System of Warranties
Guidelines

2018
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WDC reserves the right to amend these SoW Guidelines at any time if needed.
About the WDC

The World Diamond Council Assn. (WDC) is a non-profit trade association established in 2001 to combine efforts of the global diamond industry to support the Kimberley Process (KP) in preventing conflict diamonds from entering legitimate diamond trade.

The primary objective of the WDC is to represent the diamond industry in the development and implementation of regulatory systems to control the trade in diamonds embargoed by the United Nations or covered by the Kimberley Process Certification Scheme (KPCS).

The WDC:

- Has established the SoW under KPCS which extends the effectiveness of the Kimberley Process beyond the export and import of rough diamonds;
- Represents the industry in the Kimberley Process through participation as an Observer in regular teleconference meetings of the KP permanent and ad hoc working bodies, Intersessional and Plenary meetings, review visits and missions, as well as KP periodic reviews;
- Assists the Kimberley Process by managing the resources of the diamond industry to provide technical, financial and other support;
- Serves as the central point of communication regarding the actions taken to ensure compliance with the regulatory systems to prevent the trade in conflict diamonds.

In 2018, the WDC updated its SoW and adopted SoW Guidelines which its members and other adherents of the SoW may adopt to support and define their responsible business implementation to address emerging risks and protect the integrity of the global diamond industry whilst respecting the universal standards of responsible business practices, human rights and diamond sourcing processes that support the implementation of the KP.

Should you have any further queries, please contact WDC:

www.worlddiamondcouncil.org
The SoW Guidelines are intended as a guide to the industry for self-regulation in order to strengthen consumer confidence in diamonds whether in rough or polished form.

This updated system of industry self-regulation is suggested to strengthen the SoW and encourage its use and implementation across the diamond and jewellery industry.

The SoW for complying with minimum requirement of KPCS was created by the World Federation of Diamond Bourses and the International Diamond Manufacturers Association, under the auspices of the World Diamond Council, in 2000 in order to comply with, support and strengthen the Kimberley Process Certification Scheme through an industry self-regulation system to cover not only trade in rough diamonds, but also trade in polished diamonds and jewellery with diamonds.

These SoW Guidelines are to be used by WDC members and all diamond industry stakeholders-adherents of the SoW beyond the minimum requirements and recommendations of KPCS, based on national laws, practicality and applicability in the country, environment and ecosystem where a particular adherent operates. Such SoW Guidelines are in nature and aim to complement and support self-regulation and continuous improvement of industry practices in the process involved in buying or selling rough and polished diamonds with the aim of creating a chain of accountability in the diamond pipeline from mine to retail.

The SoW Guidelines require buyers and sellers of rough diamonds, polished diamonds and jewellery containing diamonds who are willing to use such SoW (SoW adherents) to make the following affirmative statement on all their invoices:

“*The diamonds herein invoiced have been {sourced}* purchased from legitimate sources not involved in funding conflict, in compliance with United Nations Resolutions and corresponding national laws {where the invoice is generated}**. The seller hereby guarantees that these diamonds are conflict free and confirms adherence to the WDC SoW Guidelines.”

*(sourced) - may be used by companies that do not purchase from open market, but source and aggregate diamonds from production facilities that are owned/partly owned by them

**(where the invoice is generated) - may be used by companies if they specifically want to reference the country of invoice issuance
This requires such buyers and sellers of rough diamonds, polished diamonds and jewellery containing diamonds to pass on a warranty statement each time diamonds change hands, assuring the next buyer that the diamonds originated from sources in compliance with the KPCS, additionally warranting promotion of universal standards on human rights; labour rights, AML and anticorruption practices in their company and dealings of rough diamonds.

The SoW Guidelines underline that buyers and sellers of diamonds must observe the implementation of the KPCS (Annex 1):

- KPCS Core Document, KP Administrative Decisions and KP Guiding Documents; understand and voluntarily implement universally accepted principles on human and labour rights, AML and anticorruption that are reflected in the following international documents:
  - UN Guiding Principles on Business and Human Rights;
  - ILO Declaration on Fundamental Principles and Rights at Work;
  - UN Convention Against Corruption;
  - AML Guidelines as per National Laws in line with FAFT 40 Recommendations on Money Laundering for Dealers in Precious Metals and Stones.

Specific requirements, recommendations on self-assessment and points of due diligence of trading partners in support of the KPCS implementation are set forward and described in the Annex 2 to these Guidelines.

The affirmative statement can be used by the WDC members and their members and other national and international trade organisations.
In addition, each company trading in rough and polished diamonds is required to keep records of the warranty invoices received and the warranty invoices issued when buying or selling diamonds. This flow of warranties in and warranties out must be reconciled on an annual basis by the company as part of self-assessment and complied with as part of KPCS compliance and requirements of applicable national laws.

