts to have the product manufactured.

We believe this approach is appropriate because it should be relatively easy for an issuer to identify when the manufacture of a product is completed, as the issuer has a certain amount of control over this decision. Thus, this approach also allows issuers some flexibility in determining the reporting period. For example, if an issuer completes the manufacture of a product with conflict minerals necessary to the functionality or production of that product on December 30, 2018, the issuer must provide a specialized disclosure report regarding the conflict minerals in that product for the 2018 calendar year. However, if that issuer completes the manufacture of that same product on January 2, 2019, the issuer must provide a specialized disclosure report regarding the conflict minerals in that product for the 2019 calendar year.
report regarding the conflict minerals in that product for the 2019 calendar year. This timeframe is the same for an issuer that manufactures the component product manufactured by a third party. The issuer that contracts the manufacturing of a component product with conflict minerals necessary to the functionality of the product that is manufactured by an independent third party. If the manufacturer of the component product completes the manufacturing of the subsequent product containing its component product, the issuer must provide a specialized disclosure report regarding the conflict minerals in that product for the 2018 calendar year. However, the reporting period of the independent third party manufacturer of the component product, if it is a reporting issuer, is not determined when the manufacturing of the subsequent product containing its component product is completed. Instead, the reporting period for that component product manufacturing issuer is determined by when it completes the manufacturing of the component product. Therefore, an issuer that completes the manufacturing of a component product on December 30, 2018, must provide a specialized disclosure report regarding the conflict minerals in that completed component product for the 2018 calendar year.

5. Conflict Minerals Already in the Supply Chain

a. Proposed Rules

The proposed rules did not discuss specifically how an issuer would handle any conflict minerals already in the supply chain at the time our final rule takes effect, including existing stockpiles of conflict minerals. The Proposing Release, however, requested comment on this point.

b. Comments on the Proposed Rules

Almost all commentators that discussed the topic recommended that an issuer’s existing stockpile of conflict minerals must provide a specialized disclosure report regarding the conflict minerals in that product for the 2018 calendar year, even if the issuer does not receive the product until January 2, 2019. However, if that issuer’s contractor completes the manufacturing of that same product on January 2, 2019, the issuer must provide a specialized disclosure report regarding the conflict minerals in that product for the 2018 calendar year.

This outcome is the same for an issuer that manufactures the product using a component product with conflict minerals necessary to the functionality of the product that is manufactured by an independent third party. If the manufacturer of the product completes the manufacturing of the product that incorporates the component product with necessary conflict minerals on December 30, 2018, the issuer that manufactured the product must provide a specialized disclosure report for conflict minerals in that product for the 2018 calendar year. However, the reporting period of the independent third party manufacturer of the component product, if it is a reporting issuer, is not determined when the manufacturing of the subsequent product containing its component product is completed. Instead, the reporting period for that component product manufacturing issuer is determined by when it completes the manufacturing of the component product. Therefore, an issuer that completes the manufacturing of a component product on December 30, 2018, must provide a specialized disclosure report regarding the conflict minerals in that completed component product for the 2018 calendar year.

5. Conflict Minerals Already in the Supply Chain

a. Proposed Rules

The proposed rules did not discuss specifically how an issuer would handle any conflict minerals already in the supply chain at the time our final rule takes effect, including existing stockpiles of conflict minerals. The Proposing Release, however, requested comment on this point.

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b. Comments on the Proposed Rules

Almost all commentators that discussed the topic recommended that an issuer’s existing stockpile of conflict minerals should be exempt from the final rule. One commentator explained, that “[c]ategorizing existing stock as ‘conflict’ simply because the mineral was mined before SEC rules have been agreed and published serves no purpose in furthering the aims of the legislation and would cause serious financial loss to the holders of that stockpile.”

In this regard, one commentator asserted that “[s]tockpiled minerals may have originated in mines that support the conflict; however, it would be impractical to ask companies to trace the origin of these minerals.” Another commentator argued specifically that, if the final rule causes owners to dispose of their existing conflict minerals inventory because they are unable to determine that they are “DCR conflict free,” the cost of the rule would increase “dramatically.”

Panelists discussed this issue further at the SEC Roundtable. Some panelists explained that there are stocks of metals and other materials stored throughout the world in warehouses and vaults by many individuals and institutions that are already past the point in the supply chain at which they could contribute to conflict.

One panelist representing a human rights group appeared to acknowledge that stockpiled conflict minerals stored outside the Covered Countries would not contribute to conflict in the Covered Countries. Another panelist asserted that a stockpile “exemption is essential for both existing unsmelted mineral and refined metal stocks held by industry, metal warehouses, investors and even in US Government stockpile,” because the “value of current tin stocks is probably around US$7 billion, generally with non-specific mine origin,” so not exempting such minerals would lead to “market disruption and financial losses on this potentially unsaleable material.”

Many commentators suggested different requirements for when a conflict mineral should be considered stockpiled and, therefore, excluded from the final rule. A number of commentators recommended that the final rule should exempt any conflict minerals mined prior to the adoption of the final rule. One commentator noted, however, that “the date of extraction is not generally recorded or known for minerals purchased from artisanal miners.” Some commentators asserted that the final rule should exempt any conflict minerals smelted or refined by a certain date because, as one of these commentators indicated, “[e]ach metal batch produced by a smelter will possess a dated certificate of analysis which may be considered as the production date.” Similarly, another commentator recommended that stockpiled gold that “has been fully refined before the effective date” of the final rule be exempted. In this regard, one commentator suggested that the final rule exclude “inventory produced before the date on which Dodd-Frank 1502 will first apply to the issuer.”

Another commentator “proposed that the effective date of disclosure requirement on metal should be for ingot produced [one] year after the effective date” of the final rule.

A few commentators urged that the final rule exempt any conflict minerals outside the Covered Countries by July 15, 2010. One commentator suggested...
that conflict minerals should be exempt if, by January 1, 2013, those minerals are included in components or products already incorporated in finished goods in a supplier’s inventory or are included in parts or components included in the repair or maintenance of products.\(^{377}\) One commentator recommended that the final rule should exempt gold in the issuer’s possession by, or extracted before, the effective date of the final rule.\(^{378}\) Another commentator asserted that the final rule should exempt any conflict mineral that an issuer took possession of before the first full fiscal year following the adoption of the final rule.\(^{379}\) This commentator suggested also that the final rule should not require reporting on conflict minerals in an issuer’s supply chain that have been manufactured prior to the beginning of the issuer’s first reporting year. One commentator asserted that the final rule should exclude, as of the date of the effectiveness of the final rule, “gold bars in storage at the central banks,” “bars marked with the London Bullion Marketers Association (LBMA) stamp,” and “gold coins issued by governments or other entities.”\(^{380}\) One commentator recommended that the final rule include a 24-month “grace period” that would permit the “sale of existing stockpiles of minerals that have already been mined and have been sitting in warehouses” in the DRC.\(^{381}\)

c. Final Rule

After considering the comments, the final rule excludes any conflict minerals that are “outside the supply chain” prior to January 31, 2013. The final rule considers conflict minerals to be “outside the supply chain” only in the following instances: After any columbite-tantalite, cassiterite, and wolframite minerals have been smelted; after gold has been fully refined; or after any conflict mineral, or its derivatives, that have not been smelted or fully refined are located outside of the Covered Countries.

We are aware that these existing stockpiles could have financed or benefited armed groups in the Covered Countries. However, once those minerals are smelted, refined, or outside of the Covered Countries, it appears unlikely that they could further finance or benefit armed groups. Therefore, applying the final rule to these already-smelted minerals would not further the purpose of the Conflict Minerals Statutory Provision because these minerals would not contribute to further conflict. Similarly, requiring issuers to determine the origin and chain of custody of these minerals that may have been extracted prior to the passage of the Conflict Minerals Statutory Provision, could result in undue costs if the minerals could not be sold, as suggested by one commentator.\(^{382}\)

We considered exempting stockpiled conflict minerals that were extracted before a date certain, as one commentator recommended.\(^{383}\) We decided not to do so, however, because, as another commentator noted, the date of extraction is not generally recorded or known for minerals from artisanal miners.\(^{384}\) Further, if the final rule exempts conflict minerals extracted at a date certain, the rule would not necessarily account for payments illegally demanded by armed groups of those that transport conflict minerals through remote areas of the DRC. Instead, we believe that the proper point to use for ensuring that a conflict mineral is truly stockpiled is the smelting or primary refining date because the dates of these actions are more likely to be reliably recorded.\(^{385}\) Similarly, as is true with smelted or refined conflict minerals, conflict minerals stockpiled outside the Covered Countries would not contribute to conflict in the Covered Countries.\(^{386}\)

Therefore, the final rule exempts any conflict minerals outside the Covered Countries as well. We recognize that there may be situations in which conflict minerals are past the point in the supply chain where they are able to be used to finance or benefit armed groups, but these minerals have yet to be stored outside the Covered Countries,\(^{387}\) smelted, or refined. Even so, we believe that smelting, refining, or being outside the Covered Countries marks the first opportunity in the supply chain that offers reliable proof that the conflict minerals will no longer benefit or finance armed groups. We note, however, that market participants may need additional time to move their stockpiles outside the Covered Countries or have those stockpiles smelted or refined. Therefore, to accommodate this timing constraint, the final rule provides transition relief to permit market participants sometime after the final rule becomes effective to move, smelt, or refine any existing stocks of conflict minerals without having to comply with the rule’s requirements.

6. Timing of Implementation

a. Proposed Rules

The Conflict Minerals Statutory Provision states that issuers must disclose their conflict minerals information annually beginning with the issuer’s first full fiscal year that begins after the date of promulgation of our final rule.\(^{388}\) Therefore, the proposed rules would have included neither a transition period for issuers unable to determine that their conflict minerals did not originate in the Covered Countries or unable to determine that their conflict minerals that originated in the Covered Countries did not directly or indirectly finance or benefit armed groups, nor a general delay of the rules. We requested comment, however, regarding whether we should provide a transition period or a delay.

b. Comments on the Proposed Rules

In response to our request for comment, a number of commentators stated that the final rule should not permit any general delay or specific phase-in period for issuers to provide their conflict minerals information.\(^{389}\) A number of other commentators, however, indicated that the final rule should allow for some type of delay or

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\(^{377}\) See letter from NAM I.

\(^{378}\) See letter from AngloGold.

\(^{379}\) See letter from SEMI.

\(^{380}\) See letter from NMA III.

\(^{381}\) See letter from Charles F. Blakeman (Mar. 15, 2012) (“Blakeman III”) (arguing overall that no final rule should be adopted, but seeking a 24-month grace period for the sale of existing stockpiles of conflict minerals, in the alternative, should the Commission adopt a final rule). See also letter from Charles Blakeman (Nov. 17, 2011) (“Blakeman II”) (recommending a grace period for conflict minerals already, but not specifying a length of time for the grace period).

\(^{382}\) See letter from ClaiJan I.

\(^{383}\) See letter from ITIC I.

\(^{384}\) See letter from ITRI I.

\(^{385}\) Id.

\(^{386}\) See Transcript of SEC Roundtable on Conflict Minerals, at Section 0172 lines 19–23.

\(^{387}\) For example, a stockpile of conflict minerals could be stored in a warehouse in a DRC country that is insulated from and is beyond the reach of any armed group, so these conflict minerals would not contribute to conflict.

\(^{388}\) See Exchange Act Section 13(p)(1)(A).


Several commentators suggested that the final rule permit a three-year phase-in period in which all issuers would be required only to receive certifications from their first-tier suppliers during the first year after promulgation, identify the smelters used to process their conflict minerals in the second year, and fully implement the rules in the third year.402 Many commentators, including industry associations, corporations, human rights groups, institutional investors, members of Congress, and individuals, agreed that all conflict minerals should be treated equally, as proposed.403 Some commentators asserted that gold should be treated differently than the other three conflict minerals because of its unique qualities, and the OECD had not approved the supplement to its due diligence guidance specifically for gold,404 which at the time of the Proposing Release was scheduled to be published by the end of 2011. Subsequent commentators noted that the OECD’s gold supplement would not be finalized until sometime in 2012,405 and some commentators suggested that the final rule’s application to gold be delayed until the OECD has adopted its gold supplement.406 At present, the final gold supplement has been approved by the OECD.407 One of the commentators suggested that the final rule be delayed for gold until the beginning of an issuer’s first full fiscal year following adoption and issuance of the OECD’s gold supplement.408 Another one of the commentators argued that any “effort to establish credible and effective due diligence systems in the absence of OECD guidance will be stymied by the lack of a widely accepted base for responsible sourcing.”409 One commentator, however, asserted that the final rule should not be delayed for gold regardless of whether the OECD’s gold supplement has been completed.410 This commentator argued that, even if the OECD’s gold supplement has not been completed when an issuer’s reporting period begins, the issuer...
would still be able to apply the OECD’s core due diligence framework to gold.

The commentators that advocated treating gold differently from the other conflict minerals comprise mostly gold, mining, and jewelry companies or associations. Of these commentators, only one indicated that the final rule should initially be more stringent with issuers using gold because 80% of the funds generated by conflict minerals for armed groups come from gold.411 The other commentators indicated that the final rule should be more lenient for gold and that we should defer full incorporation of gold into the final rule because such a large percentage of gold coming from the DRC is illegally exported that it will require greater time and effort to make the gold supply chain transparent than it will for the other conflict minerals.412 One commentator was concerned that, until a more transparent supply chain is developed, the final rule would stigmatize gold and thereby harm that mineral’s ability to be used as a hedge and damage the global financial economy because so many companies would not be able to determine the origin of their gold.413 Finally, a few commentators stated that the final rule should permit issuers to exclude certain information from public dissemination regarding the storage and transportation routes of gold for security reasons.414

c. Final Rule

After considering the comments, the final rule will not provide a general delay of effectiveness, nor will the proposal be withdrawn and re-proposed. Although many commentators advocated that the final rule include an extended general delay of the rule’s effectiveness, we do not believe this approach would appropriately implement Congress’s directive in the Conflict Minerals Statutory Provision. The provision states when an issuer must begin to report on its conflict minerals. Congress directed us to promulgate regulations requiring any “person described” to disclose annually “beginning with the person’s first full fiscal year that begins after the date of promulgation of such regulations.” 415 Additionally, it is not clear that a general delay of the final rule is necessary or appropriate. As noted by two of the co-sponsors of the statutory provision, conflict minerals legislation was first considered in 2008, the Conflict Minerals Statutory Provision was over a year old at the time of the letter, and many issuers have been working with various groups in developing supply chain tracing for years.416 Therefore, under the final rule, most issuers with necessary conflict minerals will be required to file a specialized disclosure report on or before May 31, 2014 containing conflict minerals disclosure for the initial reporting period that will extend from January 1, 2013 to December 31, 2013.

Since Congress adopted the Conflict Minerals Statutory Provision in July 2010, we have sought comment on our implementation of the provision, including our proposal, and have provided opportunities for commentators to provide their input, both before and after the rules were proposed. As noted above, we extended the comment period for the rule proposal and convened an October 2011 roundtable at the request of commentators. We have continued to receive comment letters through August 2012, all of which we have considered. Some commentators have provided responses to other commentators, particularly on the Economic Analysis. This robust, public, and interactive debate has allowed us to more fully consider how to develop our final rule. Additionally, as discussed further in the Economic Analysis section, below, we have considered and analyzed the numerous comments received regarding the costs and complexities of the statute and proposed rule, and have taken them into account in the final rule. Overall, we believe interested parties have had sufficient opportunity to review the proposed rules, as well as the comment letters, and to provide views on the proposal, other comment letters, including data to inform our consideration of the final rule. Accordingly, we do not believe that withdrawal of the proposed rule and re-proposal is necessary.

While the final rule does not include a general delay for the reasons noted, we acknowledge that there are legitimate concerns about the feasibility of preparing the required disclosure in the near term because of the stage of development of the supply chain tracing mechanisms. In order to address these concerns, rather than providing an extended general delay of effectiveness, the final rule includes a targeted and temporary provision intended to help issuers address some of the burdens and costs of compliance with the final rule. For all issuers, this period will last two years, including issuers’ 2013 and 2014 reporting periods, but will not be permitted for the reporting period beginning January 1, 2015. For smaller reporting companies, this period will last four years, including issuers’ 2013 through 2016 reporting periods, but will not be permitted for the reporting period beginning January 1, 2017. We note that, although some commentators recommended that there be no such transition period and other commentators recommended that such a transition period be permitted for either a shorter or longer amount of time, a number of commentators appeared to suggest that a transition period through 2014 would be appropriate to allow the necessary traceability systems in the Covered Countries to be established.417

Issuers taking advantage of this temporary category are still required to conduct due diligence and prepare and file a Conflict Minerals Report, and are required to disclose in their Conflict Mineral Report all steps taken by such issuer, if any, since the issuer’s last such report to mitigate the risk that its necessary conflict minerals benefit armed groups, including any steps to improve its due diligence.

As discussed in greater detail below, the final rule provides a temporary “DRC conflict undeterminable” category for a two-year period for all issuers and a four-year period for smaller reporting companies. This category is available for issuers that proceed to step three but are unable to determine, after exercising their required due diligence,418 whether

411 See letter from TriQuint I.
412 See letters from AngloGold, IPMI I, JVC et al. II, NMA II, and WGC II.
413 See letter from WGC II.
414 See letters from NMA II, NAM III, and WGC II.
417 See, e.g., letters from AdvMed I (recommending an “unknown determination” transition period at least through 2014), FEC I (“Disclosure of minerals mined could be mainly conflict free for 2014 and finally the companies could successfully report to the Securities and Exchange Commission in 2015.”), JVC et al. II (urging “the Commission to adopt a calibrated ‘phase-in’ disclosure approach spanning the period from April 15, 2011 (the statutorily-prescribed effective date of the Commission’s implementing rules) through at least early 2014, to afford all affected issuers a minimum two-year transition period before becoming obligated to furnish an audited CMR”), Plexus (suggesting that a “phase in compliance schedule of at least 2 years is needed in order to provide time for the due diligence systems to be set-up, most importantly on the ground in the DRC,” but even “this would be a significant challenge”), Verizon (recommending “delaying the full applicability of the due diligence requirements of the Conflict Minerals Report until after fiscal 2014, to allow the DRC Zone countries to develop the traceability protocols and related infrastructure required in the Conflict Free Smelters”), and WilmerHale (“After fiscal year 2014, when sufficient infrastructure is expected to have been developed to permit companies to determine the source of all their conflict minerals, the ‘indeterminate source’ category would no longer be available.”).
418 As discussed in greater detail below, issuers are required to exercise due diligence on the source...
their conflict minerals originated in the Covered Countries or whether their conflict minerals that originated in the Covered Countries directly or indirectly finance or benefit armed groups in the Covered Countries.

The final rule permits any such issuer for purposes of the conflict minerals disclosure to describe its products with such conflict minerals as “DRC conflict undeterminable,” unless those products also include other conflict minerals that directly or indirectly financed or benefited armed groups in the Covered Countries. Further, although issuers with “DRC conflict undeterminable” products are required to provide a Conflict Minerals Report that describes, among other matters, the measures taken by the issuer to exercise due diligence on the source and chain of custody of the conflict minerals, during the temporary period they will not have to provide an independent private sector audit of that report. We believe that not requiring an independent private sector audit of the Conflict Minerals Report during the temporary period is appropriate because an audit of the design of an issuer’s due diligence results in an undeterminable conclusion would not appear to have a meaningful incremental benefit.

D. Step Two—Determining Whether Conflict Minerals Originated in the Democratic Republic of the Congo or Adjoining Countries and the Resulting Disclosure

Once an issuer determines that conflict minerals are necessary to the functionality or production of a product manufactured or contracted to be manufactured by the issuer, the Conflict Minerals Statutory Provision requires the issuer to determine whether those conflict minerals originated in the Covered Countries.419 If so, the issuer must submit a Conflict Minerals Report concerning those conflict minerals that originated in the Covered Countries,420 and make that report available on its Internet Web site.421 To determine whether their conflict minerals originated in the Covered Countries, so as to determine whether they must exercise due diligence on the source and chain of custody of those minerals and provide a Conflict Minerals Report, the final rule requires issuers with necessary conflict minerals to conduct a reasonable country of origin inquiry.

1. Reasonable Country of Origin Inquiry
   a. Proposed Rules

   We proposed that an issuer would be required to disclose whether it has necessary conflict minerals that originated in the Covered Countries based on its “reasonable country of origin inquiry.” Our proposed rules did not specify, however, what constituted a reasonable country of origin inquiry. Rather than describing what a reasonable country of origin inquiry would entail, we indicated that such a determination would depend on each issuer’s particular facts and circumstances. In this regard, we noted that the reasonable country of origin inquiry required was not meant to suggest that issuers would have to determine with absolute certainty whether their conflict minerals originated in the Covered Countries as we have often stated that a reasonableness standard is not the same as an absolute standard.422

   b. Comments on the Proposed Rules

   One commentator indicated that the final rule should not include a reasonable country of origin inquiry for determining whether an issuer’s conflict minerals originated in the Covered Countries.423 This commentator objected to the use of a reasonable country of origin inquiry because it believed that the origin of a product should be determined based on where the product is produced rather than where the minerals in the product were mined. Another commentator recommended that the final rule not require issuers to make any reasonable country of origin inquiry at all if they determine, based on whatever means they believe appropriate, that their conflict minerals did not originate in the Covered Countries, provided they disclose this fact.424 Many other commentators on this subject agreed that the proposed rules’ reasonable country of origin inquiry approach is appropriate.425 Some of these commentators disagreed, however, on the meaning and application of the standard. Some such commentators asserted that a reasonable country of origin standard should be equivalent to the due diligence standard required for the Conflict Minerals Report.426 Others suggested that the reasonable country of origin standard should conform, at least in part, to international standards,427 such as the “preliminary review” in the OECD guidance.428

   Many commentators agreed that the final rule should not define the reasonable country of origin standard, or should provide only general guidance regarding the standard, so that the rules would allow for greater flexibility to evolve as processes improved.429 Some of these commentators provided examples of the general guidance that

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422 See letter from Roundtable (stating that the “Conflict Minerals Statutory Provision requires issuers to disclose ‘whether’ their conflict minerals originated in the Covered Countries, and in the case of a positive determination, to provide a Conflict Minerals Report,” and “it ‘does not impose any obligation on an issuer who determines that the conflict minerals did not originate in the Covered Countries to make any disclosure beyond that fact, nor does it specify how the issuer is to determine that the conflict minerals did not originate in the Covered Countries’”).


425 See letters from CRS I and IPMI I.

426 See letter from IPMI I (stating that “the OECD advocates an initial determination of origin inquiry”). See also OECD, OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, 33 (2011), available at http://www.oecd.org/daf/internationalinvestment/guidelinesformultinationalenterprises/46740847.pdf. (“This Guidance applies to actors operating in a conflict-affected and high-risk area, or potentially supplying or using tin (cassiterite), tantalum (tantalite) or tungsten (wolframite), or their smelted derivatives, from a conflict-affected and high-risk area. Companies should preliminarily review their mineral or metal sourcing practices to determine if the Guidance applies to them.”).

the final rule could include while still allowing flexibility.\textsuperscript{440} For example, some commentators suggested that we indicate that the reasonable country of origin inquiry could differ among issuers based on their size, products, and relationships with suppliers.\textsuperscript{431} In addition, one commentator recommended that the final rule should clarify that a “reasonable person” standard applies to the reasonable country of origin standard.\textsuperscript{432} As a further example, some commentators sought flexibility for the reasonable country of origin standard that permits some combination of reasonable supplier declarations, contractual obligations, risk-based follow-up, and/or smelter validations.\textsuperscript{433} One commentator asserted that an issuer’s reasonable country of origin inquiry should be conducted under a reasonable care standard that requires “more than a passive acceptance by the filer of information provided by their suppliers,” which does not “mandate that an issuer always reach the legally correct conclusion, but does require sufficient investigation by an issuer to support reasonable cause to believe in the conclusion.”\textsuperscript{434}

Some commentators asserted that the final rule should define or provide specific guidance on what constitutes a “reasonable country of origin inquiry,” although many of these commentators did not provide suggested definitions or guidance.\textsuperscript{435} A few commentators argued, however, that any definition or guidance in the final rule should make clear that a reasonable country of origin standard should not be an absolute standard.\textsuperscript{436} One commentator suggested that the reasonable country of origin inquiry standard should require an issuer to take “sufficient steps to accurately determine and disclose whether its conflict minerals originate from the DRC,” and the commentator, therefore, recommended that an issuer should disclose the steps it undertook to complete its inquiry.\textsuperscript{437}

\textsuperscript{438} See, e.g., letters from Industry Group Coalition I, IPC I, ITIC I, NAM I, RILA–CERC, and SIF I.
\textsuperscript{439} See see letters from IPC I and ITIC I.
\textsuperscript{440} See letter from RILA–CERC.
\textsuperscript{441} See, e.g., letters from Industry Group Coalition I and NAM I.
\textsuperscript{442} See letter from Enough Project I, Global Witness I, Howland, IPMI I, ITIC I, MSG I, NYCBar II, SIF I, and TIC.
\textsuperscript{443} See letters from Enough Project I, Global Witness I, IPMI I, and MSG I.
\textsuperscript{444} See letters from CRS I, Enough Project I, ITIC I, MJB Consulting (May 30, 2011) (“MJB III”), MSG III, NYCBar II, SIF I, and TIC.
\textsuperscript{445} See letters from Howland (stating that an issuer should be able to use qualifying language only if it knows that 80% or more of its conflict minerals did not originate from the Covered Countries), MSG I (stating that qualifying language is not relevant as long as an issuer discloses the manner in which it determined its reasonable country of origin inquiry), NAM I (stating that qualifying language should be permitted only when there is appropriate information to support the conclusion), NMA II (same), and TriQuint I (stating that the final rule should allow qualifying language when an issuer concludes that its conflict minerals are not “DRC conflict free,” but should not allow such a qualification if it states that its conflict minerals are, in fact, “DRC conflict free.”)
\textsuperscript{446} As we indicated in the Proposing Release, although a reasonable country of origin inquiry may be based on a particular issuer’s size, products, relationships with suppliers, or other factors, an issuer may not conclude that, because of the large (or small) amount of conflict minerals it uses in its products or the large (or small) number of products that include conflict minerals, it is unreasonable for that issuer to conduct any inquiry into the origin of its conflict minerals. Instead, that issuer must make some inquiry into the origin of its conflict minerals.
allows the final rule to be flexible and evolve with available tracing processes. Even though the final rule does not specify the steps necessary to satisfy the reasonable country of origin inquiry requirement, the final rule includes general standards governing the inquiry and the steps required as a result of the inquiry. First, the final rule provides that to satisfy the reasonable country of origin inquiry requirement, an issuer’s reasonable country of origin inquiry must be reasonably designed to determine whether the issuer’s conflict minerals did originate in the Covered Countries, or did come from recycled or scrap sources. An issuer would have reason to believe representations were true if a processing facility received a “conflict-free” designation by a recognized industry group that requires an independent private sector audit of the smelter, or an individual processing facility, while it may not be part of the industry group’s “conflict-free” designation process, obtained an independent private sector audit that is made publicly available. An issuer’s policies with respect to the sourcing of conflict minerals will generally form a part of the issuer’s reasonably designed country of origin inquiry, and therefore would generally be required to be disclosed in the issuer’s Form SD.

Moreover, the issuer is not required to receive representations from all of its suppliers. The standard focuses on reasonable design and good faith inquiry. Therefore, if an issuer reasonably designs an inquiry and performs the inquiry in good faith, and in doing so receives representations indicating that its conflict minerals did not originate in the Covered Countries, the issuer may conclude that its conflict minerals did not originate in the Covered Countries, even though it does not hear from all of its suppliers, as long as it does not ignore warning signs or other circumstances indicating that the remaining amount of its conflict minerals originated or may have originated in the Covered Countries. For example, we would agree that, “if reasonable inquiry has been made, and if no evidence of [Covered Country] origin has been, and if the issuer determined that only a small amount of gold were still unknown, a manufacturer should be allowed to declare that its gold is not from the [Covered Countries] and is DRC conflict free.”

Countries did not necessarily discuss this topic in relation to conflict minerals from recycled or scrap sources.

The reasonable country of origin inquiry is consistent with the supplier engagement approach in the OECD guidance where issuers use a range of tools and methods to engage with their suppliers. The results of the inquiry may or may not trigger due diligence. This is the first step issuers take under the OECD guidance to determine if the further work outlined in the OECD guidance—due diligence—is necessary. The Conflict Minerals Statutory Provision specifically contemplates due diligence, which goes beyond inquiry and avoids chain of custody and a further steps to establish the truth or accuracy of relevant information, by requiring a description of the measures the issuer took to exercise due diligence on the source and chain of custody of the minerals. The Conflict Minerals Statutory Provision specifically notes that due diligence includes the audit discussed below.

Second, the final rule establishes a different standard from that included in the proposal for determining whether due diligence on the conflict minerals’ source and chain of custody is required. A Conflict Minerals Report is required after the reasonable country of origin inquiry. The proposed rules would have required an issuer to conduct due diligence and provide a Conflict Minerals Report if, based on its reasonable country of origin inquiry, the issuer determined that its conflict minerals originated in the Covered Countries, the issuer was unable to determine that its conflict minerals did not originate in the Covered Countries, or the issuer determined that its conflict minerals came from recycled or scrap sources. Under the proposal, issuers could only avoid providing a Conflict Minerals Report if they could prove a negative—that their conflict minerals did not originate in the Covered Countries. This approach would arguably be more burdensome than necessary to accomplish the purpose of the statutory provision. The reasonable country of origin inquiry standard does not require an issuer to determine to a

447 See letter from ITRI IV (emphasis in original).


449 See letter from IPMI I. Commentators opining on whether the statutory language requiring due diligence and a Conflict Minerals Report applies only to issuers that know that their conflict minerals originated in the Covered Countries or whether that statutory language applies also to issuers that are unable to determine that their conflict minerals did not originate in the Covered Countries did not necessarily discuss this topic in relation to conflict minerals from recycled or scrap sources.

certainty that all its conflict minerals did not originate in the Covered Countries because the standard required is a reasonable inquiry, and requiring a certainty in this setting would not be reasonable and may impose undue costs.451

Under the final rule, if (i) an issuer determines that, based on its reasonable country of origin inquiry, its necessary conflict minerals did not originate in the Covered Countries or did come from recycled or scrap sources, or (ii) based on its reasonable country of origin inquiry, the issuer has no reason to believe that its conflict minerals may have originated in the Covered Countries or the issuer reasonably believes that its conflict minerals are from recycled or scrap sources, the issuer is not required to exercise due diligence on its conflict minerals’ source or chain of custody or file a Conflict Minerals Report with respect to such conflict minerals. Instead, the issuer only is required, in the body of its specialized disclosure report, to disclose its determination and briefly describe the reasonable country of origin inquiry it undertook in making its determination and the results of the inquiry it performed.

Conversely, an issuer must exercise due diligence on its conflict minerals’ source and chain of custody and provide a Conflict Minerals Report if the issuer knows that it has necessary conflict minerals that originated in the Covered Countries and did not come from recycled or scrap sources. In addition, if based on its reasonable country of origin inquiry, the issuer has reason to believe that its necessary conflict minerals may have originated in the Covered Countries (and may not have come from recycled or scrap sources), the issuer must also exercise due diligence on the source and chain of custody of its conflict minerals. If, however, as a result of that due diligence, such an issuer determines that its conflict minerals did not originate in the Covered Countries or that its conflict minerals did come from recycled or scrap sources, no Conflict Minerals Report is required, but the issuer is required, in the body of its specialized disclosure report, to disclose its determination and briefly describe its due diligence and the results of the due diligence. If, based on its due diligence, the issuer determines that its conflict minerals did originate in the Covered Countries, and did not come from recycled or scrap sources, the issuer is required to submit a Conflict Minerals Report. If, based on its due diligence, the issue cannot determine the source of its conflict minerals, it is also required to submit a Conflict Minerals Report.

This revised approach does not require an issuer to prove a negative to avoid moving to step three, but it also does not allow an issuer to ignore or be willfully blind to warning signs or other circumstances indicating that its conflict minerals may have originated in the Covered Countries. This approach appears consistent with the “reason-to-believe approach” provided by one commentator.452 Some commentators noted,453 this approach is consistent with the OECD’s due diligence guidance, which states that issuers “should preliminarily review their mineral or metal sourcing practices to determine if the [due diligence] Guidance applies to them.”454 In its due diligence guidance, the OECD provides non-exclusive examples of circumstances, or red flags, that it states should trigger its guidance.455 One example of a circumstance that, absent other information, should provide an issuer with reason to believe that its conflict minerals may have originated in the Covered Countries is if an issuer becomes aware that some of its conflict minerals were processed by smelters that sourced from many countries, including the Covered Countries, but the issuer is unable to determine whether the particular minerals it received from such a “mixed smelter” were from the Covered Countries.456

We appreciate that commentators differ in their views as to when due diligence and, potentially, a Conflict Minerals Report is required under the language of the Conflict Minerals Supply Chain Provision. The provision requires issuers to provide a Conflict Minerals Report if their conflict minerals “did originate” in the Covered Countries but does not address how to determine whether the minerals “did originate” in those countries.457 The final rule adopts the reasonable country of origin inquiry as the procedure for making this determination. Some commentators argued that the statutory language should be read to require that only an issuer that knows, after conducting its reasonable country of origin inquiry, that its conflict minerals originated in the Covered Countries must perform due diligence and provide a Conflict Minerals Report.458 Alternatively, other commentators argued that the provision should be read to require issuers that are unable to determine that their conflict minerals did not originate in the Covered Countries to perform due diligence and potentially submit a Conflict Minerals Report.459 We believe the approach that is most consistent with the statutory language and its purposes, however, is to require any issuer that, after the reasonable country of origin inquiry, knows that its minerals originated in the Covered Countries and did not come from recycled or scrap sources to perform due diligence regarding those

451 As discussed below, certainty also is not required for the due diligence inquiry.

452 See letter from Tiffany (“A better way to address this issue would be to impose the obligation to submit a conflict minerals report on only those companies that actually have a reason to believe that they use gold [or some other ‘conflict mineral’) that does, in fact, originate in the DRC or surrounding countries (the ‘reason-to-believe approach’.”).

453 See letters from Enough Project I (stating that, through its reasonable country of origin inquiry, “an issuer should identify red flags that would alert it to the possibility that the minerals in its products support conflict in the DRC and adjoining countries,” and citing to the OECD’s due diligence guidance), Global Witness I (stating that an issuer should “[r]eview red flags indicating possible sourcing from Covered countries,” and citing to the OECD’s due diligence guidance), and IPMI I (“The OECD’s new international standard [an initial inquiry is a specific point where harmonization will be particularly advantageous, while conforming well to the direction of Congress for a reasonable country of origin inquiry. Like Congress, the OECD advocates an initial determination of origin inquiry: ‘Companies should preliminarily review their mineral or metal sourcing practices to determine if the Guidance applies to them.’”).


455 See id. (providing a number of examples, including whether conflict minerals are claimed to originate from a country that has limited known reserves of the conflict mineral in question) and OECD, Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas: Supplement on Gold (2012), available at http://www.oecd.org/corporate/guidelinesformultinationalenterprises/FINAL%20Supplement%20on%20Gold.pdf. The gold supplement also addresses circumstances triggering due diligence for gold claimed to have come from recycled or scrap sources.

456 This scenario is consistent with the OECD due diligence framework’s statement that “tracing minerals in a company’s possession are generally unnecessary after smelting, when the metals entering the consumer market as small parts of various components in end products.” See OECD, OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, 33 (2011), available at http://www.oecd.org/daf/internationalinvestment/guidelinesformultinationalenterprises/46740847.pdf.

457 See Exchange Act Section 13p([1][1][A]) (stating that “in cases in which such conflict minerals did originate in the” Covered Countries (emphasis added), the issuer must “submit to the Commission a Conflict Minerals Report).

