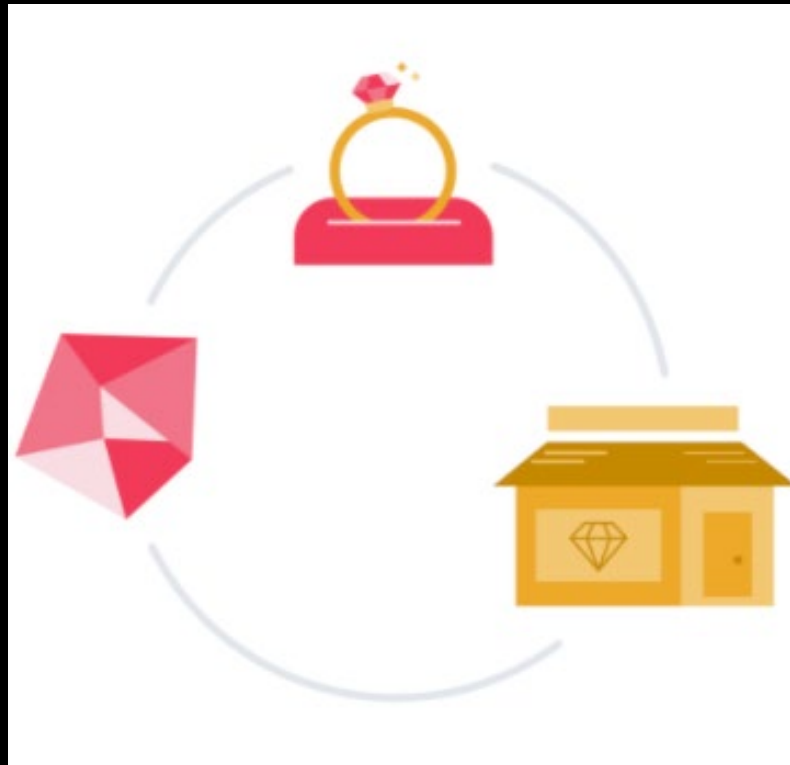


THE  
**COLOURED GEMSTONES  
WORKING GROUP**



# Responsible Sourcing and Due Diligence

**GUIDANCE**

**2021**

**TDi**

**Sustainability**

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# Introduction to this Guidance

This Guidance has been designed to accompany you through the process of implementing responsible sourcing practices, including a due diligence system, into your business.

This Guidance includes:

- **A brief explanation** the topics of Responsible Sourcing and Due Diligence and their relevance in the gemstones and jewellery industry;
- **A description of the key steps** that you can take to implement a due diligence system to identify, assess, and where necessary mitigate risks in your supply chain (with reference to the Gemstones and Jewellery Due Diligence Tool, which you can find in the Gemstones and Jewellery Community Platform); and,
- **A glossary** containing an explanation of key terms (highlighted in yellow) relating to this topic.

# Explanation of Responsible Sourcing and Due Diligence

As part of your work, you may have come across the need to make a choice between different potential suppliers. For example, you may choose where to buy rough stones, or which trader to buy polished stones from, and so on. When you choose or evaluate your new or existing suppliers, you may consider a number of factors, including price, quality, trust, and location.

'Responsible sourcing,' which is sometimes also called 'responsible supply chain management,' is the practice of taking into account social, environmental and governance considerations when managing relationships with suppliers and other business partners. This means including additional factors when you choose or evaluate a new or existing supplier or business partner, such as their social, environmental and governance performance.

For example, when considering to begin or continue a business relationship, you may consider the following questions:

- Does this supplier treat its employees fairly, for example by ensuring healthy and safe working conditions and fair pay? Does it re-

spect human rights?

- Does this supplier help to conserve the environment, for example by making best efforts to reduce environmental pollution and protect natural resources?
- Does this supplier respect the law, and has it taken action to prevent money laundering, terrorism financing, corruption, and other criminal activities?

These are just a few examples of the many factors that you could take into consideration when you manage your relationship with a supplier, with the purpose of preventing or mitigating the risk of negative impacts that your products or services may contribute to along the supply chain.

