

December 19, 2011

The Honorable Mary L. Schapiro
Chairman
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

RE: The Costs of Software as they relate to the Total costs of Complying with the SEC Regulations for Section 1502 of the Dodd-Frank Wall Street Reform Act of 2010

Dear Chairman Schapiro,

As industry experts in providing software and consulting for the efficient and cost-effective tracking of inputs into international supply chains, we are providing the Commission with a report on the Software component costs for compliance with Section 1502 and some comments on estimates submitted by other parties who have commented on the potential costs to Issuers for Section 1502 of Dodd-Frank.

Assent Compliance provides compliance software and consulting services that enable companies to comply with global tracked substance requirements. These services include working closely with a company's supply chain to determine each manufactured product's material composition and material source of origin. An example of some of the laws and regulations our software and services are used for include (but are not limited to):

- The European Union's Restriction of Hazardous Substances Directive ("RoHS", Directive 2002/95/EC)
- The European Union's Registration, Evaluation, Authorisation and Restriction of Chemicals Regulation ("REACH", Regulation EC 1907/2006)
- China's **Administrative Measure on the Control of Pollution Caused by Electronic Information Products** (Similar to the EU's RoHS, 2007)
- California Proposition 65 (Formally titled "**The Safe Drinking Water and Toxic Enforcement Act of 1986**")
- The United States' CPSIA of 2008 (Consumer Product Safety Improvement Act)
- The United States' Dodd Frank Act Provision on Conflict Minerals (Section 1502 of the DFA, 2010)

The above list is not exhaustive. Assent Compliance works with a wide range of companies, varying in size and market sector. We have developed software solutions for companies ranging from small businesses of 25 employees to Fortune 500 companies in industries such as Aerospace, Consumer Electronics and Retail. Our products are used by companies worldwide, doing business in and subject to all of the world's major legal jurisdictions.

Summary

When considering the cost of software needed for Conflict Minerals provision, it is important to understand the overall service offering from software providers in this space.

When Assent Compliance provides a customer with a software solution, we provide a software package that covers the client's global tracked substance requirements. Companies seeking to implement 3rd party software will therefore pay one price to implement a software solution which covers *multiple* regulations. It is important to apportion the cost of that software purchase across the regulations it is going to be used for, rather than attributing the entire cost to one regulatory requirement.

For example, a typical international electronics manufacturer is already required to comply with REACH, EU RoHS and China RoHS. If Conflict Minerals is added as a requirement it would become the 4th requirement and therefore likely be apportioned 1/4 of the cost.

Assent offers a solution for this type of customer in an IPC (the Association Connecting Electronics Industries) approved, xml format. The cost for this solution is based upon the size and complexity of the database and broken down into 2 parts:

1. Initial Setup Cost
2. Monthly Cost

Setup costs can range from \$0 in the case of small companies willing to use a standardized template for data importing, up to \$25,000 for large companies with multiple customization requests. A \$1B revenue company could expect to pay between \$5,000 and \$10,000 depending on the type of products they sell and customizations they require.

Monthly Costs range from \$950 for small business seeking limited support to \$10,000 per month for full, turn-key solutions. In this range, a \$1B company could expect to pay between \$4,000 and \$8,000 per month depending on the type of products they sell and support they require.

A note about Small businesses

It is important to note that an overwhelming majority of smaller businesses do not buy any 3rd party software for compliance with the regulations referenced in this document. Instead, they choose to use a combination of internal programs and spreadsheets to document their compliance. They augment their current software and processes rather than buy new software packages.

For these types of small businesses, Assent Compliance has offered a free Conflict Mineral Compliance module on our website since July of this year. This module will be regularly updated to keep up with the final SEC regulations and to mirror the template put forth by the EICC & GeSI. It will continue to be free.

Cost Breakdown

Using existing quotes and current contracts with our wide range of clients, Assent Compliance has provided the following breakdown of the costs for Compliance software packages that would cover a company's entire set of Global Tracked substance requirements including compliance with the Conflict Minerals Provision.

Although final rules have not been issued yet, many companies already include Conflict Mineral disclosure requirements in their list of software requirements. While this reporting will need to be evolved once the final SEC regulations come out, enough is known about the law and impending rule that the current tracking and reporting will be close to the final required information and formatting.