458 See, e.g., letters from AngloGold, Clearly Gottlieb, NAM I, and Tiffany.

459 See, e.g., letters from NEI, NYCBar I, and NYCBar II.
minerals and submit a Conflict Minerals Report. In addition, any issuer that, after conducting its reasonable country of origin inquiry, has reason to believe that its minerals may have originated in the Covered Countries, and may not have come from recycled or scrap sources must perform due diligence. If, as a result of that due diligence, such an issuer determines that its conflict minerals did not originate in the Covered Countries or did come from recycled or scrap sources, no Conflict Minerals Report is required (although, as discussed below, such due diligence, and the results thereof, must be disclosed in the body of such issuer’s specialized disclosure report, together with the description of such issuer’s reasonable country of origin inquiry). Otherwise, such an issuer must submit a Conflict Minerals Report. We are adopting this approach in the final rule.

Interpreting the Conflict Minerals Statutory Provision to require due diligence only if an issuer has affirmatively determined that its conflict minerals originated in the Covered Countries and does not come from recycled or scrap sources would undermine the goals of the statute. For instance, if we allowed an issuer to stop its inquiry after learning that its necessary conflict minerals came from a smelter that includes minerals from the Covered Countries and other sources without knowing if its particular minerals came from the Covered Countries, there would be an incentive for issuers to avoid learning the ultimate source of the minerals. Thus, although we realize our approach will be more costly than only requiring due diligence and, potentially, a Conflict Minerals Report if the issuer has affirmative knowledge that its minerals came from the Covered Countries, in our view, requiring further steps by issuers that have reason to believe that they have necessary conflict minerals that may have originated in the Covered Countries is necessary to carry out the requirements contemplated by the statute. Moreover, this approach strikes a more appropriate balance than requiring an issuer to prove a negative—that their necessary conflict minerals did not originate in the Covered Countries—which would be even more costly.

Alternatively, the Conflict Minerals Statutory Provision could be interpreted to require all issuers to determine whether their conflict minerals originated in the Covered Countries through the exercise of due diligence. This inquiry could be quite costly, especially in a situation in which an issuer is unable to determine that a very small amount of its overall conflict minerals did not originate in the Covered Countries or come from recycled or scrap sources. While such an interpretation of the provision is plausible and, in fact, was suggested by two of the co-sponsors of the provision as the accurate interpretation of the Conflict Minerals Statutory Provision, we do not believe that approach is necessary to achieve Congress’s goal. Instead, we believe the reasonable country of origin inquiry standard provides a clearer way for issuers to make the necessary determination and does so in a manner that significantly reduces burdens and is more cost-effective. Although the reasonable country of origin inquiry will impose costs on issuers, we believe the costs are lower than those that would be incurred if issuers were always required to perform due diligence.

Finally, we note that an issuer conducting an appropriate reasonable country of origin inquiry may not be able to determine to a certainty the origin of all its conflict minerals or whether they came from recycled or scrap sources. A certainty is not required to satisfy the reasonable country of origin inquiry standard. Disclosure indicating that the determination is uncertain is unnecessary. Consistent with this approach, issuers may explicitly state that, if true, their reasonable country of origin inquiry was reasonably designed to determine whether the conflict minerals did originate in the Covered Countries or did not come from recycled or scrap sources and was performed in good faith, and the issuer’s conclusion that the conflict minerals did not originate in the Covered Countries or came from recycled or scrap sources was made at that reasonableness level.

2. Disclosures in the Body of the Specialized Disclosure Report

a. Proposed Rules

Under the proposed rules, an issuer would have been required to make a reasonable country of origin inquiry as to whether its conflict minerals originated in the Covered Countries. After the reasonable country of origin inquiry, if an issuer concluded that its conflict minerals did not originate in the Covered Countries, the issuer would have been required to disclose its conclusion in the body of its annual report and on its Internet Web site. Also, the proposed rules would have required that such an issuer disclose in the body of its annual report and on its Internet Web site the reasonable country of origin inquiry it used in making that determination. The proposed rules would not, however, have required an issuer that, after its reasonable country of origin inquiry, determined that its conflict minerals did not originate in the Covered Countries to disclose the actual countries from which the conflict minerals originated. The issuer would have been required to provide in the body of the annual report the Internet address on which the disclosure was posted and retain the information on the Web site at least until the issuer’s subsequent annual report was filed. Finally, the issuer would have been required to maintain reviewable business records in support of its negative determination. The issuer, however, would not have been required to make any other disclosures with regard to the conflict minerals that did not originate in the Covered Countries. Alternatively, if an issuer determined through its reasonable country of origin inquiry that any of its conflict minerals originated in the Covered Countries, or if the issuer was unable to determine after a reasonable country of origin inquiry that its conflict minerals did not originate in the Covered Countries, the proposed rules would have required the issuer to disclose this result in the body of its annual report and disclose that the Conflict Minerals Report was furnished as an exhibit to its annual report. Additionally, the issuer would have been required to make available its Conflict Minerals Report on its Internet Web site until its subsequent annual report was filed, disclose in the body of its annual report that the Conflict Minerals Report was posted on its Internet Web site, and provide the Internet address on which the Conflict Minerals Report was located. Under the proposed rules, such an issuer would have been required to post the Conflict Minerals Report on its Internet Web site, but the issuer would not have had to post any of the disclosures it provided in the body of its annual report on its Web site.

b. Comments on the Proposed Rules

Almost all of those that commented on this point believed that the final rule should require some very brief
discussion of the conflict minerals information in the body of the annual report.\(^{463}\) Some commentators indicated, however, that an issuer should not have to provide any disclosure in the body of the annual report,\(^{464}\) and one commentator stated that an issuer should not have to describe the findings of its Conflict Minerals Report in the body of the annual report.\(^{465}\) Other commentators remarked that the full text of the Conflict Minerals Report could be provided as an exhibit to an issuer’s annual report.\(^{466}\) In contrast, a few commentators asserted that an issuer should be required to include its full country of origin disclosure and the full text of its Conflict Minerals Report in the body of the annual report.\(^{467}\)

A number of commentators agreed that, as proposed, an issuer with conflict minerals that did not originate in the Covered Countries should be required to disclose its reasonable country of origin inquiry because not requiring such disclosure would undercut the essential purpose of the Conflict Minerals Statutory Provision.\(^{468}\) A number of other commentators, however, disagreed,\(^{469}\) and some of these commentators justified their position by noting that the Conflict Minerals Statutory Provision does not require such disclosure and asserted that such disclosure would not serve any constructive purpose.\(^{470}\) Also, of the many commentators that discussed this topic,\(^{471}\) one asserted that an issuer with no conflict minerals from the Covered Countries should be required to disclose the name of the country from which its conflict minerals’ originated so that investors could determine the veracity of the conclusion.

Most of the commentators that discussed the topic agreed that, as proposed, an issuer should be required to maintain revuable business records when it determines that its conflict minerals did not originate in the Covered Countries.\(^{472}\) These commentators disagreed, however, about the length of time that the final rule should require the records be kept. The suggested durations ranged from one year to a period covering the duration of the law.\(^{474}\) In addition, some commentators recommended that the final rule clarify the meaning of “reviewable business records.”\(^{475}\)

There were a few commentators, however, that did not believe that the final rule should require an issuer to retain revuable business records at all because such a requirement is not in the Conflict Minerals Statutory Provision, an issuer should be permitted to create its own records as it does for the financial and other information in its annual reports, and such a rule would provide an independent books and records requirement that goes beyond the Conflict Minerals Statutory Provision.\(^{476}\)

c. Final Rule

After considering the comments, we are modifying the proposal regarding the substantive disclosures in the body of the specialized disclosure report, in part. An issuer that determines that, following its reasonable country of origin inquiry, its conflict minerals did not originate in the Covered Countries or came from recycled or scrap sources has no reason to believe that its necessary conflict minerals may have originated in the Covered Countries or may not be from recycled or scrap sources. An issuer is required to make certain disclosures in the body of its specialized disclosure report on Form SD, under the “Conflict Minerals Disclosure” heading. This requirement is generally consistent with the proposal, except that

the proposed required due diligence regarding conflict minerals from recycled or scrap sources. An issuer determining that its conflict minerals that did not originate in the Covered Countries or that came from recycled or scrap sources or that has no reason to believe that its necessary conflict minerals may have originated in the Covered Countries or may not be from recycled or scrap sources must disclose its determination and results and provide a brief description of the inquiry that it undertook.

As discussed above, we note that there may be instances in which an issuer determines, based on its reasonable country of origin inquiry, that it has reason to believe it has conflict minerals that may have originated in the Covered Countries and may not be from recycled or scrap sources and, therefore, must exercise due diligence on the source and chain of custody of the conflict minerals. If, at any point during the exercise of that due diligence, the issuer determines that its conflict minerals did not originate in the Covered Countries or came from recycled or scrap sources, the issuer is not required to submit a Conflict Minerals Report. The issuer, however, is still required to submit a specialized disclosure report disclosing its determination and briefly describing the reasonable country of origin inquiry and the due diligence efforts it exercised and the results of the inquiry and due diligence efforts to demonstrate why the issuer believes that the conflict minerals did not originate in the Covered Countries or came from recycled or scrap sources.

We note the views of some commentators that requiring issuers to describe their reasonable country of origin inquiry would impose costs neither justified nor required by the provision. Also, we note that the Conflict Minerals Statutory Provision requires only that a “person described” disclose annually “whether conflict minerals that are necessary * * * did originate in the Democratic Republic of the Congo or an adjoining country and, in cases in which such conflict minerals did originate in any such country,
submit to the Commission a report.”  

Therefore, the Conflict Minerals Statutory Provision only explicitly requires an issuer to provide additional disclosure if the issuer determines that its conflict minerals did originate in the Covered Countries.  

We believe, however, that requiring an issuer to provide a brief description of the reasonable country of origin inquiry it undertook is appropriate despite the additional costs associated with providing such a description. As discussed above, the reasonable country of origin inquiry is not a prescriptive standard and does not require certainty. As a result, there will likely be variation in the approaches taken by issuers. Consequently, we believe it is appropriate to require disclosure regarding the reasonable country of origin inquiry so that interested parties can evaluate “the degree of care” the issuer used in making its negative determination, and it will “help ensure credibility of issuer disclosure.” Also, although the Conflict Minerals Statutory Provision does not explicitly require an issuer to provide further disclosure if the issuer determines that its conflict minerals did not originate in the Covered Countries, the provision does not provide that such disclosures cannot be required. Therefore, we believe that requiring this disclosure is permitted as well as appropriate.  

As described above, the final rule does not prescribe particular steps or require an issuer to establish to a certainty that its minerals did not originate in the Covered Countries or come from recycled or scrap sources. Instead, the final rule relies on a reasonable design and good faith execution approach. Requiring an issuer to briefly describe the results of the inquiry it performed is intended to enable stakeholders to assess the issuer’s reasonable country of origin design and its efforts in carrying out that design. Also, this disclosure is intended to allow stakeholders to form their own views on the reasonableness of the issuer’s efforts. Based on this information, stakeholders could advocate for different processes for individual issuers if they believe it is necessary. In addition, it is expected that reasonable country of origin inquiry processes will change over time based both on improved supply chain visibility and the results of an issuer’s prior year inquiry. Requiring an issuer to provide a brief description of the results of its inquiry, therefore, will allow stakeholders to track that progress and advocate for different procedures if they think it is necessary. We have determined, however, not to adopt the proposed requirement for an issuer to maintain reviewable business records supporting its conclusion that its conflict minerals did not originate in the Covered Countries based on its reasonable country of origin. The Conflict Minerals Statutory Provision does not require an issuer to maintain reviewable business records to support its determination of the source of its conflict minerals. In addition, there does not appear to be a need for the rule to require issuers to maintain such records. As one commentator noted, issuers “provide vast amounts of material information in, for example, Management’s Discussion and Analysis in periodic reports, for which the SEC does not impose specific record retention requirements for maintaining the source materials used to generate the disclosures.” Therefore, we believe that it is unnecessary for us to require an issuer to maintain reviewable business records, although maintenance of appropriate records may be useful in demonstrating compliance with the final rule, and may be required by any nationally or internationally recognized due diligence framework applied by an issuer.  

Also, in contrast to the proposal, we are not requiring an issuer to disclose in either its specialized disclosure report or its annual report, under a separate heading entitled “Conflict Minerals Disclosure,” whether any of its necessary conflict minerals originated in the Covered Countries or did not come from recycled or scrap sources or that the issuer was unable to determine that its conflict minerals did not originate in the Covered Countries or come from recycled or scrap sources. Under the proposal, an issuer required to provide a Conflict Minerals Report, including an issuer required to provide a Conflict Minerals Report because its conflict minerals came from the recycled or scrap sources, would have been required to disclose in the body of its annual report that it furnished a Conflict Minerals Report as an exhibit to its annual report, that the Conflict Minerals Report and certified independent private sector audit report were available on its Internet Web site, and the Internet address where the Conflict Minerals Report is publicly available. The final rule does not require an issuer to disclose in the body of its specialized disclosure report the reason that the issuer is providing a Conflict Minerals Report because that information will be disclosed by the issuer in the Conflict Minerals Report. Requiring that information also in the body of the specialized disclosure report would be redundant and unnecessary. Similarly, the final rule does not require an issuer to disclose in its specialized disclosure report that it has provided an audit report or certification of the audit, if applicable, because the audit report and certification would be part of the Conflict Minerals Report already, so specifically mentioning the audit report or certification here is not necessary and may be confusing.  

E. Step Three—Conflict Minerals Report’s Content and Supply Chain Due Diligence  

The Conflict Minerals Statutory Provision requires an issuer that determines that its necessary conflict minerals originated in the Covered Countries to submit a Conflict Minerals Report. The Conflict Minerals Report must include, among other matters, a description of the measures taken by the issuer to exercise due diligence on the source and chain of custody of its conflict minerals, which measures “shall include an independent private sector audit” of the Conflict Minerals Report. In this regard, the Conflict Minerals Statutory Provision states also
that the issuer submitting the Conflict Minerals Report “shall certify the audit * * * that is included in such report” and such a certified audit “shall constitute a critical component of due diligence in establishing the source and chain of custody of such minerals.”

Also, the Conflict Minerals Statutory Provision requires that the Conflict Minerals Report must provide a description of the products “manufactured or contracted to be manufactured that are not ‘DRC conflict free,’” the entity that conducted the independent private sector audit, the facilities used to process the conflict minerals, the country of origin of the conflict minerals, and the efforts to determine the mine or location of origin with the greatest possible specificity.

1. Content of the Conflict Minerals Report

a. Proposed Rules

The proposed rules would have required an issuer to exercise due diligence on the source and chain of custody of its conflict minerals that it was unable to determine, based on its reasonable country of origin inquiry, did not originate in the Covered Countries and to describe those due diligence measures in its Conflict Minerals Report. Consistent with the Conflict Minerals Statutory Provision, we proposed that an issuer provide this certification in that report.

Further, as required by the Conflict Minerals Statutory Provision, we proposed that the rules would require descriptions, in the Conflict Minerals Report, of an issuer’s products that are not “DRC conflict free,” the facilities used to process those conflict minerals, the country of origin of those conflict minerals, and the efforts to determine the mine or location of origin with the greatest possible specificity.

The Conflict Minerals Statutory Provision uses the phrase “facilities used to process the conflict minerals,” which we noted in the Proposing Release would appear to refer to the smelter or refinery through which the issuer’s minerals passed. We noted also that the Conflict Minerals Statutory Provision states that products are “DRC conflict free” when those products do not contain conflict minerals that directly or indirectly finance or benefit armed groups. The Proposing Release also noted that Section 1502(e)(3) of the Act defines the term “armed group” as “an armed group that is identified as perpetrators of serious human rights abuses in the annual Country Reports on Human Rights Practices under sections 116(d) and 502(b) of the Foreign Assistance Act of 1961.” as they relate to the Covered Countries (“Country Reports”). Our proposed rules included a cross reference to that definition to provide guidance.

Under the proposed rules, an issuer that was unable to determine that its conflict minerals did not originate in the Covered Countries would have been required to furnish a Conflict Minerals Report to the same extent as an issuer with conflict minerals that originated in the Covered Countries. We recognized that an issuer unable to determine that its conflict minerals did not originate in the Covered Countries may not be able to determine to a certainty whether any of its products are or are not “DRC conflict free,” insofar as its initial effort to determine the origin of the conflict minerals in those products under the reasonable country of origin inquiry was inconclusive and its subsequent due diligence on the source and chain of custody of such minerals was also inconclusive. Consistent with Exchange Act Section 13(p)(1)(A)(ii), we proposed that an issuer unable to determine that its conflict minerals did not originate in the Covered Countries would be required to describe all of its products that contain such conflict minerals and identify these products as “not DRC conflict free.” because the issuer would not have determined that the products satisfied the statutory definition of “DRC conflict free”—that the products do “not contain conflict minerals that directly or indirectly finance or benefit armed groups in the” Covered Countries. The proposed rules would have allowed an issuer to provide additional disclosure explaining, for example, that although these products were categorized as not “DRC conflict free” in compliance with the proposed rules implementing the Conflict Minerals Statutory Provision and the statutory definition of “DRC conflict free,” the issuer had been unable to determine the source of the conflict minerals, including whether the conflict minerals in these products actually benefited or financed armed groups in the Covered Countries. Also, such an issuer would have been required to describe, to the extent known after conducting due diligence, the facilities used to process those conflict minerals and the efforts to determine the mine or location of origin with the greatest possible specificity.

Any issuer with products considered not “DRC conflict free” would have been required to provide a description of those products in its Conflict Minerals Report. That description would have been based on the issuer’s individual facts and circumstances so that the description sufficiently identified the products or categories of products. For example, an issuer could disclose each model of a product containing conflict minerals that directly or indirectly financed or benefited armed groups in the Covered Countries, each category of a product containing such conflict minerals, the specific products containing such conflict minerals that were produced during a specific time period, that all its products did not contain conflict minerals that did not originate in the Covered Countries and conflict minerals that the issuer was unable to determine did not originate in the Covered Countries, the issuer, under the proposal, would be required to classify those products as not “DRC conflict free.” Similarly, if any of an issuer’s products contained conflict minerals that did not originate in the Covered Countries, that the issuer was unable to determine did not originate in the Covered Countries, or that originated in the Covered Countries but did not directly or indirectly finance or benefit armed groups in the Covered Countries, and also contained conflict minerals that originated in the Covered Countries and that directly or indirectly financed or benefited armed groups in the Covered Countries, the issuer would be required to classify those products as not “DRC conflict free.”

If any products contained both conflict minerals that did not originate in the Covered Countries and conflict minerals that the issuer was unable to determine did not originate in the Covered Countries, the issuer, under the proposal, would be required to classify those products as not “DRC conflict free.” Similarly, if any of an issuer’s products contained conflict minerals that did not originate in the Covered Countries, that the issuer was unable to determine did not originate in the Covered Countries, or that originated in the Covered Countries but did not directly or indirectly finance or benefit armed groups in the Covered Countries, and also contained conflict minerals that originated in the Covered Countries and that directly or indirectly financed or benefited armed groups in the Covered Countries, the issuer would be required to classify those products as not “DRC conflict free.”
products contain such conflict minerals, or another such description depending on the issuer’s facts and circumstances.

As proposed, our rules would have required an issuer to furnish, as part of its Conflict Minerals Report, the audit report prepared by the independent private sector auditor and the identity of the auditor.\(^{499}\) We noted that, while one might read the statutory language to suggest that only the issuer’s certification of the audit, and not the audit report itself, is required to be submitted, we preliminarily believed that approach was not the better reading of the Conflict Minerals Statutory Provision. As noted above, the Conflict Minerals Statutory Provision emphasizes that the independent audit is a “critical component of due diligence.” In light of the importance of this audit report to the proposed reporting requirements and the statutory language, we proposed to require that the audit report be furnished with the Conflict Minerals Report.

Proposed Item 4(a) of Form 10–K (referring to proposed Instruction 2 to Item 104 of Regulation S–K), proposed Instruction 3 to Item 16 of Form 20–F, and proposed Instruction 3 to General Instruction B(16) of Form 40–F would have provided that the Conflict Minerals Report, which would include the audit report, would not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the issuer specifically incorporated it by reference. For example, if an issuer incorporated by reference its annual report into a Securities Act registration statement, that issuer would not also automatically incorporate the Conflict Minerals Report into that Securities Act document. Also, in such a situation, the independent private sector auditor would not have assumed expert liability and the issuer would not,\(^{500}\) therefore, have been required to file a consent from that auditor unless the issuer specifically incorporated by reference the Conflict Minerals Report into the Securities Act registration statement.

b. Comments on the Proposed Rules

A number of commentators agreed with the proposed rules’ requirement that an issuer unable to determine that its conflict minerals did not originate in the Covered Countries be required to describe its products as not “DRC conflict free” in its Conflict Minerals Report.\(^{501}\) In one comment letter, five senators stated that Congress did not intend for the Conflict Minerals Statutory Provision to allow issuers to report that the origins of their conflict minerals was undeterminable.\(^{502}\) Instead, the letter argued that Congress “intended and directed” the final rule to require that, if an issuer “cannot affirm that the minerals are ‘conflict-free,’ the only other conclusion that could be reported would be that the product may contain materials that directly or indirectly finance armed groups in the DRC.”\(^{503}\) In another comment letter, members of Congress asserted that conflict minerals information that does “not clearly list a company’s activities and rules allowing a category of ‘indeterminate’ would undermine congressional intent.”\(^{504}\)

Other commentators indicated, however, that the final rule should not require an issuer unable to determine that its conflict minerals did not originate in the Covered Countries to state that its conflict minerals are not “DRC conflict free” either on a temporary or permanent basis.\(^{505}\) Some commentators who are members of Congress requested that we consider, as an alternative to the proposed rules, “phasing-in implementation to allow for materials of indeterminate origin currently in the supply chain to be properly classified.”\(^{506}\) In another letter, members of Congress suggested that the final rule create a temporary classification for minerals of an indeterminate origin that would exempt companies with such minerals from the requirement to provide a Conflict Minerals Report.\(^{507}\) Some commentators suggested that such issuers should be required to state that its products with such conflict minerals are not “DRC conflict free” after a certain number of years.\(^{508}\) Some commentators asserted that the proposed rules would violate the First Amendment because, among other reasons, the rules would compel speech that is not of a commercial nature, which is different from other corporate disclosures, and would require some issuers, such as those unable to determine that their conflict minerals did not originate in the Covered Countries, to provide false, stigmatizing information.\(^{509}\)

Some commentators urged that an issuer unable to determine that its conflict minerals did not originate in the Covered Countries should not be required to submit a Conflict Minerals Report that is audited by an independent private sector auditor.\(^{510}\) As one commentator asserted, the provision “does not require an issuer that has been unable to determine (after proper inquiry) the source of its conflict minerals * * * to provide a Conflict Minerals Report,” because the “statute uses the phrase ‘in cases in which such conflict minerals did originate in [a DRC country],’ as the trigger for providing a Conflict Minerals Report” (emphasis and bracket in original).\(^{511}\) One commentator, in two separate letters, disagreed with this position, however, and stated that any issuer that is unable to determine that its conflict minerals did not originate in the Covered Countries must be required to submit an audited Conflict Minerals Report to support its conclusion.\(^{512}\) Another commentator recommended that the final rule allow issuers to provide annual, unaudited conflict minerals disclosure that would identify the issuer’s products that the issuer “reasonably believes may contain ‘conflict minerals;’” indicate that the origin of these minerals is indeterminate and explain why the minerals origin is indeterminate; identify and disclose the issuer’s involvement in any governmental, semi-governmental, and private sector diligence initiatives; and describe the measures the issuer has undertaken to develop a management


\(^{500}\) See letter from Sen. Boxer et al.

\(^{501}\) See letter from Sen. Leahy et al.

\(^{502}\) See, e.g., letters from AdvocMed II, Cleary Gottlieb, IPC I, ITRI I, JVC et al. II, NAM I, and Tiffany, TriQuint I, and WGC II.


\(^{504}\) See letters from Rep. Bachus et al.

\(^{505}\) See letters from IPCC I, SIF I, TIAA–CREF, Tiffany, TriQuint I, and NYCBar II.

\(^{506}\) See letters from Taiwan Semi, Tiffany, and WLF.

\(^{507}\) See letter from Cleary Gottlieb.

\(^{508}\) See letters from NYCBAR I (“We also believe the rules should require reporting firms that cannot, after due diligence, determine the origin of the materials used in their products to submit a Conflict Minerals Report and an independent audit of such report to ensure such issuers cannot easily avoid their obligations and disclosure requirements prescribed by these rules.”) and NYCBAR II (“The rules should require reporting firms that cannot, after due diligence, determine the origin of the materials used in their products to submit a Conflict Minerals Report and an independent audit of such report to ensure such issuers cannot easily avoid their obligations and disclosure requirements prescribed by the rules.”).
due diligence system covering its supply chain for conflict mineral.514 One commentator asserted that investors would have “insufficient material information to evaluate a company’s supply chain risk” if the final rule allowed issuers to declare their conflict minerals from an indeterminate origin “without describing the steps they have taken to make their determination,” and recommended that the final rule “require reporting to be sufficiently detailed to inform investors of the steps an issuer has taken to determine whether the minerals the issuer purchases come from the DRC or an adjoining country.” 514

Although we did not propose to require any type of physical label on a product, one commentator stated that it is essential for the final rule to mandate that an issuer with products containing conflict minerals that did not finance or benefit an armed group to label those products as “DRC conflict free.”515 Many commentators, however, remarked that such a rule would not be required to physically label its products.516 Some commentators asserted that an issuer should be permitted to describe its products as “DRC conflict free” only if the issuer sources its conflict minerals in those products from the Covered Countries and those conflict minerals did not finance or benefit armed groups.517 Another commentator added specifically that products should be labeled as “DRC conflict free” only if either they are not from the Covered Countries or do not directly or indirectly support armed groups in the Covered Countries.518 Also, all commentators that discussed the subject agreed that the final rule should, as proposed, allow issuers to provide additional disclosure in describing any of their products that have not been found to be “DRC conflict free”519

A number of commentators mentioned that the final rule should, as proposed, require an issuer to disclose the facilities, countries of origin, and efforts to determine the mine or location of origin only for its conflict minerals that directly or indirectly financed or benefited armed groups in the Covered Countries.520 A few commentators suggested that all issuers with conflict minerals originating in the Covered Countries, including issuers with conflict minerals that did not directly or indirectly finance or benefit armed groups in the Covered Countries and issuers with conflict minerals that did directly or indirectly finance or benefit armed groups in the Covered Countries, should be required to disclose the facilities, countries of origin, and efforts to determine the mine or location of origin of those conflict minerals.521 Two commentators further recommended that all issuers with conflict minerals, regardless of whether the minerals originated within or without the Covered Countries, should be required to disclose the facilities, countries of origin, and efforts to determine the mine or location of origin of those conflict minerals.522

Some commentators agreed that the final rule should, as proposed, require an issuer to disclose only the efforts to determine the conflict minerals’ mine or location of origin with the greatest possible specificity.523 Other commentators suggested going further and requiring an issuer to disclose the actual mine or location of origin with the greatest possible specificity.524 Still other commentators argued that the final rule should not require issuers to include specific supply chain information, such as conflict mineral sources, quantities, transit routes, or store houses because such disclosures could hurt an issuer’s competitive advantage or subject the issuer or its employees to violence.525 Alternatively, these commentators recommended that the rule allow for generic descriptions or approximate geographic locations or permit an issuer to redact sensitive or secure information.526

A number of commentators indicated that an issuer should, as proposed, “certify the audit” by certifying that it obtained an independent private sector audit.527 Many of these commentators, plus some others, remarked that these certifications should either not be signed or, if they are required to be signed, be signed by the issuer or an individual on behalf of the issuer and not in any individual capacity.528 In contrast, one commentator recommended that an issuer’s senior management or executive officers in some manner certify the independent private sector audit,529 another commentator asserted that it is “essential that there be CEO level involvement in the filing of the disclosures in order to make sure that companies do not simply ‘game the system,’ “530 and a further commentator argued that the “certification of an audit will make little sense unless the signatories verify on a quarterly basis that certain minimal standards have been maintained by the auditors.” 531 One commentator asserted that certifying the audit is unnecessary because the audit report will be submitted to the Commission in the Conflict Minerals Report.532 This commentator and another stated that requiring an issuer to certify the audit would prevent an issuer from stating that its products are “DRC conflict free” because no issuer could be so certain of that conclusion that its officers would certify the audit.533 One commentator suggested that no liability should be assigned to individuals that may sign the certifications “unless the situation involves a knowing and willful intent to mislead.” 534

Some commentators agreed that the audit report should, as proposed, be included as part of the Conflict Minerals Report.535 Other commentators recommended that an issuer’s audit report should not be submitted as part of the Conflict Minerals Report because such a requirement would increase audit costs without providing comparable benefits.536 Certain commentators opposed having to make the audit report public and suggested instead that issuers provide the audit

514 See, e.g., letter from Signet.
515 See letter from SIF II.
517 See, e.g., letters from Columbian Center et al., Howland, Industry Group Coalition I, ITIC I, Japanese Trade Associations, MSG I, NAM I, and SIF I.
518 See letters from ITRI III, MSG I, and SIF I.
519 See letter from State II.
520 See letters from Howland, IPC I, NMA II, SEMI, TriQuint I, and WGC II.
521 See letters from MSG I, NEL, SIF I, and TriQuint I.
522 See letters from Earthworks and Trott.
523 See, e.g., letters from AngloGold, Barrick Gold, JVC et al. II, NAM I, NMA II, and WGC II.
524 See, e.g., letters from CRS I, Howland, ICGLR, NEL, State II (acknowledging that, as a best practices approach, an issuer should make every effort to include specific information regarding the mine), TakeBack, and Trott (stating that the final rule should require an issuer to provide as much information as possible regarding its conflict minerals’ mine or location of origin).
525 See letters from Barrick Gold, Global Tungsten II, IPMI I, NMA II, NMA III, and TIC.
526 See letters from Barrick Gold, NMA II, and TIC.
527 See, e.g., letters from Barrick Gold, Cleary Gottlieb, Ford, ICGLR, ITIC I, NAM I, NY State Bar, and WGC II.
528 See, e.g., letters from AngloGold, Barrick Gold, Cleary Gottlieb, Ford, Howland, JVC et al. II, NAM I, NMA II, and WGC II.
529 See letter from Grant Thornton LLP (Mar. 2, 2011) (“Grant Thornton”).
530 See letter from TakeBack.
531 See letter from SARB.
532 See letter from TIC.
533 See letters from Teggegan and TIC.
534 See letters from Cleary Gottlieb and NMA II.
536 See letters from AngloGold and WGC II.
report to the Commission confidentially, allow for sensitive portions to be redacted, or provide it to the Commission with the Commission making it available to the public only in hardcopy form at the Commission’s headquarters.

Similarly, one commentator objected to requiring an issuer to post the audit report on the issuer’s Internet Web site as long as the Conflict Minerals Report describes the audit report, whereas another commentator argued that the final rule should require an issuer to post the audit report on an issuer’s Web site.

Some commentators indicated that, as proposed, an audit report should not be deemed incorporated by reference into any filing under the Securities Act or Exchange Act unless the issuer specifically incorporates the audit into such a filing. A few commentators further suggested that an auditor should not be considered an “expert” under Rule 436 of the Securities Act and recommended that audit reports submitted in subsequent years be able to build off prior audit reports to eliminate duplicative work and, thereby, reduce costs. One commentator went further and suggested that any issuer with a recognized supply chain tracking process should not be required to obtain an audit of its Conflict Minerals Report.

Some commentators requested that the final rule define how an issuer would “directly or indirectly finance or benefit an armed group.” Some of these commentators and others recommended that the Country Reports not be the basis for the Commission’s final rule because those reports are not sufficiently specific with respect to which groups it labels as “armed groups” such that it is unclear whether the DRC army would be considered an “armed group.”

For example, one commentator submitted an article arguing that the Conflict Minerals Statutory Provision “targets units of the Congolese army as much as it does militias precisely because the army is comprised largely of ex-rebels, is the major player in the conflict minerals trade and regularly commits appalling crimes against the civilian population.” Another commentator, however, stated that if the final rule defined “armed group” using the Country Reports, it would exclude the ex-militia groups that joined the DRC army, and continued to contribute to conflict and commit human rights violations. One commentator recommended that the final rule define “armed group” using the OECD’s definition for that term. Another commentator suggested that the final rule apply only to issuers that are “directly funding the conflict (or who knowingly indirectly fund the conflict).”

One commentator recommended that the final rule define “indirect financing” of an armed group to include “[a]ny way in which an illegitimate armed group profits from the mining, sale, transportation or taxation of minerals or mineral derivatives.” Some commentators asserted that the final rule should clarify the definition of an “armed group” or disclose the steps issuers must take to verify whether their conflict minerals benefited armed groups.

Other commentators suggested that the definition of “armed group” in the final rule should not refer to the “most recently issued” version of the Country Reports “for the year the annual report is due” because the most recently issued version of the Country Reports may not be published for the year the annual report is due.

The final rule requires any issuer that, after its reasonable country of origin inquiry, knows that its conflict minerals originated in the Covered Countries and did not come from recycled or scrap sources, to provide a Conflict Minerals Report that includes a description of the measures the issuer has taken to exercise due diligence on the source and chain of custody of those conflict minerals. It also requires an issuer that, after its reasonable country of origin inquiry, had reason to believe that its minerals may have originated in the Covered Countries and may not have come from recycled or scrap sources, to after the exercise of due diligence, still has reason to believe that its minerals may have originated in the Covered Countries and may not have come from recycled or scrap sources, to provide a Conflict Minerals Report that includes a description of the measures the issuer has taken to exercise due diligence on the source and chain of custody of those conflict minerals.

Additionally, in circumstances in which an independent private sector audit is required, the final rule requires, as proposed, that an issuer include a certified independent private sector audit conducted in accordance with the standards established by the Comptroller General of the United States as part of its due diligence on the source and chain of custody of its conflict minerals. Further, the final rule states that, as proposed, the audit constitutes a critical component of due diligence. To implement the Conflict Minerals Statutory Provision’s requirement that issuers “certify the audit,” as proposed, an issuer must certify that it obtained an independent private sector audit of its Conflict Minerals Report and include that certification in the Conflict Minerals Report.

While we did not specify this in the Proposing Release or proposed rules, in response to commentators’ concerns, the final rule clarifies that the issuer’s audit certification need not be signed by an officer. Instead, the certification takes the form of a statement in the Conflict Minerals Report that the issuer obtained an independent private sector audit.

The final rule also requires, unless an issuer’s products are “DRC conflict free,” the Conflict Minerals Report to include a description of the facilities used to process those conflict minerals, the country of origin of those conflict minerals, and the efforts to determine the mine or location of origin with the greatest possible specificity. As noted in the Proposing Release, we believe that the phrase in the Conflict Minerals Statutory Provision, “facilities used to process the conflict minerals,” refers to the smelter or refinery through which the issuer’s minerals pass. One commentator pointed out that smelting and refining processes are not similar. Smelting refers to the
of the mineral ore into its metal form, but the metal still contains many impurities that must be removed by refining the metal. Columbite-
tantalite, cassiterite, and wolframite are mined only as ores and are smelted into their metal derivatives. Gold, however, is mined in its metallic form because it is found that way naturally. Therefore, gold does not have to be smelted into a metal, but does have to be refined to remove any impurities. In both instances, however, we recognize that as a practical matter it is very difficult, if not impossible, to trace conflict minerals to their mine or other location of origin after columbite-tantalite, cassiterite, and wolframite have been smelted initially and after gold has been refined initially other than through the smelter or refinery.