In the gemstones and jewellery industry, the concept of responsible sourcing is becoming increasingly important. Consumers today want to be sure that the jewellery pieces they buy are not only beautiful but also ethical. In particular, they want to be sure that the jewellery pieces they buy have not been associated with human rights abuses and the financing of conflicts at

any point in the supply chain, from mineral extraction through to trading, handling, exporting and production.

A number of laws have already been established for certain minerals and metals that are considered riskier because they are more likely to be associated with negative impacts. One such metal is gold. Some countries, such as the United States and the European Union, have introduced laws that demand greater scrutiny on the supply chains of gold originating from so-called Conflict-Affected and High-Risk Areas (CAHRA).

Although other material supply chains such as gemstones may not be impacted by regulatory requirements yet, stakeholder expectations increasingly demand that businesses set up robust due diligence systems to identify, assess, and manage risks, with a focus on CAHRAs.

# FOCUS ON CONFLICT-AFFECTED AND HIGH-RISK AREAS

Conflict-Affected and High-Risk Areas are defined as “Areas identified by the presence of armed conflict, widespread violence or other risks of harm to people.

*Armed conflict may take a variety of forms, such as a conflict of international or non-international character, which may involve two or more states, or may consist of wars of liberation, or insurgencies, civil wars, etc.*

*High-risk areas may include areas of political instability or repression, institutional weakness, insecurity, collapse of civil infrastructure and widespread violence.*

*Such areas are often characterised by widespread human rights abuses and violations of national or international law.”*

Key risks that may be found in supply chains originating from or associated with CAHRAs include:

- Serious abuses of human rights, including forced labour and the worst forms of child labour;
- Support to non-state armed groups;
- Risks associated with the contracting of public or private security forces;<sup>1</sup>
- Bribery and the fraudulent misrepresentation of the origin of minerals;
- Money laundering;
- Non-payment of taxes, fees and royalties due to governments.

Now that you have learned about the risks associated with sourcing from CAHRAs, you may wonder: does this mean that I should no longer source from CAHRAs? No, you can, and you should continue sourcing from CAHRAs. In fact, excluding CAHRA supply chains may not be beneficial to those who are most affected by these risks. However, when sourcing from CAHRA, you should pay special attention to identify, assess, and mitigate risks. The following section of this guidance you help you understand how.

You may also wonder: which countries are considered to be conflict-affected and high-risk? As of today, there is no official CAHRA list. In the Gemstones and Jewellery Community Platform, however, you can find a CAHRA map which has been developed to help you identify which countries may represent a higher risk of being associated with the risks listed above, based on a review of country information and indexes.

1. Security forces who illegally control mine sites, transportation routes and upstream actors in the supply chain; illegally tax or extort money or minerals at point of access to mine sites, along transportation routes or at points where minerals are traded; or illegally tax or extort intermediaries, export companies or international traders.

This trend towards increased attention to responsible sourcing explains why you may be asked by your customers to provide information about your sourcing practices. To protect your business, it is important to set up a system to ensure that the materials you buy from your suppliers have been sourced responsibly. A critical instrument for responsible sourcing is due diligence.

Due diligence is the continual process of collecting information about a business partner, a country or location, a business activity, or an event so as to identify risks of negative impacts with which you or your business could be associated and the actions you can take to prevent and mitigate such impacts.

Negative impacts are negative effects that a company might have on people or on the environment. For example, unfair labour practices have a negative impact on the wellbeing of workers. If negative impacts are identified, you should take steps to mitigate them.

This may sound like a difficult process – indeed, if you are new to it, it can be. But do not worry, this document will accompany you along this process, step by step. In particular,

this document has been designed to help you implement a due diligence system in line with the recommendations of the [OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas](#) (OECD Guidance), which is the globally recognised best practice framework for due diligence.

# FOCUS ON THE OECD DUE DILIGENCE GUIDANCE FOR RESPONSIBLE SUPPLY CHAINS OF MINERALS FROM CONFLICT-AFFECTED AND HIGH-RISK AREAS

The OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (OECD Guidance) is an internationally recognised framework designed to help companies identify, address and mitigate risks associated with the extraction, transportation, or trade of minerals.