Company Size (revenue)	Average Yearly Cost of a Global Tracked Substance Compliance Software Package	Yearly Software Cost Attributed to Conflict Minerals Provision (25%)	Average 1 time Setup cost	Setup Cost Attributed to Conflict Minerals Provision
\$1M to \$10M	\$11,400	\$0	\$0	\$0
\$10M to \$100M	\$27,000	\$6,750	\$4,500	\$1,125
\$100M to \$1B	\$48,000	\$12,000	\$4,500	\$1,125
\$1B+	\$96,000	\$24,000	\$6,500	\$1,625
\$10B+	\$120,000	\$36,000	\$15,000	\$3,750

- The cost reports above are based on the average price of Assent Compliance quotes and existing client contracts.
- We attributed 25% of the overall software costs to the Conflict Minerals Provision since the average quote that involves the Conflict Minerals Provision has a total of 4 similar regulations that it is being used to comply with.

Comparative Cost Breakdown

There are other Software cost figures that we would like to compare our numbers against in order to provide some perspective and justification.

The National Association of Manufacturers (“NAM”) has provided an estimate of \$6,000,000,000 for the software component of Section 1502 compliance and Tulane University (“Tulane”) has provided a figure of \$2,560,000,000. These numbers are taken from Tulane’s report which can be found on page 23 and 24 here: http://www.payson.tulane.edu/assets/files/3rd_Economic_Impact_Model-Conflict_Minerals.pdf

NAM came to its figures using the following justification:

“Based on previous changes to supply chain computer systems over the last several years, the cost per company is likely to range from \$1 million to \$25 million depending on the size and complexity of the supply chain. Again making a conservative estimate of \$1 million per IT system, the collective cost would be \$6 billion (\$1 million X 5,994 = \$6.0 billion)”

Tulane uses the following methodology:

“Small issuers:

We apply the small company ratio of the 5,994 issuers to the small company cost estimates from IPC: $5,994 \times 72\% \times \$205,000 = \$884,714,400$

Large issuers:

The large company costs from NAM may then be applied to the large company ratio of the 5,994 issuers: $5,994 \times 28\% \times \$1,000,000 = \$1,678,320,000$ ”

Tulane defines a small issuer as one with revenues less than \$100M.

Comparative Cost Breakdown continued.

In order to put the per company cost numbers in context, we have put them side by side in the chart below:

Per Company Cost Breakdown Comparison

Company Size	<u>Year 1</u> Cost of a Global Tracked Substance Compliance Software Package <u>Assent Compliance</u>	<u>Year 1</u> Software Cost Attributed to Conflict Minerals Provision (25%)	<u>Year 1</u> Software cost estimate <u>NAM</u>	<u>Year 1</u> Software cost estimate <u>Tulane University</u>
1M to 10M	\$11,400	\$0	\$1,000,000	\$205,000
10M to 100M	\$31,500	\$7,875	\$1,000,000	\$205,000
100M to 1B	\$52,500	\$13,125	\$1,000,000	\$1,000,000
1B+	\$102,500	\$25,625	\$1,000,000	\$1,000,000
10B+	\$159,000	\$39,750	\$1,000,000	\$1,000,000

Using the aggregate number of affected issuer's quoted by NAM of 5,994 and the Small/Large issuer split (72%-28%) quote by Tulane, the following aggregate costs are broken down by size of issuer in the table below:

Aggregate Cost Breakdown

Company Size	<u>Aggregate</u> Cost of a Global Tracked Substance Compliance Software Package <u>Assent Compliance</u>	<u>Aggregate</u> Software Cost Attributed to Conflict Minerals Provision (25%)	<u>Aggregate</u> Software cost estimate <u>NAM</u>	<u>Aggregate</u> Software cost estimate <u>Tulane University</u>
Small Issuer	\$135,954,000	\$33,988,500	\$4,316,000,000	\$884,780,000
Large Issuer	\$266,802,000	\$66,700,500	\$1,678,000,000	\$1,678,000,000
All Issuers	<u>\$402,756,000</u>	<u>\$100,689,000</u>	<u>\$5,994,000,000</u>	<u>\$2,562,780,000</u>

- The Small Issuer Aggregate cost is based on the highest per company cost in the <\$100M range
- The Large Issuer Aggregate cost is based on the highest per company cost in >\$100M range

Comparative Cost Breakdown continued

Analysis

There are some items and figures that should be clarified in order to address the stark contrasts in the differences between the costs we are reporting compared to the NAM and Tulane cost estimates in the tables above.