Exchange Act Section 13(p)(1)(A)(ii) also requires an issuer with conflict minerals originating in the Covered Countries to submit a Conflict Minerals Report that includes a description of the issuer’s products “that are not DRC conflict free” and the Conflict Minerals Statutory Provision does not define “not DRC conflict free,” but instead defines “DRC conflict free.” Products are considered “DRC conflict free” under Exchange Act Section 13(p)(1)(A)(ii) if they “do not contain minerals that directly or indirectly finance or benefit armed groups in the” Covered Countries. (Emphasis added). As discussed above, under the proposed rules’ approach, an issuer with a product containing conflict minerals of an undeterminable origin cannot know that its product is “DRC conflict free;” that is, the issuer cannot know that its product “do[es] not contain conflict minerals that directly or indirectly finance or benefit armed groups in the” Covered Countries, so the issuer would have to describe the product as “not DRC conflict free.”

A commentator raised concerns that this approach could lead to incorrect and misleading disclosures and could unfairly punish companies that lack complete visibility into their supply chains. The commentator noted that it could turn out that, upon further investigation of the minerals’ origins, the minerals were not from the Covered Countries or did not finance or benefit armed groups, in which case the products made with solely those minerals would be “DRC conflict free.” Of course, we are concerned that any disclosure requirement results in accurate disclosure. At the same time, we are cognizant of our responsibility to fulfill Congress’s directive in Section 1502 and to remain faithful to the language of the statute, and promulgating rules that provide an incentive for issuers to avoid determining the origins of the conflict minerals that they use could undermine the reporting system that Congress has established in Section 13(p) of the Exchange Act. Accordingly, we have modified the final rule to address the commentator’s concerns while remaining faithful to the language and intent of the statute.

As described above, during a temporary period, instead of requiring issuers that have proceeded to step three that are unable to determine that their conflict minerals did not originate in the Covered Countries, that their conflict minerals that originated in the Covered Countries did not directly or indirectly finance or benefit armed groups, or that their conflict minerals came from recycled or scrap sources to describe their products as “not DRC conflict free,” the final rule permits issuers to disclose products containing those conflict minerals as “DRC conflict undeterminable,” as long as products that are “DRC conflict undeterminable” is required to exercise due diligence on the company that owns or processes the conflict minerals and submit a Conflict Minerals Report describing its due diligence; the steps it has taken or will take, if any, since the end of the period covered in its most recent prior Conflict Minerals Report to mitigate the risk that its necessary conflict minerals benefit armed groups, including any steps to improve its due diligence; the country of origin of the conflict minerals, if known; the facilities used to process the conflict minerals, if known; and the efforts to determine the mine or location of origin with the greatest possible specificity, if applicable. Such an issuer is not, however, required to obtain an independent private sector audit of that Conflict Minerals Report. We are permitting this temporary category to address concerns of many industry commentators that supply chain due diligence mechanisms have not yet been established; and, therefore, many issuers will not be able to readily determine whether their conflict minerals did not originate in the Covered Countries, did not finance or benefit armed groups, or did come from recycled or scrap sources. This temporary category allows issuers time to establish supply chain due diligence mechanisms to determine whether their minerals originated in the Covered Countries, directly or indirectly financed or benefited armed groups in the Covered Countries, or came from recycled or scrap sources.

This additional time should also decrease the possibility that issuers that might ultimately be able to determine that their necessary minerals did not originate in the Covered Countries, did not finance or benefit armed groups, or came from recycled or scrap sources would initially be required to report that their products have not been found to be “DRC conflict free” simply because they had not yet been able to determine the minerals’ origins or whether they were from recycled or scrap sources. By decreasing this possibility, the temporary category will lead to more accurate disclosure. We believe this approach will allow the final rule to more appropriately target the population of issuers from which Congress intended to require this disclosure and will allow time for processes to be put in place so that issuers may be able to determine the origin of their conflict minerals.

The “undeterminable” reporting alternative, however, is only permitted temporarily. For all issuers, this alternative will be permitted during the first two reporting cycles following the effectiveness of the final rule, which includes the specialized disclosure reports for 2013 through 2014. For smaller reporting companies, this alternative will be permitted during the first four reporting cycles following the

 557 See id. and exchange Act Section 13(p)(1)(D).
 559 We recognize that an issuer that is unable to determine the origin of its conflict minerals, or unable to determine whether its conflict minerals came from recycled or scrap sources, may not also be able to determine the processing facility of those conflict minerals and will not be able to determine the minerals’ country of origin. Therefore, these

 557 See id. and exchange Act Section 13(p)(1)(D).
 559 We recognize that an issuer that is unable to determine the origin of its conflict minerals, or unable to determine whether its conflict minerals came from recycled or scrap sources, may not also be able to determine the processing facility of those conflict minerals and will not be able to determine the minerals’ country of origin. Therefore, these

 557 See id. and exchange Act Section 13(p)(1)(D).
 559 We recognize that an issuer that is unable to determine the origin of its conflict minerals, or unable to determine whether its conflict minerals came from recycled or scrap sources, may not also be able to determine the processing facility of those conflict minerals and will not be able to determine the minerals’ country of origin. Therefore, these
effectiveness of the final rule, which includes the specialized disclosure reports for 2013 through 2016. Beginning with the third reporting period, from January 1, 2015 to December 31, 2015, for all issuers and the fifth reporting period, from January 1, 2017 to December 31, 2017, for smaller reporting companies, every such issuer will have to describe products in its Conflict Minerals Report as having “not been found to be ‘DRC conflict free.’” Also, issuers will be required to make such a disclosure even if they proceed to step three and are unable to determine that their conflict minerals did not originate in the Covered Countries, that their conflict minerals that originated in the Covered Countries did not directly or indirectly finance or benefit armed groups, or that their conflict minerals came from recycled or scrap sources. These issuers will also be required to provide an independent private sector audit of their Conflict Minerals Report.561 While this disclosure is required after the temporary period, even when issuers are unable to determine the origin of their conflict minerals, we have changed the language of the disclosure from the proposal to address concerns raised about the accuracy of the disclosure required in these circumstances. In our view, it is accurate to describe such products as having “not been found to be ‘DRC conflict free.’” “DRC conflict free” is a defined term in the statute, meaning that the product “does not contain conflict minerals that directly or indirectly finance or benefit armed groups in the” Covered Countries. An issuer that does not know that its conflict minerals did not originate in the Covered Countries, that its conflict minerals that originated in the Covered Countries did not finance or benefit armed groups, or that the minerals came from recycled or scrap sources cannot accurately state that its conflict minerals have been found to meet this definition; therefore, its products have not been found to be “DRC conflict free” as defined in the statute. Additionally, under the final rule, as proposed, issuers can add disclosure or clarification. This allows issuers to include the statutory definition of “DRC conflict free” in the disclosure to make clear that “DRC conflict free” has a very specific meaning, or to otherwise address their particular situation.562 We also believe that the revised disclosure that the products “have not been found to be ‘DRC conflict free’” mitigates concerns expressed by some commentators that the Proposing Release’s specific required language, “are not ‘DRC conflict free,’” would impose an unfair stigma, particularly on issuers that did not know whether their minerals directly or indirectly financed or benefited armed groups in the Covered Countries. Although this comment does not appear that any individual commentator suggested the exact approach we are adopting, this approach incorporates suggestions from various commentators. One commentator recommended that we adopt a “phase-in or transitional approach in order to address the substantial practical difficulties issuers currently face in seeking to trace the origins of conflict minerals included in their products and to determine if these minerals are or are not ‘DRC conflict free.’” 563 The commentator’s recommendation was for the final rule to include a phase-in period through 2014 in which any issuer with conflict minerals for which the issuer was unable to determine their origin would describe the conflict minerals as from an “indeterminate source” and would be permitted, instead of providing a Conflict Minerals Report, to disclose its conflict minerals policy and provide a statement that, due to the lack of current infrastructure, it is not possible to determine the origin of its conflict minerals. The commentator recommended that the “indeterminate source” category would be available only through 2014. Another commentator recommended that the final rule allow a similar phase-in period through 2014 in which issuers would be permitted to use an “unknown determination” category in which such issuers would be required only to disclose their conflict minerals policy, reasonable country of origin inquiry, and the conflict minerals used in their supply chain.564 Other commentators recommended similar temporary approaches for conflict minerals when an issuer could not determine the origin of its conflict minerals.565 In this regard, one commentator noted that, “requiring issuers that are unable to determine that the conflict mineral in their products did not originate in the Covered Countries to submit a Conflict Minerals Report providing the required information that is available to them, is reasonable.” 566 Also, one commentator recognized that, during the initial period after the rule is finalized, it expected that some conflict minerals would be of unknown origin, and issuers with those conflict minerals should, among other information, disclose “any progress made in the reporting year toward determination of origin.” 567 Finally, some commentators suggested that smaller reporting companies should be allowed to phase-in or that the implementation of the final rule should be deferred for them.568 Based on the comments we have received, we believe that permitting all issuers to describe their products as “DRC conflict undeterminable” for a two-year period is appropriate to allow viable tracking systems to be put in place in the Covered Countries and throughout supply chains and avoid a de-facto embargo on conflict minerals from the Covered Countries. We also believe that allowing this category for a two-year period will avoid a situation in which virtually all issuers would describe their products as having not...
been found to be “DRC conflict free,” simply because they could not determine the origin of their conflict minerals, which would render that disclosure less meaningful.\(^\text{560}\) Similarly, we believe that allowing smaller reporting companies four years to describe their products as “DRC conflict undeterminable” is appropriate because these issuers may lack the leverage to obtain detailed information regarding the source of a particular conflict mineral.\(^\text{570}\)

We do not, however, believe that a permanent “DRC conflict undeterminable” category would be consistent with the language in the statute, and we believe it would undermine the overall goals of Section 1502. Such an approach might create incentives for issuers not to exercise care in identifying the origins of their necessary conflict minerals. Also, we do not believe that, after the temporary reporting period, the number of issuers that would describe their products as having not been found to be “DRC conflict free” would be so substantial as to render the disclosure meaningless because, based on our review of the comments, it appears that there should be systems in place at that time on which issuers could rely to determine whether their conflict minerals originated in the Covered Countries and, if so, whether they contributed to conflict. Overall, we believe that the change from “not ‘DRC conflict free’” to having “not been found to be ‘DRC conflict free,’” the ability to add additional explanation and disclosure, and the periods for the “DRC conflict undeterminable” category will provide issuers who are initially unable to determine that their conflict minerals did not originate in the Covered Countries or unable to determine that their conflict minerals that originated in the Covered Countries did not directly or indirectly finance or benefit armed groups in the Covered Countries means to make their disclosure while still accomplishing the goals that Congress intended when it required the disclosure of products that are not “DRC conflict free.”

We believe that this approach also responds to the First Amendment concerns raised by the commentators.\(^\text{557}\)

As to the concern that the rule impermissibly compels speech that is not of a commercial nature, we presume that Congress acted constitutionally when it passed the statute.\(^\text{571}\) And, as discussed above, we believe that the changes made in the final rule mitigate the concern that the rule compels speech that may be false or unfairly stigmatizing for some issuers. The requirement that issuers that know or have reason to believe that their conflict minerals may have originated in the Covered Countries but that cannot determine the origin or cannot determine whether they financed or benefited armed groups state that their products have not been found to be “DRC conflict free” compels an accurate disclosure in light of the statutory definition of “DRC conflict free.” Moreover, the use of this revised language, the ability of issuers to add additional explanation and disclosure, and the provision of a temporary “undeterminable” period all represent accommodations to ensure that the rule is appropriately tailored to lessen the impact on First Amendment interests while still accomplishing Congress’s objective.

We note that many commentators appeared to believe that the proposed rules would require that an issuer physically label its products as “DRC conflict free” or not “DRC conflict free.”\(^\text{572}\) Although we used the term “label” in the Proposing Release, we did so in the context of the disclosure required in the annual report. The final rule does not require a physical label on any product. Instead, the final rule requires that an issuer describe in its Conflict Minerals Report any products that have not been found to be “DRC conflict free,” as defined in the final rule. Also, consistent with the proposal, the final rule permits issuers the flexibility to describe their products based on each issuer’s individual facts and circumstances. We believe this flexibility is important because, as one commentator noted, an issuer is in the best position to know its products and to describe them in terms commonly understood within its industry.\(^\text{573}\) Also, to remedy any confusion in the Proposing Release, an issuer with products that are “DRC conflict free” does not have to describe those products in the Conflict Minerals Report in any manner. An issuer with such products may describe them in its specialized disclosure report as “DRC conflict free” if it chooses to do so, provided, the products do not contain any conflict minerals that directly or indirectly financed or benefited armed groups in the Covered Countries.

The Conflict Minerals Statutory Provision requires the State Department to “produce a map of mineral-rich zones, trade routes, and areas under the control of armed groups” in the Covered Countries.\(^\text{574}\) Also, the Conflict Minerals Statutory Provision requires the State Department to submit to Congress a strategy to address the linkages between human rights abuses, armed groups, mining of conflict minerals, and commercial products that contains a “plan to provide guidance to commercial entities seeking to exercise due diligence on and formalize the origin and chain of custody of conflict minerals used in their products and on their suppliers to ensure that conflict minerals used in the products of such suppliers do not directly or indirectly finance armed conflict or result in labor or human rights violations.”\(^\text{575}\) Some commentators have suggested that we delay the implementation of the final rule until the State Department’s map and/or strategy have been published,\(^\text{576}\) or that we should allow an issuer to rely on the State Department’s map for its conflict minerals information.\(^\text{577}\)

The State Department has published a conflict minerals map already.\(^\text{578}\) Also, we understand that the State Department has developed guidance for commercial entities seeking to exercise due diligence on and formalize the origin and chain of custody of conflict minerals used in their products and on their suppliers.\(^\text{579}\) Even so, it does not

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\(^{560}\) See, e.g., letters from AdvaMed I, ITIC I, and ITRI II.

\(^{570}\) See letters from ABA, Corporate Secretaries I, and JVEC et al. II. But see letter from Green II (arguing that, although smaller reporting companies may lack leverage, this disadvantage may be reduced through the influence exerted over their suppliers by larger issuers that use the same supplier base and that have more leverage to request such information.).

\(^{577}\) See Nebrosko v. EPA, 311 F.3d 995, 997 (DC Cir. 2003) (“Agencies do not ordinarily have jurisdiction to pass on the constitutionality of federal statutes.”) (citing Thunder Basin Coal Co. v. Reisch, 510 U.S. 200, 215 (1994)); Todd v. SEC, 982 F.2d 475, 478 (6th Cir. 1993) (same); William J. Huberman, 53 SEC. 1024, 1029 n.14 (1998) (“[w]e have no power to invalidate the very statutes that Congress has directed us to enforce.”) (citing Milton J. Wallace, 45 SEC. 694, 697 (1975); Wolskin & Co., 5 SEC. 112, 113 (1939)).


appear that either the State Department’s map or guidance is necessary for complying with the final rule. First, it does not appear that Congress intended that they be necessary to comply with our rule. The map and guidance requirements are located in a part of Section 1502 that is not incorporated into the Exchange Act and that part of Section 1502 is directed solely to agencies other than the Commission. Therefore, although they may be related to our final rule, it does not appear that the map and guidance were intended to have direct impact on the rule.

Also, we do not believe that an issuer must rely solely on the State Department’s map or guidance for determining whether its conflict minerals contributed to conflict in the Covered Countries because other resources are available. For example, as discussed above, the OECD has developed an internationally recognized system of due diligence that an issuer can use as guidance in exercising its due diligence. The OECD’s due diligence guidance does not rely on or incorporate the State Department map and guidance referenced in the Conflict Minerals Statutory Provision in determining the steps an issuer must take to exercise due diligence. However, as discussed above, due to the stage of development of the supply chain tracing mechanisms, we recognize that there are concerns about obtaining this information reliably in the near term. Therefore, we are providing this targeted and temporary period in the final rule.

The final rule requires, as proposed, an issuer with conflict minerals that originated in the Covered Countries to determine whether those minerals directly or indirectly financed or benefited armed groups in the Covered Countries. The Conflict Minerals Statutory Provision states that products are “DRC conflict free” when those products do not contain conflict minerals that “directly or indirectly finance or benefit armed groups” in the Covered Countries. Section 1502(e)(3) of the Act defines the term “armed group” as “an armed group that is identified as perpetrators of serious human rights abuses in the annual Country Reports on Human Rights Practices under sections 116(d) and 502B(b) of the Foreign Assistance Act of 1961,” as they relate to the Covered Countries. The final rule includes, as proposed, a cross reference to that definition to provide guidance to issuers. This cross reference, however, removes the phrases “most recently issued” and “for the year the annual report is due” to address the concerns of commentators. The final rule mirrors the Conflict Minerals Statutory Provision in its definition of “armed group” and does not include any extraneous phrases that were included in the proposal.

The Conflict Minerals Statutory Provision assigns to the State Department the authority to identify perpetrators of serious human rights abuses in that agency’s annual Country Reports, and we lack the authority and expertise to provide further guidance or qualify the State Department’s conclusions in this area. We note that some commentators indicated that we should consider products containing conflict minerals obtained from mines not controlled by armed groups when purchased to be considered “DRC conflict free” even if those minerals subsequently come under the control of armed groups. We agree and consider products “DRC conflict free” if, when the conflict minerals contained in those products are purchased and transported through the supply chain from the mine to the issuer, those conflict minerals do not directly or indirectly finance or benefit armed groups in the Covered Countries, even if some point in that supply chain subsequently becomes controlled by an armed group. For example, if an issuer’s conflict minerals are purchased from a mine that does not directly or indirectly finance or benefit armed groups in the Covered Countries when they are purchased, but the next day that mine is taken over by an armed group and the armed group takes the money previously provided to the miner from the issuer to purchase the conflict minerals that already left the mine, the products containing those conflict minerals may be considered “DRC conflict free,” even though the money used to purchase the conflict minerals does, in fact, benefit that armed group subsequently.

2. Due Diligence Standard in the Conflict Minerals Report

We have interpreted the Conflict Minerals Statutory Provision as requiring an issuer to exercise due diligence based on the provision’s requirement that an issuer describe the due diligence it exercised on the source and chain of custody of its conflict minerals. In addition, the provision requires that an issuer include an independent private sector audit of the Conflict Minerals Report as a “critical component of due diligence.” Under Exchange Act Section 13(p)(1)(C), the Commission may determine an issuer’s independent private sector audit or other due diligence processes to be unreliable and any Conflict Minerals Report that relies on such unreliable due diligence process would not satisfy the statute’s reporting requirement.

The proposed rules would have required an issuer to use due diligence regarding the supply chain determinations in its Conflict Minerals Report. Other than requiring that the due diligence be reliable, the proposed rules would not have dictated the standard for, or otherwise provided guidance concerning, the due diligence that an issuer would be required to use in making such determinations. Instead, the proposed rules would have required an issuer to disclose the due diligence it used in making its determinations, such as whether it used any nationally or internationally recognized standards or guidance for supply chain due diligence.

In the Proposing Release, we noted our belief that the statutory provision contemplates that an issuer must use due diligence in its supply chain determinations. Although we did not propose to establish any particular conduct requirements, we believed that due diligence would be required to be exercised and information about what conduct the issuer exercised in its due diligence regarding its supply chain determinations was relevant to determine the extent of the issuer’s due diligence. As proposed, the rules, therefore, would require issuers to describe the due diligence used in making these determinations. In particular, we noted that we would have expected that an issuer whose conduct conformed to a nationally or internationally recognized set of standards of, or guidance for, due diligence regarding its conflict minerals supply chain determinations would provide evidence that it used due diligence.

580 The map and guidance requirements are in Section 1502(c) of the Act, but only Section 1502(b) of the Act actually amends the Exchange Act and directs the Commission to promulgate rules.


582 22 U.S.C. 2515(d) and 2304(b).

583 Section 1502(p)(3) of the Act.

584 See, e.g., letters from ITI and TIC.

585 See, e.g., letters from AAEL, IPC 1, and NRF 1.
The statute gives us explicit authority to apply due diligence in making those determinations.

b. Comments on the Proposed Rules

Some commentators believed that the Conflict Minerals Statutory Provision expressly requires an issuer to exercise due diligence on the source and chain of custody of its conflict minerals. One commentator noted that nothing in the statute gives us explicit authority to develop due diligence guidance. Another commentator asserted that Congress intended the Conflict Minerals Statutory Provision to require due diligence only on the source and chain of custody of conflict minerals mined in the DRC and on the transportation routes through which such minerals pass in countries adjoining the DRC. This commentator claimed that Congress did not intend for the Conflict Minerals Statutory Provision to require due diligence on the source and chain of custody of minerals mined in the adjoining countries and recommended that the final rule not require due diligence.

Many commentators supported our proposal to not prescribe any specific due diligence requirements and allow an issuer to have flexibility in developing its due diligence measures based on the issuer's own facts and circumstances. A number of these commentators, however, suggested that the final rule provide guidance as to what would be considered acceptable due diligence. Many other commentators recommended that the final rule provide a definition of or prescribe specific guidance for any required due diligence. Some of these commentators reasoned that the final rule should prescribe a specific due diligence standard so that an issuer will be unable to "engage in a type of 'forum shopping'" for the least burdensome standard and so that each issuer's due diligence measures will be consistent, accurate, and reliable. Other commentators suggested that the final rule should prescribe a safe harbor for an issuer's conduct allowing an issuer to avoid any undue or impractical requirements set forth by independent private sector auditors. While we did not propose to require satisfaction of a particular set of standards, we requested comment on whether we should.

Many of the final rule comments noted that the due diligence framework developed by the OECD in discussing what they believed the final rule should consider as acceptable due diligence. One commentator recommended that the final rule not only refer to the OECD due diligence framework, but also should require issuers to disclose the steps that they took to complete the OECD due diligence.

Some commentators recommended that a due diligence standard should not require an absolute standard of care. Instead, these commentators suggested either a "reasonable care" or a "commercially practicable efforts" standard that would encompass contractual obligations, risk-based programs, and industry-wide processes, but not necessarily include the identification of all the parties in the supply chain or the determination of every mineral used for manufactured items. Some commentators recommended that an issuer's due diligence should be presumed reliable if the issuer performs some or all of the following steps: uses information from an industry-wide process, creates a conflict minerals policy that requires conflict-mineral free provisions in all contracts, conducts supply chain risk assessments, requires suppliers to push policies upstream and transmit information downstream, establishes policies and procedures to remediate instances of non-comformity of policy, obtains independent third party audits, and publishes its supply chain findings. Similarly, other commentators indicated that due diligence should be presumed reliable if these conditions are met only if the issuer requires upstream and downstream due diligence and describes that due diligence. Some commentators suggested that the due diligence standard in the final rule should be commensurate with the issuer's position in the supply chain such that the due diligence requirement for an issuer would be less rigorous the...
farther that issuer’s position in the supply chain is from the mine or other location of origin.\textsuperscript{606}

In the Proposing Release, we requested comment as to whether the final rule should prescribe different due diligence measures for gold because of any unique characteristics of the gold supply chain. In response, most commentators that discussed this point agreed that the due diligence required for gold should be the same as the due diligence required for the other three conflict minerals.\textsuperscript{607} Two commentators, however, stated that gold is unique among the four conflict minerals so the due diligence requirements for it should be different than for the other minerals.\textsuperscript{608} As discussed above, a few commentators further recommended that the final rule permit issuers to exclude certain information from public dissemination regarding the storage and transportation routes of gold for security reasons.\textsuperscript{609}

In the Proposing Release, we also requested comment as to whether the final rule should state that an issuer is permitted to rely on the reasonable representations of its smelters or any other actor in the supply chain, provided there is a reasonable basis to believe the representations of the smelters or other parties. A number of commentators suggested, in response, that the final rule should allow an issuer to rely on reasonable representations from suppliers and/or smelters in satisfying their due diligence requirement.\textsuperscript{610} Some of these commentators, however, explained that such written representations must be accompanied by additional processes, such as industry-wide smelter verification programs, before they could be relied upon.\textsuperscript{611} One commentator recommended that the final rule should allow due diligence to be satisfied if an issuer includes obligations in its supply contracts and receives reasonable representations from its suppliers regarding the conflict-free nature of the minerals.\textsuperscript{612}

c. Final Rule

After considering the comments, we are revising the final rule. The final rule requires that an issuer describe the due diligence it exercised in determining the source and chain of custody of its conflict minerals. The final rule requires that an issuer’s due diligence follow a nationally or internationally recognized due diligence framework. We are persuaded by commentators that requiring an issuer to use a nationally or internationally recognized due diligence framework that is relevant to the audit objectives and permits consistent assessment of the subject matter will provide an independent private sector auditor with a structure by which to assess an issuer’s due diligence, which we believe should make the rule more workable and less costly than if no framework was specified. We are also persuaded by commentators that requiring the use of nationally or internationally recognized due diligence framework will enhance the quality of an issuer’s due diligence and will promote comparability of the Conflict Minerals Reports of different issuers. As a related matter, one commentator stated that the final rule should clarify whether issuers have to describe generally its due diligence processes or whether issuers have to describe specifically purchase contracts associated with particular conflict minerals in their products.\textsuperscript{617} We believe an issuer’s description of its due diligence should be based on the individual issuer’s facts and circumstances. In this regard, if an issuer’s due diligence process is relatively consistent throughout its supply chain, the issuer could satisfy the requirements by generally describing its due diligence. We recognize, however, that an issuer may use different due diligence processes for different aspects of its supply chain. For example, an issuer using the OECD due diligence guidance may use different due diligence processes for tin, tantalum, and tungsten as compared with that for gold. If an issuer exercises significantly different due diligence processes for different aspects of its supply chain, such as with separate conflict minerals or products, that issuer should describe how they are different.

As we note above, a number of commentators recommended that the final rule allow an issuer to rely on

\textsuperscript{606} See letters from CERC, Chamber I, ITIC I, NRF I, and RILA.

\textsuperscript{607} See, e.g., letters from Earthworks, Global Witness I, ITIC I, ITRI I, SIF I, and State II.

\textsuperscript{608} See letters from AngloGold and WGC II.

\textsuperscript{609} See letters from NMA II, NAM III, and WGC II.


\textsuperscript{611} See letter from Roundtable.

\textsuperscript{612} See letter from Roundtable.

\textsuperscript{613} See letter from NAM I.


\textsuperscript{615} A comment letter submitted by the OECD in conjunction with the United Nations Group of Experts on the Democratic Republic of the Congo (“Group of Experts”) and the International Conference on the Great Lakes Region (“ICGLR”) indicated that the OECD due diligence guidance was “adopted as an OECD Recommendation by forty one OECD and non-OECD countries meeting at ministerial level on 25 May 2011 under the chairmanship of U.S. Secretary of State Hillary Rodham Clinton.”\textsuperscript{616} The final rule does not mandate that an issuer use any particular nationally or internationally recognized due diligence framework, such as the OECD’s due diligence guidance, in recognition of the fact that other evaluation standards may develop that satisfy the intent of the Conflict Minerals Statutory Provision. However, to satisfy the requirements of the final rule, the nationally or internationally recognized due diligence framework used by the issuer must have been established by a body or group that has followed due-process procedures including the broad distribution of the framework for public comment, and be consistent with the criteria standards in GAGAS established by the GAO.

\textsuperscript{616} See letter from Global Witness I.
reasonable representations from suppliers and/or smelters in satisfying their due diligence requirement.618 whereas other commentators argued that written representations should not be able to satisfy due diligence by themselves.619 The final rule requires that an issuer’s due diligence follow a nationally or internationally recognized due diligence framework. Therefore, whether an issuer may rely on reasonable representations from suppliers and/or smelters in satisfying its due diligence requirement will be dependent on the nationally or internationally recognized due diligence framework.

3. Independent Private Sector Audit Requirements
a. Proposed Rules

Consistent with the Conflict Minerals Statutory Provision, we proposed that the description of the measures taken by an issuer to exercise due diligence on the source and chain of custody of its conflict minerals include a certified independent private sector audit conducted in accordance with the standards established by the Comptroller General of the United States.620 Under the Conflict Minerals Statutory Provision, the GAO is to establish the appropriate standards for the independent private sector audit. Therefore, we did not include any auditing standards in the proposed rules or discuss such standards in the Proposing Release.

b. Comments on the Proposed Rules

A number of commentators indicated that the final rule must clarify the independent private sector audit’s criteria, objectives, and standards.621 One commentator was concerned that, if neither the Comptroller General nor the Commission required uniform

The final rule requires that an issuer’s due diligence follow a nationally or internationally recognized due diligence framework. Therefore, whether an issuer may rely on reasonable representations from suppliers and/or smelters in satisfying its due diligence requirement will be dependent on the nationally or internationally recognized due diligence framework.

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Additionally, some commentators indicated that the Comptroller General or the Commission must identify the acceptable auditing standards for firms used when auditing an issuer’s Conflict Minerals Report.634 In this regard, as some commentators noted,635 the Proposing Release stated that the staff of the GAO informed our staff of its preliminary view that no new audit standards need to be promulgated. Therefore, the audit of the Conflict Minerals Report would be performed under GAGAS, and auditors could use either the provisions for Attestation Engagements or Performance Audits in GAGAS.636 However, as commentators noted, in addition to certain substantive differences between the two standards in GAGAS, only a licensed certified public accountant or person working with a certified public accounting firm or governmental auditing organization may perform an Attestation Engagement.637 Similarly, commentators noted that Performance Audits are not required to be conducted by certified public accountants, but auditors using the Performance Audit standard would still need to satisfy certain qualification requirements under GAGAS, such as continuing professional education requirements, quality control measures, and the audit of the Conflict Minerals Report should include a “review of management systems and processes, and of conclusions reached”).

618 See, e.g., letters from AngloGold, Global Witness I, Howland, IPC I, ITIC I, Japanese Trade Associations, JVC I, NEI, NMA II, RILA–CERC, RMA, SEMI, State II, Taiwan Semi, and WGC II.

619 See letters from Global Witness I, Howland, ITIC I, and RMA.


621 See, e.g., letters from American Institute of Certified Public Accountants (Mar. 1, 2011) ("AICPA I"), American Institute of Certified Public Accountants (Nov. 17, 2011) ("AICPA II"), Barrick Gold, BEAC, Calvert, Deloitte, The Elm Consulting Group International LLC (Mar. 1, 2011) ("Elm"), Ernst & Young LLP (Mar. 2, 2011) ("E&Y"), Grant Thornton (recommending that the Commission establish a “working group to support the Comptroller General in the development of the appropriate form of engagement, including the criteria to be used to evaluate the subject matter and the opinion (or conclusion) to be expressed thereon”), Hileman Consulting, ICGLR, IPC II, KPMG LLP (Mar. 2, 2011) ("KPMG"), MSG III, NEI, NYChI I, WGC II.

622 See letter from WGC II.

623 See, e.g., letters from Deloitte and KPMG.

624 See letters from Deloitte and Grant Thornton.

625 See letters from AICPA I and Grant Thornton.

626 See letters from AICPA I, AICPA II, Barrick Gold, Grant Thornton, IPC II, KPMG, MSG III, and SIF II.

627 See letters from AICPA I, AICPA II, Grant Thornton, and KPMG.

628 See letters from AICPA I, AICPA II, IPC II, and KPMG. Commentators also observed that this second objective would require the final rule to provide a clear due diligence standard against which an auditor could compare the issuer’s due diligence process.

629 See letter from MSG III (noting, however, that the audit scope should not include verification of the ultimate conclusions of the Conflict Minerals Report, only that the process was applied as described). See also letter from SIF II (stating that
independent peer reviews. In this regard, to increase the pool of auditors and thereby reduce costs, some commentators recommended that the final rule allow auditors to use the Performance Audit standard under GAGAS. Some of these commentators recommended that auditors that are not certified public accountants could satisfy GAGAS’s Performance Audit qualification requirements by receiving a professional certification relating to environmental, health, and safety auditing from organizations that certify auditors by requiring that an auditor meet certain standards, such as having a code of conduct, committing to a code of ethics and rigorous practices, engaging in continuing professional development and education, being subjected to review, and other provisions to maintain a high caliber of expertise. One commentator suggested that the final rule should allow any auditor to perform the audit as long as it was knowledgeable and able to meet the requirements of the OECD’s criteria for the competence of auditors. Other commentators noted, however, that the OECD’s criteria for the competence of auditors are inadequate because they fail to provide any guidance as to how this would be assured. Another commentator recommended that the final rule should delineate specific requirements for the accreditation and selection of auditors but did not provide any suggested requirements.

Several commentators asserted that the final rule should clarify the independence standards for auditors. Some of these commentators recommended that the final rule state that performing the independent private sector audit of the Conflict Minerals Report is not inconsistent with the Commission’s auditor independence requirements in Rule 2–01 of Regulation S–X. One commentator noted, however, that the OECD’s independence requirements prohibit a Conflict Minerals Report auditor from having provided any other service for the issuer within a 24-month period. Similarly, two other commentators asserted that the statement in the proposed rules and the Conflict Minerals Statutory Provision that the independent private sector audit would be considered a “critical component of due diligence” could create confusion regarding the application of our auditor independence requirements in Rule 2–01 of Regulation S–X.

c. Final Rule

i. Auditing Standards

As noted above, the GAO staff has indicated to our staff that the GAO does not intend to develop new standards for the independent private sector audit of the Conflict Minerals Report. As we noted in the Proposing Release, GAO staff informed our staff that existing GAGAS standards, such as the standards for Attestation Engagements or the standards for Performance Audits, will be applicable. The GAO staff has also indicated to our staff that the GAGAS Performance Standards could be used by the auditor to express a conclusion as to whether the design of the issuer’s due diligence measures are in conformity with the criteria set forth in a nationally or internationally recognized due diligence framework used by the issuer, such as the OECD’s “Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas,” and whether the issuer’s description of the due diligence measures it performed, as set forth in the Conflict Minerals Report, with respect to the period covered by the report, is consistent with the due diligence process that the issuer undertook. Therefore, unless the GAO makes some formal pronouncement, it appears that any auditor of the Conflict Minerals Report will need to conduct the audit using the standards set forth in GAGAS. Because the Conflict Minerals Statutory Provision provides that the audit standards are to be established by the GAO, the GAO is responsible for matters pertaining to the audit standards, including questions or concerns about the application of such standards.

ii. Auditor Independence

Similarly, entities performing an independent private sector audit of the Conflict Minerals Report must comply with any independence standards established by the GAO, and any questions regarding applicability of GAGAS on this point should be directed to the GAO. We are not adopting any additional independence requirements. Also, the independence required for the independent private sector audit of the Conflict Minerals Report is not the same as the OECD’s independence requirement for auditors conducting audits of conflict mineral smelters. We acknowledge commentators’ requests to clarify how our own independence requirements would apply to an accountant that performed both the independent private sector audit of the Conflict Minerals Report and an engagement to perform an audit of the financial statements of an issuer, subject to the independence requirements in Rule 2–01 of Regulation S–X. The independent private sector audit of the Conflict Minerals Report is specifically described in the Act as constituting a “critical component” of the registrant’s due diligence process, which commentators were concerned may suggest the auditor would perform work that would impair independence. Despite this language, the Conflict Minerals Statutory Provision only requires an audit and no other functions that may imperil independence, such as “management functions” described in Rule 2–01(c)(4)(vi) of Regulation S–X. Therefore, we do not believe that it would be inconsistent with the independence requirements in Rule 2–01 of Regulation S–X if the independent public accountant also performs the independent private sector audit of the Conflict Minerals Report. The engagement to perform the independent private sector audit of the Conflict Minerals Report would nevertheless be considered a “non-audit service” subject to the pre-approval requirements.