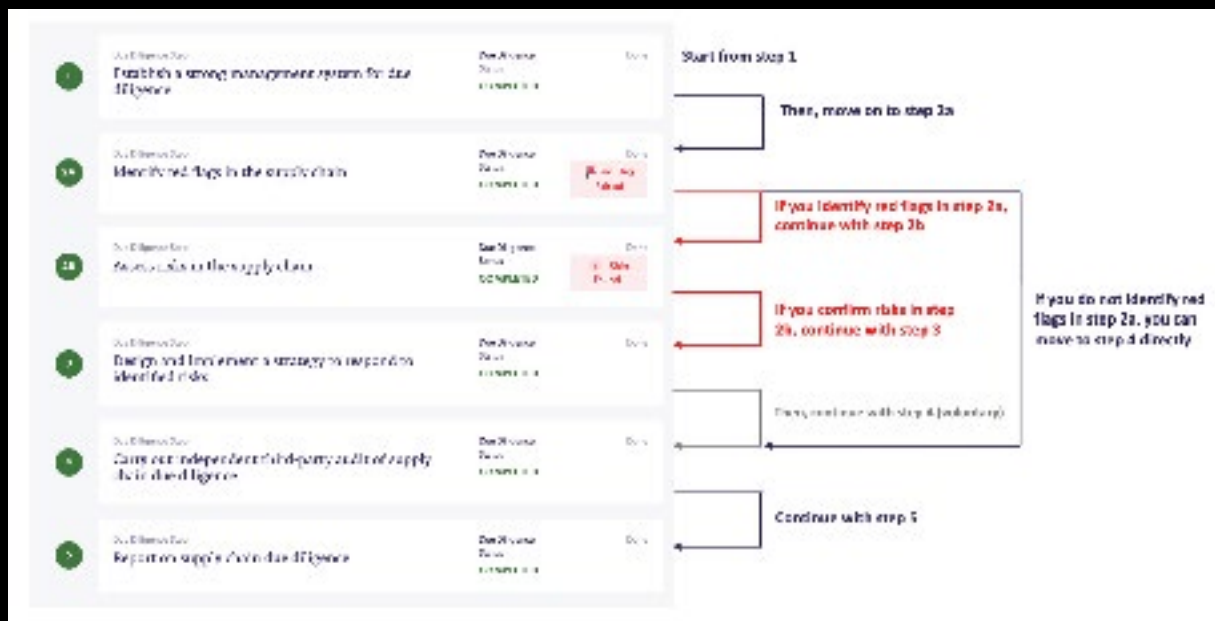
The OECD Guidance is a key instrument for ensuring compliance with due diligence legal and voluntary requirements. It is based on a 5-step framework, further described in the Implementation section of this document and illustrated below. This is the framework upon which the Gemstones and Jewellery Community Platform Due Diligence Tool is based.

Due Diligence Step	Due Diligence Status	Done
1 Establish a strong management system for due diligence	COMPLETED	
2A Identify red flags in the supply chain	COMPLETED	Red Flag Raised
2B Assess risks in the supply chain	COMPLETED	1 Risk Found
3 Design and implement a strategy to respond to identified risks	COMPLETED	
4 Carry out independent third-party audit of supply chain due diligence	COMPLETED	
5 Report on supply chain due diligence	COMPLETED	

The OECD Guidance follows a risk-based approach, whereby businesses should make good faith and reasonable efforts to take steps to identify, assess and mitigate potential or actual risks through measures that are proportional to the severity and likelihood of the identified risks and to their ability to manage, mitigate and remedy such risks.

## Responsible Sourcing and Due Diligence - Guidance

This also means that the activities you should carry out as part of your due diligence system will depend on whether potential or actual risks have been identified during your due diligence process:



The OECD Guidance focuses on a set of priority risks described in the Annex II of the Guidance (see box on CAHRA). However, businesses are not precluded from including additional social, environmental or governance risks in their due diligence process.

The OECD Guidance is also based on the principle of continual improvement, whereby businesses are expected to progressively improve their due diligence practices and risk management performance over time, including through constructive engagement with suppliers.

# Implementation

To set up a due diligence system to identify, address, and manage potential risks associated with the extraction, handling, and trading of minerals and metals, including gemstones, diamonds, gold and other precious metals, you should follow the steps below. The Due Diligence Tool available in the Gemstones and Jewellery Community Platform will help you along all the steps of this process.

