



Consumer Electronics Retailers Coalition



www.ceretailers.org

U.S. Securities and Exchange Commission
17 CFR Parts 229 and 249
Release No. 34-63547; File No. S7-40-10
RIN 3235-AK84
Conflict Minerals
Proposed Rule

COMMENTS OF THE
RETAIL INDUSTRY LEADERS ASSOCIATION
AND THE
CONSUMER ELECTRONICS RETAILERS COALITION

March 2, 2011

[Table of Contents]

I.	MANUFACTURE” CAN AND SHOULD BE RELIABLY DEFINED AND SHOULD EXCLUDE FUNCTIONS SUCH AS THOSE INVOLVED IN RETAILING.....	6
	A. The Law Places A Reporting Obligation Only On Those Engaged In Value-Added Manufacturing Processes.	7
	B. The Record Does Not Support Any Notion That Retailing Is Manufacturing.....	8
	C. Mining, Smelting, And Manufacturing Processes With Respect To Conflict Minerals Are Not Sensibly Or Feasibly Within The Purview Of Retailers And Others Who Do Not Manufacture.....	10
	D. With Respect To Conflict Minerals, The Isolated Statutory References To “Products Manufactured Or Contracted To Be Manufactured” Cannot Sensibly Be Read As Pertaining To What Retailers Do.....	11
	E. With Respect To Due Diligence, Regulatory Reference To “Contract For” Cannot Produce Accurate And Reliable Information Consonant With The Objectives Of Section 1502.....	13
II.	WITH RESPECT TO BUSINESSES THAT ARE ENGAGED IN MANUFACTURING, CERC AND RILA SUPPORT THE COMMENTS OF NAM AND OF THE COALITION OF INDUSTRY GROUPS	15
	A. Due Diligence.....	15
	B. Reasonable Standard of Care	16
	1. Authority of Companies to Conduct Due Diligence.....	17
	2. Legal Precedents	17
	3. Cost Considerations	17
	4. Challenges re Gold.....	18
	CONCLUSION.....	18



Consumer Electronics Retailers Coalition



www.ceretailers.org

Electronically Submitted

March 2, 2011

Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100F Street, NE
Washington, D.C.20549-1090

Re: File No. S7-40-10, Release No. 34-63547, RIN 3235-AK84 Conflict Minerals Proposed Rule.

COMMENTS OF THE
RETAIL INDUSTRY LEADERS ASSOCIATION
AND THE
CONSUMER ELECTRONICS RETAILERS COALITION

The Consumer Electronics Retailers Coalition (“CERC”) and the Retail Industry Leaders Association (“RILA”) submit these Comments in response to the above-referenced Notice of Proposed Rule.¹ RILA promotes consumer choice and economic freedom through public policy and industry operational excellence. RILA members include the world’s largest and most innovative retail companies. RILA members include more than 200 retailers, product manufacturers, and service suppliers, which together account for more than \$1.5 trillion in annual sales, millions of jobs and more than 100,000 stores, manufacturing facilities and distribution centers domestically and abroad. CERC is a public policy organization of major retailers of consumer electronics products including Amazon.com, Best Buy, RadioShack, Sears Holdings (K-Mart, Sears), Target, Walmart, and the leading industry trade associations - RILA and the National Retail Federation (“NRF”).

¹ SEC, Conflict Minerals, Release No. 34-63547, File No. S7-40-10, 75 Fed. Reg. 80948 (Dec. 23, 2010) (“Notice”).

CERC's and RILA's corporate members are all Issuers of publicly traded securities and would be subject to reporting requirements as set forth in the Notice if SEC regulations were to apply broadly to retailers as "manufacturers."² However, unless a member owns and operates a factory, retailers are not manufacturers under the Act. There is no activity in which they engage as retailers that would enable them to provide accurate and reliable information as to whether conflict minerals are necessary ingredients or necessary to production of a particular product. Retailers have no reasonable way of determining whether they have any duty to file a report with respect to the *tens of thousands* of different and diverse products that a major retailer would buy and resell at any given time. Therefore, RILA and CERC file these Comments to establish in the SEC's record that interpreting Section 1502 as placing a reporting obligation on retailers who do not actually manufacture would be unwarranted and contrary to the law. Such an obligation would detract from accurate reporting, and would impose an entirely new operational activity – rather than only a reporting obligation – on retailers. There is nothing in Section 1502, or elsewhere in law, to suggest that this is intended, appropriate, or just.