See letters from Deloitte and BEAC.
See, e.g., letters from ArcelorMittal, ARI, BEAC, Hileman Consulting, IPCC II, and MSG III.
See letters from BEAC and Hileman Consulting.
See letter from NYCBRE.
See letter from ARI and BEAC.
See letter from ICGLR.
See, e.g., letters from AICPA I, Deloitte, EY, Grant Thornton, Hileman Consulting, and KPMG.
See letters from AICPA I, Deloitte, and EY.
See letters from AICPA I, Deloitte, and EY.
565 Rule 2–01 of Regulation S–X [17 CFR 210.2–01].
Exchange Act Section 13(p)(1)(A)(ii), as added by Section 1502 of the Act, states that the independent private sector audit of the conflict minerals report is included in the “measures taken by the [issuer] to exercise due diligence on the source and chain of custody of such minerals.” Exchange Act Section 13(p)(1)(B) further provides that the audit must be certified by the issuer and states that the certified audit “is a critical component of due diligence in establishing the source and chain of custody of such minerals.” These provisions make clear that the independent private sector audit is one step in management’s due diligence process.
of Rule 2–01(c)(7) of Regulation S–X. In addition, the fees related to the independent private sector audit of the Conflict Minerals Report would need to be included in the “All Other Fees” category of the principal accountant fee disclosures.653 If the accountant were to provide services that extended beyond the scope of the independent private sector audit of the Conflict Minerals Report, the accountant would need to consider whether those services were inconsistent with Rule 2–01 of Regulation S–X.

iii. Audit Objective

We agree with commentators that the final rule should clearly state the objective of the Conflict Minerals Statutory Provision’s independent private sector audit and the subject matter to be audited to provide a basis for the auditor to measure the information provided by the issuer. Therefore, the final rule specifies an audit objective. The final rule states that the audit’s objective is to express an opinion or conclusion as to whether the design of the issuer’s due diligence framework as set forth in the Conflict Minerals Report, with respect to the period covered by the report, is in conformity with, in all material respects, the criteria set forth in the nationally or internationally recognized due diligence framework used by the issuer, and whether the issuer’s description of the due diligence measures it performed as set forth in the Conflict Minerals Report, with respect to the period covered by the report, is consistent with the due diligence process that the issuer undertook.

The Conflict Minerals Statutory Provision requires an issuer to submit a Conflict Mineral Report that includes “a description of the measures taken by the [issuer] to exercise due diligence on the source and chain of custody of its conflict minerals, which measurers shall include an independent private sector audit of such report,”654 and “a description of the products manufactured or contracted to be manufactured that are not DRC conflict free.”655 We recognize that the final rule does not require an audit of the entire Conflict Minerals Report. We believe, however, that it is appropriate for the final rule to limit the audit only to the sections of the Conflict Minerals Report that discuss the design of the issuer’s due diligence framework and the due diligence measures the issuer performed because the provision’s requirement for an issuer to obtain an independent private sector audit is located in the provision’s subsection relating to due diligence.656

The audit requirement is not discussed in the subsequent subsection that requires a description in the Conflict Minerals Report of the issuer’s products manufactured or contracted to be manufactured that are “not DRC conflict free,”657 and the final rule does not require an audit of that information. We note that the objective we are adopting differs significantly from the objectives of other audits required by our rules.658 Nonetheless, in light of the statutory structure, as well as concerns about the costs that could arise from a requirement to audit the conclusion about the conflict minerals’ status or take other approaches,659 we have concluded that the audit objective should be limited in this manner. We recognize that an audit objective requiring an auditor to express an opinion or conclusion as to whether the design of the issuer’s due diligence measures as set forth in the Conflict Minerals Report, with respect to the period covered by the report, is in conformity with, in all material respects, the criteria set forth in the nationally or internationally recognized due diligence framework used by the issuer, and whether the issuer’s description of the due diligence measures it performed as set forth in the Conflict Minerals Report, with respect to the period covered by the report, is consistent with the due diligence process that the issuer undertook, is not as comprehensive as an audit objective requiring an auditor to express an opinion or conclusion as to whether the due diligence measures were effective, or to express an opinion or conclusion as to whether or not the issuer’s necessary conflict minerals are “DRC conflict free,” which are more similar to audit objectives in our other rules. However, we believe that the audit is still meaningful because investors and other users will have some assurance from an independent third party that the issuer’s due diligence framework, as set forth in the Conflict Minerals Report, is designed in conformity with the relevant nationally or internationally recognized due diligence framework. Further, we believe it is necessary and appropriate to require the audit to address whether the issuer actually performed the due diligence measures that it represents that it performed in the Conflict Minerals Report, so that the audit also addresses, in a cost efficient manner, the actual performance of the due diligence and not just the design, as well as provides independent third party confirmation that the work described was performed.

4. Recycled and Scrap Minerals

a. Proposed Rules

As proposed, the rules would allow for different treatment of conflict minerals from recycled and scrap sources than from original sources due to the difficulty of looking through the recycling or scrap process to determine the mine or other location of origin of the minerals. Given this difficulty, we expected that an issuer generally would not know the origins of its recycled or scrap conflict minerals, so we believed it would be appropriate for the proposed rules to require that an issuer using recycled or scrap conflict minerals furnish a Conflict Minerals Report subject to special rules. Under the proposed rules, if an issuer obtained conflict minerals from a recycled or scrap source, it would have been required to consider the products containing or produced with those conflict minerals to be “DRC conflict free.”660

As proposed, an issuer with conflict minerals that originated from recycled or scrap sources would have been required to disclose in its annual report, under the “Conflict Minerals Disclosure” heading, that its conflict minerals were obtained from recycled or

653 See Item 9(e)(4) of Schedule 14A [17 CFR 240.14a-101]. Registrants also are required to describe the nature of the services comprising the fees disclosed under the “All Other Fees” category. As such, the independent private sector audit of the Conflict Mineral Report should be included in that description.
658 The objective of the ordinary audit of financial statements by the independent auditor is the expression of an opinion on the fairness with which they present, in all material respects, financial position, results of operations, and its cash flows in conformity with generally accepted accounting principles. See paragraph .01 of AU sec. 110, Responsibilities and Functions of the Independent Auditor. The auditor’s objective in an audit of internal control over financial reporting is to express an opinion on the effectiveness of the company’s internal control over financial reporting, as a part of which the auditor should test the design effectiveness of controls, as well as the operating effectiveness of controls. See paragraphs 3, 42, and 44 of Auditing Standard No. 5, an Audit of Internal Control over Financial Reporting That Is Integrated With An Audit of Financial Statements.
659 See, e.g., letters from AICPA I, Deloitte, and KPMG.
660 Because the proposed rules would have automatically classified recycled or scrap conflict minerals as “DRC conflict free,” issuers with products containing such minerals would not have needed to provide in the Conflict Minerals Report a description of the recycled or scrap conflict minerals’ processing facilities or country of origin, nor would they have been required to describe their efforts to determine the mine or location of origin with the greatest possible specificity.
scrap sources and that it furnished a Conflict Minerals Report regarding those recycled or scrap minerals. Also, under the proposed rules, an issuer would have been required to state that its products containing or produced with recycled or scrap minerals in the Conflict Minerals Report were considered “DRC conflict free.” In addition, such an issuer would have described the measures taken to exercise due diligence in determining that the conflict minerals were recycled or scrap and obtain an independent private sector audit of that report.

We did not propose to define when a conflict mineral is from recycled or scrap sources. Instead, any issuer seeking to use this alternative approach would describe the measures it took to exercise due diligence in determining that the conflict minerals came from recycled or scrap sources. The Proposing Release stated, however, that we would consider conflict minerals to be “recycled” if they are reclaimed end-user or post-consumer products, but we would not consider minerals “recycled” if they are partially processed, unprocessed, or a byproduct from another source.

b. Comments on the Proposed Rules

Commentators offered a wide variety of views on the appropriate approach to conflict minerals from recycled or scrap sources. A number of commentators stated that they either agreed with the recycled and scrap alternative reporting requirements, as proposed, or agreed with some type of recycled and scrap alternative reporting requirements or exemption, although some of these commentators did not necessarily discuss the mechanics of such reporting alternatives. Some commentators indicated that they supported, as proposed, alternative recycled or scrap reporting that requires an issuer to perform due diligence in determining that the conflict minerals were, in fact, from recycled and scrap sources and to submit a Conflict Minerals Report describing the due diligence exercised that includes an audit of the report. A number of commentators believed that the final rule should require that an issuer only conduct the equivalent of a reasonable country of origin inquiry, instead of due diligence, to determine whether its conflict minerals were from recycled or scrap sources. Also, some of these other commentators stated explicitly that an issuer should not be required to submit a Conflict Minerals Report and/or an audit of its recycled or scrap conflict minerals. Other commentators, including a number of members of Congress, recommended that the final rule exempt conflict minerals from recycled or scrap sources.

Other commentators stated that the final rule should require due diligence but not a Conflict Minerals Report, not require a Conflict Minerals Report but require an audit of the inquiry into whether the conflict minerals are from recycled or scrap sources, require a “reasonable process” to determine whether the conflict minerals are from recycled or scrap sources, or not require that an issuer provide any information other than a statement that the conflict minerals are from recycled or scrap sources. Some commentators agreed that products with conflict minerals from recycled and scrap sources should be considered “DRC conflict free,” as proposed. Other commentators indicated that the final rule should require an issuer with products containing conflict minerals from recycled or scrap sources to label those products with a name other than “DRC conflict free,” such as “recycled” or “scrap” products.

Some commentators stated that the more alternative reporting approach for conflict minerals from recycled or scrap sources resembles our approach for newly mined conflict minerals the greater the risk of creating a disincentive for a manufacturers to use conflict minerals from recycled or scrap sources. As one of these commentators asserted, without certain alternative reporting requirements for issuers with conflict minerals from recycled or scrap sources, such minerals “would be doomed for burial in a landfill until mined anew under a different authority having jurisdiction,” which would be a “clear waste” of conflict minerals that “cannot contribute to new suffering in the DRC even though its disposition regarding past suffering may not be clear.” According to this commentator, “it is possible that dishonest people may find a way to pass new material off as recycled, but this possibility “does not outweigh the obvious benefit of using recycled products and materials.”

In this regard, other commentators argued that requiring issuers to provide the reason they determined that their conflict minerals came from recycled or scrap sources, including the due diligence processes they used in making their determination, would offset the reduced burden provided by the exemption.

One commentator suggested that an issuer should be able to describe a product as using recycled or scrap minerals if a majority of the minerals used in the product are from recycled or
scrap sources or a combination of recycled, scrap, and newly mined conflict minerals because it would be impossible to determine whether all the minerals in a product were from recycled or scrap sources.\textsuperscript{674} Another commentator recommended that the final rule should allow an issuer to describe its products as “DRC conflict free” if a majority of the conflict minerals in those products are from recycled or scrap sources.\textsuperscript{675} One commentator asserted that toll material (scrap, second life-cycle materials, or ores processed into raw materials suitable for use in the manufacture of products) received from processing facilities or suppliers should be treated as conflict free if the original material supplied was conflict free.\textsuperscript{676} A number of other commentators suggested that the final rule allow an issuer to designate the origin of any recycled or scrap conflict minerals as the country in which those minerals were generated and collected or otherwise initially submitted into the recycling or scrap supply chain, which is consistent with the United States customs law.\textsuperscript{677} Also, commentators agreed that the alternative reporting requirements for recycled and scrap minerals should apply to all conflict minerals and issuers equally.\textsuperscript{678} Many commentators discussed the Proposing Release’s statement that we would consider conflict minerals to be from a recycled or scrap sources if those minerals are reclaimed end-user or post-consumer products but would not consider those minerals “recycled” if they are partially processed, unprocessed, or a byproduct from another ore. Some of these commentators recommended that the final rule expand this statement to match the OECD’s definition of recycled and scrap minerals or explicitly adopt the OECD’s definition in the final rule.\textsuperscript{679} Likewise, certain commentators recommended that the final rule clarify that we would consider conflict minerals from recycled or scrap sources to include scrap processed metals created during product manufacturing, which is part of the OECD definition.\textsuperscript{680} These commentators, however, were concerned that the Proposing Release did not consider partially processed materials as being recycled, but also * * * * scrap that is the result of an industrial process.”\textsuperscript{688} Additionally, some commentators provided recommendations specifically for treating conflict minerals in jewelry, coins, and bars as recycled or scrap. One such commentator stated that conflict minerals from discarded consumer jewelry should be considered recycled or scrap.\textsuperscript{689} Another commentator argued that any definition of recycled and scrap gold should grandfather gold bars and gold coins produced before the effective date of the final rule and exclude sludges, slimes, flue dust, carbon fines, slag, and other by-products from consideration as conflict minerals.\textsuperscript{690} Conversely, other commentators stated that the definition of conflict minerals from recycled or scrap sources should include only those conflict minerals from post-consumer products and not include any jewelry unsold or not previously owned as end-use products by consumers.\textsuperscript{691} Also, some of these commentators indicated that gold coins and bars should not be classified as recycled or scrap\textsuperscript{692} because, as some of these commentators stated, they do not represent a clear consumer end-of-life product and are less identifiable as not newly-mined gold.\textsuperscript{693}

c. Final Rule

We are revising the proposal’s treatment of conflict minerals from recycled and scrap sources in the final rule. We agree with commentators that it is appropriate to provide alternative treatment for such conflict minerals so that the final rule does not provide a disincentive for using conflict minerals from recycled and scrap sources. However, we also want to include safeguards to prevent issuers from claiming to use conflict minerals from recycled and scrap sources when that is not the case. We believe, as certain commentators noted,\textsuperscript{694} requiring an issuer with necessary conflict minerals to conduct an inquiry similar to the reasonable country of origin inquiry to determine whether its minerals are from...
recycled or scrap sources is an appropriate way to balance these concerns.\textsuperscript{695} Under the final rule, if an issuer has reason to believe, as a result of its reasonable country of origin inquiry, that its conflict minerals may not have been from recycled or scrap sources, it must exercise due diligence. The issuer would then be required to provide a Conflict Minerals Report if it is unable to determine that the conflict minerals came from recycled or scrap sources.

We believe this approach for any issuer with conflict minerals from recycled or scrap sources is consistent with the Conflict Minerals Statutory Provision. The provision was intended to affect the “exploitation and trade of conflict minerals originating in the Democratic Republic of the Congo [that] is helping to finance conflict characterized by extreme levels of violence in the eastern Democratic Republic of the Congo.”\textsuperscript{696} As noted by some commentators, however, armed groups in the Covered Countries are financed at least in part from the extraction and illegal taxation of newly mined conflict minerals and their transport, not the use of recycled or scrap conflict minerals.\textsuperscript{697} No further revenue or other benefit will be provided to the armed groups from any transaction involving the conflict minerals from recycled or scrap sources because the armed groups “have already extracted their revenue and do not stand to gain with [their] use or sale.”\textsuperscript{698}

In this regard, we believe it is appropriate, as proposed, to allow an issuer, if it wishes, to describe its products containing conflict minerals from recycled or scrap sources as “DRC conflict free.” As one commentator explained, the “intent of the statute is to provide investors with information about whether minerals used in manufacturing processes may contribute to the ongoing conflict in the DRC,”\textsuperscript{699} and it is “comfortable that legitimate recycled post-consumer or scrap minerals do not contribute to the crisis and can be therefore identified as ‘DRC conflict free.’”\textsuperscript{700} We are aware that the underlying conflict minerals that were recycled or from scrap sources may have once directly or indirectly financed or benefited armed groups in the Covered Countries. However, because the purpose of the provision is to provide information about whether minerals used in manufacturing directly or indirectly financed or benefited armed groups in the Covered Countries, and conflict minerals from recycled or scrap sources no longer do so, we believe it is appropriate to deem all products with conflict minerals from recycled or scrap source as “DRC conflict free.”\textsuperscript{701} This prevents the final rule from providing a disincentive to use conflict minerals from recycled or scrap sources.

\textbf{i. Definition of “Recycled and Scrap Sources”}

We are revising the proposed rules to adopt a definition of conflict minerals from recycled or scrap sources, which mirrors the OECD definition of recycled metals.\textsuperscript{702} We are persuaded by commentators that argued that it is important for us to prescribe clear definitions regarding conflict minerals from recycled or scrap sources so that an issuer does not use this alternative reporting scheme as a means to avoid the requirement to exercise due diligence on the source and chain of custody of its conflict minerals in order to describe its products as “DRC conflict free.”\textsuperscript{703} Also, we agree with one of these commentators that the definition should be included in the body of the final rule and not just included as guidance in the release.\textsuperscript{704}

Further, we are persuaded by commentators that we should use the OECD definition to provide certainty and prevent an issuer from using an alternative definition that would allow the issuer to classify it minerals as recycled or scrap when they were not.\textsuperscript{705} Therefore, the final rule states that conflict minerals are considered to be from recycled or scrap sources if they are from recycled metals, which are reclaimed end-user or post-consumer products, or scrap processed metals created during product manufacturing. Also, based on the OECD definition, the final rule states that recycled metal includes excess, obsolete, defective, and scrap metal materials that contain refined or processed metals that are appropriate to recycle in the production of tin, tantalum, tungsten and/or gold. The final rule states further, however, that minerals partially processed, unprocessed, or a byproduct from another ore will not be included in the definition of recycled metal.

The definition included in the final rule should alleviate certain commentators’ concern that the Proposing Release would limit the definition of conflict minerals from recycled or scrap sources to only end-user or post-consumer scrap and not include scrap processed metals created during product manufacturing.\textsuperscript{706} The final rule’s definition, which is consistent with the OECD definition, includes scrap processed metals created during product manufacturing.

\textbf{ii. Due Diligence for Conflict Minerals That May Not Be From “Recycled and Scrap Sources”}

In a change from the proposal, the final rule only requires an issuer with conflict minerals from recycled or scrap sources to exercise due diligence if it has reason to believe, following its reasonable country of origin inquiry, that its conflict minerals that it thought were from recycled or scrap sources may not be from such sources. If so, as is true for issuers with conflict minerals from newly mined sources, the issuer must exercise due diligence that conforms to a nationally or internationally recognized due diligence framework, if such a framework is available. The proposed rules would have required issuers with conflict minerals from recycled or scrap sources to exercise due diligence in determining

\textsuperscript{695} We envision these inquiries to be similar, we use the term “reasonable country of origin inquiry” to refer to an issuer’s inquiry into both the conflict minerals’ country of origin and whether the minerals are from recycled or scrap sources.

\textsuperscript{696} See Section 1502(a) of the Act.

\textsuperscript{697} See letters from AAEI and Global Tungsten I.

\textsuperscript{698} See letter from AAEI. See also OECD, OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, 7 n.2 (2011), available at http://www.oecd.org/daf/internationalinvestment/guidelinesformultinationalenterprises/46740847.pdf (stating that metals “reasonably assumed to be recycled are excluded from the scope of this” guidance) and OECD, Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas--Supplement on Gold, 28 n.34 (2012), available at http://www.oecd.org/corporate/guidelinesformultinationalenterprises/FINAL%20Supplement%20on%20Gold.pdf (stating that “[r]ecycled material is not itself a concern for [their] use or sale.”).

\textsuperscript{699} OECD, Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, 12 n.2 (2011), available at http://www.oecd.org/dataoecd/62/30/46740847.pdf. (“Recycled metals are reclaimed end-user or post-consumer products, or scrap processed metals created during product manufacturing. Recycled metal includes excess, obsolete, defective, and scrap metal materials which contain refined or processed metals that are appropriate to recycle in the production of tin, tantalum, tungsten and/or gold. Minerals partially processed, unprocessed or a by-product from another ore are not recycled metals.”).

\textsuperscript{700} See id.

\textsuperscript{701} We also note that, going forward, newly mined minerals, even if they are eventually recycled, will be covered under the final rule when they are first used.

\textsuperscript{702} See OECD, Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, 12 n.2 (2011), available at http://www.oecd.org/dataoecd/62/30/46740847.pdf. (“Recycled metals are reclaimed end-user or post-consumer products, or scrap processed metals created during product manufacturing. Recycled metal includes excess, obsolete, defective, and scrap metal materials which contain refined or processed metals that are appropriate to recycle in the production of tin, tantalum, tungsten and/or gold. Minerals partially processed, unprocessed or a by-product from another ore are not recycled metals.”).

\textsuperscript{703} See, e.g., letters from Global Witness I, MSG I, and SIF I.

\textsuperscript{704} See letter from Global Witness I.

\textsuperscript{705} See, e.g., letters from Global Witness I, MSG I, and SIF I.

\textsuperscript{706} See letters from Copper & Brass and SSINA.
that their conflict minerals were from recycled or scrap sources without requiring adherence to any due diligence framework. Presently, it appears that the OECD’s supplement for gold is the only nationally or internationally recognized due diligence framework for any conflict mineral from recycled or scrap sources. Therefore, we anticipate that issuers would use the gold supplement to conduct their due diligence for gold that issuer has reason to believe may not come from recycled or scrap sources.

However, neither the OECD nor any other body has a similar due diligence framework for cassiterite, columbite-tantalite, or wolframite. Therefore, until such a framework is developed, the required due diligence for issuers who may have those recycled or scrap conflict minerals is the same as proposed. Those issuers are required to exercise due diligence in determining that their conflict minerals were from recycled or scrap sources without the benefit of a due diligence framework. If, however, a nationally or internationally recognized due diligence framework becomes available for any of the remaining conflict minerals, issuers will be required to utilize that framework for that mineral. Specifically, if due diligence guidance for a particular conflict mineral under a nationally or internationally recognized due diligence framework becomes available prior to June 30 of a calendar year, the first reporting period in which issuers must use the framework for that conflict mineral will be the subsequent calendar year. However, if the due diligence guidance is not approved until after June 30 of a calendar year, issuers are not required to use that framework for that conflict mineral until the second calendar year after approval to provide a full year before implementation.

For example, if the OECD or another body adopts a nationally or internationally recognized due diligence framework for cassiterite, columbite-tantalite, or wolframite from recycled or scrap sources prior to June 30, 2013, the initial reporting period in which issuers with those conflict minerals from recycled or scrap sources must use the due diligence framework will begin on January 1, 2014 and their specialized disclosure reports that discuss their exercise of such due diligence will be due on May 31, 2015. If, however, the OECD or another body adopts such a due diligence framework on or after July 1, 2013, but before June 30, 2014, the initial reporting period for issuers with those conflict minerals to use the framework will begin on January 1, 2015 and their specialized disclosure reports with respect to those minerals will be due on May 31, 2016. Issuers with gold from recycled or scrap sources, however, are required to submit a specialized disclosure report for that mineral using the OECD’s due diligence for recycled or scrap gold for the reporting period beginning January 1, 2013, which will be due on May 31, 2014.

Further, consistent with the proposal, because our final rule considers products with conflict minerals from recycled or scrap sources to be “DRC conflict free,” the final rule does not require a discussion of processing facilities, countries of origin, or efforts to determine the mine or location of origin with the greatest possible specificity. Therefore, we believe that our approach is consistent with comments that indicated that the final rule should not require an issuer with conflict minerals from recycled or scrap sources to provide a Conflict Minerals Report, but should require such issuers to “disclose how they have determined that sources are genuine scrap recycled.”708 Without this disclosure, such issuers “might otherwise be encouraged to ‘launder’ new DRC conflict minerals through their operations—misleading consumers and other stakeholders, and undermining the value of the disclosure exercise.”709

F. Other Matters

If any provision of this rule, or the application thereof to any person or circumstance, is held to be invalid, such invalidity shall not affect other provisions of such provisions to other persons or circumstances that can be given effect without the invalid provision or application. Moreover, if any portion of Form SD not related to conflict minerals disclosure is held to be invalid, such invalidity shall not affect the use of the form for purposes of disclosure pursuant to Exchange Act Section 13(p).

III. Economic Analysis

A. Introduction

As discussed in greater detail above, Section 1502 amended the Exchange Act by adding new Section 13(p), which requires us to promulgate disclosure and reporting regulations regarding the use of conflict minerals from the Covered Countries. Section 13(p) mandates that the Commission promulgate regulations requiring that a person described disclose annually whether any conflict minerals that are necessary to the functionality or production of a product manufactured by such person originated in the Covered Countries, and make that disclosure publicly available on the issuer’s Internet Web site. If a person concludes that the person’s conflict minerals originated in the Covered Countries, that person must submit a Conflict Minerals Report, which must be posted on the person’s Internet Web site, that includes a description of the measures taken by the person to exercise due diligence on the minerals’ source and chain of custody, which must include an independent private sector audit of the Conflict Minerals Report that is conducted according to standards established by the GAO. The person submitting the Conflict Minerals Report must also identify the independent private sector auditor and certify the independent private sector audit. Further, the report must include a description of the products manufactured or contracted to be manufactured that are not DRC conflict free, the facilities used to process the conflict minerals, the country of origin of the conflict minerals, and the efforts to determine the mine or location of origin with the greatest possible specificity.

We are adopting amendments to our rules to implement the Conflict Minerals Statutory Provision. The final rule requires any reporting issuer for which conflict minerals are necessary to the functionality or production of a product manufactured or contracted to be manufactured by that issuer to disclose annually in a separate specialized disclosure report on a new form the results of its reasonable inquiry into whether its conflict minerals originated in the Covered Countries or came from recycled or scrap sources. Under the final rule, following its reasonable country of origin inquiry, if (a) the issuer knows that its conflict minerals did not originate in the Covered Countries or knows that they came from recycled or scrap sources, or (b) the issuer has no reason to believe its conflict minerals may have originated in the Covered Countries or came from recycled or scrap sources, then in all such cases the issuer must, in the body of Form SD, disclose its determination and describe briefly the reasonable country of origin
inquiry it undertook and the results of the inquiry. On the other hand, following its reasonable country of origin inquiry, if (a) the issuer knows that its conflict minerals originated in the Covered Countries and knows that they did not come from recycled or scrap sources, or the issuer has reason to believe that its conflict minerals may have originated in the Covered Countries, and (b) the issuer knows that its conflict minerals did not come from recycled or scrap sources or has reason to believe that its conflict minerals may not have come from recycled or scrap sources, then the issuer must exercise due diligence on the source and chain of custody of its conflict minerals that conforms to a nationally or internationally recognized due diligence framework, if one is available. Following that due diligence, unless the issuer determines, based on that due diligence, that its conflict minerals did not originate in the Covered Countries or that its conflict minerals did come from recycled or scrap sources, the issuer must file a Conflict Minerals Report.

In most circumstances, the issuer must obtain an independent private sector audit of its Conflict Minerals Report. The issuer must also describe in its Conflict Minerals Report, among other information, its products manufactured or contracted to be manufactured that have not been found to be “DRC conflict free.” For a temporary two-year period for all issuers, and for a temporary four-year period for smaller reporting issuers, an issuer that must perform due diligence and is unable to determine that the conflict minerals in its products originated in the Covered Countries or came from recycled or scrap sources, or unable to determine that the conflict minerals in those products originated in the Covered Countries financed or benefited armed groups, may consider those products “DRC conflict undeterminable.” In that case, the issuer must describe, among other information, its products manufactured or contracted to be manufactured that are “DRC conflict undeterminable” and the steps it has taken or will take, if any, since the end of the period covered in its most recent prior Conflict Minerals Report to mitigate the risk that its necessary conflict minerals benefit armed groups, including any steps to improve its due diligence. An issuer with products that are “DRC conflict undeterminable” is not required to obtain an independent private sector audit of the Conflict Minerals Report regarding the conflict minerals in those products.

Finally, after its reasonable country of origin inquiry, an issuer that determines that its conflict minerals it thought were from recycled or scrap sources might instead be from newly mined sources must exercise due diligence that conforms to a nationally or internationally recognized due diligence framework developed specifically for conflict minerals from recycled sources to determine that its conflict minerals are from recycled or scrap sources. The issuer must also describe its due diligence in its Conflict Minerals Report. Currently, gold is the only conflict mineral with a nationally or internationally recognized due diligence framework for recycled or scrap conflict minerals. If no nationally or internationally recognized due diligence framework for a particular recycled or scrap conflict mineral is available, which is the case for the other three minerals, until such a framework is developed, the issuer must exercise due diligence in determining that its conflict minerals are from recycled or scrap sources and describe the due diligence measures it exercised in its Conflict Minerals Report.

As we considered how to implement the requirements of Section 1502, we considered the costs and benefits imposed by the new rule and form we are adopting, as well as their effects on efficiency, competition, and capital formation. Many of the economic effects of the rule stem from the statutory mandate, and the discussion below addresses the costs and benefits resulting from both the statute and from our exercise of discretion, and the comments we received about these matters.

The Proposing Release cited some pre-proposal letters we received from commentators indicating the potential impact of the proposed rules on competition and capital formation. In addition to requesting comment throughout the release on the proposal and on potential alternatives to the proposal, we also solicited comment in the Proposing Release on whether the proposal, if adopted, would promote efficiency, competition, or capital formation, or have an impact or burden on competition. We also requested comment on the potential effect on efficiency, competition, or capital formation should we not adopt certain exceptions or accommodations. As discussed throughout this release, we received many comments addressing the potential economic and competitive impact of the proposed rules.

We note, however, that one commentator recommended that the proposed rules be withdrawn because the commentator did not believe we fully analyzed the potential costs, supply chain complexities, and other practical obstacles to implementing the final rule.710 We disagree. As discussed above, members of the public interested in making their views known were invited to submit comment letters in advance of the official comment period for the proposed rules. In addition, in response to the suggestion by some commentators that we extend the comment period to allow the public additional time to thoroughly consider the matters addressed in the Proposing Release and to submit comprehensive responses, we extended the comment period for an additional 30 days and have continued to receive comment letters through August 2012, which we have considered. In addition, we convened an October 2011 roundtable at the request of commentators. Some commentators have provided responses to other commentators, particularly on the Economic Analysis. This robust, public, and interactive debate has allowed us to more fully consider how to develop our final rules. Additionally, as discussed further in the Economic Analysis section, below, we have considered and analyzed the numerous comments received regarding the costs and complexities of the statute and proposed rule, and have taken them into account in the final rule. Overall, we believe interested parties have had sufficient opportunity to review the proposed rules, as well as the comment letters, and to provide views on the proposals and on the other comment letters and data to inform our consideration of the final rules. Accordingly, we do not believe that withdrawal of the proposed rule and re-proposal is necessary.

After analyzing the comments and taking into account additional data and information, we believe it is likely that the initial cost of compliance is approximately $3 billion to $4 billion, while the annual cost of ongoing compliance will be between $207 million and $609 million. As discussed in detail below, we reach this estimate by taking into account the many comments we received on potential costs, relying particularly on those comment letters that provided quantification and were transparent about their methodologies. As will be discussed in more detail below, after thoroughly considering each comment letter, we determined that it was...
appropriate to modify and/or expand upon some of the submitted estimates and methodologies to reflect data and information submitted by other commentators, as well as our own judgment and experience. Our considered estimate of the total costs thus reflects these synthesized data and analyses. We consider the full range of these costs in the following sections, although where it is possible to discuss separately the costs and benefits related to our discretionary choices in the rule, we attempt to do so.711

Exchange Act Section 23(a)(2)712 also requires us, when adopting rules under the Exchange Act, to consider the impact that any new rule would have on competition, and Exchange Act Section 23(a)(2) prohibits us from adopting any rule that would impose a burden on competition not necessary or appropriate in furtherance of the purposes of the Exchange Act. In addition, Exchange Act Section 3(f)713 requires us, when engaging in rulemaking where we are required to consider or determine whether an action is necessary or appropriate in the public interest, to also consider whether the action will promote efficiency, competition, and capital formation. Accordingly, as we considered how to implement the requirements of Section 1502, we considered the impact on the economy, burden on competition, and promotion of efficiency, competition, and capital formation.

Given the specific language of the statute and our understanding of Congress’s objectives, we believe it is appropriate for the final rule generally to track the statutory provision. Our discretionary authority to implement Section 13(p) is limited, and we are committed to executing the Congressional mandate. Throughout this release, and in the following Economic Analysis, we discuss the benefits and costs arising from the new mandatory reporting requirement, those choices in which we have exercised our discretion, and the comments we received about these matters. Sections III.B and III.C below provide a narrative discussion of the costs and benefits resulting from the mandatory reporting requirement and our exercise of discretion, respectively. In Section III.D below, based on commentators’ estimates and our estimates, we provide a quantitative discussion of the costs associated with the final rule as adopted.714

B. Benefits and Costs Resulting From the Mandatory Reporting Requirement

1. Benefits

Congress intended for the rule issued pursuant to Section 1502 to decrease the conflict and violence in the DRC, particularly sexual- and gender-based violence.715 We note also that the Congressional object is to promote peace and security in the Covered Countries.716 As a means to address the humanitarian situation in the DRC, new Section 13(p) requires issuers to understand and report on their use and source of certain minerals from the Covered Countries. By mandating the additional disclosure requirements of Exchange Act Section 13(p), we understand that Congress likely sought to reduce the amount of money provided to armed groups engaged in conflict in the DRC.717 thereby achieving the stated objective of the statute.718 Some commentators have

714 As noted below, Congress’s goals of reducing violence and promoting peace and security in the Covered Countries, as well as enhanced transparency through Section 13(p) and this rulemaking is intended to result in benefits that cannot be readily quantified with any precision, and therefore, our quantitative analysis focuses on the costs.

715 Section 1502(a)(4) of the Act (“It is the sense of the Congress that the exploitation and trade of conflict minerals originating in the Democratic Republic of the Congo is helping to finance conflict characterized by extreme levels of violence in the eastern Democratic Republic of the Congo, particularly sexual- and gender-based violence, and contributing to an emerging humanitarian situation therein, warranting the provisions of section 13(p) of the Exchange Act of 1934, as added by subsection (b).”).

716 See Exchange Act Section 1502(c)(1)(B)(i) (stating that the Secretary of State, in consultation with the Administrator of the United States Agency for International Development, shall submit to Congress a plan to “promote peace and security” in the Covered Countries). See also Section 1502(d)(2)(A) of the Act (directing the GAO to assess the effectiveness of Exchange Act Section 13(p) in promoting peace and security in the Covered Countries).

717 Cf. Exchange Act Section 1502(c)(1) requiring the Secretary of State in consultation with the Administrator of the United States Agency for International Development to submit a report to Congress discussing a strategy to address the linkages between human rights abuses, armed groups, mining of conflict minerals, and commercial products that includes a plan to promote peace, a plan to provide guidance to commercial entities seeking to exercise due diligence, and a description of possible punitive measures.

718 As discussed above, some commentators, including co-sponsors of the legislation and other members of Congress, indicated that the Conflict Minerals Statutory Provision also materially informs an investor’s understanding of the risks in an issuer’s reputation and supply chain. See, e.g., letters from CRS I, FRS, Global Witness I, Methodist Pension, Sen. Durbin/Rep. Mcdermott, Sen. Leahy et al., SIP I, and SIP II.

719 See, e.g., letters from International Corporate Accountability Roundtable [Jul. 29, 2011] (“ICAR I”), Sen. Boxer et al. I, Sen. Leahy et al., and United Nations Group of Experts on the Democratic Republic of Congo [Oct. 21, 2011] (“UN Group of Experts”). Other commentators, however, have argued that the Conflict Minerals Statutory Provision has hurt the general economy and population of the DRC. See, e.g., letters from BEST II (“Though [the Conflict Minerals Statutory Provision] seeks to provide a mechanism for combating the corruption and violence crippling the DRC, its impact on the upstream mining industry has been devastating to the mining communities and the broader economy of Eastern DRC.”), CEI II (“There are already indications that Dodd-Frank has had damaging consequences for the artisanal miners. In a recently published New York Times op-ed, freelance reporter David Aronson observed that the law is harming the very people it is aimed at protecting, and that the sole beneficiaries are those perpetrating the violence.”), and FEC II stating that, “it is clear today that as expected there is more smuggling activities, very big decrease in revenue of the Government of DRC. Huge impact on the live hundreds of thousands of Congolese, there is no more formal business in the Kivus due to this interpretation of consumers which is far more than the requirements of the law and does not give chance for the improvements that had already begun to work.”


721 Exchange Act Section 13(p)(4)
to an investment decision and, therefore, similar to other disclosures required to be filed by issuers. For example, one commentator noted that, “[a]s a sustainable and responsible investor,” this commentator “values companies’ prudent management of risk in their global supply chains and has been particularly concerned in recent years by the use of certain minerals to fund the continuing bloody conflict in the’’ DRC. As another example, a different commentator stated that, “[a]s sustainable and responsible investors, we carefully assess the prudent management of risk in companies’ global supply chains and we have been particularly concerned in recent years by the use of certain minerals, namely tin, tantalum, tungsten and gold, to fund the continuing bloody conflict in the’’ DRC.