## 1 ESTABLISH A STRONG MANAGEMENT SYSTEM FOR SUPPLY CHAIN DUE DILIGENCE

The first step of due diligence is about implementing a strong management system, meaning, policies, processes and procedures, that provide you with a systematic framework to pursue your responsible sourcing commitment.

As you learned in the Management Systems module, management systems help you to ensure that your business has the commitment, resources and plans needed to continuously improve and achieve its objectives in an organised manner.

Key components of a due diligence management system include:

**A. RESPONSIBLE SUPPLY CHAIN POLICY:** A Responsible Supply Chain Policy helps to clearly formalise a business's vision and commitment to take all necessary steps to identify and, where necessary, manage, negative impacts along the supply chain.

When writing your Responsible Supply Chain Policy, make sure to include:

- **A clear commitment to sourcing responsibly**, by undertaking all necessary steps of the due diligence process covered by this document, especially when sourcing from CAHRAs (*see Focus on Conflict-Affected and High-Risk Areas*). These are the steps recommended by the OECD Due Diligence Guidance.

*The 5-step framework of the OECD Guidance can be applied to all minerals and metals. Note that a specific Supplement on Gold has been developed by the OECD, providing further guidance on how to implement due diligence in gold supply chains. If your Responsible Supply Chain Policy covers gold, make sure to include a clear commitment to implement the OECD Due Diligence Guidance Supplement on Gold as well.*

- **A clear commitment** to address, at a minimum, the risks that are considered to be most serious in the gemstones and jewellery industry.
- **A risk management strategy**, i.e. a description of how your business will manage risks, in case risks are found during the due diligence process. Depending on how severe the risks are, you may:
  - End or temporarily suspend the business relationship with the supplier who is associated with such risks. This should be the case when you identify risks of serious human rights abuses or risks of conflict financing.
  - Continue the business relationship while working with the supplier to mitigate the risks identified. Except for the instance mentioned above, you are encouraged to always engage with your suppliers, as it is through engagement that you can use your influence to build capacity and encourage positive change in your supply chain.

As you have learned in Module 1 Policy and Management the policy should:

- Be signed by your CEO or senior manager;
- Include the date when it became effective;
- Communicate to your employees;
- In addition, the policy should be communicated to your suppliers and included into contracts or agreements with suppliers;
- The policy should also be made available to the public. If you have a website, you

should publish the policy there. If you don't have one, you should look for alternative opportunities to share the policy with your stakeholders. For example, you could send it by email or through your newsletter.

**B. INTERNAL MANAGEMENT:** Now that the policy is ready, you should implement it. To ensure that the policy is effectively implemented, you should:

- **Assign a senior staff member to oversee the due diligence system.** This person should have the necessary competence, knowledge and experience to take on this role. In a small business, this person may be the Compliance Officer or another relevant senior manager.
- **Make financial and human resources available to implement and monitor the due diligence system.** This includes appointing one or more members of your staff to carry out the day-to-day activities of your due diligence system, and providing them with the resources and support they need to carry out their work effectively.

Depending on how big your business is, you may need more or less persons to carry out due diligence-related activities. In any case, do not worry, the tools available in the Gemstones and Jewellery Community Platform will help you tackle this process with the resources you have!

It is important that information collected during the implementation of the due diligence system is reported to senior staff. In particular, you should make sure that information on the risks identified within your supply chain is shared with the senior staff, so that he or she can make informed decisions on how to best address them. To this end, you can set up regular calls or meetings with the senior staff, at planned intervals.

- **Train your staff.** You should establish a training programme, for all relevant staff (including, for example, your compliance and procurement staff). Your staff should be familiar with your Responsible Supply Chain Policy and the due diligence system and acquire the necessary skills to implement due diligence effectively.
- **Write a due diligence procedure.** You should formalise the activities that are part of your due diligence system in a due diligence procedure, a written document that provides clear instructions and guidance to employees on how to carry out due diligence activities. In the procedure, you should formalise the roles and responsibilities you have assigned, as well as all actions taken by the company to

carry out due diligence, including who will do what, and when.

Due diligence should not be carried out only once. It is a continuous process, which you should periodically monitor and review, in order to identify potential areas of improvement. For this reason, the Due Diligence Procedure should include clear instructions regarding how staff will continue due diligence efforts over time. It should also include details such as how key findings are reported to senior staff.

