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**Securities and Exchange Commission Roundtable on Conflict Minerals**
**October 18, 2011**

Commissioners and staff: I am pleased to have the opportunity to make a brief statement on behalf of Calvert Investments to this roundtable on certain issues related to Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act regarding conflict minerals. Calvert Investments is one of the nation's largest families of sustainable and responsible mutual funds based in Bethesda MD, with current assets under management close to $13 billion and nearly half a million investor accounts in the U.S.

As a sustainable and responsible investor, Calvert 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 Democratic Republic of the Congo (DRC). That is why we have joined other investors and shareholder advocates in a multi-stakeholder group also including major companies and human rights non-governmental organizations (NGOs) to promote responsible sourcing in the DRC. Together we have supported the legislation that was enacted as Section 1502 to curb the use of such minerals to prolong the conflict—and we have worked together since then to support the development of a rule that will ensure its full and swift yet effective and reasonable implementation. In Calvert's case, we have drawn on our longstanding experience both in assessing human rights-related risk and the management of that risk across global supply chains—as well as on our expertise in evaluating appropriate and credible disclosure of such risk assessment and management.

Calvert has taken the opportunity to state our views on aspects of the prospective rule on six prior occasions over the last year together with:

1. A group of socially responsible and faith-based investors in "SEC Initiatives under the Dodd Frank Act: Special disclosures Section 1502 (Conflict Minerals)" submitted on November 16, 2010[1];

2. Several of the same investors together with companies and NGOs (referred to as the " multi-stakeholder group") in "SEC Initiatives under the Dodd-Frank Act- Special Disclosures Section 1502 (Conflict Minerals)" submitted on November 17, 2010[2];

3. A similar group of investors in "Comments Regarding File Number S7-40-10 on Conflict Minerals Disclosure" submitted on March 2, 2011[3];

4. The multi-stakeholder group of investors, companies and NGOs in "Comments Regarding File Number S7-40-10" also submitted on March 2, 2011[4];

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[1] http://www.sec.gov/comments/df-title-xv/specialized-disclosures/specializeddisclosures-54.htm
[2] http://www.sec.gov/comments/df-title-xv/specialized-disclosures/specializeddisclosures-67.pdf
[3] http://www.sec.gov/comments/s7-40-10/s74010-158.pdf
[4] http://www.sec.gov/comments/s7-40-10/s74010-152.pdf

5. Several human rights NGOs in a letter urging that the final rules allow no delays in implementation, including delays in reporting requirements, submitted on July 29, 2011[5];

6. The multi-stakeholder group of investors, companies and NGOs in "Additional Comments Regarding File Number S7-40-10 on Conflict Minerals" submitted on August 22, 2011[6].

Let me turn now to the two sets of issues that are the focus of this first panel—scope of the rule and tracking the supply chain—consistent with these previous submissions but highlighting specific issues of particular salience to the content of the final rule.

## SCOPE OF THE RULE

I will address in turn two key issues that concern the scope of the rule—first the appropriate entities to be covered and second, the process of disclosure.

### Entities to be Covered

We believe that the entire supply chain must participate to develop effective tracking systems for conflict minerals. If certain issuers that use these minerals were exempted, that would prohibit both the development of such systems and also the flow of information required for investors to gain a full understanding of issuers' exposures to these minerals.

We believe that reporting standards should be consistent with the statutory language of Section 1502 and should therefore apply disclosure rules equally to all stipulated conflict minerals—namely tin, tantalum, tungsten and gold. For example, gold has been a key contributor to conflict financing in the DRC. Therefore, in our view the provision of special conditions or exemptions for gold or any other mineral would weaken the intent of the disclosure rules. Greater transparency in the gold supply chain is critical to an investor's ability to evaluate company sourcing practices in the DRC.

We believe that all companies across the value and supply chain should be covered by the rule—from "mine to product"—to ensure the greatest possible degree of transparency for investors and consumers alike. As investors, it is critical that we are able to assess standardized disclosures from all companies that may use these minerals in their products.

This wide spectrum of coverage should include foreign private issuers that file reports under Sections 13(a) and 15(d) of the Securities Exchange Act of 1934 ("Exchange Act"). Such entities should be required to file a "Conflict Minerals Disclosure" report as part of its annual report if it meets the requirement of "person described" in the Act. We also recommend 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.

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[5] http://www.sec.gov/comments/s7-40-10/s74010-281.pdf
[6] http://www.sec.gov/comments/s7-40-10/s74010-302.pdf

Furthermore, we believe that smaller issuers should not be exempt from the disclosure rules. As investors in large, mid and small cap companies that have exposure to these minerals, we want to be able to assess conflict minerals disclosures on a consistent basis across our holdings, regardless of size. We also want to be able to assess the disclosures of issuers which sell generic products under their own label (private label manufacturers) to ensure the integrity of their supply chains and in turn diminish risk in our portfolios.

We also believe that distinctions should not be made between an issuer that solely produces minerals from a mining reserve and an issuer that produces, concentrates and refines conflict minerals. Both types of mining issuers should be subject to the disclosure requirements under the proposed rule.