II. Development (Oct. 25, 2011) (‘‘Tulane’’), and WGC Chamber I, Ford, Howland, IPC I, ITRI I, ITRI II, independent private sector audit of the Conflict Minerals Statutory Provision of reducing the levels of violence in the DRC, but some commentators argued that the Proposing Release did not adequately demonstrate any benefits to investors. As noted above, the purpose of Section 1502 is furthering the humanitarian goals of reducing violence and advancing peace and security in the DRC and the benefits Congress intended are derived directly from the statute. Other commentators, including two of the co-sponsors of the provision and other members of Congress, have indicated in comment letters that the provision also serves important investor protection objectives, such as additional disclosure on a company’s supply chain, although the legislative history and statutory language do not generally reference investor protection. Therefore, we have designed a final rule to help achieve the intended humanitarian benefits in the way that Congress directed, even though we recognize that the final rule will impose significant compliance costs on companies who use or supply conflict minerals. Although, as one commentator noted, it would be difficult to determine a realistic cost approximation, most of these commentators believed that compliance costs would be high.

b. Specific Comments

Four commentators in particular attempted to catalogue the expense of complying with the new reporting requirements. The commentators generally focused on three categories of costs as the most significant: Due diligence for both suppliers and issuers, information technology (“IT”) costs, and audit costs. Although there is a general consensus among these four commentators as to the broadest categories of significant costs, in several cases they provided divergent cost estimates as well as supplying differing levels of detail as to how they developed these estimates. The following section is intended to lay out the cost estimates as submitted by the commentators.

i. Manufacturing Industry Association Comments

In its comment letter, a manufacturing industry association stated that, based on its research, of the 5,994 issuers that the Proposing Release stated could be affected by the final rule, the average issuer would have between 2,000 and 10,000 first-tier suppliers, which would result in the total initial costs to issuers of complying with the final rule being anywhere from approximately $8 billion to $16 billion.

The industry association noted that “a large portion of America’s 278 thousand small and medium-sized manufacturers could be affected by the requirement to provide information on the origin of the minerals in the parts and components they supply to companies subject to the SEC.” It estimated, however, that “only one in five smaller companies would be in one or more issuer’s supply...

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723 See letter from Calvert.

724 See letter from SIF II.

725 In the Proposing Release, we estimated solely for the purposes of the Paperwork Reduction Act the total annual increase in the paperwork burden for all affected companies to comply with our proposed collection of information requirements to be approximately 153,864 hours of company personnel time and to be approximately $71,243,000 for the services of outside professionals. Also, we estimated that the PRA burden for the audit and due diligence requirements to the industry would be approximately $46,476,000. These cost estimates were calculated based on the effect that the proposed rules and form amendments, if adopted, would have on those collections of information as a result of the required due diligence process and independent private sector audit of the Conflict Minerals Report.


727 See letter from ICAR et al. I.

728 See letter from Enough Project IV.

729 See letter from Calijan III.

730 See letter from SIF II.

731 See, e.g., letters from ABA, Chamber I, Industry Group Coalition I, NAM I, and WGC II.

732 See, e.g., letters from Chamber I and PCP. These commentators asserted that the Proposing Release did not demonstrate adequately the proposed rules’ efficiencies for the market place or any promotion of capital formation, as discussed below.

733 See, e.g., letter from Senator Leahy et al. (“[I]t seems abundantly clear that when a publicly traded company relies on an unstable black market for inputs essential to manufacturing its products it is of deep material interest to investors.”).
chains,” and these smaller companies’ only costs regarding the proposed rules would be a $25,000 audit cost. Therefore, the proposed rules would cost smaller companies, which are not required to report with us under Exchange Act Sections 13(a) or 15(d), approximately $1.4 billion.

Further, the commentator remarked that our $25,000 estimate of the cost of the independent private sector audit “would only cover the initiation of an audit for a small company with a simple supply chain,” and argued that, at a minimum, an independent private sector audit of a company with a more complex supply chain would cost at least $100,000. Additionally, the manufacturing industry association “conservatively estimate[d]” that approximately 75% of the issuers that would be required to provide conflict minerals information also would be required to provide a Conflict Minerals Report and an audit rather than the 20% that we estimated in the Proposing Release, which would equate to approximately 4,500 issuers out of the 5,994 issuers we estimated would be affected by the final rule. Taking into consideration the higher estimated number of affected issuers, the industry association estimated that the total cost to all affected issuers to obtain an independent private sector audit of their Conflict Minerals Report would be $450 million.

In addition, the commentator estimated that, to implement their new due diligence policies, it would cost $1.2 billion for the 5,994 affected issuers to change their legal obligations with each issuer’s estimated 2,000 first-tier suppliers, and an additional $300 million for issuers to implement risk-based programs that use control processes to verify that suppliers are providing them with credible information and pushing legal obligations upstream. Also, the commentator estimated that affected issuers would need to expend a collective total of $6 billion to develop new information technology systems to collect information on each issuer’s first-tier suppliers. Therefore, the sum of the costs to affected issuers would total approximately $8 billion. Below is a summary of the manufacturing industry association’s cost estimates in tabular form:

<table>
<thead>
<tr>
<th>Cost Category</th>
<th>Cost Description</th>
<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Manufacturing Industry Association Commentator Estimate</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issuers affected</td>
<td>5,994</td>
<td></td>
</tr>
<tr>
<td>Average Number of 1st tier suppliers</td>
<td>2,000</td>
<td></td>
</tr>
<tr>
<td>Issuer Due Diligence Reform**</td>
<td>Number of compliance hours per issuer: <strong>2</strong></td>
<td>$1,198,800,000 = 5,994<em>2,000</em>2*$50</td>
</tr>
<tr>
<td>Cost per hour</td>
<td><strong>$50</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total compliance cost</strong></td>
<td></td>
<td><strong>$1,198,800,000</strong></td>
</tr>
<tr>
<td><strong>IT Systems Modification</strong></td>
<td>Cost per issuer: <strong>$1,000,000</strong></td>
<td><strong>$5,994,000,000</strong></td>
</tr>
<tr>
<td><strong>Total cost</strong></td>
<td></td>
<td><strong>$5,994,000,000</strong></td>
</tr>
<tr>
<td><strong>Conflict Minerals Report Audits</strong></td>
<td>Issuers affected: 4,500</td>
<td><strong>$450,000,000</strong></td>
</tr>
<tr>
<td>Audit cost</td>
<td><strong>$100,000</strong></td>
<td><strong>4,500</strong></td>
</tr>
<tr>
<td><strong>Total cost</strong></td>
<td></td>
<td><strong>$450,000,000</strong></td>
</tr>
<tr>
<td><strong>Issuer Verification of Supplier Information</strong></td>
<td>Number of hours: <strong>0.5</strong></td>
<td><strong>$299,700,000</strong></td>
</tr>
<tr>
<td>Cost per hour</td>
<td><strong>$50</strong></td>
<td><em><em>5,994<em>2,000</em>0.5</em>$50</em>*</td>
</tr>
<tr>
<td><strong>Total cost</strong></td>
<td></td>
<td><strong>$299,700,000</strong></td>
</tr>
<tr>
<td><strong>Smaller Supplier Due Diligence</strong></td>
<td>Suppliers affected (only 20% to conduct): 55,600</td>
<td><strong>$1,390,000,000</strong></td>
</tr>
<tr>
<td>Due diligence cost</td>
<td><strong>$25,000</strong></td>
<td><em><em>278,000</em>.2</em>$25,000**</td>
</tr>
<tr>
<td><strong>Total cost</strong></td>
<td></td>
<td><strong>$1,390,000,000</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$9,332,500,000</strong></td>
</tr>
<tr>
<td><strong>Total for affected issuers</strong></td>
<td></td>
<td><strong>$7,942,500,000</strong></td>
</tr>
<tr>
<td><strong>Total for affected issuers</strong></td>
<td></td>
<td><strong>$9,332,500,000 − $1,390,000,000</strong></td>
</tr>
</tbody>
</table>

737 278,000 × .20 = 55,600.
738 278,000 × .20 × $25,000 = $1,390,000,000.
739 As discussed in the Proposing Release, we indicated that each independent private sector audit of the Conflict Minerals Report would cost approximately $25,000 on average based on the preliminarily estimates of one industry group.
740 See letter from NAM I.
741 See see supra note 869.
742 The manufacturing industry association commentator refers to this as “changes to corporate compliance policies.”
743 See infram note 496.
744 The manufacturing industry association commentator refers to this as “providing proper information regarding the source of minerals.”
745 The manufacturing industry association commentator refers to this as the cost of “issuers affected” in their calculations even though a more exact number of issuers would be 4,496 ($75 × 5,994 = 4,495.5).
746 The manufacturing industry association commentator’s proposal is considered an audit cost and is not limited to smaller suppliers that are issuers.

We are using the rounded estimate (4,500) that was used by the university group and manufacturing industry association commentators in their calculations even though a more exact number of issuers would be 4,496 ($75 × 5,994 = 4,495.5).
Additionally, this commentator calculated that the costs of the final rule could be “as high as $16 billion” by “extrapolating from the recent experience of company costs in complying with the European Union’s hazardous waste directive (“RoHS”), and estimated on that basis the economic impact of the SEC’s proposed regulations.”748 In fact, this commentator postulated that “Section 1502 may be broader in scope because” it “covers more products and sectors than RoHS,” it “discriminates against origination,” and it “does not include a de minimis or weight-based exception.” 749 The commentator stated that, according to Technology Forecasters, Inc., the RoHS directive cost the electronics industry $2,640,000 per company to achieve initial RoHS compliance and another $482,000 annually to maintain compliance. Therefore, based on these per company figures, the commentator calculated that initial compliance of all 5,994 issuers would be approximately $16 billion.

ii. Electronic Interconnect Industry Association Comments

Another commentator, an electronic interconnect industry association,750 estimated that the electronic interconnection industry suppliers would incur compliance costs of approximately $279 million in the first year and approximately $165 million in ongoing annual costs.751 Additionally, this commentator stated that there could be additional hidden costs for companies that varied widely from no additional costs to more than $2 million in such costs.752 This commentator did not provide an estimate of the costs to all potentially affected issuers, but focused on the electronic interconnect industry.

The electronic interconnect industry association also argued that more than 20% of the 5,994 affected issuers would have to provide an independent private sector audit.753 The commentator noted that, although the Covered Countries may, at most, supply 20% of the world’s supply of conflict minerals, this 20% could be distributed to 100% of the issuers. Therefore, all issuers could be required to file a Conflict Minerals Report and obtain an independent private sector audit, and the electronic interconnect industry group “expected that nearly 100% of affected issuers will need to complete a [Conflict Minerals Report], especially in the initial years of the regulation.”754 In this regard, the commentator noted that respondents to its survey stated that “[s]upplier verification and auditing was a frequently cited anticipated cost,” and the respondents “estimated direct costs of [$10,000 to $]100,000 for the third party due diligence audits.”755 The commentator also indicated that the average number of suppliers in the supply chain for those companies responding to their survey was 163.

iii. University Group Comments

Another commentator, a university group, provided its own cost figures regarding the proposed rules in its comment letter.756 The university group contended that our model underestimated the costs of the proposed rules due to, among other reasons, our failure to consider the costs incurred by all actors, especially first-tier private company suppliers, that are required to modify their management systems to provide critical information to its customers that are the issuers. In contrast, the university group found that the manufacturing industry group’s economic model overstated the costs by overestimating the number of suppliers and failing to account for cost efficiencies.

The university group contended that all affected companies, both issuers and private companies, would need to carry out three principal actions to implement Section 1502. These actions consisted of strengthening internal management systems in view of performing due diligence, instituting necessary information technology systems, and obtaining independent private sector audits. The university group’s model indicated that the largest driving cost factor was strengthening companies’ management systems, which would total approximately $5.17 billion for both issuers and private companies, with issuers’ costs being approximately $26 million and private companies’ costs being approximately $5.14 billion. The other costs would be borne only by issuers. These other costs included instituting the necessary information technology systems, which would cost approximately $2.56 billion, and obtaining an independent private sector audit, which would cost companies approximately $207 million. Ultimately, according to the university group, the proposed rules would cost all affected companies, both issuers and private companies involved in the conflict minerals supply chain, approximately $7.93 billion initially and approximately $207 million annually thereafter.

As noted, the university group commentator estimated the due diligence costs to both issuers and their private company suppliers. The total initial labor costs, including both laborers and consultants, to all 5,994 issuers would be approximately $26 million. For the costs to private company suppliers, the university group estimated the total number of small private company suppliers to be 148,459, and the number of large private company suppliers to be 711,607.757 The total initial labor costs, including both laborers and consultants, to all 860,066 private company suppliers would be approximately $5.14 billion. In sum, the total initial labor costs for due diligence to both the 5,994 issuers and the 860,066 private company suppliers would be approximately $5.17 billion.

Also, the university group disagreed with the manufacturing industry group’s estimate that the costs for modifying...
each issuer’s information technology systems would be $1 million. The university group agreed that these costs would be borne solely by issuers because they would be responsible for creating tracking systems for the supplier-furnished supply chain information, and that large issuers that use complex information technology systems to manage their supply chains would have costs of $1 million per company. However, the university group argued that the unit costs for small companies, based on the data from the 2011 electronic interconnect industry association commentator survey, would be $205,000 per company. The university group estimated that the information technology costs for the affected small issuers would be approximately $885 million, and the cost for the affected large issuers would be approximately $1.68 billion. Therefore, the total costs to the 5,994 affected issuers of changing information technology systems would be approximately $2.56 billion.

Finally, the university group discussed the costs associated with the independent private sector audit. The university group disagreed with the manufacturing industry group’s assertion that private company suppliers would be required to obtain a private sector audit to demonstrate to their issuer customers that they performed sufficient due diligence. The university group noted that there is no requirement that private company suppliers obtain such an audit, so the burden and cost for a private company supplier to obtain an audit is voluntary in the context of the proposed rules. Further, the university group noted that the impetus for issuers to demand such audits would be reduced if issuers are allowed to use “reasonably reliable representations” from suppliers. For these reasons, the university group excluded any costs for independent private sector audits for private company suppliers from their cost estimates. The university group, however, agreed with the manufacturing industry group’s cost estimates and indicated that the cost for an audit of a small issuer would be $25,000 and the cost to a large issuer would be $100,000. Based on these assumptions, the university group estimated that the audit costs for small issuers would be $81 million, and those costs for large issuers would be approximately $126 million. Therefore, the total audit cost for all issuers would be approximately $207 million per year.

Below is a summary of the university group commentator’s estimates in tabular form:

<table>
<thead>
<tr>
<th>University Group Commentator Estimate:</th>
<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuers affected</td>
<td>5,994</td>
</tr>
<tr>
<td>Large issuer (28% of issuers)</td>
<td>1,678</td>
</tr>
<tr>
<td>Small issuer (72% of issuers)</td>
<td>4,316</td>
</tr>
<tr>
<td>Average number of 1st tier suppliers (53% of manufacturing industry association commentator)</td>
<td>1,060</td>
</tr>
<tr>
<td>Issuer Due Diligence Reform:</td>
<td></td>
</tr>
<tr>
<td>Number of compliance hours for large issuer</td>
<td>100</td>
</tr>
<tr>
<td>Number of compliance hours for small issuer</td>
<td>40</td>
</tr>
<tr>
<td>Internal cost per hour</td>
<td>$50</td>
</tr>
<tr>
<td>Internal costs for large issuer (90% of total work load)</td>
<td>$7,551,000</td>
</tr>
<tr>
<td>Internal costs for small issuer (75% of total work load)</td>
<td>$6,473,520</td>
</tr>
<tr>
<td>Consulting cost per hour</td>
<td>$200</td>
</tr>
<tr>
<td>Consulting costs for large issuer (10% of total work load)</td>
<td>$3,356,000</td>
</tr>
<tr>
<td>Consulting costs for small issuer (25% of total work load)</td>
<td>$8,632,000</td>
</tr>
<tr>
<td>Total cost</td>
<td>$26,013,000</td>
</tr>
</tbody>
</table>

| IT Systems Modification:               |             |
| Cost per large issuer                 | $1,000,000  |
| Cost per small issuer                 | $205,000    |
| Total large issuer cost               | $1,678,000,000 |
| Total small issuer cost               | $884,780,000 |
| Total costs                           | $2,562,780,000 |

| Conflict Minerals Report Audits:       |             |
| Issuers affected                       | 4,500       |
| Number of large issuers                | 1,260       |
| Number of small issuers                | 3,240       |
| Large issuer cost                      | $100,000    |
| Small issuer cost                      | $25,000     |
| Total costs for large issuers          | $126,000,000 |
| Total costs for small issuers          | $81,000,000  |
| Total costs                           | $207,000,000 |

| Supplier Due Diligence Reform:         |             |
| Average number of 1st tier supply contracts per large issuer | 1,060       |
| Average number of 1st tier supply contracts per small issuer | 86          |
| Total large suppliers                  | 711,472     |
| Total small suppliers                  | 148,470     |
| Number of compliance hours for large supplier | 100         |

---

759 5,994 issuers × 75% of issuers requiring an audit × 72% for number of small issuers × $25,000 per audit = $80,919,000.
760 5,994 issuers × 75% of issuers requiring an audit × 28% for number of large issuers × $100,000 per audit = $125,874,000.
761 $80,919,000 + $125,874,000 = $206,793,000.
iv. Environmental Consultancy Company Comments

An additional commentator, an environmental consultancy company, provided cost figures regarding the proposed rules.762 The environmental consultancy company asserted that the models provided by the manufacturing industry group and the university group significantly overestimated the costs of the proposed rules, whereas our PRA section underestimated the paperwork costs. Specifically, the commentator stated that the manufacturing industry association group’s and the university group’s “estimates provide cost projections that do not reflect current industry practice in compliance programs by the vast majority of affected issuers,” so it “would be inadvisable to use” their “data as the basis for an accurate cost estimate for implementation of Section 1502.”763

Also, the environmental consultancy company argued that we underestimated the costs of the proposed rules primarily because we overestimated issuers’ knowledge of the origin of materials in their products. According to the commentator, most of the compliance costs for the proposed rules would be derived from identifying where an issuer’s materials are sourced. Further, the commentator suggested that our estimate of the percentage of affected issuers was too low, we did not recognize that issuers needed to expend greater internal efforts in communicating requirements throughout their companies, we failed to account for the costs of issuers’ software changes, and we did not acknowledge that “many companies” may work to a higher standard than the rules would require due to public sensitivity of this issue.

Conversely, the commentator asserted that the manufacturing industry group’s $8 billion and the university group’s $7.93 billion cost estimates were too high. The environmental consultancy company argued that the manufacturing industry group’s estimate regarding the cost for issuers to modify legal responsibilities should be only $300 million, instead of the manufacturing industry group’s estimated $1.2 billion.764 Similarly, the environmental consultancy company maintained that the university group’s $5.17 billion estimate to strengthen internal management systems was too high because of incorrect assumptions, and that the actual cost should be only $600 million.765

763 We are using the rounded estimate (4,500) that was used by the university group and manufacturing industry association commentators in their calculations even though a more exact number of issuers would be 4,496 (.75 x 5,994 = 4,494.5). See infra note 869.

764 According to the environmental consultancy company, the manufacturing industry group’s assumption that every issuer would have to amend every legal obligation with its suppliers was incorrect because “full standard contracts with suppliers of public companies contain standard provisions requiring suppliers to comply with relevant laws.” Letter from Claigan I. As a result, it would be unlikely that many contracts would need to be modified to enable compliance. Also, the environmental consultancy company asserted that the manufacturing industry group overestimated the cost of modifying legal responsibilities because the manufacturing industry group assumed that every supplier supplies components or products containing conflict minerals to an issuer, which the environmental consultancy company claimed was “very unlikely.” Instead, a more reasonable estimate of the numbers of suppliers affected that would require a modification to its legal obligations “would be closer to 50% of suppliers.” This commentator asserted that number, however, should be further reduced by an additional 50% due to duplicative and overlapping relationships within and among suppliers.

765 The environmental consultancy company commented that the university group commentator estimated that there were 860,066 first-tier suppliers. However, a 2008 study by the Consumer Electronics Association (“CEA”) on RoHS that identified only 90,000 total electronic suppliers. In this regard, the environmental consultancy company noted that, although conflict minerals disclosure is required by more than just electronics industry issuers, “the total number of affected first-tier suppliers being over 100,000 seems unrealistic based on this more substantiated information.” Also, the environmental consultancy company noted that, in many cases, first-tier suppliers may not be supplying products or components containing conflict minerals, or these products or components will represent only a small fraction of their business.

766 The environmental consultancy company commentator noted that the CEA study found that the average cost for information technology systems changes for RoHS was $130,000 per company, and it discovered that the most expensive conflict minerals software was $40,000 by conferring with a provider of conflict minerals compliance software to confirm that their most expensive software for conflict minerals compliance was $40,000 for the first year.

767 In its second letter, however, the environmental consultancy company commentator acknowledged that it had limited expertise regarding estimates of the cost of third party audits. See letter from Claigan Environmental Inc. (Dec. 1, 2011) (“Claigan II”).
will not have to create” a Conflict Minerals Report, and “[n]o more than half of the consumer discretionary, consumer staples, and materials sectors is expected” to provide a Conflict Minerals Report. 768

Finally, the environmental consultancy company developed its own cost model,769 which was based on current service quotations in the industry and past costs for RoHS compliance based on the 2008 CEA study. In this regard, the commentator provided its estimate of the typical initial costs for affected issuers with revenue of $1 billion per year. Initially, in its first comment letter, the environmental consultancy company concluded that the proposal’s compliance cost for a typical affected issuer with $1 billion of revenue would be approximately $315,000 per year.770

In a subsequent letter to us, the environmental consultancy company lowered its cost estimate.771 Instead of the $315,000 per issuer estimate in its initial letter, the environmental consultancy company argued that the cost per issuer for compliance would be closer to $213,000 per issuer because of “more recent information on corporate budgeting and expenditures” that “better reflect current corporate implementation strategies.” 772 Further, in another letter, the environmental consultancy company lowered its cost estimate again to approximately $64,673 per issuer.773

v. Other Specific Comments

One commentator, an environmental research company, discussed some of the specific cost estimates above and discussed some cost estimates it gathered through interviews with potentially affected issuers.774 This commentator conducted a study, sponsored by Global Witness, based on interviews with executives at more than 20 global companies that ranged in size from $500 million per year in revenue to over $120 billion in annual revenue, including companies engaged in electronic components, computers, consumer health care, automotive, and retail. Also, the commentator spoke with industry associations, consulting firms, and software providers.

Generally, the commentator found that, based on its interviews, costs for complying with the provision “will vary widely with the size and complexity of companies’ supply chains but seem to be manageable for all company sizes.” 775 In this regard, the commentator also found that the better informed executives were regarding the Conflict Minerals Statutory Provision and its impacts on their company, the more likely they thought the costs of compliance would be manageable. The commentator stated that the largest companies with annual revenues over $50 billion would have one-time costs ranging from $500,000 to $2 million, but the companies with well-developed responsible sourcing systems may only need to spend half as much. Also, the commentator found that many smaller companies “should be able to meet their obligations for less than the cost of a full-time employee in the first year with costs declining over time.” 776

Regarding the above cost estimates by other commentators, the commentator argued that the manufacturing industry association commentator’s cost estimate “significantly overstates the costs most companies will incur, especially those of updating IT systems.” 777 Also, the commentator noted that the electronic interconnect industry commentator’s cost estimate was overstated because the estimate included electronics manufacturing services companies, and that industry is “dominated by very large companies,” which “probably account[ed] for the higher median cost estimates.” 778 Further, the commentator noted of the environmental consultancy company commentator’s letter that the “relative magnitude of the costs shown by the [environmental consultancy company commentator] estimate are aligned with what [environmental research company commentator] found in [its] interviews: that the effort to gather reliable data from supply chain partners is likely to be more costly initially than any systems changes required.” 779

Another commentator that is attempting to establish a due diligence “bag-and-tag” monitoring system in the Covered Countries asserted that the total costs incurred by local governments and industry as a whole just for the on-the-ground set-up and implementation of this system in the Covered Countries would be $52 million for the first year.780 This commentator noted that this $52 million estimate is much higher than our $8 to $10 million estimated cost for setting up a mineral source validation scheme in the Proposing Release. Similarly, another commentator provided the February 2011 five-year plan of the organization that administers the bag-and-tag scheme.781 The commentator noted that, according to the five-year plan, “the cost of cleanly bagged-and-tagged minerals, including taxes, will remain below the world market price.” 782 Also, according to the document provided, it appears that the funding requirements for the bag-and-tag scheme, including a 10% contingency, in Eastern DRC and

768 See letter from Claigan I.
769 Id.
770 The environmental consultancy company commentator noted that the $315,000 per year cost would equate to approximately 0.03% of an issuer’s revenue, but argued that, based on certain variations, the cost range could be anywhere between 0.02% and 0.05% of revenue. Id. The commentator stated further that the average cost of initial compliance with RoHS for a company with annual revenue of $1 billion was close to 0.8% of revenue. However, the commentator indicated that the data gathering and the software costs for RoHS was approximately 0.08% of the initial RoHS compliance costs, which the commentator argued was “the same order of magnitude” of its 0.03% calculation. This commentator suggested that its “slightly lower” cost projections were due to less expensive conflict minerals software packages, as compared to RoHS. The large data gathering cost for RoHS, the need to gather data for every part and create new part numbers for compliant parts, are not required for conflict minerals. The commentator noted also that, if the final rule would cause issuers to dispose of their current conflict mineral inventories because the conflict minerals were of indeterminate origin or our rule would not exempt conflict minerals from recycled or scrap sources, the expected costs of compliance would be closer to 0.5% of revenue.1 Finally, the commentator claimed that this initial cost of compliance is expected to increase by a factor of 2.5 for an issuer having ten times the annual revenue ($10 billion) and decrease by a factor of 2.5 for an issuer with 10% of revenue ($100 million). Id.
771 See letter from Claigan II.
772 Id.
773 See letter from Claigan III. In this letter, the environmental consultancy group commentator broke down the number of affected issuers by size and cost per issuer based on that size. The commentator determined that the total cost to 6,000 affected issuers would be $387,650,000, which would be $64,608 per issuer. However, because we estimated that there would be 5,994 affected issuers, we divided the $387,650,000 by 5,994 issuer to come up with $64,673 per issuer. See also letter from Assent Compliance (Dec. 19, 2011) (‘‘Assent’’) (discussing the software costs to issuers for implementing Section 1502, which apparently was included as part of the overall cost calculation in the letter from Claigan III). Further, the environmental consultancy company commentator provided an additional comment letter that did not revise its cost estimate, but expanded upon differences he contested it submitted and previous cost estimates submitted by the manufacturing industry association and university group commentators. See letter from Claigan IV.
774 See letter from ITRI II.
775 See id.
776 See id.
777 See id.
778 See id.
779 See id.
779 See id.
780 See letter from ITRI II.
781 Representative Jim McDermott (Oct. 12, 2011) (‘‘Rep. McDermott’’) (providing the five-year plan authored by iTSCI, the International Tin Research Institute’s Tin Supply Chain Initiative, in February 2011).
782 Id.
Rwanda will be approximately $38,971,000 from 2011 through 2015.

Also, this commentator stated that trading companies, transporters, and concentrate treatment facilities that continue to trade with the Covered Countries would incur additional costs in relation to the greatly increased levels of administration and auditing that “may amount to an additional man year,” which is “approximately US$100,000 per year” per trading company, transporter, and concentrate treatment facility going forward.782 The costs to trading companies, transporters, and concentrate treatment facilities that stop treating minerals from the Covered Countries would be less “but still of significance.” The commentator estimated that these companies’ costs could “perhaps be an additional half a man year,” which would be approximately $50,000 per year per company. Further, this commentator indicated that smelters and processing facilities may be requested to perform an independent audit every six months or every year, which would cost these smelters and processing facilities approximately $60,000 per audit. Finally, the commentator argued that the “sum cost of new auditing requirements and increasing burden of documentation in the international supply chain may amount to a total of US$7 million per year.”

A few commentators provided other, less specific cost estimates. One commentator indicated that it would require 1,400 hours in the first year working with its suppliers to implement the proposed rules and an additional 700 hours in each subsequent year to comply with the proposed rules.784 The commentator calculated this figure by using the 450 different materials the commentator would have to research, and estimated that it would require three hours per material, which would equate to approximately 1,400 hours.785 The commentator stated that this estimate did “not take into account the days and weeks that will be required to write any required reports and work with auditors.” Although the commentator provided an estimate of the number of hours required to comply with the rules, it did not disclose the costs associated with its number of estimated hours. The commentator noted, however, that it is “a relatively small company, [and] these costs will be multiplied many times throughout the entire economy.”

Another commentator indicated that “the initial cost for establishing record keeping processes, staffing, and identifying the contacts throughout the supply chain will run approximately [four times] the on-going annual staffing [and] cost for certification.”786 In addition, this commentator asserted that the “software to track and retain these records for [five to ten] years could add another [two times] the annual cost for certification.”787 Ultimately, although the commentator did not disclose the actual costs associated with its estimates, it concluded that complying with the proposed rules would be “very expensive” for even one year.

Another commentator argued that the costs of the proposed rules to implement the statute would be expensive even for an issuer with existing systems in place to track inputs in the supply chain because such an issuer would still have to add capability to its existing systems, provide additional supplier training, and revise its existing information technology systems.788 A few commentators noted Apple Inc.’s Supplier Responsibility 2011 Progress Report.789 As one of these commentators noted, Apple investigated the use of extractives at all levels of its supply base and mapped its supply chain to the smelter level to know which of its suppliers are using tantalum, tin, tungsten, or gold and from where they are receiving the metal.790 Accordingly, Apple determined that it has a total of 14 suppliers of conflict minerals.791 Some commentators asserted that the costs of the proposed rules could be disproportionally higher to smaller issuers.792 Other commentators asserted that the Proposing Release failed to account for the costs to non-issuers, which would be significant.793 Other commentators asserted also that the $25,000 estimated audit cost is not the correct cost for the type of audit that would be required.794 One such commentator noted that the “cost of an independent audit [sic] of $25,000 is also not specifically for the type of audits that would be required either on the upstream supply chain, or at the smelters.”795 Another commentator stated that we “did not specify the scope of the independent private sector audit of the Conflict Minerals Report” in the Proposing Release, and our $25,000 estimate would correspond only to an audit of whether the issuer’s Conflict Minerals Report accurately describes the due diligence the issuer exercised.796 According to this commentator, this cost estimate, however, could be far higher depending on the audit scope to be outlined in the final rule. A further commentator indicated that our assumptions about the scope and objective of the audit in the Proposing Release were not clear, but it appeared that the estimate “may depend on a company relying on an industry-wide due diligence process and that company being able to conclude that its conflict minerals did not originate in a DRC country.”797 This commentator stated that it was not aware of any such industry-wide due diligence process in place.

C. Benefits and Costs Resulting From Commission’s Exercise of Discretion

As discussed in detail in Section II, we have revised the rules from the Proposing Release to address comments we received while remaining faithful to the language and intent of the statute as adopted by Congress. In addition to the statutory benefits and costs noted above, we believe that the use of our discretion in implementing the statutory requirements will result in a number of benefits and costs to issuers and users of the conflict minerals information. Below, we discuss the most significant choices we made in implementing the statute and the associated benefits and costs. We are unable to quantify the impact of each of the decisions we discuss below with any precision because reliable, empirical evidence regarding the effects is not readily available to the Commission, and commentators did not provide sufficient information to allow us to do so. Thus, in this section, our discussion on the costs and benefits of our individual discretionary choices is qualitative. Later in the release, we present a quantified analysis on the overall costs and benefits of the final rule that includes all aspects of the implementation of the statute.

782 See letter from CTIA.
783 See letter from ITRI I.
784 See letter from TriQuint I.
785 Id. The commentator did not provide a similar breakdown of its calculation regarding its 700 hour per subsequent year estimate.
786 See letter from Teggsman.
787 See id.
788 See letter from Ford.
790 See letter from Enough Project I.
791 See letters from Enough Project IV and Fafo.
792 See letter from Howland.
793 See letters from NAM I and WGC II.
794 See letters from CTIA, ITRI I, and KPMG.
795 See letter from ITRI I.
796 See letter from CTIA.
797 See letter from KPMG.
1. Reasonable Country of Origin Inquiry

The Conflict Minerals Statutory Provision requires any issuer with necessary conflict minerals that “did originate” in the Covered Countries to provide a Conflict Minerals Report.\(^\text{798}\)

The provision, however, does not specify how an issuer is to determine whether its conflict minerals originated in the Covered Countries. The provision states only that any issuer with such conflict minerals must submit a report to us that describes, among other matters, the measures taken by the issuer to determine the source and chain of custody of those conflict minerals.

We used our discretion in the final rule to require that issuers covered by Section 1502 of the Act conduct a good faith “reasonable country of origin inquiry” that is reasonably designed to determine whether their conflict minerals originated in the Covered Countries or are from recycled or scrap sources. We do not specify what would constitute a “reasonable country of origin inquiry.” We believe that this decision to employ a performance standard rather than a design standard should benefit issuers by allowing them the flexibility to use the reasonable country of origin inquiry standard that is best suited to their circumstances.

Although the final rule does not specify what would constitute a reasonable country of origin inquiry, it requires that the issuer conduct in good faith an inquiry that is reasonably designed to determine whether any of its conflict minerals originated in the Covered Countries or came from recycled or scrap sources. Although the proposal did not state explicitly that an issuer must reasonably design its inquiry and conduct it in good faith, we believe that this is not a change from the proposal, but a clarification of the proposal’s intent. We believe providing this clarification will facilitate compliance with the rule by providing further guidance to issuers about what is required to satisfy the reasonable country of origin inquiry. Other than being reasonably designed and performed in good faith, however, the final rule does not require issuers to conduct an exhaustive inquiry to establish to a certainty whether their conflict minerals originated in the Covered Countries or came from recycled or scrap sources. We believe this is appropriate because, under the Conflict Minerals Statutory Provision, issuers are required to ascertain whether their conflict minerals did originate in the Covered Countries to know whether they must submit a Conflict Minerals Report. Therefore, some inquiry is necessary.

We could have required an issuer to exercise due diligence in determining whether its conflict minerals originated in the Covered Countries or came from recycled or scrap sources. We also could have required an exhaustive inquiry in which an issuer would be required to determine to a certainty whether each mineral originated in the Covered Countries. However, while these would be plausible alternatives, such inquiries likely would be more costly, and we do not believe those approaches are necessary. Instead, we believe the reasonable country of origin inquiry standard provides a clear way for issuers to make the necessary determination and does so in a more cost-effective manner. The reasonable country of origin inquiry is consistent with the supplier engagement approach in the OECD guidance where issuers use a range of tools and methods to engage with their suppliers.\(^\text{799}\) The results of the inquiry may or may not trigger due diligence. This is the first step issuers take under the OECD guidance to determine if the further work outlined in the OECD guidance—due diligence—is necessary. The Conflict Minerals Statutory Provision specifically contemplates due diligence, which goes beyond inquiry and involves further steps to establish the truth or accuracy of relevant information, by requiring a description of the measures the issuer took to exercise due diligence on the source and chain of custody of the minerals. The Conflict Minerals Statutory Provision specifically notes that due diligence includes the audit discussed below.

We recognize that our reasonable country of origin approach is broad enough that some issuers might perform an insufficiently rigorous inquiry and some issuers might perform an overly rigorous inquiry. An insufficiently rigorous inquiry could result in an erroneous determination that the issuer’s conflict minerals did not originate in the Covered Countries or came from recycled or scrap sources. An overly rigorous inquiry, on the other hand, could cause issuers to incur greater costs than they would otherwise. We believe, however, that the requirement that issuers make certain disclosures about the particular reasonable country of origin inquiry they undertook mitigates concerns about an insufficiently rigorous inquiry. Similarly, we believe our guidance that issuers need only conduct an inquiry reasonably designed to determine whether conflict minerals originated in the Covered Countries mitigates concerns about an overly rigorous inquiry. Overall, we believe that the benefit of mitigating issuer compliance costs justifies the “reasonable country of origin” approach we have chosen.