**C. SYSTEM OF CONTROL AND TRANSPARENCY:** An important component of the management system is setting up a system to collect all information needed in order to carry out the next steps of the due diligence process, in particular, the information needed to identify and manage potential risks. You will find out which information you need to collect for each step of the due diligence process as you go through the next steps of due diligence.

- **Know Your Counterparty:** At a minimum, you should set up a system to collect basic information on your suppliers. To collect basic information about your suppliers, you can carry out the Know Your Counterparty or KYC checks that you have learned about as part of the learning module on Business Ethics and Integrity. As you learned, KYC is a process of collecting, verifying and monitoring the identity of, and risks associated with, a counterparty, in this case, a supplier.
- **Information for red flags identification:** In addition, make sure to collect all information needed to identify potential red flags (see Step 2A below). As you will see in more detail below, this will include information on your suppliers business structure, country of operations, and sourcing practices, as well as information on the material you source, such as whether it is mined or recycled, from which country it originates, and from which countries it was transported.
- **Material control:** You should also make sure you have a system in place to monitor and reconcile which material entered your inventory (input) and which material exited it (output).



In particular, if your input material includes gold, there are specific practices you should consider:

- Assign a unique reference number to each input and output and adopt tamper proof physical security measures as set out in the OECD Guidance Supplement on Gold.
- Inspect all shipments for conformity to the information provided by the supplier on the type of gold, weight and quality.
- Report any inconsistency to management responsible for due diligence, with no further action taken until the inconsistency is resolved, and physically segregate and secure any shipments with unresolved inconsistencies.
- Avoid cash transactions where practicable, and, where they cannot be avoided, ensure cash transactions are supported by verifiable information.
- If your gold input material originates from a red-flagged supply chain (as you will find out in Step 2A below), establish a traceability system to collect and maintain information from the red-flagged supply chain.
- Physically segregate any material that has an identified risk of association with conflict and serious abuses of human rights.

**D. SUPPLIER ENGAGEMENT:** *[If you are a mining business and do not source minerals from external suppliers, this supplier engagement section will not apply to you].* Another key component of the management system, and key success factor of the due diligence process, is supplier engagement. In fact, how and how often you engage suppliers will determine your ability to collect all information you need to conduct due diligence, as well as your ability to work together collaboratively to mitigate risks along the supply chain where risks are identified.

You will find some tips about how you should engage your suppliers as you learn about each step of the due diligence process below. To begin with, make sure that you:

- Communicate to your suppliers the expectation that they will uphold your responsible supply chain policy and conduct due diligence.
- Include your responsible supply chain policy in your supplier contracts and/or

agreements.

- Include the requirement to share relevant due diligence information in your supplier contract and/or agreements.
- Where possible, you should support your suppliers in building capacity for their due diligence efforts. For example, you could provide training on your responsible supply chain policy, share this document with your suppliers, and invite them to join the Gemstones and Jewellery Community Platform.

**E. GRIEVANCE MECHANISM:** Finally, as part of the management system, you should set up a grievance mechanism. As you learned before as part of the Business Ethics and Integrity module, a grievance mechanism is a system for receiving complaints by workers, organisations and communities that are negatively affected by a business, and for providing remedy.

This is a very important mechanism to alert you of potential negative impacts caused involuntarily by your business or by your business partners.

**Now that you have learned about Step 1, you can proceed with Step 2a 'Identify Red Flags in the supply chain'.**

## 2a IDENTIFY RED FLAGS IN THE SUPPLY CHAIN

The second step of due diligence is about identifying potential and/or actual risks associated to your supply chain. In particular, companies operating in, or sourcing from, CAHRA (see *Focus on Conflict-Affected and High-Risk Areas*), are more likely to be associated with risks of serious human rights abuses, conflict financing, and other criminal activities.



