

MEMORANDUM

December 12, 2011

To: File No. S7-40-10

From: Scott H. Kimpel
Office of Commissioner Troy A. Paredes

Re: Conflict Minerals

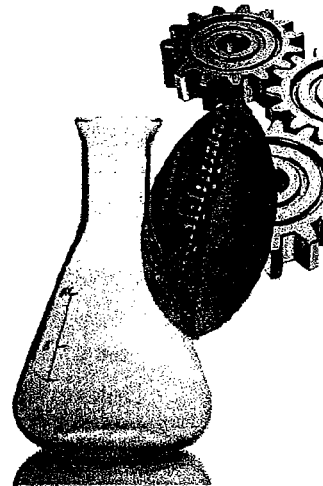
On December 12, 2011, Scott H. Kimpel and Saurabh K. Shah, Counsel to Commissioner Troy A. Paredes, met with Bruce Calder, Vice President--Consulting Services, Claigan Environmental and Jonathan Hughes, General Manager, Assent Compliance. The participants discussed the Commission's proposed rules concerning conflict minerals. Mr. Calder distributed the attached PowerPoint presentation.

Attachment

Cost Estimates of
Dodd-Frank Conflict Minerals Provisions
on
SEC-Regulated Companies

SEC Meetings - Dec 12th -13th 2011

Presented by:
Bruce Calder
General Manager



Claigan Environmental

- **Conflict Minerals Provider**
 - Conflict Minerals Program Development
 - Cost Management
 - Supplier data gathering
 - Creation of conflict minerals reports
 - Provide Conflict Minerals updates to >200 affected companies
- **Regulatory experience of our staff**
 - Medical, telecoms, aerospace, consumer products, information technologies, diagnostic equipment, electronic components, oil and gas, chemical, and retail.
 - GE Healthcare, Danaher, Johnson & Johnson, Covidien, Abbott Laboratories, Carestream Medical, Proctor and Gamble, Microsoft, Ikea, Hewlett Packard, Nokia, United Technologies, Agilent, Schneider Electric, Dell, Nortel, Ericsson, NovAtel, Bombardier, Rolls Royce, CAE, Panasonic, Smart Technologies, Kodak, Motorola, Honeywell, Thermo Fisher Scientific, Petro Canada, PDVSA, Gazprom, Chemtura Logitech, Broadcom, Quantum, Keurig, Avery Dennison, Walmart, Home Depot, and the US and Canadian governments.





Claigan's Cost Estimate

- Cost estimate includes:
 - Costing per company
 - Costs for all issuers
 - Costs for issuers' supply chain
- Cost estimate modelled on:
 - Actual corporate programs and budgetary estimates
 - Large, medium, small, micro, and nano-cap companies included
 - Service provider quotes
 - Census and government information on number and size of companies in electronics supply chain
 - Detailed review of all products and supplier lists for two ~\$1B per annum revenue issuers



Initial Compliance Cost for a \$1B Revenue Issuer

Activity	Cost
Corporate	
a. Organizational / Conflict Minerals Report	\$60,000
b. Program Management (1/4 person for 1 year)	\$38,000
c. 3rd Party Audit	\$15,000
Data Gathering	
a. 2,000 suppliers X \$40 per supplier	\$80,000
Software	
a. IT System (average)	\$25,000
b. IT Support (1/4 person for 4 months)	\$10,000
TOTAL	\$228,000

- Full details submitted to SEC on Dec. 1, 2011
- \$228k is a Worst Case Estimate
 - Higher than most current work quotations
 - Assumes inefficiencies and limited cost savings

Total Cost to Issuers: Initial Compliance



Size	# of Companies	Cost / Company	Total
1M to 10M	2,100	\$6,500	\$13,650,000
10M to 100M	2,100	\$21,000	\$44,100,000
100M to 1B	1,100	\$53,000	\$58,300,000
1B+	500	\$218,000	\$109,000,000
10B+	200	\$813,000	\$162,600,000
Total	6,000		\$387,650,000

- Number of companies and sized estimates based on
 - SEC Proposed Rules - pg 76
 - Forbes Fortune 500 list
 - Alpha One Capital report on US micro caps
 - Leeds University report on nano caps
- Worst case scenario
 - All companies' principal business related to all conflict minerals (3TGs)
 - All companies required to file a conflict minerals report

Total Cost to Suppliers Non Issuers - Initial Compliance



Size	# of Companies	Cost / Company	Total
1M to 10M	35,000	\$3,250	\$113,750,000
10M to 100M	11,600	\$9,000	\$104,400,000
100M to 1B	4,500	\$35,333	\$159,000,000
1B+	314	\$144,000	\$45,216,000
10B+	10	\$542,000	\$5,420,000
Total	51,424		\$427,786,000

- Number of companies and sized data directly from
 - International Census data from
 - Consumer Electronics Association & Technology Forecasters
 - Economic Impact of the European Union RoHS Directive on the Electronics Industry – the most comparable regulation
- Assumes one third lower cost burden for non-issuers
 - Similar data gathering required
 - No conflict minerals report or 3rd party audit required

Comparing Models for Total Costs - All Companies



Model	Issuers Cost	Supply Chain Cost	Total
Claigan	\$ 387,650,000	\$ 427,786,000	\$ 815,436,000
NAM	\$8,000,000,000	\$1,400,000,000	\$9,400,000,000
Tulane	\$7,930,000,000		\$7,930,000,000

- Principal issues with NAM and Tulane estimates:
 - Did not use actual programs or service quotations
 - Did not use publicly cited information like the census or other sources
 - Overestimated the average size of affected companies
 - Quoted the most expensive multifunction software package
 - Did not follow generally accepted accounting practices
 - Misused EU data
 - Did not reference a comparable regulation already in place
 - Did not include the involvement of professional providers
 - Did not submit their numbers for independent review

Framing Issues to Consider



- Cost estimate is a top negative ceiling estimate – costs are likely to be lower, not higher than \$815M
 - Gains from supplier overlap not counted
 - Further competition in reporting service providers
 - Assumes all companies will have to report
- Standard regulatory compliance cost model will have subsequent year's costs drop dramatically – 50% the second year, 50% the third year, 50% the fourth year – and flatten after that