Also, in a change from the proposal, the final rule establishes a different standard for the issuer in determining, based on its reasonable country of origin inquiry, whether due diligence on the conflict minerals’ source and chain of custody and a Conflict Minerals Report is required. The proposed rules would have required an issuer to conduct due diligence and provide a Conflict Minerals Report, based on its reasonable country of origin inquiry, if, among other conclusions, the issuer was unable to determine that its conflict minerals did not originate in the Covered Countries or came from recycled or scrap sources. Under the proposal, issuers could only avoid providing a Conflict Minerals Report if they could prove a negative—that their conflict minerals did not originate in the Covered Countries. That approach would arguably have been more burdensome than necessary to accomplish the purpose of the statutory provision.

Under the final rule, however, an issuer must exercise due diligence on its conflict minerals’ source and chain of custody and potentially provide a Conflict Minerals Report if the issuer knows that its necessary conflict minerals originated in the Covered Countries and did not come from recycled or scrap sources, or has reason to believe that its necessary conflict minerals may have originated in the Covered Countries and may not have come from recycled or scrap sources. This new approach does not require an issuer to prove a negative to avoid performing due diligence, but it also does not allow an issuer to ignore warning signs or circumstances reasonably indicating that its conflict minerals may have originated in the Covered Countries or may not have been from recycled or scrap sources. This approach should reduce the total costs.

\(^{798}\)Exchange Act Section 13(p)(1)(A).

of the final rule, by enabling an issuer that, following a reasonable country of origin inquiry, is unable to determine that its conflict minerals did not originate in the Covered Countries or come from recycled or scrap sources, but has no reason to believe that its necessary conflict minerals may have originated in the Covered Countries or do not come from recycled or scrap sources, to fully comply with the rule without conducting due diligence, obtaining an audit, or preparing and filing a Conflicts Mineral Report.

We realize that requiring a Conflict Minerals Report if, after exercising a reasonable country of origin inquiry, the issuer has reason to believe that it has necessary conflict minerals that may have originated in the Covered Countries and may not have come from recycled or scrap sources will be more costly than only requiring a report if the issuer has affirmatively determined that its minerals did come from the Covered Countries. However, as already discussed, we believe that such an approach is required to achieve the benefits intended by the statute. Moreover, this approach provides an appropriate balance compared to the more costly possible approach of requiring an issuer to submit a Conflict Minerals Report unless it determines to a certainty that its necessary conflict minerals did not originate in the Covered Countries.

This approach regarding when an issuer must exercise due diligence as to the source and chain of custody of its conflict minerals and provide a Conflict Minerals Report could increase costs of the final rule. Some issuers may expend more resources than necessary to satisfy the standard in order to assure themselves that their minerals did not originate in the Covered Countries. On the other hand, other issuers may expend insufficient resources which could lead to inadequate inquiries. However, we anticipate that overall this approach will result in fewer issuers engaging in due diligence and providing a Conflict Minerals Report because, although an issuer may not be able to determine to a certainty, even after a reasonable country of origin inquiry, that its conflict minerals did not originate in the Covered Countries or are from recycled and scrap sources, that issuer may have no reason to believe that its necessary conflict minerals may have originated in the Covered Countries and not come from recycled or scrap sources. This situation will reduce costs to such issuers because those issuers are not required to exercise due diligence and provide a Conflict Minerals Report.

In a further change from the proposal, the final rule requires an issuer that determines that, following its reasonable country of origin inquiry, its conflict minerals did not originate in the Covered Countries or come from recycled or scrap sources, to provide a brief description of the results of that inquiry. The proposal required issuers to disclose their reasonable country of origin inquiry and their determination based on that inquiry. Compared to an alternative that does not require such description, this requirement will increase the disclosure costs to issuers. However, the disclosure will enable users of the information to assess more thoroughly the issuer’s reasonable country of origin design and its efforts in carrying out that design. This information will allow stakeholders to form their own views on the reasonableness of the issuer’s efforts and track those efforts over a number of years. Based on this information, stakeholders could advocate for different processes for individual issuers if they believe it is necessary, thereby maximizing the potential benefits of the performance-based approach we are adopting.

Additionally, we revised the final rule from the proposal so that, following its reasonable country of origin inquiry, an issuer that determines its conflict mineral did not originate in the Covered Countries is not required to keep reviewable records for five years. We believe this decision should benefit issuers by allowing them greater flexibility and by reducing their compliance costs because they no longer have a record retention cost, which should reduce the overall costs involved as compared to the other possible methods of implementing the statute.

2. Information in the Specialized Disclosure Report

We revised the final rule from the proposal so that an issuer that must file a Conflict Minerals Report is not required to disclose, in its specialized disclosure report under a separate “Conflict Minerals Disclosure” heading, the reason it is filing its Conflict Minerals Report. Similarly, the final rule does not require an issuer to disclose in its specialized disclosure report that it has provided an audit report or a certification of the audit because the audit report and certification are part of the Conflict Minerals Report already, so specifically mentioning the audit report or certification here is not necessary and may be confusing. Instead, the issuer must only disclose that a Conflict Minerals Report is provided as an exhibit to its specialized disclosure report and a link to its Internet Web site where the Conflict Minerals Report is publicly available. We believe these decisions should benefit issuers by not requiring them to provide as much disclosure in the specialized disclosure report, which should reduce the costs involved as compared to the other possible methods of implementing the statute. However, we do not believe that such decisions will reduce the benefits to be achieved by the final rule, because the information that the proposal required to be disclosed in the specialized disclosure report is already provided in the Conflict Minerals Report, which is required to be filed as an exhibit to Form SD.

3. “DRC Conflict Undeterminable” Determination

The final rule temporarily permits issuers to describe their products as “DRC conflict undeterminable” if they are required to file a Conflict Minerals Report and are either unable to determine that their conflict minerals did not originate in the Covered Countries or are unable to determine that their conflict minerals that originated or may have originated in the Covered Countries did not directly or indirectly benefit or finance armed groups in the Covered Countries. An issuer with products that are “DRC conflict undeterminable” is required to exercise due diligence on the source and chain of custody of its conflict minerals and submit a Conflict Minerals Report describing the due diligence, the country of origin of the conflict minerals, if known, the facilities used to process the conflict minerals, if known, and the efforts to determine the mine or location of origin with the greatest possible specificity. Also, such an issuer is required to describe its products containing these conflict minerals as “DRC conflict undeterminable,” rather than stating that they have not been found to be “DRC conflict free.” An issuer with such conflict minerals, however, is not required to obtain an independent private sector audit of that Conflict Minerals Report. This reporting alternative is temporary and will be available only during the first two reporting cycles following the effectiveness of the final rule for all issuers, which includes the specialized disclosure reports for 2013 and 2014, and the first four reporting cycles following the effectiveness of the final rule for smaller reporting companies,
which includes the specialized disclosure reports for 2013 through 2016. After these times, an issuer unable to determine that its conflict minerals did not originate in the Covered Countries or unable to determine that its conflict minerals that originated or may have originated in the Covered Countries did not directly or indirectly finance or benefit armed groups in the Covered Countries must describe its products containing those minerals as having not been found to be “DRC conflict free” and provide an independent private sector audit of its Conflict Minerals Report.

This temporary provision will have the benefit of lowering the initial costs of the rule both because an audit will not be required and because, to the extent issuers suffer negative consequences from disclosure that their products have not been found to be “DRC conflict free,” those consequences would likely not be as significant for an issuer that is able to disclose that it has conducted due diligence on its conflict minerals and not found a connection to armed groups. We believe that not requiring an independent private sector audit of the Conflict Minerals Report during this temporary period is appropriate because an audit of the design of an issuer’s due diligence that results in an undeterminable conclusion would not appear to have a meaningful incremental benefit. Also, we recognize the concerns about the feasibility of preparing the required disclosure in the near term because of the stage of development of the supply chain tracing mechanisms. We adopted this temporary provision to allow sufficient time for more comprehensive tracking systems to be developed by industry and trade groups. The development and use of such comprehensive tracking systems should improve due diligence performance and lower the cost of compliance with the statute by reducing duplication and taking advantage of economies of scale. We believe that a two-year period for issuers with an indeterminate conclusion is appropriate because this appeared to be the approximate amount of time that many commentators stated would be necessary to establish traceability systems in the Covered Countries.

Also, we believe that a four-year period for smaller reporting companies with an indeterminate conclusion is appropriate because they may have fewer resources to implement the final rule and may lack the leverage to obtain detailed information regarding the source of a particular conflict mineral. 801 Issuers that are unable to determine, following their exercise of due diligence, that their conflict minerals did not originate in the Covered Countries; that their conflict minerals that originated in the Covered Countries did not directly or indirectly finance or benefit armed groups in the Covered Countries; or, after their exercise of due diligence, are unable to determine that their conflict minerals came from recycled or scrap sources are required to file a Conflict Minerals Report describing, among other matters, the due diligence they exercised and the steps they have taken or will take, if any, since the end of the period covered in their most recent prior Conflict Minerals Report to mitigate the risk that their necessary conflict minerals benefit armed groups, including any steps to improve their due diligence. After the transition period, such issuers will be required to include an independent private sector audit of their Conflict Minerals Reports with respect to those minerals, which is likely to increase costs for those issuers. One commentator argued that “Section 1502 does not require an issuer that has been unable to determine (after a proper inquiry) the source of its conflict minerals * * * to provide a Conflict Minerals Report.” 802 As discussed above, we believe the process that better reflects the statutory intent is as follows:

• An issuer that, following a reasonable country of origin inquiry, has reason to believe its necessary conflict minerals may have originated in the Covered Countries, and may not be from recycled or scrap sources, must conduct due diligence on the source and custody of such conflict minerals, in accordance with a nationally or internationally recognized due diligence framework, and

• If, following such due diligence, such issuer is unable to determine that such conflict minerals did not originate in the Covered Countries (and is unable to determine that such conflict minerals are from recycled or scrap sources), then such issuer is required to submit a Conflict Minerals Report.

While this approach may add to the overall costs of compliance, we do not believe the alternative reading suggested by commentators is consistent with the purposes of the statute. The final rule’s temporary provision for “DRC conflict undeterminable” products, however, is designed to reduce compliance costs during the transition period.

4. “Contract To Manufacture”

As discussed above, the final rule applies to issuers that contract to manufacture products. This requirement is based on our interpretation of the statute in light of our understanding of the statutory intent and a reading of the statute’s text. We recognize that this approach affects the overall compliance costs and burdens, in particular, on the subset of issuers that contract to manufacture products. However, we have sought to mitigate these costs by not defining the term “contract to manufacture” in the final rule, and instead letting issuers determine based on their own facts and circumstances which of their products have conflict minerals that may trigger a reporting obligation.

Compared to the alternative approach of defining this term, our decision not to define the term provides issuers with significant flexibility to use a definition that applies best to their particular circumstances. Such flexibility may lower issuers’ compliance costs to the extent any definition could have been overbroad. But, we also recognize that our decision not to define this phrase could increase uncertainty for issuers on how the phrase should be implemented and may result in additional costs to some issuers. For example, the uncertainty associated with leaving the phrase undefined could lead some issuers to interpret the definitions in a manner that is more expansive than if the phrase was defined, thus incurring a higher compliance cost than is necessary. In this regard, some issuers may decide to use more internal or external resources than if this phrase was defined to make sure they are compliant with the rule, which would also increase compliance costs. The lack of a clear definition could also result in a diminishment of the benefit if some issuers are less rigorous in determining and reporting on their products that have conflict minerals, which would reduce the utility of their disclosure. Overall, however, we believe the potential benefit of flexibility outweighs the potential increases in costs.

In the proposal, we expressed our view that an issuer that does not manufacture a product itself but that has “very” influence over the product’s manufacturing should be considered to be contracting to manufacture that

801 Using the cost of audit estimates provided by the university manufacturing industry group commentators, which we also use below, we estimate that this exercise of discretion by the Commission would reduce the initial compliance cost of a small issuer by approximately $25,000 and the initial compliance cost of a large issuer by approximately $100,000 per year for each year of the applicable temporary period based upon the analysis of the university group commentator.

802 See letter from Cleary Gottlieb.
product. Also, we expressed our view that an issuer that offers a generic product under its own brand name or a separate brand name should be considered to be contracting to manufacture that product so long as the issuer had contracted to have the product manufactured specifically for itself. As noted in the Proposing Release, we had believed that these issuers should have been considered to be contracting those products to be manufactured because the issuers would implicitly influence the manufacturing of the products. However, we are persuaded by commentators that this level of control set forth in the Proposing Release was “overbroad” and “confusing” and would impose on such an issuer “significant,” “unrealistic,” and “costly” burdens.803 Therefore, we provide guidance indicating that an issuer is considered to be contracting to manufacture a product depending on the degree of influence it exercises over the materials, parts, ingredients, or components to be included in any product as well as examples. We believe that this guidance may decrease issuers’ flexibility for some issuers, but it will provide more certainty for others.

5. Nationally or Internationally Recognized Due Diligence Framework (Including Gold)

Although Exchange Act Section 13(p)(1)(A)(i) requires issuers to describe the measures taken to exercise due diligence, the provision does not indicate the due diligence required. The final rule’s requirement that issuers use a nationally or internationally recognized due diligence framework in their Conflict Minerals Reports may result in a certain degree of standardization in the preparation of the disclosure and may reduce audit costs by focusing the audit. To the extent issuers tend to use the same due diligence framework, this standardization will benefit users of the information by making the Conflict Minerals Reports easier to compare, thus reducing costs for users of comparing information across issuers. Also, requiring a nationally or internationally recognized due diligence framework allows us to provide a clear audit objective that includes whether the design of an issuer’s due diligence measures is in conformity with the criteria set forth in the nationally or internationally recognized due diligence framework and whether an issuer’s description of the due diligence measures it performed is consistent with the due diligence process it undertook.

As discussed below, having a clear audit objective based on the design of an issuer’s due diligence framework lowers audit costs compared with a rule that does not require a specified framework because it focuses the scope of the audit that must be performed and, therefore, makes the audit less time-consuming and less costly.

Further, the final rule requires that an issuer’s due diligence follow a nationally or internationally recognized due diligence framework that is established by a body or group that has followed due-process procedures, including the broad distribution of the framework for public comment, and is consistent with the criteria standards in GAGAS established by the GAO. This requirement improves the credibility and usefulness of the reports. Also, requiring adherence to a nationally or internationally recognized due diligence framework will provide issuers with a degree of certainty that their due diligence process is reliable and will pass a regulatory review. However, this requirement also will limit the issuer’s flexibility in determining the source of origin and chain of custody of their conflict minerals. If the established requirement is more burdensome than what the issuer might have otherwise considered sufficient due diligence, it might make it more costly for issuers compared to using a due diligence process based on their own facts and circumstances.

6. Liability for the Audit and Audit Certifications

Exchange Act Section 13(p)(1)(A)(i) requires the independent private sector audit to be conducted in accordance with the standards established by the GAO. Exchange Act Section 13(p)(1)(B) states that the issuer must certify the audit and that certified audit constitutes a critical component of due diligence.804

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803 As noted elsewhere in this release, the staff of the GAO has indicated to our staff that the GAO does not intend to publish standards for the independent private sector audit and that GAGAS’ Performance Audit or Attestation Engagement standards can be used for these audits. See U.S. Gov’t Accountability Office, GAO-12-334G, Government Auditing Standards 2011 Revision (Dec. 2011), available at http://www.gao.gov/assets/590/587281.pdf. Therefore, to conduct an independent private sector audit, an auditor must comply with certain quality control procedures and peer reviews, which are required under the GAGAS Performance Audit and Attestation Engagement standards. The GAGAS Attestation Engagement standard, in Chapter 3.75, requires that auditors be “licensed certified public accountants, persons working for a licensed certified public accounting firm or for a government auditing organization, or licensed accountants in states that have multi-class licensing systems that recognize licensed accountants other than certified public accountants.” Unlike the GAGAS Attestation Engagement standard, the GAGAS Performance Audit standard allows auditors other than certified public accountants to perform a Performance Audit, provided the auditor complies with the applicable qualification requirements under GAGAS, which will increase the number of firms eligible to conduct the private sector audits. Increasing the number of firms that are eligible to conduct the independent private sector audits should increase competition, which should make it less costly for an issuer to obtain such an audit.
still be meaningful because it will provide some assurance from an independent third party that the issuer's due diligence framework is designed in conformity with the relevant nationally or internationally recognized due diligence framework and that the issuer actually performed the due diligence measures as they were described.

With respect to what audit objective is appropriate, we considered the following possible audit objective alternatives from commentators: whether management’s description of procedures and controls performed in their due diligence process are fairly described in the report; whether an issuer’s design of its due diligence process described in the report is conforming to a recognized standard of due diligence; whether management’s description of an issuer’s due diligence process in its report is accurate, the results of that process are fairly stated, and the issuer has evaluated/identified the upstream and downstream due diligence processes; whether the design of the due diligence process described in the report is conforming to a recognized standard and whether the process was effective; whether the issuer’s conclusion regarding the source and chain of custody of its conflict minerals are accurate; and whether the issuer appropriately included in the report all its products described as having not been found to be “DRC conflict free.” We used our discretion to make the audit objective in the final rule similar to the first and second alternatives with some modification. The final rule states that the objective of the independent private sector audit is for the auditor to express an opinion or conclusion as to whether the design of the issuer’s due diligence measures as set forth in the Conflict Minerals Report, with respect to the period covered by the report, is in conformity with, in all material respects, the criteria set forth in the nationally or internationally recognized due diligence framework used by the issuer, and whether the issuer’s description of the due diligence measures is conforming as set forth in the Conflict Minerals Report, with respect to the period covered by the report, is consistent with the due diligence process that the issuer undertook.

We believe that our choice of audit objective in the final rule will reduce the costs and burdens more than certain other alternatives. However, we recognize that the audit objective will not reduce the costs and burdens as much as if the audit objective required only an opinion or conclusion as to whether the design of the issuer’s due diligence measures is in conformity with the criteria set forth in the nationally or internationally recognized due diligence framework. We believe an audit related to whether the issuer actually performed the due diligence measures that it represents that it performed in the Conflict Minerals Report is necessary and appropriate so that the audit also addresses, in a cost effective manner, the actual performance of the due diligence and not just the design as well as provide independent third party confirmation that the work described was performed. Based on the comments we received, however, an audit objective based on any of the alternatives other than just the design of the issuer’s due diligence measures and the issuer’s description of the due diligence measures it performed would be very costly and burdensome to undertake due to the breadth of those alternatives and the fact that most of the evidence required for those alternatives would be held by third party suppliers and smelters.

8. Conflict Minerals From Recycled or Scrap Sources
The Conflict Minerals Statutory Provision is silent as to the treatment of conflict minerals from recycled or scrap sources. In the final rule, however, we provided for alternative treatment for conflict minerals from recycled or scrap sources. The alternative reporting requirements for conflict minerals from recycled or scrap sources should benefit issuers by reducing issuers’ compliance costs with the disclosure requirements in Section 1502 because those issuers will conduct a reasonable inquiry regarding whether those minerals are from recycled or scrap sources instead of having to exercise due diligence and provide a Conflict Minerals Report in all cases. Also, issuers that, following a reasonable inquiry conducted in good faith, reasonably believe their minerals are from recycled or scrap sources will not have to obtain an independent private sector audit. A reduction in costs of not having to exercise due diligence or obtain an independent private sector audit is likely to be significant for those industries that use a high concentration of conflict minerals that are from recycled or scrap sources.

The final rule requires issuers with conflict minerals that have reason to believe their conflict minerals may not come from recycled or scrap sources to exercise due diligence in determining whether the minerals are, in fact, from recycled or scrap sources. That due diligence must follow a nationally or internationally recognized due diligence framework, if such framework is available. While providing a higher degree of certainty that those conflict minerals came from recycled or scrap sources, the requirement will also increase the costs to issuers, compared to an alternative that would allow issuers to rely on their own due diligence approach to verify that these minerals are from recycled or scrap sources. Eliminating the requirement of an independent private sector audit of their Conflict Minerals Report, however, could potentially decrease costs to issuers.

We believe that the magnitude of the cost savings for issuers with conflict minerals from recycle or scrap sources will be greatest for companies that use exclusively scrap and recycled materials. Although we did not receive any information from commentators as to the number of companies that may fall into this category, a number of commentators stated that the use of conflict minerals from recycled or scrap sources is significant. For example, some commentators noted that China controls approximately 85% of the world’s tungsten supply, but China is cutting back on tungsten exports, which is causing the price of tungsten to increase by 130%. According to these commentators, this development has caused American manufacturers to move to recycled tungsten, which represented approximately 55% of apparent consumption of tungsten in all forms. Also, as another example, a commentator noted that up to 40% of the world’s gold supply is from recycled or scrap sources. Even so, issuers that use both conflict minerals from recycled or scrap sources and newly mined minerals may still need to exercise due diligence and obtain an audit regarding the conflict minerals that are not from recycled or scrap sources and thus, may not have significant additional cost savings. Overall, however, even with these requirements, we believe that providing an alternative treatment for conflict minerals from recycled or scrap sources should benefit issuers by reducing their compliance costs for those minerals as compared with the costs applicable to newly mined conflict minerals. Moreover, an indirect consequence of our differential

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605 We are unable to estimate the total magnitude of these cost savings because we do not have empirical evidence regarding the scope of the use of conflict minerals that are from recycled or scrap sources. See below Section D for a further analysis of the potential costs of this provision.


607 See letter from WGC II.
treatment of scrap and recycling materials may be to increase the extent to which these materials are recycled. Finally, the reasonable country of origin inquiry requirements are likely to improve the disclosures regarding conflict materials from recycled or scrap sources.

9. Conflict Minerals “Outside the Supply Chain”

Like conflict minerals from recycled and scrap sources, the Conflict Minerals Statutory Provision is silent as to the treatment of conflict minerals “outside the supply chain” at the time our final rule takes effect, including existing stockpiles of conflict minerals. However, in the final rule we have determined to exclude any conflict minerals that are “outside the supply chain” prior to January 31, 2013. The final rule considers conflict minerals to be “outside the supply chain” after such conflict minerals have been smelted (in the case of tantalum, tin, or tungsten) or refined (the case of gold), or, if not smelted or refined, are physically located outside of the Covered Countries.

We are aware of the concern that these existing stockpiles could have come from activities that financed or benefited armed groups in the Covered Countries. However, once those minerals have been smelted, refined, or transported out of the Covered Countries, it seems unlikely that they could further finance or benefit armed groups. Therefore, we believe excluding these stockpiled minerals would be consistent with the statutory intent of the Conflict Minerals Statutory Provision and does not significantly impair the benefits sought by the statute. Moreover, the approach we have chosen may substantially reduce compliance costs for some issuers by not requiring them to determine the origin and chain of custody of these stockpiled minerals. An alternative approach that requires issuers to determine the origin and chain of custody of their stockpiled minerals would greatly increase costs, particularly for conflict minerals that were extracted prior to the contemplation of the Conflict Minerals Statutory Provision because issuers would not have known they were expected to determine the origin of those minerals at the time of their extraction. Further, if stockpiled minerals were not excluded, issuers might not be able to sell those minerals and could be forced to dispose of their existing minerals inventory at below market prices, or at a loss. If such a situation occurred, as one commentator noted, the cost of the final rule would increase “dramatically.”

10. Conflict Mineral Derivatives

The Conflict Minerals Statutory Provision defines the term “conflict mineral” as cassiterite, columbite-tantalite, gold, wolframite, or their derivatives, or any other minerals or their derivatives determined by the Secretary of State to be financing conflict in the Covered Countries. The Proposing Release provided the same definition of the term “conflict mineral” as well. In the final rule, however, we used our discretion to limit the term “conflict mineral” to include only cassiterite, columbite-tantalite, gold, wolframite, and their derivatives, which are limited to only the 3Ts, unless the Secretary of State determines that additional derivatives are financing conflict in the Covered Countries, in which case they are also considered “conflict minerals.” By using our discretion to limit the covered mineral derivatives, we could be limiting the usefulness of the information of the conflict minerals disclosure. This potential disadvantage is mitigated, however, by the fact that tantalum, tin, and tungsten are by far the most common derivatives of these minerals. A different approach would increase costs to issuers by increasing the number of derivatives that they would have to determine in their products.

11. Method and Timing of Disclosure on Form SD

Exchange Act Section 13(p)(1)(A) requires issuers to “disclose annually” their conflict minerals information, but does not specify how issuers should disclose this information or at what time during the year the disclosure must be provided. The final rule requires issuers to provide this information annually in a new specialized disclosure report on Form SD that covers a calendar year, regardless of the issuer’s fiscal year end, and is due on May 31 of the subsequent year. Our decision to provide through rulemaking that issuers use the new form for the disclosure of conflict minerals’ origin and the Conflict Minerals Report makes it easier for those interested in the disclosed information to locate the form. In addition, the final rule requires that issuers present the information in a standardized manner. Users that find the information about an issuer’s conflict minerals relevant to their decision making will benefit from the standardization and simplification of the disclosure.

Further, requiring issuers to use a new form with a uniform filing date rather than submitting conflict minerals information in their annual reports would benefit most issuers by allowing them to have sufficient time to prepare and file their conflict minerals information independent from the due dates for annual reports. Moreover, we believe that this staggered filing date will benefit issuers because they could, if they choose to do so, use the same personnel to handle this filing as their annual reports. Another benefit for issuers of requiring issuers to provide their conflict minerals information on a new form, instead of an annual report on Form 10–K, Form 20–F, or Form 40–F, is to remove the conflict minerals information from the disclosure that principal executive and financial officers must certify under Sections 302 and 906 of Sarbanes-Oxley, which could reduce costs to issuers. Also, requiring a uniform reporting period for all issuers will benefit companies that supply products or components with conflict minerals by allowing them to provide reports once per year for all their customers, rather than having to prepare reports throughout the year for customers with different reporting periods, which will reduce such companies’ costs.

Our decision to require a new form will result in costs related to the preparation of such an exhibit, as we discuss below in the Paperwork Reduction Act section. Also, our decision to require an issuer to provide its Conflict Minerals Report and its independent private sector audit report as an exhibit to its specialized disclosure report on Form SD will result in costs related to the preparation of such an exhibit. Requiring covered issuers to file, instead of furnish, their Conflict Minerals Reports gives investors the ability to bring suit if issuers fail to comply with the new disclosure requirements, for instance under Exchange Act Section 18. This may, therefore, potentially improve the avenues of redress available to investors. This, in turn, may provide benefits to investors to the extent they rely on the information to make investment decisions. Because this could improve investors’ ability to seek
redress, it is possible that covered issuers could be found liable for the disclosure. Our decision to require issuers to “file,” rather than “furnish,” the information will potentially subject issuers to litigation under Section 18 and may “incentivize issuers (and auditors and underwriters) to conduct an appropriate level of diligence” in preparing the disclosures,” thereby increasing issuers’ cost of complying with the final rule. In addition, our decision to require a uniform reporting period could further increase costs to issuers that do not have calendar year fiscal years by requiring separate reporting outside of the issuer’s normal reporting period.

12. “Necessary to the Functionality or Production”

Exchange Act Section 13(p)(2)(B) defines a “person described” as one for which conflict minerals are “necessary to the functionality or production of a product manufactured by such a person.” The Conflict Minerals Statutory Provision, however, provides no additional explanation or guidance as to the meaning of “necessary to the functionality or production of a product.” We use our discretion not to define this phrase in the final rule.

Compared to an alternative of the rule, which would define this phrase, our decision not to provide a definition gives issuers significant flexibility to use a definition that applies best to their particular circumstances. Such flexibility generally lowers issuers’ compliance costs as issuers can determine whether the phrase is applicable based upon their specific facts and circumstances. But we also recognize that our decision not to define this phrase could increase uncertainty for issuers on how the phrase should be implemented and may therefore result in additional costs to some issuers. For example, the uncertainty associated with leaving the phrase undefined could lead some issuers to interpret the definitions in a manner that is more expansive than if these terms were defined, thus incurring a higher compliance cost than is necessary. In this regard, some issuers may decide to use more internal or external resources than if this phrase was defined to make sure they are compliant with the rule, which would also increase compliance costs. The lack of a clear definition could also result in a diminishment of the benefit of the rule if some issuers are less rigorous in determining and reporting on their products that have conflict minerals, which would reduce the informativeness of their disclosure.

We have attempted to mitigate the potential cost of leaving the phrase undefined by the guidance we provide in the release. Our guidance provides issuers with contributing factors that they should use in their determination of “necessary to the functionality or production,” which will reduce the possibility that some issuers may interpret the phrase in either an over- or underinclusive manner. Also, we noted concerns that there is ambiguity in the application of the provision to conflict minerals that do not end up in the product, and, as noted above, commentators were mixed in their views regarding how the rule should treat catalysts and other conflict minerals necessary to the production of a product that do not appear in the product. After considering the comments, we agree that it would be very difficult for any manufacturer of products that do not themselves contain conflict minerals to know every conflict mineral used in the production process. Therefore, we used our discretion to decide that, for a conflict mineral to be considered “necessary to the production” of a product, the conflict mineral must be contained in the product—and be necessary to the product’s production. Therefore, although this requirement may decrease the number of issuers that are covered under the final rule, we believe this is a reasonable approach that reduces costs to issuers by eliminating an especially challenging aspect from the proposal.

13. Categories of Issuers

We do not read the statute as making any distinction among issuers based on the issuer’s size or domesticity. As discussed above, although not specifically in the context of smaller reporting companies or foreign private issuers, some commentators suggested that we exempt certain classes of companies from full and immediate compliance with the disclosures required by the Conflict Minerals Statutory Provision. We are concerned that any broad categories of exemptions would undermine the statutory objectives discussed above. For the provision to have the effect we understand Congress intended, we are not exempting any class of issuer from its application. We recognize that this imposes a cost burden on those issuers who are not exempted, but conclude that this burden is required by the statute.

Additionally, as one commentator noted, it is unclear whether exempting smaller reporting companies would significantly reduce their burdens because smaller reporting companies could still be required to track and provide their conflict minerals information for larger issuers. Moreover, as other commentators noted, to the extent there are benefits to smaller companies from an exemption, such an exemption could increase the burden on larger companies that rely on smaller reporting company suppliers to provide conflict minerals information needed by the larger reporting companies. Further, the temporary availability of the “DRC conflict undeterminable” category is likely to reduce the compliance burden for all companies, including smaller reporting companies. In this regard, not including private companies and individuals in the final rule may not unduly burden reporting issuers because the commercial pressure on private companies from issuers that need this information for their reports and from the public in general demanding that issuers make this information available could be sufficient for the private companies to provide voluntarily their conflict minerals information as standard practice. Further, the extension of the availability of the “DRC conflict undeterminable” category for an additional two years is likely to reduce the compliance burden even more for some smaller reporting companies.

Similarly, exempting foreign private issuers from the final rule could increase domestic issuers’ burdens by making it very difficult for them to compel their foreign private issuer suppliers to provide conflict minerals information. In addition, exempting foreign private issuers from the final rule could result in a competitive disadvantage for domestic issuers because foreign private issuers would not be subject to the final rule. Overall, we are not exempting foreign

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812 See letter from Global Witness I.
813 While the increased potential for litigation may increase costs, we note that Section 18 claims have not been prevalent in recent years and a plaintiff asserting a claim under Section 18 would need to meet the elements of the statute, including materiality, reliance, and damages. See Louis Loss and Joel Seligman, Ch. 11 “Civil Liability,” Subsect. c “False Filings [§ 18],” Fundamentals of Securities Regulation (3rd Ed. 2005). We are unable to estimate the magnitude of this potential cost increase at this time. We cannot predict at this time whether Section 18 claims will increase and (if so, by how much) and how costly it may be to ultimately prove the required elements or defend such a case.
814 See, e.g., letters from Davis Polk, NCTA, Verizon, and WilmerHale.
815 See letters from IPC I.
816 See, e.g., letters from IPC I and TriQuint I.
817 See letter from Howland and TIC.
private issuers because we believe that doing so would not give effect to Congressional intent.

14. Not Including Mining Issuers as Manufacturing Issuers

The Conflict Minerals Statutory Provision does not state whether issuers that mine conflict minerals should be considered to be manufacturing those minerals and be included under the provision. We do not consider an issuer that mines or contracts to mine conflict minerals to be manufacturing or contracting to manufacture those minerals unless the issuer also engages in manufacturing, whether directly or through contract, in addition to mining. In this regard, we do not believe that mining is “manufacturing” based on a plain reading of the provision. Excluding such mining issuers from the universe of covered companies could create a competitive advantage for those companies over covered companies to the extent that they are competitors, but this advantage should be diminished for mining companies that are suppliers of conflict minerals to covered companies because the covered companies would require the conflict minerals information from the mining company. Also, excluding such mining issuers from the final rule could increase costs to other issuers along the supply chain because, without being covered, such mining issuers may not have the incentive to share origin and chain of custody information about the conflict minerals they mined. However, not including such mining issuers may decrease certain costs for mining issuers, since such issuers will not have to comply with the Conflict Minerals Statutory Provision with respect to conflict minerals mined by such issuers (unless necessary to the production or functionality of a product manufactured, or contracted to be manufactured, by such issuer).

However, we expect that such mining issuers will incur costs to provide information on the source and custody of conflict minerals mined by such issuers to their customers, and other participants in their supply chain, who are subject to the Conflict Minerals Statutory Provision.

D. Quantified Assessment of Overall Economic Effects

As noted above, Congress intended for the rule issued pursuant to Section 1502 to decrease the conflict and violence in the DRC, particularly sexual and gender-based violence.819 A related goal of the statute is the promotion of peace and security in the Congo.820 These are compelling social benefits, which we are unable to readily quantify with any precision, both because we do not have the data to quantify the benefits and because we are not able to assess how effective Section 1502 will be in achieving those benefits.821 We also note that these objectives of Section 1502 appear to be directed at achieving overall social benefits and are not necessarily intended to generate measurable, direct economic benefits to investors or the economy specifically. Additionally, the social benefits are quite different from the economic or investor protection benefits that our rules ordinarily strive to achieve. We therefore have not attempted to quantify the benefits of the final rule.

Based on comments and our analysis, we do expect that the statute will result in significant economic effects. We have noted the views of commentators on direct compliance costs, and we acknowledge that these costs are substantial. However, issuers with a reporting obligation under the Conflict Minerals Statutory Provision could be put at a competitive disadvantage with respect to private companies that do not have such an obligation.822 We note, however, that non-reporting companies are part of the supply chain of reporting issuers and will bear many of the compliance costs of determining whether their minerals are conflict-free.823 We also expect that the implementation of the statute may provide significant advantage to foreign companies that are not reporting in the United States—and thus need not comply—but do compete directly with reporting issuers in the United States. In requiring the Commission to promulgate this rule, however, Congress determined that its costs were necessary and appropriate in furthering the goals of helping end the conflict in the DRC and promoting peace and security in the DRC. To the extent the final rule implementing the statute imposes a burden on competition in the industries of affected issuers, therefore, we believe the burden is necessary and appropriate in furtherance of the purposes of Section 1502(p). Also, if foreign jurisdictions implement similar laws or regulations similar to Section 1502 or the final rule,824 any advantages available to foreign companies listed in such jurisdictions but not listed in the United States may be diminished.

As we have observed, unlike in most of the securities laws, Congress intended the Conflicts Mineral Provision to serve a humanitarian purpose, which is to prevent armed groups from benefiting from the trade of conflict minerals. There may also be a benefit to investors given the view expressed by some commentators that the provision also protects investors by requiring disclosure of information that may be material to their understanding of the risks of investing in an issuer or its supply chain. To the extent that the required disclosure will help investors in pricing the securities of the issuers subject to the Conflict Minerals Statutory Provision, the rule could improve informational efficiency. Because, however, the cost of compliance for this provision will be borne by the shareholders of the company, which could potentially divert capital away from other productive opportunities, the rule may result in a loss of allocative efficiency. The reduction in allocative efficiency could be offset, somewhat, by increased demand for the firm’s products and/or shares by socially conscious consumers and investors. We do not expect that the rule would negatively impact prospects of the affected industries to an extent

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819 See Section 1502(a) of the Act (“It is the sense of the Congress that the exploitation and trade of

820 See Section 1502(d)(2)(A) of the Act (directing the GAO to assess the effectiveness of Exchange Act Section 13(p) in promoting peace and security in the Covered Countries).