- **Red Flags Identification.** Red flags are alerts that a risk may be present in your supply chain. A red flag does not automatically confirm that there is an actual risk, rather, it alerts you that there is a higher likelihood of such risks occurring. You should look out, at a minimum, for the following red flags:
  - Red flag locations:
    - You are located or operate in a CAHRA;
    - The material originates from or has been transported through a CAHRA;
    - The material is claimed to originate from a country with limited known supplies. That is, the declared volumes of diamonds, coloured gemstones, gold, or other minerals from that country are not plausible, given known reserves or expected production levels of that country;
    - The material is claimed to originate from a country through which material from CAHRAs is known or reasonably suspected to pass through;
    - The material is claimed to be recycled in a country where diamonds, coloured gemstones, gold, or other minerals from CAHRAs are known or reasonably suspected to pass through.
  - Red Flag Suppliers
    - Suppliers or other known upstream businesses in your supply chain operate in one of the abovementioned red-flag locations, or have shareholding or other commercial interests in suppliers from these red-flag locations;
    - Suppliers or other known upstream businesses in your supply chain are known to have sourced material from a red-flag location in the last 12 months.
  - Red Flag Circumstances:

- Anomalies or unusual circumstances are identified through the information collected, which give rise to a reasonable suspicion that the extraction, transport or trade of the material may contribute to conflict or be associated with serious abuses.
- **CAHRA determination.** As you have seen, most red flags are based on the concept of CAHRAs. As you have learned in the Explanation section of this document, CAHRAs (which stands for Conflict-Affected and High-Risk Areas) are defined as “areas identified by the presence of armed conflict, widespread violence or other risks of harm to people”. As of today, there is no official list of CAHRAs. Instead, to be able to identify potential red flags in your supply chain, you need to design a methodology to determine which countries you consider to be a ‘CAHRA’. For this task, you need to rely on credible sources. This is no easy task, but once again, do not worry, we have tools to help you.

This CAHRA map is also embedded in the Due Diligence Tool. This means that the Due Diligence Tool will be able to capture potential red flags, based on:

- The information you provide on your own operations. This information concerns the country or countries where you operate.
- The information you provide on your suppliers. See the box below for more on the type of information you should provide on your suppliers, to ensure that you can capture potential red flags. You can:
  - add information on your suppliers directly, by clicking on “Add Supplier Information”; or,

[Add Supplier Information](#)

[Import Supplier Information](#)

# INFORMATION FOR RED FLAGS IDENTIFICATION

**Information for Red Flags Identification:** In order to identify potential red flags, you should try to collect the following type of information for each supplier:

## **Information on your supplier:**

- Name of business;
- Supplier position in the supply chain:
  - Upstream, meaning, the supplier is a mining business or rough exporter;
  - Midstream, meaning, the supplier does (depending on the material sourced) cutting and polishing, refining, recycling and/or trading ;
  - Downstream, meaning, the supplier is a manufacturing business, jewellery brand and/or retailer;
- The supplier's country or countries of operation;
- Whether the supplier has a shareholding interest or other controlling interest in another company and, if so, information on the country or countries of operations of such company and its sourcing practices; and,
- Whether the supplier has a responsible supply chain policy, a due diligence system, a senior staff member assigned to oversee the implementation of the responsible sourcing policy and due diligence system, and whether it has conducted due diligence on its supply chain.

## **Information on the material sourced from the supplier:**

- The type of material sourced from the supplier during the past 12 months:
  - Diamonds;
  - Coloured Gemstones (if so, which ones);
  - Gold;
  - Silver; and,
  - Platinum Group Metals (PGM).
- **For each material sourced:**
  - The percentage of material received that is mined vs. recycled;
  - Country (or countries) where the material was mined (if applicable);
  - Country (or countries) where the material was recycled (if applicable);
  - Country (or countries) where the material was purchased in the past 12 months;
  - Country (or countries) through which the material has been transported or transited;

- The percentage of material from:
  - Known mining operations that provide information on the original source of production (e.g. company, mine or specific geographical area of production is known)
  - Established suppliers where there is some, but limited, information on the original source of production (e.g. country of origin is known)
  - Open market where there is some, but limited, information on the original source of production (e.g. country of origin is known);
  - Established suppliers where there is no information available on the original source of production; and,
  - Open market where there is no information available on the original source of production.

Once you complete the information on your own operations and on your suppliers, you will be able to find out whether red flags are triggered in your supply chain.