There are several reasons why the Assent report of actual costs is so different, and so much lower, than the NAM and Tulane estimates:

1. Internal IT Costs
 - a. Assent Compliance operates “in the cloud”. As such it requires no client software installation and all database information is stored on Assent’s servers.
 - b. The only IT work required by our clients comes in the setup period with data transfer.
 - c. This is a one-time effort usually requiring 2-8 hours of our clients’ internal IT staff time.
 - d. Software that uses a web interface with all information stored on centralized servers on the internet (“the cloud”) is a relatively new implementation platform for these types of Software solutions and may not have been factored in as an option when NAM and Tulane gave their estimates.
2. Aggregate Costs
 - a. Assent Compliance’s aggregate software cost attributable to the Conflict Minerals Provision is about 4% of the Tulane study’s estimated cost and approximately 1.5% of NAM’s estimate
 - b. Assent Compliance’s aggregate software cost for Global Tracked Substance compliance is less than 16% of the Tulane study’s estimated cost and less than 7% of NAM’s estimated cost for the Conflict Minerals Provision alone
 - c. Put another way, Assent Compliance would provide compliance software covering tracked substance regulations across the globe for <7% of NAM’s estimate of the cost for the Conflict Minerals Provision alone
 - d. Our aggregate costs and our per company costs are not estimates. If 5,994 companies of the sizes described above, approached us for the services described above, the aggregate total of the quotes would be approximately \$400,000,000 (approximately 25% of which could be attributed to the Conflict Minerals Provision)

3. NAM's Software Cost Methodology

- a. NAM's analysis was conducted before many service providers had a chance to properly contact companies for quotes and before companies were able to deploy functioning compliance systems into their different manufacturing divisions.
- b. NAM did not rely on concrete data from companies or publicly cited data. That is no service provided quotes or actual programs were used for their cost estimates.
- c. NAM attributed 100% of the cost for software that tracks regulated inputs to the manufacturing process to the Dodd-Frank Conflict Minerals Provision. As shown above, software required to comply with the Conflict Minerals Provision will also be used to comply with a wide range of other regulations. Costs should be apportioned accordingly.
- d. NAM's estimate of \$1,000,000 per company is higher than the most expensive software package available on the market today (\$750,000). **Even the largest issuer's would not spend \$1,000,000 on software to comply with all global substance restrictions on earth, let alone the Conflict Minerals provision.**
- e. NAM's estimate is blanketed across all issuers, with no scaling or variable cost by issuer size. It is highly unlikely for example that an issuer with revenues of \$1-\$10M would spend \$1,000,000 on software when high quality free software is available.

4. Tulane University's Software Costing Methodology

- a. Like NAM, Tulane attributed 100% of the cost for software that tracks regulated inputs to the manufacturing process to the Conflict Minerals Provision. As shown above, software required to comply with the Conflict Minerals Provision will also be used to comply with a wide range of other regulations. Costs should be apportioned accordingly.
- b. Tulane's figure of \$1,000,000 is also for large issuers despite the fact that the highest priced software on the market is \$750,000. Tulane then applied the \$1,000,000 figure to all large issuers.
- c. The estimate used for smaller issuers still included the outlier figure of \$750,000. This software package is for large issuers with extremely complex supply chains and with an extremely wide variety of regulations to adhere to across the globe. There is no reasonable situation where a small issuer would require, much less be able to purchase this software.

Conclusion

This document is meant to provide clarity on the actual costs of software implementation with respect to the Dodd-Frank Act's Conflict Minerals Provision. The main strength of the numbers we have submitted, and the advantage we have over the NAM and Tulane estimates, is that we are service providers in this space – our costs documented, publicly available, and reflect the use of the product in the field to meet the requirements of the law. The cost breakdown we have provided is not an estimate, but a report of real costs by companies actually doing the work of input tracking and regulatory compliance, including Section 1502.

The NAM study was likely conducted too soon to include service provider quotes and actual program costs. The Tulane study is an improvement but still overstates the actual software cost for companies by including the outlier in its average cost for small issuers, then by using the \$1,000,000 figure from NAM for all other issuers. This is after its own survey found that the most expensive software package available on the market was \$750,000.

Both studies made the mistake of attributing 100% of the costs to the Conflict Minerals Provision when the fact is that all companies have tracked substance requirements to adhere to across the globe – Conflict Minerals is not the first, nor the most complex from an IT design perspective. It is common sense and a good accounting practice, that any costs incurred with software purchased for Conflict Minerals compliance should be shared across the other regulations the company uses that software for.

If any further information is required or if there are any questions, please contact the head of our Conflict Mineral program, Jonathan Hughes, directly:

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