822 In our Economic Analysis, we use the term “competition” to mean competition in the industries of the affected issuers, not competition in all of the markets that the Commission is charged with regulating, which are the United States securities markets. We do not expect any effects of the rule on the competition in the United States securities markets.

823 See, e.g., letters from Japanese Trade Associations and NAM I.
that would result in withdrawal of capital from these industries. Thus, we do not expect the rule to have a significant impact on capital formation.

There may, however, be several indirect economic effects that could be significant. The high cost of compliance provides an incentive for issuers to choose only suppliers that obtain their minerals exclusively from outside the Covered Countries, thereby avoiding the need to prepare a Conflict Minerals Report. To the extent that Covered Countries are the lowest cost suppliers of the minerals affected by the statute, issuers preferring to find substitutes or other suppliers of non-DRC minerals would have to increase the costs of their products to recoup the higher costs. Reducing the viable supply of such minerals may have the indirect effect of increasing the cost of acquiring these minerals.

As mentioned above, the overall specific range of costs for compliance with the rule provided by commentators was between $50,000 and $16 billion. The wide divergence of the cost estimates among the four separate analyses submitted by a manufacturing industry association,825 an electronic interconnect industry association,826 a university group,827 and an environmental consultancy company828 illustrates to us the difficulty of ascertaining the estimated costs of implementing the statute and our discretionary choices. We have reviewed the proposal and the comments received and have used the information provided by commentators to inform our Economic Analysis of the final rule. In the remaining part of this section we attempt to quantify, to the extent possible, the compliance costs resulting from the final rule by relying on and critically evaluating the estimates and the analyses that commentators provided. Rather than using a single analysis, a combination of the analyses can provide a useful framework for understanding various cost components of our implementing the rule. Our approach strives to achieve a balanced and reasonable analysis based on the data and assumptions provided by all commentators, as well as our own analysis and assumptions. When it is deemed prudent, we have chosen to make conservative assumptions that may, in some cases, lead to an overestimation of the costs. Overall, after performing our analysis we conclude that the costs of the statute will be substantial. Thus, we have revised our own prior estimate of the cost of complying with the rule. Based on our analysis of the data, we provide a range of the costs of both initial compliance and the annual cost of ongoing compliance. In our view, because of the potential variations in the manner in which issuers will undertake compliance, providing such a range is more appropriate than providing a precise cost estimate. Our revised estimate is that the initial cost of compliance is between approximately $3 billion to $4 billion, while the annual cost of ongoing compliance will be between $207 million and $609 million.

We start our analysis of the cost of compliance by incorporating all of the comments that provide quantified data on the aggregate potential costs of the proposed rule. So, while our overarching consideration of the costs of the rule we are adopting today takes into account the information provided by a broad range of commentators, the most useful frameworks for considering costs were provided by the manufacturing industry association and university group commentators. Other comments, while also providing certain valuable insights into how our rules would be implemented, were either not as transparent in their analytical frameworks or not easily generalizable in terms of aggregating the costs across multiple industries.

We also found it significant that the two analyses by the manufacturing industry association and university group commentators take into account the categories of costs most often identified as significant by commentators and that we agree are likely to be measured such. Moreover, we did not find the assumptions underlying their frameworks to be qualitatively different from the discussions of costs provided by other commentators.

At the same time, in our view, even these two studies did not provide sufficiently documented evidence to support all of their assumptions and assertions and consequently, commentators differed on the quantification of these costs. We have therefore taken into account the views expressed in other comment letters, and made modifications to the analyses provided by the manufacturing industry association and university group commentators accordingly. What follows is a modified analysis of the manufacturing industry association and university group commentators' estimates that we believe better synthesizes the information provided to us in the comment process.

First, in both of these estimates, an important consideration is the cost of upgrading or implementing changes to IT systems. Based on the letters submitted as well as estimates from other commentators, we believe the manufacturing industry association and university group commentators may have been over-inclusive in their estimates. For example, the environmental consultancy company commentator estimates a much smaller number of $25,000 for the IT system and $10,000 for IT support. The commentator then states that, “a cost of $6B is 10 times the total annual sales for all restricted materials software (of which conflict minerals is a small part) and does not seem realistic for particularly since conflict minerals software for small companies can be downloaded for free.” The environmental consultancy company commentator further states that “[t]he systems quoted by [the manufacturing industry association and university group commentators] are the most expensive systems on the market,” and that “[m]ost companies we interviewed said they would not need to invest in new software solely for conflict minerals.”

While we are persuaded by the argument that an average issuer should not expect to spend $1,000,000 to invest in a new IT system, we do not accept the environmental consultancy company commentator’s own estimate of $35,000 because it does not provide a factual basis for the assertion. In modifying the estimates of the manufacturing industry association and university group commentators, we do not intend to replace the manufacturing industry association and university group commentators’ cost estimates with the smaller estimate provided; rather, for purposes of our cost estimate, the appropriate estimate lies somewhere in between those two estimates.

Based on the university group commentator’s analysis, we assumed $205,000 for small company computer costs rather than $1,000,000. Further, we assumed that the computer costs for

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825 See Section III.B.2.b.i.
826 See Section III.B.2.b.ii.
827 See Section III.B.2.b.iii.
828 See Section III.B.2.b.iv.

829 As shown below, while we draw on the quantified analyses supplied by the electronic interconnect industry association and the environmental consultancy company commentators, these letters did not provide as broad a range of quantified cost estimates as those provided by the manufacturing industry association and university group commentators.

830 See letter from Claigan III. See also letter from Assent (critiquing the cost estimates of both the manufacturing industry association commentator and the university group commentator).

831 Letter from Claigan III.
large issuers would be twice those for smaller issuers, or $410,000, and not four times those for a smaller issuer as assumed by the university group commentator.\footnote{832} In order to make the IT cost analysis consistent between the university group and the manufacturing group’s revised analysis, we averaged the total IT cost per company in the university analysis and divided it by the total number of issuers for an average IT cost for all companies (irrespective of size) of approximately $250,000 and apply it to the manufacturing group’s analysis.\footnote{833} This respectively changes the manufacturing industry association and university group commentators’ estimates of the total IT cost from $5.9 billion and $2.6 billion, respectively, to approximately $1.5 billion.

Second, another important cost assumption is that the manufacturing industry association commentator assumes that each issuer has an average of 2000 first-tier suppliers. They arrive at this number based on their “consultations with a number of large manufacturers, and based on research by” others. This estimate of the average number of first-tier suppliers is, however, not supported by other estimates, and is in fact difficult to reconcile with figures reported by other commentators. For example, the average number of suppliers per company in the electronic interconnect industry association commentator study is only 163.\footnote{834} The environmental consultancy company commentator also believes the supply chain would be much simpler than the manufacturing industry association commentator predicts, based on the EICC/GeSI process. The manufacturing industry association commentator maintains, however, that many of its members have well over 2,000 suppliers. We do think a prudent reduction in the manufacturing industry association commentator’s estimate is warranted, but here again, we do not know that 163 is any more representative of an average company’s experience. Thus, we use the university group commentator’s estimate of 1,060 suppliers while employing the manufacturing industry association commentator’s analysis. Revising the manufacturing industry association commentator’s number of suppliers in the supply chain lowers their estimate of compliance costs from $1.2 billion to $635 million.

In addition, we are not convinced that the estimate of cost to suppliers is appropriately generated by a top-down approach (number of supplier relationships). Indeed, we think a top-down approach may not reflect how our rule may be implemented because it is not clear how the market may react in placing the various burdens of trace on the countless entities in the supply chains. In this top-down approach (which is the approach used by many commentators) each firm using these minerals will need to track backwards through each supplier. If many firms share the same supplier, the underlying assumption is there are few economies of scale in determining whether the minerals are conflict-free. Under this approach, each firm pays an independent cost of finding out from each of their suppliers where the minerals originate.\footnote{835} We believe, however, that due diligence on the part of suppliers likely will be a bottom-up approach in which materials are tagged at the mine and certified at the smelter and then are introduced into the supply chain. Given this bottom-up approach, each supplier will then track whether the mineral is conflict-free and to whom it will be sold. While the system for tracking the sales of these minerals may increase in magnitude with the number of companies the supplier supplies, we believe the better approach to estimating costs of the supply chain would be to estimate the total number of affected suppliers (bottom-up) rather than the total number of supplier relations (top-down).

A bottom-up approach places more emphasis on the number of suppliers and assumes that there are economies of scale in the cost because suppliers need only determine the source of their minerals once and then spread the cost of determining the source across many issuing firms. For example, if issuers have many suppliers to choose from, they may find it easier to deal with—and hence more valuable to employ—only those suppliers who can fully attest that they are conflict-free. Therefore, if all first-tier suppliers bear the burden of certifying and providing conflict reports, then the relative burden on the issuers will be very small. All of this will, however, depend in turn on the comparative bargaining power between the issuers and the suppliers at every level. Ultimately, none of the studies have provided compelling explanations for the precise dynamics that will govern the issuer-supplier or first-tier supplier-second-tier supplier relationships. On the whole, we think it would be much more reasonable to believe that suppliers at all levels will expend some effort individually in providing information to the affected customers regarding the source of their minerals, but each supplier’s effort in turn will most likely reduce the cost of its customers to comply with our rules.

Few commentators provided an estimate of the total number of suppliers affected. In the university group commentator’s estimate, even after adjusting for potential overlap, the total number of suppliers to be affected totals over 860,000, which is based on the total supply chain. Using the total supply chain to estimate the affected suppliers will create redundancies because a supplier may be in more than one supply chain and therefore, be counted multiple times. Thus, we believe the total number of suppliers affected in the university group commentator’s analysis is likely to be too high. The manufacturing industry association commentator, on the other hand, estimated the total number of small and medium-sized manufacturing businesses to be affected at 278,000 and states that many of these small businesses are likely to be suppliers. The 2009 Statistics of U.S. Businesses from the U.S. Census estimates the total number of manufacturing businesses at 266,175, and the number of small manufacturing businesses (those with fewer than 500 employees) at 262,524.\footnote{836} Both of these numbers are

\footnote{832}{The environmental consultancy company commentator estimates the IT costs for a company with $1 billion in revenue to be $35,000. Our estimate of IT costs attempts to incorporate these two widely varying viewpoints. See letter from Cliaigan III.}

\footnote{833}{Approximately $1.5 billion/5,994 issuers.}

\footnote{834}{See letter from IPC I.}

\footnote{835}{The university group commentator states that there are “overlap” or “mutuality” cost efficiencies that will emerge on the supplier side, as the same supplier may have supply contracts with more than one issuer thus allowing them to use any management systems changes to meet the needs of multiple issuers. This commentator estimates that supplier efforts will be reduced by 60% because of this supplier-issuer overlap and modifies the number of suppliers accordingly. See letter from Tulane.}

\footnote{836}{See U.S. Census Bureau, Statistics of U.S. Business (2009), available at http://www.census.gov/econ/susb/. We recognize that the U.S. Census Bureau uses the NAICS definitions, including the definition of “manufacturing.” As discussed above, we did not adopt that definition for the final rule because it appears to exclude any issuer that manufactures a product by assembling that product out of materials, substances, or components that are not in raw material form, which would exclude large categories of issuers that manufacture products through assembly. However, we believe it is not inappropriate to use the Census Bureau’s data regarding the total number of manufacturing businesses and the number of small manufacturing businesses in determining whether to use the number of suppliers provided by the university group commentator or the number provided by the manufacturing industry association commentator. Because we only have two real choices in the number of suppliers to use for our calculations, we need some way to determine which figure is a more viable estimate. Despite the
similar to the number provided by the manufacturing industry association commentator. We therefore have revised the university group commentator’s analysis on the number of affected suppliers to be consistent with the manufacturing industry association commentator at 278,000 to reflect this judgment. In addition, consistent with the university group commentator framework, we assumed that the same percentage of suppliers as issuers would be considered large (28%) and small (72%). Thus, in our revised university group commentator’s analysis, the total number of large suppliers is 77,840 while the total number of small suppliers is 200,160. This changes the total compliance cost for suppliers from $5.1 billion in the university group commentator’s analysis to $1.2 billion in our revised analysis.

The overall impact of these changes to the analysis, a reduction in IT costs (to both the manufacturing industry association and university group commentators), a modification in the number of suppliers in the supply chain (to the manufacturing industry association commentator) and a decrease in the number of suppliers affected (to the university group commentator) changes the total estimated cost of compliance substantially. The manufacturing industry association commentator’s estimate declines from $9.3 billion to $4.1 billion while the university group commentator’s estimate drops from $7.94 billion to $3.0 billion.

The combination of these modifications in the two analyses leads us to estimate that initial compliance costs could be between $3.0 and $4.0 billion for all companies to comply with the statutory requirements. Below are the two revised analyses in tabular form with the revised estimates highlighted in bold:

### Revised Calculation

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<th>Issuers affected</th>
<th>Cost per hour</th>
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<td>Total cost</td>
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<td>$9,994*158,841</td>
</tr>
<tr>
<td><strong>Smaller Supplier Due Diligence:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suppliers affected (only 20% to conduct)</td>
<td>55,600</td>
<td>$25,000</td>
</tr>
<tr>
<td>Due diligence cost</td>
<td></td>
<td>$1,390,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>$4,132,705,000</td>
</tr>
</tbody>
</table>

### Revised Calculation

<table>
<thead>
<tr>
<th>Category</th>
<th>Issuers affected</th>
<th>Cost per hour</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>University Group Commentator Estimate:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large issuer (28% of issuers)</td>
<td>5,994</td>
<td>$50</td>
</tr>
<tr>
<td>Small issuer (72% of issuers)</td>
<td>1,678</td>
<td>$50</td>
</tr>
<tr>
<td>Number of 1st tier suppliers (53% of NAM)</td>
<td>4,316</td>
<td>$50</td>
</tr>
<tr>
<td>Internal cost per hour</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Number of compliance hours for large issuer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of compliance hours for small issuer</td>
<td>40</td>
<td>$50</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>$4,132,705,000</td>
</tr>
</tbody>
</table>

---

Note: We are using the rounded estimate (4,500) that was used by the university group and manufacturing industry association commentators in their calculations even though a more exact number of issuers would be 4,496 (75 * 5,994 = 4,495.5). See infra note 869.

837 The manufacturing industry association commentator refers to this as “changes to their corporate compliance policies.” See letter from NAM I.

838 The manufacturing industry association commentator refers to this as “proper information regarding the source of minerals.” Id.

839 We are using the rounded estimate (4,500) that was used by the university group and manufacturing industry association commentators in their calculations even though a more exact number of issuers would be 4,496 (.75 * 5,994 = 4,495.5). See infra note 869.

840 We are using the rounded estimate (4,500) that was used by the university group and manufacturing industry association commentators in their calculations even though a more exact number of issuers would be 4,496 (.75 * 5,994 = 4,495.5). See infra note 869.

841 We are using the rounded estimate (4,500) that was used by the university group and manufacturing industry association commentators in their calculations even though a more exact number of issuers would be 4,496 (.75 * 5,994 = 4,495.5). See infra note 869.

842 We are using the rounded estimate (4,500) that was used by the university group and manufacturing industry association commentators in their calculations even though a more exact number of issuers would be 4,496 (.75 * 5,994 = 4,495.5). See infra note 869.
## Revised Calculation

<table>
<thead>
<tr>
<th>Description</th>
<th>Revised</th>
<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal costs for large issuer (90% of total work load)</td>
<td>$7,551,000</td>
<td>1,678<em>0.9</em>100*$50</td>
</tr>
<tr>
<td>Internal costs for small issuer (75% of total work load)</td>
<td>$6,474,000</td>
<td>4,316<em>0.75</em>40*$50</td>
</tr>
<tr>
<td>Consulting cost per hour</td>
<td>$200</td>
<td></td>
</tr>
<tr>
<td>Consulting costs for large issuer (10% of total work load)</td>
<td>$3,356,000</td>
<td>1,678<em>0.1</em>100*$200</td>
</tr>
<tr>
<td>Consulting costs for small issuer (25% of total work load)</td>
<td>$8,632,000</td>
<td>4,316<em>0.25</em>40*$200</td>
</tr>
<tr>
<td>Total cost</td>
<td>$26,013,000</td>
<td></td>
</tr>
</tbody>
</table>

### IT Systems Modification:

<table>
<thead>
<tr>
<th>Description</th>
<th>Revised</th>
<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost per large issuer</td>
<td>$410,000</td>
<td></td>
</tr>
<tr>
<td>Cost per small issuer</td>
<td>$205,000</td>
<td></td>
</tr>
<tr>
<td>Total large issuer cost</td>
<td>$887,880,000</td>
<td>1,678*$410,000</td>
</tr>
<tr>
<td>Total small issuer cost</td>
<td>$884,760,000</td>
<td>4,316*$205,000</td>
</tr>
<tr>
<td>Total costs</td>
<td>$1,572,640,000</td>
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</table>

### Conflict Minerals Report Audits:

<table>
<thead>
<tr>
<th>Description</th>
<th>Revised</th>
<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issuers affected</td>
<td>4,500</td>
<td></td>
</tr>
<tr>
<td>Number of large issuers</td>
<td>1,260</td>
<td>4,500*0.28</td>
</tr>
<tr>
<td>Number of small issuers</td>
<td>3,240</td>
<td>4,500*0.72</td>
</tr>
<tr>
<td>Large issuer cost</td>
<td>$100,000</td>
<td></td>
</tr>
<tr>
<td>Small issuer cost</td>
<td>$25,000</td>
<td></td>
</tr>
<tr>
<td>Total costs for large issuers</td>
<td>$126,000,000</td>
<td>1,678*$100,000</td>
</tr>
<tr>
<td>Total costs for small issuers</td>
<td>$81,000,000</td>
<td>4,316*$25,000</td>
</tr>
<tr>
<td>Total costs</td>
<td>$207,000,000</td>
<td></td>
</tr>
</tbody>
</table>

### Supplier Due Diligence Reform:

<table>
<thead>
<tr>
<th>Description</th>
<th>Revised</th>
<th>Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total large suppliers</td>
<td>77,840</td>
<td>278,000*0.72</td>
</tr>
<tr>
<td>Total small suppliers</td>
<td>200,160</td>
<td>278,000*0.28</td>
</tr>
<tr>
<td>Number of compliance hours for large supplier</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Number of compliance hours for small supplier</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Internal cost per hour</td>
<td>$50</td>
<td></td>
</tr>
<tr>
<td>Internal costs for large supplier (90% of total work load)</td>
<td>$350,280,000</td>
<td>77,840<em>100</em>0.9*$50</td>
</tr>
<tr>
<td>Internal costs for small supplier (75% of total work load)</td>
<td>$300,240,000</td>
<td>200,160<em>100</em>0.75*$50</td>
</tr>
<tr>
<td>Consulting cost per hour</td>
<td>$200</td>
<td></td>
</tr>
<tr>
<td>Consulting costs for large supplier (10% of total work load)</td>
<td>$155,680,000</td>
<td>77,840<em>100</em>0.1*$200</td>
</tr>
<tr>
<td>Consulting costs for small supplier (25% of total work load)</td>
<td>$400,320,000</td>
<td>200,160<em>100</em>0.25*$200</td>
</tr>
<tr>
<td>Total cost</td>
<td>$1,206,520,000</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$3,012,293,000</td>
<td></td>
</tr>
</tbody>
</table>

The manufacturing industry association and the university group commentators also provided estimates of ongoing compliance costs. As discussed above, we consider the framework provided by these commentators to be the most useful for estimating costs. The only other commentator to provide an estimate of ongoing costs was the electronic interconnect industry association commentator, but its analysis only included companies in that industry. The analyses provided by the manufacturing industry association and university group commentators yield costs estimates across multiple industries. The manufacturing industry association group commentator estimated an ongoing audit cost of $450 million and an ongoing cost estimate of approximately $300 million for issuer verification of supplier information. In our table above, however, we revised the estimate for issuer verification of supplier information to approximately $159 million. We did not modify the approximately $450 million cost estimate of the audit, which was based on its estimate that the cost of such an audit for these issuers would be $100 million per issuer, and not the $25,000 we estimated it to be in the Proposing Release. The total estimate of ongoing compliance costs based on our revisions to the manufacturing industry association commentator's analysis is therefore approximately $609 million. We believe that the university group commentator’s only significant recurring costs are the approximately $207 million audit costs. As with the manufacturing industry association commentator, we did not modify the approximately $207 million cost estimate of the audit. Therefore, we believe that the ongoing compliance cost estimate is likely to be in the range of $207 million to $609 million.

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843 We are using the rounded estimate (4,500) that was used by the university group and manufacturing industry association commentators in their calculations even though a more exact number of issuers would be 4,496 (.75 × 5,994 = 4,495.5). See infra note 869.

844 See letter from NAM I.

845 The university group commentator noted that “there would be some internal operations costs associated with performing ongoing due diligence and maintaining the necessary [information technology] systems on a company-to-company basis over the year,” but that the “recurring costs of operating same is very low compared with the initial implementation.” See letter from Tulane.

846 The manufacturing industry association commentator also quotes compliance costs by Technology Forecasters, Inc on the RoHS directive. Using the RoHS directive, they estimate total compliance costs of $32 billion and $3 billion annually for maintenance. See letter from NAM I. One potential method to estimate ongoing costs is to apply the ratio of initial compliance costs to ongoing compliance costs (9.375%) in the submitted RoHS analysis ($3 billion/$32 billion or 9.375%) and apply it to our revised estimates of the analyses of the manufacturing industry association and university group commentators. This results in total ongoing estimated compliance costs of $400 million.
IV. Paperwork Reduction Act

A. Background

Certain provisions of the final rule contain “collection of information” requirements within the meaning of the Paperwork Reduction Act of 1995 (the “PRA”).847 We published a notice requesting comment on the collection of information requirements in the Proposing Release for the proposed rules and amendments. The proposed rules and amendments would have amended one regulation and three forms. In response to comments received from the public, the Commission has decided to adopt a new disclosure form, rather than amend existing rules and forms. We have submitted the new collection of information requirements to the Office of Management and Budget (the “OMB”) for review in accordance with the PRA.848

The title for the collection of information is: “Form SD” (a new collection of information).
The form is adopted under the Exchange Act and sets forth the disclosure requirements for reports filed by certain issuers regarding their use of conflict minerals from the Covered Countries. The hours and costs associated with preparing and submitting the form constitute the reporting and cost burdens imposed by the collection of information. An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid control number. Compliance with the rule is mandatory. Responses to the information collection will not be kept confidential and there is no mandatory retention period for the information disclosed.

B. Summary of the Comment Letters

In the Proposing Release, we requested comment on the PRA analysis. We received only one comment letter that addressed the PRA explicitly,849 but we received a number of other comment letters and submissions that discussed the costs and burdens to issuers generally that would have an effect on the PRA analysis.850 A detailed discussion of these comments is included in the section III above regarding the Economic Analysis of the statute. In the Proposing Release, we estimated that approximately 5,994 issuers that the Proposing Release stated could be affected by the final rule, the average issuer would have between 2,000 to 10,000 first-tier suppliers. The commentator agreed, therefore, with our statement in the Proposing Release that the paperwork costs could be significant because the disclosure requirement in the proposed rules “drastically increases the amount of paperwork issuers will have to collect and provide to the SEC to make the required disclosures.”

Our PRA analysis pertains solely to the paperwork burdens of issuers that file reports with us, although we discuss the burdens and costs of the final rule to both reporting issuers and non-reporting companies in our Economic Analysis section above. Therefore, for the purpose of the PRA analysis, we do not take into account the commentator’s $1.4 billion figure because it relates solely to non-reporting companies. As a result, the commentator’s paperwork burden estimate appears to be approximately $8 billion, which is much higher than our estimate of $46,475,000 in the Proposing Release. Also, as we note above, other commentators provided costs estimates. These commentators did not specifically discuss the costs of the statute or the rule as they relate to the PRA. However, as discussed in greater detail below, we have attempted to extrapolate the paperwork costs from the overall cost estimates of these commentators.854

C. Revisions to PRA Reporting and Cost Burden Estimates

For purposes of the PRA, in the Proposing Release, we estimated that the total annual increase in the paperwork burden for all companies to prepare the disclosure that would be required under the proposed rules would be approximately 153,864 hours of company personnel time and a cost of approximately $71,243,000 for the services of outside professionals. These figures reflected our estimated costs for issuers to satisfy the due diligence and audit requirements of the proposed rules, which we estimated would be $46,475,000. As discussed in more detail below, we are revising our PRA burden and cost estimates in light of the comments we received.

For purposes of the PRA for the final rule, we estimate the total annual increase in the paperwork burden for all affected companies to comply with the collection of information requirements in our final rule is approximately 2,225,273 hours of company personnel time and approximately $1,178,378,167 for the services of outside professionals.855 These estimates include the time and cost of collecting the information, preparing and reviewing disclosure, and submitting documents. In this regard, we include due diligence, which includes updating information technology systems and obtaining an independent private sector audit, as part of collecting information. We estimate that the total cost for issuers to satisfy their due diligence is $1,030,026,667. We added this estimate to our estimate of the cost to issuers to hire outside professionals to prepare and review disclosure, submit

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847 44 U.S.C. 3501 et seq.
848 44 U.S.C. 3501(d) and 5 CFR 1320.11.
849 See letter from NAM I.
851 See letter from NAM I.
852 Id.
853 See id. In response to our estimate in the Proposing Release, of 793 reporting companies that would qualify as “small entities” for purposes of the Initial Regulatory Flexibility Act and that have conflict minerals necessary to the functionality or production of products they manufacture or contract to manufacture, the manufacturing industry association commentator noted that “a large portion of America’s 278 thousand small and medium-sized manufacturers could be affected by the requirement to provide information on the origin of the minerals in the parts and components they supply to companies subject to the SEC.” Id. The commentator estimated, however, that “only one in five smaller companies would be in one or more issuer’s supply chains,” and these smaller companies’ only costs regarding the proposed rules would be a $25,000 audit cost. Id. Therefore, the proposed rules would cost smaller companies that are not required to report with us under Exchange Act Sections 13(a) or 15(d) approximately $1.4 billion. Id.
854 See letters from Claigan I, Claigan II, Claigan III, Claigan IV, IPC I, and Tulane.
855 $1,030,026,667 + $148,351,500 = $1,178,378,167.
documents, and retain records, which is $148,351,500.856.

Consistent with our methodology in the Proposing Release, in deriving our estimates for the final rule, we recognize that the burdens will likely vary among individual companies based on a number of factors, including the size and complexity of their operations, the number of products they manufacture or contract to manufacture, and the number of those products that contain conflict minerals. We believe that some issuers will experience costs in excess of this if they experience the first year of compliance with the final rule and some issuers may experience less than these average costs. We base our revised estimates of the effect that the final rule will have on the collection of information as a result of the required reasonable country of origin inquiry, due diligence process, and independent private sector audit of the Conflict Minerals Report primarily on information that we have obtained from comment letters.

In the Proposing Release, we noted that the DRC accounts for approximately 15% to 20% of the world’s tantalum, and accounts for a considerably smaller percentage of the other three conflict minerals.857 Therefore, for the purposes of the PRA, we assumed in the Proposing Release that only 20% of the 5,994 affected issuers would have to provide an audited Conflict Minerals Report, which would have been 1,199 issuers. Both the manufacturing industry association commentator and the university group commentator, however, estimated in their comment letters that 75% of issuers would have to submit a Conflict Minerals Report.858 Also, the electronic interconnect industry association commentator indicated that it expected “nearly 100%” of the affected issuers to be affected issuers who know or have reason to believe that their conflict minerals may have originated in the Covered Countries and may not have come from recycled or scrap sources are required to proceed to step three, and the “DRC conflict undeterminable” temporary provision, we believe it is appropriate to establish that some percentage of issuers will not be required to submit a Conflict Minerals Report, an independent private sector audit, or both. Therefore, for the final rule, we estimate that 75% of all the 5,994 issuers, which is approximately 4,496 issuers,860 will have to submit a Conflict Minerals Report and provide an independent private sector audit of that report for the first two years after implementation. We note that, under the final rule, issuers that proceed to step three but are unable to determine whether their conflict minerals originated in the Covered Countries, came from recycled or scrap sources, or financed or benefited armed groups in those countries are required to provide a Conflict Minerals Report, but that report does not have to be audited for the first two years following the rule’s adoption for all issuers and the first four years for smaller reporting issuers. This change from the proposal could cause the actual costs to issuers for the first two years after implementation, for all issuers and four years after implementation for smaller issuers, to be lower than the commentators’ cost estimates. We believe, however, that our assumption that 75% of affected issuers will have to submit a Conflict Minerals Report and provide an independent private sector audit of that report will balance some of the cost estimate discrepancies because 75% was lower than the 100% estimate of the number of affected issuers.861

1. Estimate of Conducting Due Diligence, Including the Audit

We received a number of comments regarding the estimated costs of the proposed rules, particularly setting up the overall supply chain tracking systems and conducting an audit. The cost estimates provided by the manufacturing industry association commentator and the university group commentator were the most comprehensive because they discussed the costs to all companies, including issuers and private company suppliers.862 We note that the electronic interconnect industry association commentator provided an extensive discussion of the costs of the proposed rules.863 Its discussion and cost estimates, however, were limited to the electronic interconnect industry, which is only one segment of affected issuers. Also, although the tin industry association commentator’s estimates were useful, they were limited to the costs of its bag-and-tag system, which covers only the costs of due diligence for the portion of the supply chain from the mine to the smelter.864 For the PRA estimate of the due diligence costs, we relied primarily on the cost estimates from the manufacturing industry association and the university group commentators and, to a lesser extent, we also relied on the electronic interconnect industry association commentator’s estimates.865

The manufacturing industry association commentator estimated that the initial costs to affected issuers would be approximately $8 billion.866 The commentator’s estimate of the ongoing costs in its $8 billion estimate were the approximately $300 million cost for risk-based programs needed to verify the credibility of suppliers’ information, which the commentator indicated would be incurred “on an annual basis.”867 and the approximately $450 million cost for the annual audit of the Conflict Minerals Report, which together total $750 million.868

The university group commentator estimated that the initial costs to affected issuers would be approximately

859 See letter from IPC I.
860 See letter from ITRI II.
861 We note that in the Economic Analysis above, we provided a range to estimate the ongoing compliance costs. For purposes of the PRA, however, which calls for a specific estimate of the total annual paperwork burden imposed by the rule, we are using two of the data points within that range based on the more comprehensive comment letters we received and are then averaging the results to yield a final PRA estimate.
862 The actual cost would be approximately $749,250,000 [$449,550,000 + $299,700,000 = $749,250,000]
The actual estimated cost was $2,795,793,000. This cost estimate included a $2,562,780,000 cost for instituting the necessary IT systems ($1,679,000,000 for large issuers plus $884,780,000 for small issuers), a $26,013,000 cost for strengthening internal management systems in view of performing due diligence, and a $207,000,000 cost for the independent private sector audit. The university group commentator estimated the audit cost to be exactly $207 million by using the manufacturing industry association commentator’s estimate of 4,500 of the 5,994 affected issuers (75%) would be required to obtain an audit of their Conflict Minerals Report. The 4,500 figure, however, is rounded up from a more exact calculation of 75% of 5,994. The more exact calculation for 75% of 5,994 is 4,496 [5,994 × .75 – 4,459.5], and not 4,500, but both the university group commentator and the manufacturing industry association commentator rounded to 4,500. Using the electronic interconnect industry association commentator's estimates that 72% of all affected issuers are small and medium-sized issuers (under $99 million in annual sales) and 28% are large issuers, the university group estimated that of the 4,500 affected issuers, 3,240 were small and medium-sized issuers (i.e., 1,260 were large issuers). The university group commentator assumed, based on the manufacturing industry association commentator's estimates, an audit for small and medium-sized issuers would cost $25,000 per audit and an audit for large issuers would cost $100,000 per audit. Using these estimates, the university group determined that the total audit cost amount for affected issuers would be $207,000,000 exactly.

870 See letter from Tulane. Our estimate of the cost is $2,742,705,000. This cost estimate included a $635,364,000 cost for issuer due diligence reform, a $450,000,000 cost for IT system modifications, a $25,000,000 cost for the independent private sector audit, and a $158,841,000 cost of risk-based programs needed to verify the credibility of suppliers' information.

871 Our estimate of the cost is $158,841,000.

872 This cost estimate included a $2,562,780,000 cost for instituting the necessary IT systems ($1,679,000,000 for large issuers plus $884,780,000 for small issuers), a $26,013,000 cost for strengthening internal management systems in view of performing due diligence, and a $207,000,000 cost for the independent private sector audit. The university group commentator estimated that the initial costs to affected issuers would be approximately $8 billion, we modified that figure to be approximately $2.7 billion for affected issuers.873 In this regard, we modified that commentator’s approximately $300 million cost estimate for risk-based programs to be approximately $159 million.874 We did not, however, modify the commentator’s approximately $450 million cost estimate of the independent private sector audit. The university group commentator suggested that a $25,000 would cover the audit for a small company with a simple supply chain.875 From the approximately $159 million cost estimate for the risk-based programs needed to verify the credibility of suppliers’ information, based on our revised calculations of the manufacturing industry association commentator’s figures, and that commentator’s approximately $450 million cost estimate for the audit, we derive an approximate estimate of $609 million for annual recurring costs.876 We note that the initial approximately $2.7 billion burden is much greater than the subsequent approximately $609 million annual burden, and we averaged the burdens over the first three years. Over a three-year period, the average annual burden for affected issuers would be approximately $1.32 billion using the manufacturing industry association commentator’s figures.877 Additionally, although the university group commentator estimated that the initial costs to affected issuers would be approximately $2.8 billion, we modify that figure to be approximately $1.8 billion.878 We did not, however, modify the university group commentator’s approximately $207 million annual cost estimate of the independent private sector audit for affected issuers. Therefore, we do not modify the estimate of the cost to affected issuers in subsequent years, which would still be approximately $207 million. Again, the initial approximately $1.8 billion burden is much greater than the subsequent approximately $207 million annual burden, and we also averaged the burdens over the first three years. Over a three-year period, the average annual cost to affected issuers would be approximately $740 million using the university group commentator’s figures.879 To estimate the overall costs of conducting due diligence, including the audit, we averaged the modified estimates from the manufacturing industry association and the university group commentators discussed above. The average of these two costs is approximately $1.03 billion.880

2. Estimate of Preparing the Disclosure

The few estimates that we received from commentators regarding the number of hours it would take issuers to prepare and review the proposed disclosure requirements varied widely. One commentator, a semiconductor company, asserted that it would require 1,400 hours initially to implement the proposed rules and 700 hours in subsequent years.881 The university group commentator suggested that a small issuer would require 40 man-hours to comply with the proposed rules and a large issuer would require 100 man-hours, and it appears that these costs would be recurring.882 The manufacturing industry association commentator concluded that changing legal obligations to reflect a company’s new due diligence would require “at a minimum” two hours of employee time, $1,805,277,000 + $207,000,000 + $608,841,000)/3 = $739,924,333.

879 ($1,805,773,000 + $207,000,000 + $608,841,000)/3 = $739,924,333/2 = $1,000,062,667.

881 See letter from TriQuint I.

882 See letter from Tulane. This commentator stated that an issuer’s compliance could be “facilitated” by using third parties. The commentator assumed that a large issuer would use third parties for 10% of their compliance needs and small companies would use third parties for 25% of their compliance needs. In our calculations for the number of hours issuers would require in complying with our proposed rules, we did not include third parties because it appears that the use of third parties would not affect the number of hours required for compliance, but would only affect the cost.