**If you identify red flags, you should carry out more due diligence, continuing with step 2B.**

**If you do not identify any red flags, you can move to step 4.**

## 2b ASSESS RISKS IN THE SUPPLY CHAIN

The second step of due diligence is about assessing the potential or actual risks associated with your supply chain. Businesses operating in, or sourcing from, CARHAs, are more likely to be associated with risks of serious human rights abuses, conflict financing, and other criminal activities. For this reason, if you have identified 'red flags' during step 2a, you should now collect further information on your red-flagged supply chains, to assess the presence of potential or actual risks.

At a minimum, you should determine whether the red flags found in your supply chain are associated with one or more of the risks that often characterize CAHRAs (see Focus on Conflict-Affected and High-Risk Areas).

If you identified a red flag in your own operations, you should undertake a risk assessment. This includes assessing the security, political and social context of the country or area where you are located. You may conduct this assessment through desk-based research, for example by reviewing reports issued by the UN, NGOs, local authorities, media, and other credible sources, and through stakeholder engagement.

If you identified a red flag associated with your suppliers' operations or sourcing practices, you should undertake a risk assessment of your suppliers' operations. This includes:

- Again, assessing the security, political and social context of the country or area where the supplier is located. Collecting information on the identity of this supplier and, if possible, of the other businesses (i.e. your supplier's suppliers) further

upstream in this supply chain;

- Checking whether the supplier is affiliated with the government, any political party, the military, non-state armed groups, or criminal networks; and,
- Determining whether the material originates from artisanal and small-scale mining (ASM) or from large-scale mining (LSM). This is because material originating from ASM may be more likely to be associated with risks of poor human rights performance.
- Assessing your supplier's due diligence performance and the ability of your supplier to prevent and/or manage risks, via desk-based research and/or supplier engagement. For example, does your supplier have a robust due diligence system in place? Is it able to provide evidence of due diligence and, if relevant, of risk mitigation measures taken?
- Collecting all taxes, royalties, fees and other payments made to government along the supply chain, where possible, to check that all payments due to government have been made; and,
- Collecting all payments made to public or private security forces or other armed groups along the supply chain, where possible, to check that there are no risks associated with the contracting of security forces (e.g. extortion).

If possible, you are encouraged to conduct an on-the-ground assessment to verify or complement your research. This means sending your team, or an independent assessment firm, or joining an existing industry scheme, to assess your supplier's practices and the context of the area that raised the red flag.

Make sure to keep a record of the information you used to conduct this assessment and to share the result of the risk assessment with the senior staff member who is in charge of overseeing the due diligence system. Based on your research, you should be able to determine whether the supplier is associated with one or more risks listed above. As mentioned before, you are not precluded from looking at a broader set of risks.

**If you confirm the presence of risks, address them continuing with step 3.  
If you do not confirm the presence of risks, you can move to step 4.**

## 3 DESIGN AND IMPLEMENT A STRATEGY TO RESPOND TO IDENTIFIED RISKS

The third step of due diligence is about designing and implementing a strategy to respond to risks identified during the risk assessment in step 2b.

To do so, you should carry out the following activities listed below. Remember, to implement the risk management plan successfully, it is important that you engage constructively with suppliers and other relevant stakeholders.

- **Risk Management Strategy.** Determine the appropriate strategy for managing the relationship with your supplier, based on the type and severity of the risks you have identified. As you learned before;
- **Risk Management Plan.** Design and document a risk management plan to mitigate risks in your operations. This includes designing:
  - Mitigation actions. For example, if your supplier is associated with risks of money laundering, require that your supplier sets up an anti-money laundering system, in line with what you have learned about through the learning module on Business Ethics and Integrity.
  - Clear performance objectives and qualitative and/or quantitative indicators to measure improvements. For example, you could require that your supplier develops an anti-money laundering policy and procedure, appoints a dedicated senior staff for its implementation, conducts KYC checks on all its business partners within appropriate timeframes;
  - Timeframe. Define a timeframe for achieving significant measurable improvement (maximum six months);
- **Stakeholder consultation.** Where appropriate, consult with relevant stakeholders to agree on your risk management plan and if needed, review the risk management plan to take into account questions, concerns and alternative suggestions for risk management presented by the stakeholders; and,
- **Monitor and evaluate** the effectiveness of the risk management plan.

Make sure that you share the results of the risk management plan with the senior staff member who is in charge of overseeing the due diligence system.