Section 1502 requires filing of reports by entities that are under an obligation to file with the SEC pursuant to the Securities Exchange Act of 1934, and for whom "conflict minerals are necessary to the functionality or production of a product *manufactured by* such person."³ As Congress considered the legislation, the language was clarified so as to apply only to manufacturers, rather than to all parties that may be part of the supply chain but not directly involved in manufacturing. The amendment originally offered by Senator Brownback read, "product of such person."⁴ The change to "manufactured by such person" in his May 18, 2010

² Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. 111-203, § 1502(b)(2)(B), 124 Stat. 1376, 2214 (July 21, 2010).

³ *Id.*, *emph. supplied.*

⁴ 156 Cong. Rec. S3103 (daily ed. May 4, 2010) (amendment by Sen. Brownback).

amendment⁵ was an unambiguous clarification that excluded from the reporting obligation persons who not exert direct, substantial control over the actual manufacture of the product.

The objective of Section 1502 is to require transparency in the sourcing and supply chain in the manufacture of products that may contain conflict minerals, so as to provide downstream industry and the investing public with accurate information.⁶ Retailing does not involve business relationships, by contract or otherwise, that make a retailer privy to due diligence information with respect to conflict minerals, as ingredients or elements of production. Nor does retailing put Issuers in proximate or even nearly proximate communication with any entity from which this information can be sought on a first-hand basis. The goal of providing accurate, reliable information would be thwarted rather than advanced by treating retailers as manufacturers, by contract or otherwise. Imposing a reporting requirement on retailers would be more likely to mislead or at best confuse the public than it would be to provide useful information.

In these Comments, CERC and RILA reply to the SEC questions that touch on the status of retailers and retailing with respect to the regulations as proposed in the Notice. Most crucially, the SEC asks in Question 9 whether its regulations should define “manufacture,” and if so how. Based on the text and the context of the law, the law’s objective to provide relevant and accurate information to investors, and the necessity for businesses to be able to determine whether, and for which products, they are obligated to file any report, RILA and CERC answer:

⁵ 156 Cong. Rec. S3866 (daily ed. May 18, 2010) (amendment by Sen. Brownback).

⁶ Ltr. from Deborah R. Meshulam, Counsel, Enough Project, to Paula Dubberly, Deputy Director of Policy and Capital Markets, Div. of Corp. Finance, Securities and Exchange Commission regarding Comments of the Enough Project Related to Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, at 5, 10 (Sept. 24, 2010) (“ENOUGH letter”); *cf.* OECD, *Draft Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas*, at 1 (2010) (“OECD Draft”), <http://www.oecd.org/dataoecd/13/18/46068574.pdf>.

(1) The SEC has an obligation to define “manufacture,” and

(2) This definition must not include entities that merely contract with manufacturers for products to be made.

Hence, retailers and others similarly situated should not be required to report unless they actually engage in the business of manufacturing, and therefore would be in a position to provide accurate information as contemplated by the law. Any other result would lead to uncertainty as to who should report and which products should be reported upon, and to inaccurate and conflicting reporting by retailers, based on the same pool of information from vendors.

