The LME’s responsible sourcing journey…

4Q17
Responsible sourcing survey
• Sent to all LME-listed brands in Nov-17
  • 55% response rate – broad indication that most brands already working on RS initiatives through variety of routes, so LME action would be in line with market practice

3Q18
Pre-release position paper
• Sent confidentially to c.40 core RS stakeholders for initial views in Jul-18
  • 16 responses helped define LME proposal

4Q18
Position paper
• Open from 5-Oct-18 – 30-Nov-18
  • 39 responses
  • Six core themes to feedback

2Q19
Consultation
• Open from 23-Apr-19 – 30-Jun-19
  • 33 responses
  • Responses from a wide array of market participants

25-Oct-19
Final requirements announced
• Extensive market engagement
  • Final rules now public. Further engagement with producers underway
...with three key drivers for action...

<table>
<thead>
<tr>
<th>1. Ethical responsibilities</th>
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</thead>
<tbody>
<tr>
<td>• The LME believes the industry has an ethical imperative to embrace principles of responsible sourcing</td>
</tr>
<tr>
<td>• The LME is a seller’s option market, which means that a buyer of metal on the LME may be delivered metal of any LME brand. The LME cannot accept a situation where consumers are required to take delivery of metal which is not responsibly sourced</td>
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<table>
<thead>
<tr>
<th>2. Commercial</th>
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<tbody>
<tr>
<td>• The fundamental service of the LME is to price metals and the LME price will generally be the price of the least valuable brand in its brand lists</td>
</tr>
<tr>
<td>• The LME must act to ensure its price reflects the value of responsibly sourced metal, and is not artificially depressed by metal which is not sourced in such a manner</td>
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<tr>
<th>3. Providing leadership</th>
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<tbody>
<tr>
<td>• The LME has listened to calls to take a leading role. These calls arose because the LME can most efficiently promote a centralised process</td>
</tr>
<tr>
<td>• The LME will provide leadership in a way that leverages its knowledge of the market, respects logistical challenges, builds on existing work, and provides appropriate support to producers</td>
</tr>
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</table>
…centred around four key principles

Utilising twin tools of transparency and standards

Building on well-established work in the sector

No discrimination between large-scale and artisanal / small-scale mining

Defining a pragmatic and clear process
What did we learn from the consultation?

1. **AVOID STIGMATISATION AND PRIORITISE HOLISTIC OECD COMPLIANCE**
   - Concern that the LME Red Flag Assessment could unfairly focus the market on red flags, and stigmatise those brands and/or locations.
   - The LME will now provide three routes through which brands can demonstrate OECD compliance so that all well-intentioned brands have a path to market.

2. **RESPECT WORK TO DATE ON TRANSPARENCY**
   - Clear market feedback that OECD Step 5 transparency represents the agreed global standard, and should be respected by the LME’s proposals.
   - LME Red Flag Assessment template will continue to be available as a convenient route to meeting Step 5 requirements, but existing routes to Step 5 transparency (such as those in alignment-assessed industry standards) will also be respected. The LME will work with the OECD and stakeholders to ensure the ongoing industry-wide development of Step 5 reporting best practices, including corruption risks from large-scale mining.

3. **PROVIDE TIME FOR SMALLER PRODUCERS TO COMPLY**
   - Concern that aggressive compliance timelines would advantage larger producers with extensive legal and compliance capabilities, and “freeze out” smaller players.
   - The LME will now provide more realistic timelines for compliance, with full engagement by 2022 and full compliance by 2023.

In addition, broad changes to detail on the basis of extensive stakeholder engagement and feedback.
The LME framework and proposal

LME categorisation of existing initiatives

- Global consensus
- Translation of guidance
- OECD Guidance
- Standards
- Brands

LME requirements

- Internal or external OECD-aligned standard
- LME Red Flag Assessment ("RFA")

Alignment assessment

- Audit

Step 5 reporting

LME review

Publish RFA

A

B

C
OECD five-step framework

Step 1: Establish strong company management systems
Step 2a: Identify risks in the supply chain
Step 2b: Assess risks of adverse impacts
Step 3: Design and implement a strategy to respond to identified risks
Step 4: Carry out independent third-party audit of supply chain due diligence
Step 5: Report on supply chain due diligence
LME tracks to responsible sourcing compliance

Tracks to OECD compliance

Step 1

LME Red Flag Assessment ("RFA")
If no red flags are identified

Step 2a

AUDITED LME RFA TRACK
RFA reviewed by approved auditor and Step 5 reporting

External review
Step 5
Update every year

LME RFA review
Publish RFA (phased timeline)

PUBLISHED LME RFA TRACK
RFA reviewed by LME and published

External review
Step 5
Update every year

Internal or external OECD-aligned standard
If red flags are identified or for voluntarily adoption of a standard

Step 2b

RECOGNISED ALIGNMENT-ASSESSED STANDARD TRACK

For voluntary adoption of a standard when no red flags identified

Step 3
External standard audit review process
LME review
Update per requirements of standard

Step 4
3rd party audit review
LME review
Update on change or every 3 years

Step 5

Maximising routes to compliance for all segments of the market
Track A: Recognised alignment-assessed standard process