## 4 CARRY OUT INDEPENDENT THIRD-PARTY AUDITS

Step 4 of due diligence is about verifying your suppliers' and/or your own due diligence practices.

- **Verifying your suppliers' due diligence practices:** You are encouraged to request a verification by an independent third-party of your suppliers' due diligence practices, to ensure that they are taking all necessary steps to uphold your responsible supply chain policy.

Mineral supply chains can be long, highly complex and characterised by low visibility. This can make it difficult for you to determine which suppliers to assess. Because conducting verification is also a costly and time-consuming effort, for both you and your supplier, you are encouraged to request a verification at strategic points in the supply chain, to help avoid audit fatigue and increase efficiency. Such strategic points may be points in the supply chain which provide greater visibility over your supply chain up to the mine site. For gold, silver, and PGM supply chains, such point is the refiner.

If your supplier has already been verified, you should consider accepting the verification report that they can provide, rather than requesting an additional verification.

- **Verifying your own due diligence practices:** Regardless of your position within the supply chain, you are also encouraged to have your own due diligence practices verified by an independent verifier. This will allow you to share your verification report with your customers and to build confidence in your system.

If you are pursuing an RJC Code of Practices certification, your due diligence practices will be verified as part of your RJC audit. If you are not pursuing an RJC Code of Practices certification you may have your due diligence practices verified by an independent audit company of your choice.

## 5 REPORT ON SUPPLY CHAIN DUE DILIGENCE

Step 5 of due diligence is about reporting on your due diligence practices.

Reporting is a fundamental step in the due diligence process, as it promotes transparency and accountability. Reporting allows stakeholders to understand the steps taken by businesses to identify and respond to risks and, as a consequence, to generate public confidence in minerals supply chains.

At a very minimum the report should include:

- A reference to the Responsible Sourcing Policy;
- A description of the internal management systems;
- A description of your control and transparency system;
- Whether you have identified red flags in your supply chain;
- Whether you have identified risks and how you have mitigated those;
- Whether you have been verified by a third-party assessor; and,
- Whether you have conducted on the ground assessments on your supply chain.

If you have carried out all steps described in this document, you should be proud. Due diligence is a fairly new expectation in the gemstones and jewellery industry, one, however, that will become increasingly relevant over the coming years.

Remember, however, that due diligence cannot be completed once. To be effective and relevant, you should review your due diligence system – including all steps in this document - periodically, at least once a year.

# Glossary

## Responsible Sourcing and Due Diligence

### **Due Diligence:**

The continual process of collecting information about a business partner so as to identify risks of negative impacts with which you or your business could be associated and the actions you can take to prevent and mitigate such impacts.

### **Mined material:**

The origin of mined material is the mine, company, region or geographical location where the mine is located, whether an artisanal and small-scale mine or a medium or large-scale one.<sup>1</sup>

### **Original source:**

The source of material is the geographical place, person or company from which the material is obtained. The source of mined material is:

- For gold, silver or PGM: the mine or country of mining origin.
- For diamonds or coloured gemstones: for upstream companies and Tier 1 mid-stream companies, this is the mine or country of mining origin, company and/or region. For Tier 2 midstream and downstream companies, the source will be the rough exporter (first export from country of mining origin), or Tier 1 midstream company suppliers if possible, and if not, the furthest known point in the upstream supply chain.
- The source of recycled material is the same as its origin.<sup>2</sup>

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<sup>1</sup>The Responsible Jewellery Council, Code of Practices Guidance, 2019

<sup>2</sup> Ibidem.

### **Recycled material:**

The origin of recycled material is the point at which it re-enters the jewellery supply chain. For recycled gold, silver or PGM, this is the point at which it is returned to the refiner or other downstream intermediate processor or recycler.<sup>3</sup>

### **Red flag:**

A red flag is a warning or indicator of a potential risk. In the context of due diligence, a red flag can be a location, supplier or circumstance that triggers a need for enhanced due diligence (that is, further investigation).<sup>4</sup>

### **Risk:**

In the context of due diligence, risk (or supply chain risk) is the potential for adverse impacts which result from a company's own activities or its relationships with suppliers and other entities in the supply chain.

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3. *Ibidem*

4. *Ibidem*

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