I. “MANUFACTURE” CAN AND SHOULD BE RELIABLY DEFINED AND SHOULD EXCLUDE FUNCTIONS SUCH AS THOSE INVOLVED IN RETAILING.

There is nothing in Section 1502 to support any inference other than that “manufacture” pertains to the actual engineering and production of a product, not its purchase by contract, or even its specification by contract. The text of the law is clear in this respect, as is any standard definition of the term “manufacture.” The law’s sole reference to “contracted to be manufactured” clearly refers to agreements or arrangements among value-added producers of products, components of products, or their materials. The law, the legislative history, and the materials submitted by interested and knowledgeable parties to committees of jurisdiction prior to the passage of Section 1502 provide no support for any other interpretation.⁷

⁷ Section 1502 of the Dodd-Frank Act was drafted and enacted into law with minimal consultation and outreach to industry. As a result, industries that are affected by the law were not afforded an opportunity to contribute their advice on how the Act’s underlying requirements could best be implemented across supply chains and by which particular parties/groups. There was, however, significant research performed by public interest groups and non-governmental and multinational organizations that have studied the circumstances of the conflict and made recommendations to both the Congress and the SEC. In these Comments, retailers refer to this input as necessarily and specifically supporting the conclusion that any productive implementation of the law must place an obligation only on those directly engaged in the productive process of manufacturing.

A. The Law Places A Reporting Obligation Only On Those Engaged In Value-Added Manufacturing Processes.

The only part of the law that addresses “manufacture” is Section 1502(b)(2)(B), which establishes a reporting requirement on an Issuer where “conflict minerals are necessary to the functionality or production of a product *manufactured by such person*” (emph. supplied). The other references to “manufacture” address neither who is a manufacturer nor who is required to report:

- Subsection (d)(2)(C)(ii)(II) requires the Comptroller General to include in a report whether “conflict minerals are necessary to the functionality or production of a product manufactured by such person.”
- Section 1502(b) adds a new subsection, (p)(1)(A), to Section 13 of the Securities Exchange Act. This subsection addresses reporting *where a manufacturer otherwise has a duty to file a report pursuant to Section 1502.*⁸ Nothing in the new (p)(1)(A) purports to *impose* such a duty. It does not address at all the definition of who “manufactures” products, or who is under a duty to file a report. Clearly this section is about the *content* of a report, *once the duty to report under Section 1502 has been established.*

Nothing in the text of the statute, its reasonable interpretation, or its history prior to passage lends any support to the notion advanced, after the fact, that this language in (p)(1)(A), referring to “contract to manufacture,” itself imposes a reporting obligation on anyone who is not *already* a proximate part of the value-added manufacturing process. As is made clear by the studies that were available to the Congress and that have been submitted to the SEC,⁹ the “by contract” language obviously and directly pertains to arrangements among those in the value-added process: Those that are proximately upstream – minerals, materials, processing – or proximately downstream, such as an integrator of materials or component parts. Supreme Court

⁸ The manufacturer must report with respect to the diligence exercised *by the manufacturer* as to chain of custody, the “products manufactured or contracted to be manufactured” that are not DRC conflict free, “facilities used to process the conflict minerals, and “efforts to determine the mine or location of origin with the greatest possible specificity.”

⁹ See n.5, *supra*, and discussion below.

precedent is clear that post-enactment statements by legislators to the contrary are not entitled to any weight.¹⁰

B. The Record Does Not Support Any Notion That Retailing Is Manufacturing.

As there is no basis for extending the law’s language beyond the value-added manufacturing process, the SEC would appear to have an obligation to spell out, through a definition of “manufacture,” what is included in that process. The SEC has adequate information in the record to do this. RILA and CERC support the recommendation of the National Association of Manufacturers (“NAM”) that the SEC rely upon the generally accepted government definition of “manufacturing” as developed by the U.S. Census Bureau and North American Industry Classification System (“NAICS”) and widely relied upon by both government and industry:

Manufacturing as establishments engaged in the mechanical, physical, or chemical transformation of materials, substances, or components into new products.¹¹

Other information as cited by the SEC in its Notice, specifically in the context of conflict minerals, supports this definition. For example, the letter from ENOUGH proposes this definition:

Manufactured -The production, preparation, assembling, combination, compounding, or processing of ingredients, materials, and/or processes such that

¹⁰ In suggesting a reading contrary to the clear statutory language and context, the Commission takes note of a letter dated October 4, 2010 from Sen. Richard Durbin and Rep. Jim McDermott. However, the Supreme Court has specifically stated that post-enactment statements by legislators are “generally viewed as the least reliable source of authority for ascertaining the intent of any provision’s drafters,” and they are “entitled to no more weight than the views of a judge concerning a statute not yet passed.” *District of Columbia v. Heller*, 554 U.S. 570, 662 n.28 (2008).