Finally, the rule should not allow a *de minimis* threshold, namely exempting products that contain only a small amount of these minerals. While such a threshold may appear reasonable since some products such as cell phones may contain only small amounts of a metal such as gold, the volume adds up in large quantity of units (1.6 billion cell phones were sold globally in 2010). Even a small portion of an end-product containing one or more of the four stipulated minerals can represent significant value to armed groups perpetuating the bloody conflict in the DRC. Therefore, a *de minimis* threshold would risk significant dilution of coverage of the law and, we believe, run counter to the original legislative intent.

**Disclosure Process**

We understand that companies need a reasonable period of time to develop and implement systems to comply with the rule and disclose progress. But this brief period should be one of continuous and rapid improvement during which issuers work with governments, NGOs and industry peers to develop infrastructure to determine and trace the origin of minerals from mine through smelter to product. We understand that initial reporting will be uneven. Yet the objective should be to trace and disclose such origins with increasing transparency, consistency and credibility year-by-year across the value chain. We are encouraged by certain factors: that internationally accepted due diligence guidelines are already in place; that many companies are already using supplying chain audit systems; and that on-the-ground training and monitoring systems are rapidly developing.

Investors such as Calvert need to be able to distinguish companies that are working on responsibly sourcing their minerals as soon as possible after the rule is finalized. Therefore, we request that companies be required to disclose the steps they are taking to develop and implement systems to comply with the rule. We would also like to see SEC guidance on the form such disclosures should take in order to ensure useful early data for investors

**TRACKING THE SUPPLY CHAIN**

Turning to the challenge of tracking conflict minerals across the supply chain, Calvert believes that responsible supply chain risk management is essential to investors and consumers alike in order to ensure the integrity of a company's operations and reputation in an era of heightened global exposure and expectations around these issues. The situation in the DRC that compelled the enactment of Section 1502 presents inescapable risks to companies whose supply chains touch conflict minerals, and in turn present supply chain management challenges which are indeed complex given the number of intermediaries that may be involved. Yet these

challenges can be addressed with a rule that takes into account established international standards as well as the experience that many affected companies have gained by facing broadly similar challenges elsewhere around the world, even as some of the factors they face in the DRC are unique.

Two such challenges stand out in our view that can benefit from a strong, clear rule: due diligence and third party auditing.

**Due Diligence**

Comprehensive rule-making that holds companies to a high due diligence standard together with robust third party audits will allow investors to assess a company's willingness and ability to avoid sourcing conflict minerals funding armed groups in the eastern DRC. Accordingly, we recommend that the rule refers to specific due diligence standards that are consistent with international standards and best practice. Reference to the OECD Due Diligence Guidance and Supplements for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas in particular would bolster confidence in a reliable, comprehensive due diligence process and at the same time enhance efficiency by basing it on such an established standard.

We recommend an independent third party audit of the due diligence report to include a review of management systems and processes. We also encourage issuers to develop such due diligence on a cooperative industry-wide basis to enhance efficiency and to provide a comparable basis for evaluation.

Finally, we believe that due diligence should be prescribed across all "regulated persons" referred to in the rule, including gold.

**Third-party auditing**

Calvert and other investors with long experience in assessing supply chain risk—for example with respect to workplace standards as well as product content—view third-party auditing as an essential element to ensure compliance and enhance the credibility of a given standard, whether legally mandated or voluntary.

Given that the main intent of Section 1502 is to stop the flow of revenues from minerals sales to armed groups, we believe that a particular focus for supply chain auditing should be on smelters' tracing documentation and mechanisms. Further discussions would be helpful to determine the best way that various assurances can be provided while minimizing cost and burden to companies. For example, the concentration of many affected companies at the smelting/processing phase may be the basis of efficient third-party auditing approaches.

We also believe that there should be a smelter auditing protocol which is performed by an independent third party. When it is determined that incoming minerals originate from DRC or neighboring countries, the third party audit should also include specific information consistent with the OECD Guidance referred to above in connection with due diligence. Although some companies in the electronics sector have already begun to set up a system to audit smelters, involvement from other industries is necessary to ensure the integrity of the information that issuers are able to report adequately to the SEC.

Companies already have processes in place which monitor their supply chains, such as RoHs, REACH, and ISO compliance systems. These can be adjusted to audit and monitor for conflict

minerals. Several leading companies have already taken steps to monitor conflict minerals in their supply chains. Examples include the work by AMD to link its conflict mineral monitoring to RoHs compliance and Motorola's to its Solution's for Hope program.

**AN URGENT NEED TO FINALIZE THE RULE**

We understand the need for the SEC to convene this roundtable given the complexity of issues at stake in this rule-making process and the acute concerns that have been expressed by some parties. We have confidence that these issues, however difficult, can and should be resolved on the basis of the comment period already concluded, supplemented by this timely roundtable and the diverse parties and viewpoints it has brought into sharper focus. We look forward to the issuance of a rule—consistent with the legislative intent of Section 1502—that will give confidence to investors such as Calvert in the responsible sourcing of minerals from the DRC. And we appreciate the opportunity to convey the perspective of Calvert Investments in this important and urgent process.