



FACT SHEET

WDC SYSTEM OF WARRANTIES

The **System of Warranties (SoW)** is an industry self-regulation system that was created by the World Diamond Council (WDC) to support and strengthen the Kimberley Process Certification Scheme (KPCS) through the full length of the diamond distribution chain. The SoW also protects the integrity of the diamond supply chain in areas that currently are outside of the scope of the KPCS.

The SoW requires professional buyers and sellers of rough diamonds, polished diamonds and jewelry set with diamonds to include a warranty statement on B2B invoices and memos each time a diamond changes hands, assuring the next buyer that it originated from sources in compliance with the KPCS, confirming the conflict-free origin of the merchandise and also that it was handled in accordance with essential responsible business practices, including those relating to human and labor rights, anti-money laundering and anti-corruption.

In contrast with KP certificates that are issued only for rough diamonds and checked at points of export and import, the SoW is applied each time ownership of any diamonds changes hands within the industry and trade, both when they are being exported or imported, and when they are being sold in the same country. Its warranty statement must be applied at every point of sale, with the exception on being invoices for diamond jewelry sold at retail. However, retailers that sell stock back to the trade are required to include the warranty statement on the relevant invoices.

While the SoW is a self-applied global mechanism that relies on industry participation to be effective, and it is not a certification scheme that is third-party monitored, within the diamond supply chain it difficult is to do business if one does not apply it. SoW declarations on invoices and memos are standard procedure in the trade, in part because they are required procedures by industry associations and leading companies, and in Belgium they are part of the statutory auditing procedure.

Among the industry bodies that require implementation of the SoW as a condition of membership are diamond exchanges affiliated to the World Federation of Diamond Bourses (WDFB), diamond manufacturer organizations affiliated to the International Diamond Manufacturers Association (IDMA), and the Responsible Jewellery Council (RJC). Compliance with the SoW is also required by the Responsible Sourcing Blue Book of CIBJO, the World Jewellery Confederation.

The implementation of the SoW is a required practice for clients of the major rough diamond producers, among them De Beers, which cites them in its Best Practice Principles, and ALROSA, where they are referenced in the ALROSA Alliance Guidelines on Responsible Business Practices. The same is true for suppliers of the world's largest jewelry retailers, including Signet Jewelers, which cites the SoW in its Responsible Sourcing Protocol for Diamonds; Chow Tai Fook Jewellery, which references them in Code of Practice for Supplier Assessment; and Tiffany & Co., where compliance the SoW are referenced in its Supplier Code of Conduct.

HISTORY

The SoW was developed by the WDC in 2002 as an industry self-regulation system that would indicate that diamonds being sold comply with the minimum requirements of the KPCS, which was scheduled to be launched at the beginning of 2003.

At the WDC Annual General Meeting in October 2017, it was decided to review the SoW so that it also encompass the broader range of principles related to the “duty of care” for responsible business practice. The revised document was distributed for public review to NGOs and other interested parties in the spring of 2018. The expanded system was approved by the WDC Board of Directors in June 2018.

Like the original version, the revised SoW requires that all buyers and sellers of rough diamonds, polished diamonds and jewelry containing diamonds include a statement on B2B invoice and memos declaring that the goods being sold are in compliance with the KPCS. It additionally includes a commitment that the buyers and sellers adhere to the WDC SoW Guidelines, which were adopted by WDC in 2018 and updated in 2020.

The WDC SoW Guidelines expressly support universally accepted principles of human and labor rights, anti-corruption and anti-money laundering (AML). Specifically, they reference the UN Guiding Principles on Business and Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, the UN Convention Against Corruption, and national AML guidelines that comply with the FATF's 40 Recommendations on Money Laundering for Dealers in Precious Metals and Stones.

To enable a smooth transition from the original to the new SoW, there will be an interim period during which companies still can decide to accept the older warranties from their clients. Starting in 2021, the WDC Board of Directors has ruled that this will be three years in the case of rough purchases and five years in the case of all other purchases.

APPLYING THE SYSTEM OF WARRANTIES

Professional buyers and sellers of rough diamonds, polished diamonds and jewelry set with diamonds must include a SoW warranty statement on invoices and memos each time a diamond changes ownership within the trade.

The original warranty statement, introduced in 2002, reads follows: *“The diamonds herein invoiced have been purchased from legitimate sources not involved in funding conflict and in compliance with United Nations resolutions. The seller hereby guarantees that these diamonds are conflict free, based on personal knowledge and/or written guarantees provided by the supplier of these diamonds.”*

The revised warranty statement, introduced in 2018, reads follows: *“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. The seller hereby guarantees that these diamonds are conflict free and confirms adherence to the WDC SoW Guidelines.”*

Companies trading in rough and polished diamonds are obliged to keep records of the SoW warranty invoices received and the SoW warranty invoices issued when buying or selling diamonds for a period of five years from the date of the transaction. It is recommended that the flow of warranties be monitored and reconciled on an annual basis by the company’s own auditors. In Belgium, the requirement for the warranties to be included in an annual audit is a legal requirement.

Starting in 2021, members of the industry who include the updated warranty statement on an invoice or memo note, must carry out specific due diligence, which begins by them registering on a dedicated SoW website and conducting self-assessment to gauge whether they are in compliance with the principles outlines in the WDC SoW Guidelines. Only those members who are approved as being compliant are permitted to issue the revised SoW warranty statement.

As the key component of an online SoW Toolkit being made freely available by the WDC, the self-assessment questionnaire is customized and takes into consideration the stage or stages of the diamond and jewelry value chain in which the industry member is involved, the size of the company, and whether it is already compliant with other recognized due diligence systems, like that of the Responsible Jewellery Council.

In addition to the self-assessment, other tools are being made available to members of the industry on the new dedicated website. These include background information about the system, explanatory notes related to issues raised during the self-assessment, and policy templates.

The self-assessment needs to be made on an annual basis in order to be eligible to issue revised SoW warranty statements.

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