Alignment assessment

- Proposed standard
- Internal or external standard alignment assessment by accredited assessor
- Review and validation of alignment assessment findings by LME
- Standard approved
- Standard published on LME website if requested by standard owner

Brands audit

- Standard implemented at LME brand, including publication of Step 5 transparency
- Audit of compliance with standard
- Review and validation of audit findings by LME

- Alignment assessment re-performed if either guidance or standards undergo material change
- Alignment assessor not permitted to conduct standards audit for minimum of two years following alignment assessment
- Audit process repeated as specified by standard body, and at least every three years for internal standards

Easiest model for producers already pursuing an OECD-aligned industry scheme, providing audit assurance and OECD Step 5 transparency
Track B: Audited LME RFA process

Complete LME Red Flag Assessment (“RFA”)

Yes

Are red flags identified?

No

Submission to auditors

B

If necessary, auditor reverts to producer for clarification

Auditor identifies red flags, and reclassifies brand to track A

Confirm on track A: recognised alignment-assessed standard

Auditor ratifies results

LME review of audit results

Confirm on track B: audited RFA

Publish Step 5

Update RFA, repeat audit, and update Step 5 annually

LME RFA template provides clarity around requirements, with assurance delivered through audit and transparency through OECD Step 5 reporting
Track C: Published LME RFA process

Complete LME Red Flag Assessment (“RFA”)

- Yes
  - Are red flags identified?
  - No
  - Confirm on track C: published RFA
  - LME ratifies results

Submission to LME and LME review

- If necessary, LME reverts to producer for clarification
- LME ratifies results
- Confirm on track C: published RFA
- Publish RFA (phased timeline)
- Update RFA, repeat LME review, and republish annually

- Agree with LME reclassification
- Disagree with LME assessment
  - Dialogue and remediation process with LME

- Confirm on track A: recognised alignment-assessed standard

Lowest cost model for producers, with LME oversight and a transparency-based approach centred around the LME RFA template
## Timeline for implementation and compliance

<table>
<thead>
<tr>
<th>Action</th>
<th>Tracks to OECD compliance</th>
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<tbody>
<tr>
<td>A: Recognised alignment-assessed standard track</td>
<td>N/A</td>
</tr>
<tr>
<td>First reporting period</td>
<td>1 Jan 2021 to 31 Dec 2021</td>
</tr>
<tr>
<td>(reporting periods will be as prescribed by standard)</td>
<td>1 Jan 2021 to 31 Dec 2021</td>
</tr>
<tr>
<td></td>
<td>NB: first year reporting period can be shortened to align with annual reporting of the producer e.g. to cover period 1 Jan 2021 to 31 Mar 2021 only</td>
</tr>
<tr>
<td>B: Audited LME RFA track</td>
<td>30 Jun 2022</td>
</tr>
<tr>
<td>First reporting date</td>
<td>30 Jun 2022</td>
</tr>
<tr>
<td>Standard to be accepted as recognised alignment-assessed standard</td>
<td>31 Dec 2022</td>
</tr>
<tr>
<td>Audit of brand to standard to be completed</td>
<td>31 Dec 2023</td>
</tr>
<tr>
<td>Transparency</td>
<td>As prescribed by standard</td>
</tr>
<tr>
<td>Transparency Step 5 reporting</td>
<td>31 Dec 2022 + 2023 – summary statistics</td>
</tr>
<tr>
<td>Transparency Step 5 reporting</td>
<td>31 Dec 2024 + 2025 – anonymised reports</td>
</tr>
<tr>
<td>Transparency Step 5 reporting</td>
<td>31 Dec 2026 onward – attributed reports</td>
</tr>
<tr>
<td>Update frequency</td>
<td>As prescribed by standard</td>
</tr>
<tr>
<td>Update frequency RFA updated (with audit and Step 5 reporting) annually</td>
<td>RFA updated (with LME review and publication) annually</td>
</tr>
<tr>
<td>ISO 14001 and OHSAS / ISO 45001 (or equivalent certificates programmes) certifications completion</td>
<td>31 Dec 2023</td>
</tr>
<tr>
<td>(Certification programmes to be accepted as equivalent certification programmes by this date)</td>
<td>(and updated on timeline prescribed by certification programmes)</td>
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An achievable timeline respecting in particular the resourcing of artisanal and small-scale operators.
## Phased transparency for LME RFA track

<table>
<thead>
<tr>
<th>Publication date</th>
<th>RFA results</th>
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<tbody>
<tr>
<td>31-Dec-22</td>
<td>Y1</td>
</tr>
<tr>
<td>31-Dec-23</td>
<td>Y2</td>
</tr>
<tr>
<td>31-Dec-24</td>
<td>Y3</td>
</tr>
<tr>
<td>31-Dec-25</td>
<td>Y4</td>
</tr>
<tr>
<td>31-Dec-26</td>
<td>Y5 and onwards</td>
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</table>

- Summary statistics
- Anonymous versions
- Attributed versions

Ensures that track C brands are not disadvantaged compared with track A and B operators
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