¹¹ Ltr. from the National Association of Manufacturers and other industry groups to Mary L. Shapiro, Chairman, Securities and Exchange Commission regarding SEC initiatives under the Dodd-Frank Act – Special Disclosures Section 1502 (Conflict Minerals), at 4 (Nov. 12, 2010).

the final product has a name, character, and use, distinct from the original ingredients, materials, and/or processes.¹²

In discussing the limiting language of “necessary to the functionality or production,” the ENOUGH letter provides context and insight as to what is entailed in “manufacture” where conflict minerals are involved.¹³ The core elements cited require a relationship to process and source proximate enough to be able to establish the *manufacturing intent* of the producer, and the *elements and byproducts* of the manufacturing process. This would require a direct and close relationship involving the mineral producer, as engaged in manufacturing, and the mineral supplier. As the ENOUGH letter notes, this is necessary to any “reasonable basis” for disclosure (*id.* at 9, *emph. supplied*):

[T]he Commission should issue rules that provide guidance on what inquiry will enable a regulated person to have a reasonable basis for its disclosure. A reasonable inquiry should include at least a determination of whether the regulated person’s supplier of conflict minerals obtains such minerals from the DRC or an adjoining country. The Commission’s rules should specify that regulated persons make such a determination by making appropriate inquiries of their suppliers concerning the source of conflict minerals. *Such inquiries should include requests for the identities of those who provide raw minerals for processing, identification of the mines from which the raw minerals are obtained, copies of certifications, mine reports and similar information.*

In discussing the nature of due diligence, proximity to source is key, as reporting must include information about the specific mine associated with the shipment, the dates of shipment, site reports, and specific smelter validation. *Id.* at 11-12.

The context and examples cited in the ENOUGH letter support interpreting the term “manufacture” in Section 1502 to exclude retailing. Through this letter and like material now in the record, the SEC has a reasonable and adequate basis to define “manufacture” in the actual context of conflict mineral reporting and due process. Such a definition is essential for any

¹² ENOUGH letter, at 7 (fn. omitted).

¹³ *Id.* at 6.

publicly traded corporate entity to determine *whether* it has any obligation to file reports pursuant to Section 1502 with respect to any product as to which it may have some relationship that is contractual but does not involve the engineering or manufacturing process. This definition cannot sensibly and should not include retailers and retailing unless, and only to the extent, the retailer actually manufactures products on a value-added basis, in a factory it owns or over which it has an actual measure of specific control, in which production processes are applied to turn materials and components into new products.

C. Mining, Smelting, And Manufacturing Processes With Respect To Conflict Minerals Are Not Sensibly Or Feasibly Within The Purview Of Retailers And Others Who Do Not Manufacture.

An ENOUGH White Paper, in discussing a manufacturer’s due diligence obligations, stresses first-hand proximity to sources and the chain of custody:

1. **Tracing:** Has the company traced its suppliers of tin, tantalum, tungsten, and gold (3TG)? (four questions)
2. **Auditing:** Does the company have audits conducted of its suppliers of the 3TG minerals to determine mine of origin and chain of custody? (six questions)
3. **Certification:** Has the company taken concrete steps to develop an international certification regime for the 3TG minerals? (three questions)¹⁴

An OECD draft report, also cited favorably in the Notice at page 80961, discusses “the conduct undertaken by a reasonably prudent person” as to “due diligence regarding conflict

¹⁴ Center for American Progress, Enough Project, *Getting to Conflict-Free: Assessing Corporate Action on Conflict Minerals* (Dec. 2010), at 4, <http://www.enoughproject.org/publications/getting-conflict-free>. The White Paper goes on to spell out particular activities that are clearly not within the purview of retailing: “**Supply chain tracing and smelter disclosure.** Investigating suppliers to determine the sources of their minerals is a critical step that the leading companies have started, but where significantly more work can be done. Companies should precisely define those products and components that contain the four minerals. Companies also need to work with suppliers to help identify smelters, the choke point in the supply chain. Subsequent investigations should be done past the smelter to minerals traders and exporters.” *Id.* at 11 (fn. omitted).