The diamond industry consists of a wide spectrum of companies, ranging from single person traders, to small polishing units to large multinational corporations. The responsibility of business enterprises who are voluntarily adhering to the System of Warranty Guidelines apply to those enterprises regardless of the size, sector, risk, operational context, ownership and structure. To facilitate the understanding and the implementation of the SoW Guidelines by all buyers and sellers of diamonds a dedicated self-assessment tool shall be developed. This tool will take into account the size, sector, risk, operational context, ownership and structure of business enterprises to make it a universally applicable mechanism of displaying the adherence to the SoW Guidelines.

All buyers and sellers of rough diamonds who source from artisanal small-scale mining are encouraged to promote the implementation of the intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development “Mining Policy Framework” and Moscow and Washington declarations of the KPCS to enhance the quality of life of artisanal miners and their families.

The SoW Guidelines are to be revisited and their implementation assessed after the initial three(3)-year period of adoption and the usage of the self-assessment tool by buyers and sellers of diamonds.
Cross-recognition

Industry organisations are encouraged to take into account their size, structure, industry sector and, where appropriate, national as well as international standards and guiding principles, to assess how to help their members incorporate the SoW where appropriate and applicable.

It is recommended that the SoW Guidelines are incorporated into the standards of WDC members and industry organisations in order to encourage harmonisation and avoid extra burden and duplication.

Within the cross-recognition exercise, the WDC encourages all buyers and sellers of diamonds to educate themselves on the use of the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.

Trade bodies cannot be held responsible for monitoring the implementation for each entity. The Code of Conduct, Penalty clauses included in the structure of these organizations will be applicable on the adherents to the SoW. The adherents to the SoW will implement the SoW by applying the provisions as described in the Annexes.
Annex 1

KPCS implementation and industry self-regulation within the KPCS

WDC members and other adherents to the SoW, involved with the international trade of rough diamonds, must comply with the Kimberley Process Certification Scheme Minimum Requirements and Recommendations incorporated into applicable national legislation of the relevant KP Participants where they operate.

Compliance supports the objective of preventing conflict diamonds from entering the legitimate diamond trade as described in relevant United Nations Security Council (UNSC) resolutions insofar as they remain in effect, or in other similar UNSC resolutions which may be adopted in the future, and as understood and recognised in United Nations General Assembly (UNGA) Resolution 55/56, or in other similar UNGA resolutions which may be adopted in future, including:

1. Keeping for a period of at least three years daily buying, selling or exporting records listing the names of suppliers and/or buyers, their license number and the amount and value of diamonds sold, exported or purchased and having them audited and reconciled on an annual basis to ensure that all rough diamonds traded by them can be traced to imports with valid KP certificates. If asked for by a duly authorised government agency, these records must be able to prove compliance with the Kimberley Process.

2. Promoting the establishment and participation in a system of industry self-regulation on a national or international level that could include membership-based self-regulatory institutes adhering to the highest standards of business practices and establishing effective cooperation with the relevant KP bodies and authorities to fulfill the KP objectives and facilitate diamond trade.

Within the industry self-regulation efforts to complement and in support of the KPCS, WDC members and all other adherents to the SoW, where involved with the trade of rough diamonds should keep of at least three years records of the warranty invoices received and the warranty invoices issued when buying or selling diamonds. This flow of warranties in and warranties out must be reconciled on an annual basis by the company as part of its self-assessment and complied with as part of KPCS compliance and requirements of national laws.
WDC members and all other adherents to the SoW should within the framework of implementing the KP principles of industry self-regulation:

3. Trade only with companies that include warranty declarations on their invoices;

4. Not buy rough diamonds from suspect sources or unknown suppliers (as per AML/KYC procedures implementation), or rough diamonds which originate in countries that are not member of the KP and/or have not duly implemented and/or enforced the Kimberley Process Certification Scheme;

5. Not buy diamonds from any sources that have been found to have failed to observe KPCS regulations prohibiting the trade in conflict diamonds and officially communicated as such;

6. Not buy diamonds in or from any region or country that is subject to an advisory by a governmental authority indicating that conflict diamonds are emanating from or available for sale in such region, unless diamonds have been exported from such region in compliance with the KPCS;

7. Not buy or sell or assist others to buy or sell conflict diamonds;

8. Ensure that all company employees who buy or sell diamonds within the diamond trade are well informed regarding trade resolutions and government regulations prohibiting the trade in conflict diamonds.

9. Instruct their own accountants and, if applicable under national law, external auditors to examine the flow of warranties in and warranties out and reconcile on an annual basis. Where governments already have control mechanisms in place to check whether a company duly reconciles the flow of warranties, the SoW recognises these existing control mechanisms.

Failure to abide by the aforementioned principles exposes the member to expulsion from industry organisations.
Annex 2

Human Rights

Within the framework of universally recognised human rights and in compliance with the UN Guiding Principles on Business and Human Rights, and in accordance with applicable national laws corresponding to that, WDC members and all other adherents to the SoW should:

10. Respect human rights, which means that they should avoid infringing on the human rights of others and should address adverse human rights impacts with which they are involved.

