

## MEMORANDUM

**To:** File

**From:** John Fieldsend  
Special Counsel  
Office of Rulemaking  
Division of Corporation Finance  
U.S. Securities and Exchange Commission

**Date:** December 13, 2011

**Re:** Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act Regarding Congolese Conflict Minerals

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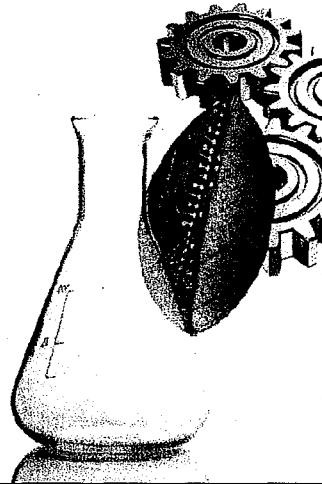
On December 13, 2011, Kathleen Hanley and Vladimir Ivanov of the Division of Risk, Strategy, and Financial Innovation and Paula Dubberly, Felicia Kung, Steven Hearne, and John Fieldsend of the Division of Corporation Finance met with Bruce Calder of Claigan Environmental Inc. and Jonathan Hughes of Assent Compliance Inc. The participants discussed the Commission's proposed rulemaking under Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, which relates to reporting requirements regarding conflict minerals originating in the Democratic Republic of the Congo and adjoining countries. At the meeting, the outside participants provided the attached document to the staff.

Attachment

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

SEC Meetings - Dec 12<sup>th</sup> -13<sup>th</sup> 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             |
|---|------------------|
| <b>Corporate</b>                              |                  |
| a. Organizational / Conflict Minerals Report  | \$60,000         |
| b. Program Management (1/4 person for 1 year) | \$38,000         |
| c. 3rd Party Audit                            | \$15,000         |
| <b>Data Gathering</b>                         |                  |
| a. 2,000 suppliers X \$40 per supplier        | \$80,000         |
| <b>Software</b>                               |                  |
| a. IT System (average)                        | \$25,000         |
| b. IT Support (1/4 person for 4 months)       | \$10,000         |
| <b>TOTAL</b>                                  | <b>\$228,000</b> |

- 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        |
| <b>Total</b> | <b>6,000</b>   |                | <b>\$387,650,000</b> |

- 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          |
| <b>Total</b> | <b>51,424</b>  |                | <b>\$427,786,000</b> |

- 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