minerals supply chains.”¹⁵ Retailers, no matter how specific in their ordering of product from manufacturers, are not in a position to undertake *any* of these activities, *or* to advise the public with any confidence in accuracy as to the specifics of whether and how such activities can be performed. Neither the statute nor the Notice nor the White Paper nor the OECD Draft urges retailers or the public not to buy such products. The focus, rather, is on providing accurate information to investors and consumers – information that retailers are not in any position to provide with any reliable specificity.

D. With Respect To Conflict Minerals, The Isolated Statutory References To “Products Manufactured Or Contracted To Be Manufactured” Cannot Sensibly Be Read As Pertaining To What Retailers Do.

As is discussed above, the statutory reference to products “contracted to be manufactured” in subsection (p) does not address who should be considered to be engaged in “manufacture,” or whether disclosure requirements should be imposed on retailers or any other party. Rather, subsection (p) provides a description of which *products* are to be subject to disclosure. To the extent this provision does provide some context through the words “contracted to be manufactured,” this language evidently and most sensibly pertains to processes involved in value-added manufacturing, and does *not* pertain to what retailers do. These processes are alien to what retailers do and can know, no matter how closely they may be involved in product *specification* decisions.

In the typical importing scenario, a retailer will not, as a matter of course, specify a method of manufacture, or the types of raw materials (or their respective sources) to be used in a product, or indeed any of the functions referred to by the Census Bureau and NAICS in defining “manufacturing.” It is the manufacturer alone that determines the production methods and

¹⁵ Notice, at 80961 (quoting OECD Draft).

materials that are best suited to filling a retailer's product order – even in those instances in which the retailer has furnished requirements as to design, quality, and performance. Retailers in their ordinary business do not know and have no reason to know the production and sourcing decisions that a manufacturer makes in fulfilling their requirements. Moreover, unless Section 1502 were to be read as a *ban or limitation* on conflict mineral content (which, as the SEC explicitly notes, it is not), Section 1502 does not place retailers under any duty to *learn* the specific source of a product's component minerals. Rather, the law clearly assumes that such information is already pertinent to the business of the Issuer who must make a report.

The legislation contemplates that reporting parties, in their ordinary course of business, are concerned with, and thus can perform due diligence with respect to, sourcing and processing issues such as chain of custody prior to manufacture, processing facilities, and location or origin of a mine. No such inquiry is a part of a retailer's ordinary business when sourcing, merchandizing, branding, or even specifying products in communications and contracts with manufacturers. Rather, retailers rely on their manufacturer vendors to address any such specifics. The information retailers seek and obtain concerns manufacturing and product outcomes, not component or raw material sourcing specifics. Retailers do not typically have chain of custody proof and in many cases are simply incapable of obtaining credible chain of custody information and documentation. An effort to conduct any level of chain of custody investigation into source minerals involved in the tens of thousands of unique products that a retailer may carry would introduce enormous complexity and cost – without the likelihood of producing accurate custody conclusions. All of these costs are exponential given the breadth of product offerings that many retailers carry and the complexity of modern supply chains. Moreover, a single item could come from multiple suppliers. Each item could have multiple

components or subcomponents coming from additional exponential levels of suppliers. It is difficult to quantify the magnitude of the impact given the multiple variations. It is easy, however, to see that tracing the source of or auditing these multiple touch points in the supply chain would create a significant cost burden that would likely reach tens of millions of dollars, or more, for any retailer of significant size, without any contribution to the accuracy of the information made available to the public.

To the extent existing laws in other areas place a duty on retailers to confirm assurances obtained from vendors, retailers generally are able to test the manufactured products for compliance with law and regulation – as in compliance with FCC Part 15 emission regulations, energy standards, or the lead content of toys. Retailers have no way, however, to test products and their components for the information as to content required under Section 1502, and no way to test whether the product was produced by a process for which conflict minerals were necessarily employed.