Within the framework of universally accepted human rights, and in compliance with the UN Guiding Principles on Business and Human Rights and the International Labour Organisation Declaration on Fundamental Principles and Rights at Work, as well as the international human and labour rights obligations of the states in which they operate, in accordance with the applicable national laws, WDC members and all other adherents to the SoW are encouraged to:

11. Avoid causing or contributing to adverse human rights impacts through their own activities, and address such impacts when they occur;

12. Seek to mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to those impacts;

13. Where applicable, institute a policy commitment to meet the responsibility to respect human rights in line with UN Guiding Principles on Business and Human Rights or get affiliated within the ambit of such policy commitment of any association member of the WDC;

14. Provide processes to mitigate and/or remEDIATE adverse human rights impacts where they identify that they have caused or contributed to said impacts;

15. Avoid all forms of forced and bonded labour;

16. Reject engagement in/support of worst forms of child labour;

17. Counter discrimination in respect of employment and occupation with regards to race, colour, sex, language, religion, political or other opinion, national or social origin, disability, birth or other status of an employee.
Anti-corruption

Within the framework of the prevalent national laws corresponding to internationally recognised anticorruption practices in compliance with the UN Convention against Corruption, including the international obligations of the states in which they operate, WDC members and other adherents to the SoW Guidelines are encouraged to:

18. Where applicable, implement anti-corruption standards into the core structure of the company code of conduct, including internal whistle blowing procedures.

19. Adhere to the principle of zero-tolerance towards all forms of bribery and corruption when conducting business activities, projects and whilst interacting with government, officials, politicians, investors, clients and business partners and other third parties.

20. Implement sufficient internal financial auditing controls, effective policies and adequate procedures, financial statements subject to appropriate financial auditing procedures, as required in countries in which they operate.

Anti-money laundering

Within the prevalent national laws based on internationally recognised anti-money laundering and counter-terrorism financing (AML/CTF) practices in compliance with the FATF 40 Recommendations adopted in 1990 and revised in 2012 and the Guidance for Dealers in Precious Metals and Stones, WDC members and other adherents to the SoW Guidelines are encouraged to:

21. Institute a policy commitment to applying AML/CTF practices and identify business partners as per applicable legal and financial due diligence and legislative framework before entering any business relationship individually or through some institutional mechanism.

22. Understand the risks in the diamond sector that can accompany a transaction or can be related to a certain business partner as per applicable AML/CTF national legislation.

23. Define reporting procedures and report to the sector body and/or relevant authorities unusual or suspicious activity or transactions.
Adherents of SoW Guidelines – companies (buyers and sellers of diamonds) that support the SoW through the implementation of the SoW Guidelines by means of a self-assessment toolkit and use the affirmative statements on their invoices.

Diamond – mineral created by nature of carbon crystallized at cubic syngony, with a Mohs’ scale hardness of 10, a specific gravity of +/- 3.52 g/cm3 and a refractive index of 2.42.

External Auditor – second-party auditor or certified third-party auditor that are tasked to perform audit process either based on bilateral agreements and due diligence requirements or as per member/public obligations of a company.

Internal Auditor – person/accountant or structure within the company, responsible for internal auditing process.

National Law or Applicable National Law – explicitly refers to the laws of the land in which the invoice is generated by a seller of diamonds.

Personal knowledge – An informed decision that has been reached based on a due diligence policy and procedure on conflict diamonds to assure one’s inventory. In cases of stock, buyback agreements and recycling the responsibility will lie on the receiver to do the due diligence to ensure absence of conflict diamonds.

System of Warranties (SoW) – a voluntary set of provisions created by the WDC in support and strengthening of the Kimberley Process Certification Scheme through an industry self-regulation that covers not only trade in rough diamonds, but also trade in polished diamonds and jewellery with diamonds, and defines ways of addressing emerging risks and protect the integrity of the global diamond industry whilst respecting the universal standards of responsible business practices, human rights and diamond sourcing processes. The adherence to the SoW is expressed in a voluntary affirmative statement that is made on every invoice of the adherent.

SoW Guidelines – a voluntary basic set of rules for WDC members and other buyers and sellers of diamonds-adherents to the SoW beyond the minimum requirements and recommendations of KPCS, based on national laws, practicality and applicability in the country, environment and ecosystem where a particular adherent operates. Such SoW Guidelines are voluntary in nature and aim to complement and support self-regulation and continuous improvement of industry practices in the process involved in buying or selling rough and polished diamonds with the aim of creating a chain of accountability in the diamond pipeline from mine to retail.

SoW Guidelines Self-assessment Toolkit – a dedicated mechanism of facilitating and understanding of the implementation of the SoW Guidelines by all buyers and sellers of diamonds that are willing to adhere to them, taking into consideration the size, sector, risk, operational context, ownership and structure of business enterprises to make it a universally applicable mechanism.