883 Id. This commentator stated that the 100 or 40 hours needed to comply with the proposed rules would involve multiple tasks, including: Initial reviews of the issuer’s policies, procedures, and controls; developing a gap analysis and compliance plan, and modifying that plan as needed; developing draft revised policies, procedures, and controls; conducting initial testing on those revised policies, procedures, and controls; implementing the revised policies, procedures, and controls; and communicating them to suppliers. Although many of these are described as “initial” actions, issuers will need to review and modify many of them as well. For example, it is likely that each year issuers may need to review and test their policies, procedures, and controls, modify them as needed, and implement any new further revised policies, procedures, and controls.
“and considerably more than two hours is a distinct possibility.”

In calculating the number of hours necessary to prepare and review the disclosure required by the final rule, we derived an average based on the estimates provided by the semiconductor industry association and university group commentators. For the semiconductor industry association commentator in its letter, we multiplied its initial 1,400 hour estimate by the 5,994 affected issuers, so the first year’s burden for all affected issuers would be approximately 8.4 million hours. and the 700 hour subsequent year estimate also by the 5,994 affected issuers, which resulted in approximately 4.2 million hours for each subsequent year. Averaging the burden hours over the first three years resulted in an average burden hour estimate of approximately 5.6 million hours per year. To determine the estimated number of hours per year per issuer, we divided the 5.6 million hours by 5,994 affected issuers, which resulted in 933 hours per year per affected issuer to comply with the proposed rules. The university group commentator specifically differentiated between large and small sizes may incur different burdens, we recognized that companies of varying sizes may incur different burdens, we also differentiated between large and small companies in our estimate of burden hours. Therefore, we multiplied the university group commentator’s 100 hour estimate for large issuers by the electronic interconnect industry association commentator’s estimated 28% for large affected issuers, so the burden for large affected issuers would be 167,832 hours, and multiplied the 40 hour estimate for small issuers by the electronic interconnect industry association commentator’s 72% for small affected issuers, which resulted in 172,627 hours for small affected issuers. To determine the estimated number of hours per year per issuer, we added the estimated hours for the small and large companies, which would be 340,459 hours, and divided that number by all the 5,994 affected issuers. Therefore, the average amount of hours per year for each issuer, both large and small, to prepare and review the disclosure required by our rule would be approximately 57 hours. Although not explicit in its comment letter, it appears that the burden hours for the university group commentator’s estimates would be incurred annually, so we did not average these hours over the first three years as we did for the semiconductor company commentator’s estimate.

Next, we averaged the two burden hour estimates by adding the 933 hour estimate to the 57 hour estimate (and by dividing by two) and determined that each affected issuer, on average, would spend 495 burden hours preparing and reviewing the disclosure. We assumed that 75% of the burden of preparation would have been carried by the company internally and that 25% of the burden of the preparation would have been carried by outside professionals retained by the company at an average cost of $200 per hour. The portion of the burden carried by outside professionals would have been reflected as a cost, while the portion of the burden carried by the company internally would have been reflected in hours. Therefore, the total number of internal preparation hours for affected issuers would be 2,225,273 hours. Similarly, the total cost for external preparation for affected issuers would be $148,351,500.

3. Revised PRA Estimate

The following table illustrates the estimated changes in annual compliance burden in the collection of information in hours and costs for the new Exchange Act specialized disclosure report that will result from the final rule. The burden hours figure is the 2,225,273 internal burden hours estimate for preparing the disclosure. We are adding the $148,351,500 estimate of external professional costs for preparing the disclosure to the $1,030,026,667 estimate of conducting due diligence, including the audit, to determine the $1,178,378,167 professional costs in the below table.

<table>
<thead>
<tr>
<th>Form</th>
<th>Current annual responses</th>
<th>Final annual responses</th>
<th>Current burden hours (A)</th>
<th>Increase in burden hours (B)</th>
<th>Final burden hours (C) = (A) + (B)</th>
<th>Current professional costs (D)</th>
<th>Increase in professional costs (E)</th>
<th>Final professional costs (F) = (D) + (E)</th>
</tr>
</thead>
<tbody>
<tr>
<td>S–D</td>
<td>5,994</td>
<td>2,225,273</td>
<td>5,994</td>
<td>2,225,273</td>
<td>$1,178,378,167</td>
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V. Final Regulatory Flexibility Act Analysis

This Final Regulatory Flexibility Act Analysis (“FRFA”) relates to new rule 13p–1 and new Form SD, which implement Section 13(p) of the Exchange Act. Section 13(p) concerns certain disclosure and reporting obligations of issuers with conflict minerals necessary to the functionality or production of any product manufactured or contracted by those cost environmental and sustainability consulting firms instead of large accounting firms that would be more expensive. We frequently use a $400 per hour estimate in our PRA analysis on the assumption that attorneys will be involved in the preparation of the securities law disclosures required by our rules. The disclosure required by the final rule may likely involve work by other types of professionals, so the $200 per hour estimate may be more appropriate in this circumstance. This analysis has been prepared in accordance with 5 U.S.C. 601.
The final rule is designed to implement the requirements of Section 1502 of the Act. Specifically, we are adopting amendments to our rules to implement the Conflict Minerals Statutory Provision. The final rule requires any reporting issuer for which conflict minerals are necessary to the functionality or production of a product manufactured or contracted to be manufactured by that issuer to disclose annually in a separate specialized disclosure report on a new form the results of its reasonable country of origin inquiry into whether its conflict minerals originated in the Covered Countries or came from recycled or scrap sources. Under the final rule, following is the reasonable country of origin inquiry, if (a) The issuer knows that its conflict minerals did not originate in the Covered Countries or that they came from recycled or scrap sources, or (b) the issuer has no reason to believe its conflict minerals may have originated in the Covered Countries, or (c) the issuer reasonably believes its conflict minerals came from recycled or scrap sources, then in all such cases the issuer must disclose its determination and describe briefly in the body of Form SD, the reasonable country of origin inquiry it undertook and the results of the inquiry. On the other hand, following is the reasonable country of origin inquiry, if (a) the issuer knows that its conflict minerals originated in the Covered Countries and knows that they did not come from recycled or scrap sources, or the issuer has reason to believe that its conflict minerals may have originated in the Covered Countries, and (b) the issuer knows that its conflict minerals did not come from recycled or scrap sources or has reason to believe that its conflict minerals may not have come from recycled or scrap sources, then the issuer must exercise due diligence on the source and chain of custody of its conflict minerals that conforms to a nationally or internationally recognized due diligence framework, if one is available. If one is not available, the issuer must exercise due diligence without the benefit of such a framework. Following its due diligence, unless the issuer determines, based on that due diligence, that its conflict minerals did not originate in the Covered Countries or that its conflict minerals did come from recycled or scrap sources, the issuer must file a Conflict Minerals Report.

In most circumstances, the issuer must obtain an independent private sector audit of its Conflict Minerals Report. The issuer must also describe in its Conflict Minerals Report, among other information, its products manufactured or contracted to be manufactured that have not been found to be “DRC conflict free.” For a temporary two-year period for all issuers, and for a temporary four-year period for smaller reporting issuers, an issuer that must perform due diligence and is unable to determine that the conflict minerals in its products originated in the Covered Countries or came from recycled or scrap sources, or unable to determine that the conflict minerals in those products that originated in the Covered Countries financed or benefited armed groups in those countries, may consider those products “DRC conflict undeterminable.” In that case, the issuer must describe, among other information, its products manufactured or contracted to be manufactured that are “DRC conflict undeterminable.” The steps it has taken or will take, if any, since the end of the period covered in its most recent prior Conflict Minerals Report to mitigate the risk that its necessary conflict minerals benefit armed groups, including any steps to improve its due diligence. An issuer with products that are “DRC conflict undeterminable” is not required to obtain an independent private sector audit of its Conflict Minerals Report regarding the conflict minerals in those products.

Finally, after its reasonable country of origin inquiry, an issuer that has reason to believe that its conflict minerals may not have been from recycled or scrap sources must exercise due diligence that conforms to a nationally or internationally recognized due diligence framework developed specifically for conflict minerals from recycled sources to determine that its conflict minerals are from recycled or scrap sources. The issuer must also describe its due diligence in its Conflict Minerals Report. Currently, gold is the only conflict mineral with a nationally or internationally recognized due diligence framework for recycled or scrap conflict minerals. If no nationally or internationally recognized due diligence framework for a particular recycled or scrap conflict mineral is available, which is the case for the other three minerals, until such a framework is developed, the issuer must exercise due diligence in determining that its conflict minerals are from recycled or scrap sources and describe the due diligence measures it exercised in its Conflict Minerals Report.

B. Significant Issues Raised by Public Comments

In the Proposing Release, we requested comment on any aspect of the IRFA, including the number of small entities that would be affected by the proposed rules, the nature of the impact, how to quantify the number of small entities that would be affected, and how to quantify the impact of the proposed rules. We received some comments that specifically referenced the Regulatory Flexibility Analysis (“RFA”). Some of these commentators claimed that we underestimated the number of small entities that would be impacted by the proposal because our estimate did not account for the number of small businesses that do not report with us but participate in a reporting issuer’s supply chain. In this regard, the SBA recommended that we publish an amended IFRA for the proposed rules to “more accurately reflect the costs of the proposed rule and the number of small businesses that it will affect.” Another commentator noted specifically that we must look beyond the 793 reporting issuers that are also small entities because, when an issuer seeks to establish whether its supply chain is free of conflict minerals, it will have to turn to its first-tier suppliers and require due diligence. This commentator indicated, therefore, that “a large portion of America’s 278 thousand small and medium-sized manufacturers could be affected” the final rule. Moreover, for purposes of determining the cost of the independent private sector audit on smaller companies, the commentator estimated that one in five smaller companies would be in an issuer’s supply chain. As discussed in the Economic Analysis section above, we acknowledge that the statute and the final rule will affect many companies, including both companies that are directly subject to the rule’s requirements and those that are not reporting companies but are part of a reporting issuer’s supply chain.
purposes of the RFA, however, the focus is the impact on entities on which our rules impose direct requirements.905 Therefore, although we do acknowledge the rule’s impact on non-reporting small entities, they were not included in our RFA estimate of the 793 small entities that would be directly subject to the final rule.

Additionally, several commentators addressed aspects of the proposed rules that could potentially affect smaller reporting companies or small companies generally.906 These commentators did not clarify whether they were referring to “small entities” as that term is defined under Exchange Act Rule 0–10(a).907 In particular, certain commentators argued that the costs of the rules could be disproportionately higher to smaller issuers.908 One commentator suggested that the Conflict Minerals Statutory Provision “does create a burden on small businesses, but not as high or disproportionate to revenue as has been reported” by other commentators.909 Also, as discussed above, one commentator argued that the final rule should exempt smaller reporting companies.910 Many other commentators argued, however, that final rule should not exempt smaller reporting companies.911 Many commentators indicated that exempting smaller reporting companies would not reduce significantly their burdens because, among other reasons, many of these smaller companies are part of larger companies’ supply chains and these larger companies would require the smaller companies to provide conflict minerals information so that the larger companies could meet their obligations under the rule.912 Two commentators agreed that smaller reporting companies should not be exempt from the rule, but stated that they should be allowed to phase-in the rules to mitigate their costs and not drain their resources.914

C. Small Entities Subject to the Final Rule

The final rule will affect some reporting issuers that are small entities. Exchange Act Rule 0–10(a)915 defines an issuer to be a “small business” or “small organization” for purposes of the Regulatory Flexibility Act if it had total assets of $5 million or less on the last day of its most recent fiscal year. We believe that the final rule would affect small entities with necessary conflict minerals as defined under Exchange Act Section 13(p). In the Proposing Release, we estimated that there were approximately 793 issuers to which conflict minerals are necessary and that may be considered small entities. As discussed above some commentators indicated that we underestimated the number of small entities that would be impacted by the rule, but that was based on the assertion that we consider small entities that are not directly subject to the requirements of the final rule.916 We note that no commentator provided any other number of small entities or disagreed that 793 is the number that will be directly subject to the final rule. We continue to believe that there are 793 small entities that file reports with us under Exchange Act Sections 13(a) and 15(d) and that will be directly subject to the final rule because they likely have conflict minerals necessary to the functionality or production of products they manufacture or contract to manufacture.

D. Reporting, Recordkeeping, and Other Compliance Requirements

The final rule will add to the annual disclosure requirements of issuers with necessary conflict minerals, including small entities, by requiring them to comply with the disclosure and reporting obligations under Section 13(p) and provide certain additional disclosure in their new specialized disclosure reports on Form SD that certain issuers will be required to file annually. Among other matters, that information must include, as applicable:

- Disclosure in the body of the specialized disclosure report as to whether such issuer knows or has reason to believe that conflict minerals necessary to the functionality or production of a product manufactured or contracted by an issuer to be manufactured originated in the Covered Countries or may have originated in the Covered Countries and may not have come from recycled or scrap sources;
- If not, or if the issuer knows or has reason to believe that its necessary conflict minerals came from recycled or scrap sources, disclosure in the body of the specialized disclosure report and on the issuer’s Internet Web site of that determination and a brief description of the reasonable country of origin inquiry used in making that determination and the results of the inquiry it performed, and disclosure in the body of the specialized disclosure report of the address of the issuer’s Internet Web site where that information is publicly available;
- If so, and the issuer is able to determine whether its conflict minerals directly or indirectly financed or benefited armed groups in the Covered Countries.

- A Conflict Minerals Report filed as an exhibit to the specialized disclosure report, which includes a certified independent private sector audit report, a description of the nationally or internationally recognized due diligence framework the issuer used to determine the source and chain of custody of its conflict minerals, a description of the issuer’s products that have not been found to be “DRC conflict free,” and a description of the facilities used to process the necessary conflict minerals in those products, the country of origin of the necessary conflict minerals in those products, and the efforts to determine the mine or location of origin with the greatest possible specificity;
- Disclosure in the body of the specialized disclosure report that a Conflict Minerals Report is filed as an exhibit to the specialized disclosure report and is publicly available on the issuer’s Internet Web site, and disclosure within the body of the specialized disclosure report of the address of the issuer’s Internet Web site on which the Conflict Minerals Report is publicly available;

If so, but the issuer is unable to determine that its conflict minerals did not directly or indirectly finance or benefit armed groups in the Covered Countries, if the issuer has reason to believe that its conflict minerals may have originated in the Covered Countries but is unable to determine the origin,
A Conflict Minerals Report filed as an exhibit to the specialized disclosure report that includes a description of the nationally or internationally recognized due diligence framework the issuer used to determine the source and chain of custody of its conflict minerals, a description of the facilities used to process the necessary conflict minerals in those products, if known, the country of origin of the necessary conflict minerals in those products, if known, and the efforts to determine the mine or location of origin with the greatest possible specificity, and, for a temporary period, a description of the issuer’s products that are “DRC conflict undeterminable” (for the temporary period, such issuers are not required to have their Conflict Minerals Report audited regarding such minerals); disclosure in the body of the specialized disclosure report that a Conflict Minerals Report is filed as an exhibit to the specialized disclosure report and is publicly available on the issuer’s Internet Web site and the address of the issuer’s Internet Web site on which the Conflict Minerals Report is publicly available; posting of the Conflict Minerals Report on the issuer’s publicly available Internet Web site.

- If there is reason to believe that the conflict minerals may not be from recycled or scrap sources and there is a nationally or internationally recognized due diligence framework for those particular conflict minerals,
- A Conflict Minerals Report filed as an exhibit to the specialized disclosure report, which includes a description of the nationally or internationally recognized due diligence framework the issuer used to determine that those conflict minerals were or has reason to believe may have been from recycled or scrap sources, which includes a certified independent private sector audit report regarding those minerals;
- Disclosure in the body of the specialized disclosure report that a Conflict Minerals Report is filed as an exhibit to the specialized disclosure report and is publicly available on the issuer’s Internet Web site and the address of the issuer’s Internet Web site on which the Conflict Minerals Report is publicly available.

- If there is reason to believe that the conflict minerals may not be from recycled or scrap sources but there is no nationally or internationally recognized due diligence framework for those particular conflict minerals,
- A Conflict Minerals Report filed as an exhibit to the specialized disclosure report, which includes a description of the due diligence the issuer used to determine that those conflict minerals were or has reason to believe may have been from recycled or scrap (until a nationally or internationally recognized due diligence framework is available for those conflict minerals from recycled or scrap sources, such issuers are not required to have their Conflict Minerals Report audited regarding such minerals);
- Disclosure in the body of the specialized disclosure report that a Conflict Minerals Report is filed as an exhibit to the specialized disclosure report and is publicly available on the issuer’s Internet Web site and the address of the issuer’s Internet Web site on which the Conflict Minerals Report is publicly available.

The same disclosure and reporting requirements apply to U.S. and foreign issuers. However, under the final rule, issuers that proceed to step three but are unable to identify the origin of their conflict minerals or whether their conflict minerals came from recycled or scrap sources are required to provide a Conflict Minerals Report, but that report does not have to be audited for the first four years following the rule’s adoption for smaller reporting companies. We are creating new Form SD that requires every issuer to file its conflict minerals information for each applicable calendar year on May 31 of the following year.

E. Agency Action To Minimize Effect on Small Entities

The Regulatory Flexibility Act directs us to consider significant alternatives that would accomplish the stated objectives, while minimizing any significant adverse impact on small entities. In connection with the final rule, we considered the following alternatives:

1. Establishing different compliance or reporting requirements which take into account the resources available to small entities;
2. Exempting small entities from coverage of the disclosure requirements, or any part thereof;
3. Clarification, consolidation, or simplification of the rules compliance and reporting requirements for small entities; and
4. Use of performance standards rather than design standards.

We considered but did not establish different compliance requirements for small entities. As discussed above in response to commentators’ suggestions that we exempt smaller reporting companies, we similarly believe that separate disclosure requirements for small entities that would differ from the final reporting requirements for other issuers, or exempting them from those requirements, would not achieve Congress’s objectives of Section 13(p). The final rule is designed to implement the conflict minerals disclosure and reporting requirements of Section 13(p). That statutory section applies to all issuers with necessary conflict minerals, regardless of size. In any case, as several commentators noted, many smaller companies are part of larger companies’ supply chains and would need to provide conflict minerals information so that the larger companies could meet their obligations under the rule. However, under the final rule, issuers that proceed to step three but are unable to determine their conflict minerals originated in the Covered Countries or came from recycled or scrap sources, or unable to determine that the conflict minerals that originated in the Covered Countries financed or benefited armed groups in those countries are required to provide a Conflict Minerals Report, but that report does not have to be audited for the first four years following the rule’s adoption for smaller reporting companies and the issuers may describe the product with known origin as “DRC conflict undeterminable.”

We clarified and simplified aspects of the final rule for all issuers, including small entities. For example, the final rule specifies and clarifies the objective for the audit of a Conflict Minerals Report for newly-mined conflict minerals. The final rule also requires an issuer to disclose the information in the body of and as an exhibit to its specialized disclosure report, which may simplify the process of submitting the conflict minerals disclosure and Conflict Minerals Report as compared with requiring disclosure in an issuer’s annual report on Form 10-K, Form 20-F, or Form 40-F.

We have generally used design rather than performance standards in connection with the final rule because we believe design standards will better accomplish Congress’s objectives. The reasonable country of origin inquiry is the performance standard. In addition, the specific disclosure requirements in the final rule will promote consistent and comparable disclosure among all issuers with necessary conflict minerals. However, we are providing guidance regarding “contract to manufacture,” and “necessary to the functionality and production,” which we believe will allow issuers to comply with the statutory requirements in a manner more tailored to their individual circumstances.

917 See, e.g., letters from NAM I, SBA, Sen. Snowe et al., and WGC II.
VI. Statutory Authority and Text of the Final Rule

We are adopting the rule amendments contained in this document under the authority set forth in Sections 3(b), 12, 13, 15(d), 23(a), and 36 of the Exchange Act, as amended.

List of Subjects in 17 CFR Parts 240 and 249b

Reporting and recordkeeping requirements, Securities.

In accordance with the foregoing, we are amending Title 17, Chapter II of the Code of Federal Regulations as follows:

PART 240—GENERAL RULES AND REGULATIONS, SECURITIES EXCHANGE ACT OF 1934

1. The authority citation for part 240 is amended by adding an authority for § 240.13p–1 in numerical order to read as follows:

Authority: 15 U.S.C. 77c, 77d, 77g, 77i, 77s, 77z–2, 77z–3, 77eee, 77ggg, 77jj, 77kk, 77nn, 77ss, 77tt, 77u, 78c, 78d, 78e, 78f, 78g, 78i, 78j, 78l, 78k, 78k–1, 78l, 78m, 78n, 78n–1, 78o, 78o–4, 78o–8, 78p, 78q, 78s, 78u–5, 78w, 78x, 78dd(b), 78dd(c), 78ll, 78mm, 80a–20, 80a–23, 80a–29, 80a–37, 80b–3, 80b–4, 80b–11, 7201 et seq., and 6302; 18 U.S.C. 1350; 12 U.S.C. 5221(e)(3); and Pub. L. 111–203, Sec. 712, 124 Stat. 1376 (2010), unless otherwise noted.

2. Add § 240.13p–1 to read as follows:

§ 240.13p–1 Requirement of report regarding disclosure of registrant’s supply chain information regarding conflict minerals.

Every registrant that files reports with the Commission under Sections 13(a) (15 U.S.C. 78m(a)) or 15(d) (15 U.S.C. 78o(d)) of the Exchange Act, having conflict minerals that are necessary to the functionality or production of a product manufactured or contracted by that registrant to be manufactured, shall file a report on Form SD within the period specified in that Form disclosing the information required by the applicable items of Form SD as specified in that Form (17 CFR 249b.400).

PART 249b—FURTHER FORMS, SECURITIES EXCHANGE ACT OF 1934

3. The authority citation for part 249b is amended by adding an authority for § 249b.400 to read as follows:

Authority: 15 U.S.C. 78a et seq., unless otherwise noted.

Section 249b.400 is also issued under secs. 1502, Pub. L. 111–203, 124 Stat. 2213.

4. Add § 249b.400 to read as follows:

§ 249b.400 Form SD, specialized disclosure report.

This Form shall be filed pursuant to § 240.13p–1 of this chapter by registrants that file reports with the Commission pursuant to Sections 13(a) or 15(d) of the Securities Exchange Act of 1934 and are required to disclose the information required by Section 13(p) under the Securities Exchange Act of 1934 and Rule 13p–1 (§ 240.13p–1) of this chapter.

5. Add Form SD (referenced in § 249b.400) to read as follows:

Note: The text of Form SD does not appear in the Code of Federal Regulations.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM SD

Specialized Disclosure report

(Exact name of the registrant as specified in its charter)

(State or other jurisdiction of incorporation or organization)

(Commission File Number)

(IRS Employer Identification No.)

(Address of principal executive offices)

(Zip code)

(Name and telephone number, including area code, of the person to contact in connection with this report.)

Check the appropriate box to indicate whether the information in this form applies:


☐ The disclosures required in Form SD shall not apply to investment companies required to file reports pursuant to Rule 30d–1 (17 CFR 270.30d–1) under the Investment Company Act of 1940.

☐ If the deadline for filing this form occurs on a Saturday, Sunday or holiday on which the Commission is not open for business, then the deadline shall be the next business day.

☐ Inapplicability to Registered Investment Companies.

☐ The disclosures required in Form SD shall not apply to investment companies required to file reports pursuant to Rule 30d–1 (17 CFR 270.30d–1) under the Investment Company Act of 1940.

D. Preparation of Report.

This form is not to be used as a blank form to be filled in, but only as a guide in the preparation of the report meeting the requirements of Rule 12b–12 (17 CFR 240.12b–12). The report shall contain the number and caption of the applicable item, but the text of such item may be omitted, provided the answers thereto are prepared in the manner specified in Rule 12b–13 (17 CFR 240.12b–13). All items that are not required to be answered in a particular report may be omitted and no reference thereto need be made in the report. All instructions should also be omitted.

E. Application of General Rules and Regulations.

The General Rules and Regulations under the Act (17 CFR Part 240) contain certain general requirements which are applicable to reports on any form. These general requirements should be carefully read and observed in the preparation and filing of reports on this form.

F. Signature and Filing of Report.

The report must be signed by the registrant on behalf of the registrant by an executive officer.

INFORMATION TO BE INCLUDED IN THE REPORT

Section 1—Conflict Minerals Disclosure

Item 1.01 Conflict Minerals Disclosure and Report

(a) If any conflict minerals, as defined by paragraph (d)(3) of this item, are necessary to the functionality or production of a product manufactured by the registrant or contracted by the registrant to be manufactured and are required to be reported in the calendar year covered by the specialized disclosure report, the registrant must conduct in good faith a reasonable country of origin inquiry regarding those conflict minerals that is reasonably designed to determine whether any of the conflict minerals originated in the Democratic Republic of the Congo or an adjoining country, as
defined by paragraph (d)(1) of this item, or are from recycled or scrap sources, as defined by paragraph (d)(6) of this item.

(b) Based on its reasonable country of origin inquiry, if the registrant determines that its necessary conflict minerals did not originate in the Democratic Republic of the Congo or an adjoining country or did come from recycled or scrap sources, or if it has no reason to believe that its necessary conflict minerals may have originated in the Democratic Republic of the Congo or an adjoining country, or if based on its reasonable country of origin inquiry the registrant reasonably believes that its necessary conflict minerals did come from recycled or scrap sources, the registrant must, in the body of its specialized disclosure report under a separate heading entitled “Conflict Minerals Disclosure,” disclose its determination and briefly describe the reasonable country of origin inquiry it undertook in making its determination and the results of the inquiry it performed. Also, the registrant must disclose this information on its publicly available Internet Web site and, under a separate heading in its specialized disclosure report entitled “Conflict Minerals Disclosure,” provide a link to that Web site. Otherwise, the registrant must file a Conflict Minerals Report as an exhibit to its specialized disclosure report and provide that report on its publicly available Internet Web site.

Under a separate heading in its specialized disclosure report entitled “Conflict Minerals Disclosure,” the registrant must disclose that it has filed a Conflict Minerals Report and provide the link to its Internet Web site where the Conflict Minerals Report is publicly available.

The Conflict Minerals Report must include the following information:

(1) Due Diligence: A description of the measures the registrant has taken to exercise due diligence on the source and chain of custody of those conflict minerals;

(ii) Except as provided in paragraphs (c)(1)(i), (c)(1)(v), and (c)(1)(vi) of this item, the due diligence measures shall include but not be limited to an independent private sector audit of the Conflict Minerals Report that is conducted in accordance with standards established by the Comptroller General of the United States; and

(v) If a nationally or internationally recognized due diligence framework does not exist for a necessary conflict mineral, until such a framework is developed, the registrant is required to exercise appropriate due diligence in determining the source and chain of custody of the necessary conflict mineral, including whether the conflict mineral is from recycled or scrap sources, without the benefit of a due diligence framework. If a nationally or internationally recognized due diligence framework becomes available for the necessary conflict mineral prior to June 30 of a calendar year, the registrant must use that framework in the subsequent calendar year. If the due diligence guidance does not become available until after June 30 of a calendar year, the registrant is not required to use that framework until the second calendar year after the framework becomes available to provide a full calendar year before implementation. If no nationally or internationally recognized due diligence framework is available for a particular conflict mineral from recycled or scrap sources, the due
diligence inquiry regarding the conflict mineral focuses on whether the conflict mineral is from recycled or scrap sources. In addition, an independent private sector audit will not be required for the section of the Conflict Minerals Report pertaining to the registrant’s due diligence on that recycled or scrap conflict mineral.

(vi) If the registrant performs due diligence because it has a reason to believe that its conflict minerals originated in the Democratic Republic of the Congo or an adjoining country, and as a result of that due diligence it determines that its conflict minerals did not originate in the Democratic Republic of the Congo or an adjoining country (or it determines as a result of that due diligence that its necessary conflict minerals did come from recycled or scrap sources), a Conflict Minerals Report and an audit is not required.

(2) Product Description: Any registrant that manufactures products or contracts for products to be manufactured that have not been found to be “DRC conflict free,” as defined in paragraph (d)(4) of this item, must provide a description of those products, the facilities used to process the necessary conflict minerals in those products, the country of origin of the necessary conflict minerals in those products, and the efforts to determine the mine or location of origin with the greatest possible specificity.

(i) For the temporary period specified in Instruction 2 to Item 1.01, following its exercise of appropriate due diligence, any registrant that manufactures products or contracts for products to be manufactured that are “DRC conflict undeterminable” must provide a description of those products, the facilities used to process the necessary conflict minerals in those products, if known, the country of origin of the necessary conflict minerals in those products, if known, and the efforts to determine the mine or location of origin with the greatest possible specificity;

(ii) A registrant is not required to provide the information in paragraph (c)(2) of this item if the necessary conflict minerals in its product are solely from recycled or scrap sources because those products are considered “DRC conflict free.”

(d) For the purposes of this item, the following definitions apply:

(1) Adjoining country. The term adjoining country means a country that shares an internationally recognized border with the Democratic Republic of the Congo.

(2) Armed group. The term armed group means an armed group that is identified as a perpetrator of serious human rights abuses in annual Country Reports on Human Rights Practices under sections 116(d) and 502(b) of the Foreign Assistance Act of 1961 (22 U.S.C. 2151n(d) and 2304(b)) relating to the Democratic Republic of the Congo or an adjoining country.

(3) Conflict mineral. The term conflict mineral means:

(i) Columbite-tantalite (coltan), cassiterite, gold, wolframite, or their derivatives, which are limited to tantalum, tin, and tungsten, unless the Secretary of State determines that additional derivatives are financing conflict in the Democratic Republic of the Congo or an adjoining country; or

(ii) Any other mineral or its derivatives determined by the Secretary of State to be financing conflict in the Democratic Republic of the Congo or an adjoining country.

(4) DRC conflict free. The term DRC conflict free means that a product does not contain conflict minerals necessary to the functionality or production of that product that directly or indirectly finance or benefit armed groups, as defined in paragraph (d)(2) of this item, in the Democratic Republic of the Congo or an adjoining country. Conflict minerals that a registrant obtains from recycled or scrap sources, as defined in paragraph (d)(6) of this item, are considered DRC conflict free.

(5) DRC conflict undeterminable. The term DRC conflict undeterminable means, with respect to any product manufactured or contracted to be manufactured by a registrant, that the registrant is unable to determine, after exercising due diligence as required by paragraph (c)(1) of this item, whether or not such product qualifies as DRC conflict free.

(6) Conflict Minerals from Recycled or Scrap Sources. Conflict minerals are considered to be from recycled or scrap sources if they are from recycled metals, which are reclaimed end-user or post-consumer products, or scrap processed metals created during product manufacturing. Recycled metal includes excess, obsolete, defective, and scrap metal materials that contain refined or processed metals that are appropriate to recycle in the production of tin, tantalum, tungsten and/or gold. Minerals partially processed, unprocessed, or a bi-product from another ore will not be included in the definition of recycled metal.

(7) Outside the Supply Chain. A conflict mineral is considered outside the supply chain after any columbite-tantalite, cassiterite, and wolframite minerals, or their derivatives, have been smelted; any gold has been fully refined; or any conflict mineral, or its derivatives, that have not been smelted or fully refined are located outside of the Democratic Republic of the Congo or an adjoining country.

(8) Nationally or internationally recognized due diligence framework. The term “nationally or internationally recognized due diligence framework” means a nationally or internationally recognized due diligence framework established following due-process procedures, including the broad distribution of the framework for public comment, and is consistent with the criteria standards in the Government Auditing Standards established by the Comptroller General of the United States.

Item 1.02 Exhibit
Registrants shall file, as an exhibit to this Form SD, the Conflict Minerals Report required by Item 1.01.

Instructions to Item 1.01

(1) A registrant that mines conflict minerals would not be considered to be manufacturing those minerals for the purpose of this item. The specialized disclosure report on Form SD shall cover a calendar year, regardless of the registrant’s fiscal year, and be due annually on or by May 31 for the prior calendar year.

(2) During the first two calendar years following November 13, 2012 for all registrants and the first four calendar years for any smaller reporting company, a registrant will not be required to submit an audit report of its Conflict Minerals Report prepared by an independent private sector auditor with respect to the conflict minerals in any of its products that are “DRC conflict undeterminable.” Beginning with the third or fifth reporting calendar year, as applicable, a registrant with products manufactured or contracted to be manufactured that are “DRC conflict undeterminable,” must describe those products as having not been found to be “DRC conflict free” and must provide the information required in paragraph (c) of this item including the audit report.

(3) A registrant that acquires or otherwise obtains control over a company that manufactures or contracts to manufacture products with conflict minerals necessary to the functionality or production of those products that previously had not been obligated to provide a specialized disclosure report with respect to its conflict minerals will be permitted to delay reporting on the products manufactured by the acquired company until the end of the first reporting calendar year that begins no
sooner than eight months after the effective date of the acquisition.

(4) A registrant is not required to provide any information regarding its conflict minerals that, prior to January 31, 2013, are located outside of the supply chain, as defined by paragraph (d)(7) of this item.

(5) A registrant must provide its required conflict minerals information for the calendar year in which the manufacture of a product that contains any conflict minerals necessary to the functionality or production of that product is completed, irrespective of whether the registrant manufactures the product or contracts to have the product manufactured.

Section 2—Exhibits
Item 2.01 Exhibits
List below the following exhibit filed as part of this report.
Exhibit 1.01—Conflict Minerals Report as required by Items 1.01 and 1.02 of this Form.

SIGNATURES
Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the duly authorized undersigned.

(Registrant)

By (Signature and Title)*

(Date)
* Print name and title of the registrant’s signing executive officer under his or her signature.
  ** * * * *

By the Commission.

Elizabeth M. Murphy,
Secretary.

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SECURITIES AND EXCHANGE COMMISSION
17 CFR Parts 240 and 249
[Release No. 34–67717; File No. S7–42–10]
RIN 3235–AK85
Disclosure of Payments by Resource Extraction Issuers
AGENCY: Securities and Exchange Commission.
ACTION: Final rule.

SUMMARY: We are adopting new rules and an amendment to a new form pursuant to Section 1504 of the Dodd-Frank Wall Street Reform and Consumer Protection Act relating to disclosure of payments by resource extraction issuers. Section 1504 added Section 13(q) to the Securities Exchange Act of 1934, which requires the Commission to issue rules requiring resource extraction issuers to include in an annual report information relating to any payment made by the issuer, a subsidiary of the issuer, or an entity under the control of the issuer, to a foreign government or the Federal Government for the purpose of the commercial development of oil, natural gas, or minerals. Section 13(q) requires a resource extraction issuer to provide information about the type and total amount of such payments made for each project related to the commercial development of oil, natural gas, or minerals, and the type and total amount of payments made to each government. In addition, Section 13(q) requires a resource extraction issuer to provide information regarding those payments in an interactive data format.

DATES: Effective date: November 13, 2012.

Compliance date: A resource extraction issuer must comply with the new rules and form for fiscal years ending after September 30, 2013. For the first report filed for fiscal years ending after September 30, 2013, a resource extraction issuer may provide a partial year report if the issuer’s fiscal year began before September 30, 2013. The issuer will be required to provide a report for the period beginning October 1, 2013 through the end of its fiscal year. For any fiscal year beginning on or after September 30, 2013, a resource extraction issuer will be required to file a report disclosing payments for the full fiscal year.

FOR FURTHER INFORMATION CONTACT: Tamara Brightwell, Senior Special Counsel, Division of Corporation Finance, Elliot Staffin, Special Counsel, Office of International Corporate Finance, Division of Corporation Finance, or Eduardo Aleman, Special Counsel, Office of Rulemaking, Division of Corporation Finance, at (202) 551–3290, U.S. Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549–4553.

SUPPLEMENTARY INFORMATION: We are adopting new Rule 13q–1 1 and an amendment to new Form SD 2 under the Securities Exchange Act of 1934 (“Exchange Act”). 3

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1 17 CFR 240.13q–1.
2 17 CFR 249.448.