E. With Respect To Due Diligence, Regulatory Reference To “Contract For” Cannot Produce Accurate And Reliable Information Consonant With The Objectives Of Section 1502.

That a retailer might order products *from* manufacturers and specify various feature, cosmetic, or even brand attributes does not mean that the retailer is in any better position than any other members of the public to provide a specific and accurate report to the SEC, the public, or the shareholders that is based on due diligence with respect to tracing mineral suppliers, auditing chain of custody from mine to smelter, or certifying smelters and factory procedures. These circumstances simply have nothing to do with the businesses that RILA and CERC members are in, or the subjects on which they report to investors.

Given these facts, it is far more sensible to interpret “contracted for” as referring to the several relationships among manufacturing entities – such as a value-added relationship between a manufacturer of final products or subassemblies and a manufacturer of components – than it is to leverage this term to impose a new *business obligation disguised as a reporting obligation*. This business obligation would be orthogonal rather than related to what retailers do in their ordinary course of business. A retailer’s contractual relationship with a manufacturer, even in those cases where it extends to *specification* of performance, design, cosmetic or branding requirements, does not extend to the *sourcing and engineering* choices as to which conflict minerals are relevant and material.

Hence, it would seem inevitable that two retailers dealing with the same manufacturer could make different conflict mineral “due diligence” determinations about essentially the same product, from the same factory. RILA and CERC members do not believe that Section 1502 is directed to receiving guesswork and assumptions that cannot possibly be verified, and that can only confuse, rather than enlighten, public and investor discourse.

Because retailers have neither proximity nor insight to production processes, it would be arbitrary, capricious, and contrary to the rationale for Section 1502 to label retailers who do not run factories as in the business of having “manufactured” products. Nothing in the contracting process for finished consumer goods of most retailers can justify the SEC to require reporting that is based on speculations where, as retailers, our companies have little or no exposure to production and raw material sourcing specifics, and have no way to reliably obtain such specifics.

II. WITH RESPECT TO BUSINESSES THAT ARE ENGAGED IN MANUFACTURING, CERC AND RILA SUPPORT THE COMMENTS OF NAM AND OF THE COALITION OF INDUSTRY GROUPS.

For the reasons stated above, Section 1502 should be clearly defined to impose reporting requirements only on *bona fide* manufacturing businesses and not on retailers and others that merely contract with manufacturers. Since RILA and CERC members are also concerned with public policy, the accuracy of reporting on this important subject, and the business efficiency of their vendors, CERC and RILA endorse and have joined in the Comments of the Coalition of Industry Groups, which discuss the application of this law to manufacturing entities. Below, we offer additional observations as to how accurate reporting can best be obtained.

To accomplish the objectives of Section 1502, it is essential to have a clear but flexible path to compliance for executing both the country of origin inquiry and meeting the necessary standard for due diligence in reporting. It is critical that the rules allow entities to satisfy the requirements of this Act by relying upon the legal representations and certifications of suppliers and actual manufacturers, who are better positioned to accurately assess chains of custody and conduct country of origin assessments on raw materials and components.

A. Due Diligence.

Section 1502 does not define the term “due diligence.” The Commission should therefore allow flexibility in the regulations to allow companies to determine the best means to exercise due diligence. The Commission should not define or set a standard for the specifics of due diligence, except to clearly indicate that a reasonableness standard of care for an Issuer’s inquiry and due diligence is sufficient. Flexibility in the definition of due diligence allows for continued collaboration with the international community to develop truly workable global supply chain solutions. It would also permit appropriate recalibration of the due diligence

protocols at such time as the situation in the DRC improves and hopefully allows for cooperative measures with other government agencies and non-governmental organizations.

B. Reasonable Standard of Care.

The Commission has stated that what constitutes a reasonable country of origin requirement will depend on the Issuer, the product, the supply chain, and “the available infrastructure at any given point in time.”¹⁶ While we support the idea that not every Issuer should be subject to the same method of inquiry, the Commission should make it clear that a reasonable person standard should apply, and that reliance on supplier certifications can satisfy such standards. The Commission must recognize that, at least in some circumstances, supplier certifications may be the only way to assure accurate reporting.

Once the country of origin inquiry has been completed and an Issuer that is subject to the Act has concluded either that (i) its products contain DRC conflict minerals, or (ii) that it cannot conclude they do not contain DRC conflict minerals, the Issuer is expected to exercise due diligence to determine the source and chain of custody of its conflict minerals. An effort to conduct any level of chain of custody investigation into source minerals by parties that are far removed from the source would introduce enormous complexity – without the likelihood of producing accurate custody conclusions. It would also require the expenditure of considerable expense by the Issuers, which would inevitably result in price increases (potentially substantial) for the products sold to American families at retail. The Commission should apply a reasonable person standard to this inquiry as well, and clarify that reasonable reliance on upstream certifications will satisfy any due diligence requirement. This approach is the only feasible

¹⁶ Notice, at 80957.

option based on three key considerations – authority of companies to conduct due diligence; legal precedence; and cost considerations.

1. Authority of Companies to Conduct Due Diligence

Companies usually have no authority to conduct due diligence on any other entities other than their first-tier suppliers. Companies only have contractual relationships with their first-tier suppliers and have no right to conduct due diligence with respect to any other entities in the supply chain.

2. Legal Precedents

Obtaining certifications from first-tier suppliers is an acceptable and authorized process for many other statutory obligations imposed by the U.S. Customs and Border Protection, the U.S. Consumer Product Safety Commission, and other government agencies. Thus, many companies and Issuers already have an established process to ensure compliance. The SEC should establish compliance procedures for conflict minerals that are consistent with established compliance procedures for other statutory obligations.

3. Cost Considerations

If an Issuer were required to obtain certifications or conduct due diligence from all other suppliers in the supply chain, it would be cost-prohibitive and ultimately the (potentially substantial) increased costs would be passed to the consumer. Examples of the costs that would be borne ultimately by the consumer include the following:

- costs to develop processes to evaluate products and all suppliers of the components and raw materials of those products;
- costs to evaluate every product and the suppliers of all components and sub-components and raw materials of each product;
- new IT systems to track and manage the supplier/product information details; and

- costs of the third party audits.

4. Challenges re Gold

While the new requirements may be challenging for some industries, they may be impossible for others. For example, supplier groups have explained to retailers that once gold leaves a refinery and it is converted to grain, flat stock, or a solution, it is often impossible to identify and track. A particular challenge is plating operations. This is because when gold is electroplated onto jewelry, a plating bath that has a certain level of karat gold is needed. To maintain required levels of gold in the bath (to control color and gold thickness), an analysis is performed by the plating operation and amendments are made as necessary. The amendments may come in many forms, including recycled scrap that is leftover from other operations such as casting, fabrication of flat stock, plate out, or even excess finished goods. In this scenario, it is not possible to identify the origin of the gold in the plating operation.

CONCLUSION

RILA and CERC appreciate this opportunity to provide comments on the proposed rule to implement the conflict mineral provisions in Section 1502 of the Dodd-Frank Act. We and our members support efforts to combat trade in conflict minerals and to stop the atrocities in the DRC. We believe those goals can be achieved without unduly burdening companies and undermining legitimate commerce.

Respectfully submitted,



Stephanie Lester
Vice President, International Trade
Retail Industry Leaders Association
1700 North Moore Street
Suite 2250
Arlington, VA 22209

703.841.2300



Gregory L. Rohde
Executive Director
Consumer Electronics Retailers
Coalition
317 Massachusetts Avenue, NE
Suite 300
Washington, D.C. 20002

202.292.4600

Of Counsel:

Robert S. Schwartz
Mitchell L. Stoltz
Constantine Cannon LLP
1301 K Street, N.W.
Washington, D.C. 20005

202.204.3508