

DE BEERS GROUP

# STANDARD GUIDANCE

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*Undisclosed Synthetic Diamonds*



## ISSUE BACKGROUND

*Undisclosed synthetic diamonds have increasingly been reported within the diamond supply chain. The diamond industry will be at risk of strong reputational damage should more incidents occur and is collectively looking at ways to continue with actions to eliminate this risk and protect the end consumer.*

*De Beers Group's research indicates that when it comes to life's important moments, consumers want natural diamonds. They are often dependent on the technical knowledge of the seller, therefore transparency and honesty at all times is imperative. While disclosed synthetic diamonds may have an appropriate place in the market, misrepresenting a synthetic diamond as a natural diamond is potentially an act of fraud, which may give rise to a criminal investigation and legal consequences including conviction. Trading in synthetic diamond products without full disclosure could discredit a diamantaire's business and bring the entire diamond supply chain into disrepute, potentially diminishing both trade and consumer confidence in purchasing diamonds.*

*We therefore have a shared responsibility to maintain the reputation and goodwill of De Beers Group and our Sightholders<sup>1</sup>.*

*To help support De Beers Group's goal the Best Practice Principles (BPP) have been modified to minimise, with the aim of minimizing, the risk in De Beers Group's and Sightholders' supply chains, strengthening the existing trust in the De Beers Group and Sightholder brands. The BPP team proposes the following alternative approach which would have the dual function of mitigating an identified risk in the diamond industry, while also ensuring a workable solution for all Sightholders across all sizes of goods.*

<sup>1</sup> Up to and including 31 March 2021, the term Sightholder should be read to include and apply to Accredited Buyers where applicable for the 2021 Extended Supply Period (1 January 2021 to 31 March 2021)

## DEFINITIONS

### DIAMOND:

This is formed completely by nature without human intervention during the formation. The following definitions are applicable:

The World Jewellery Confederation (CIBJO) defines a diamond as "a natural mineral consisting essentially of pure carbon crystallized with a cubic structure in the isometric system".

ISO 18323 Standard on 'Jewellery – Consumer confidence in the diamond industry' defines a diamond as a "mineral consisting essentially of carbon crystallised in the isometric (cubic) crystal system, with a hardness on the Mohs' scale of 10, a specific gravity of approximately 3.52 and a refractive index of approximately 2.42, created by nature".

### DIAMOND SIMULANT:

Any object or product that is used to emulate the appearance of a diamond or some or all of its properties and includes any material which does not meet the requirements specified in the definition of diamond.

### SYNTHETIC DIAMOND:

A product that has been either partially or wholly crystallised or re-crystallised due to artificial human intervention such that, with the exception of being non-natural, the product meets the requirements specified in the definition of the word 'diamond' as defined above. This is produced either by high pressure and temperature (HPHT) or by chemical vapour deposition (CVD). Synthetic diamonds require cutting and polishing. The appearance of a pre-polished synthetic diamond differs from that of a natural diamond.

### TREATED DIAMOND:

A diamond that has been altered by any unnatural process by means of human intervention such as fracture filling or irradiation.

### TREATMENT:

Any process, treatment or enhancements changing, interfering with and/ or contaminating the natural appearance or composition of a diamond other than the accepted practices of cutting and polishing. This includes colour (and decolourization) treatment, fracture filling and laser and irradiation treatment and coating.



CVD – Laser sawn unpolished



HPHT – Unprocessed



The colourless stone on the right has been HPHT treated

# GUIDANCE ON ROUGH AND POLISHED DIAMONDS IN THE 0.01CT AND ABOVE CATEGORY

## ASSESSMENT QUESTIONS:

In order to mitigate risk and protect your business the following questions have been added to the BPP Workbook:

1. Does the company/entity/facility purchase, manufacture, deal, trade or equivalent in synthetic diamond and/or synthetic diamond jewellery?

NB: It is not a breach of the BPPs to purchase, deal or trade in synthetic diamonds so long as the BPP disclosure requirements are satisfied in full.

2. As applicable, does the company/entity/facility have clear policies and/or procedures to ensure that its natural diamond production/polishing/jewellery manufacture/trading and/or any other relevant process in its pipeline is segregated from its synthetic diamond business?
3. Has the company/entity/facility conducted an internal pipeline risk assessment identifying all possible contamination points of undisclosed synthetic diamonds entering your natural diamond supply chain? – Further information on this is available in the section on 'Pipeline risk assessment of Contamination Points'.
4. Does the company/entity/facility have clear auditable policies, robust procedures and training to ensure that all contamination points are adequately addressed?
5. Does the company/entity/facility have auditable systems in place to ensure that its pipeline risk assessment, policies, procedures and training are current, active and effective?
6. Does the company/entity/facility apply adequate testing protocols for undisclosed synthetic diamonds that adequately address the risks identified?
7. If the company/entity/facility has traded in treated, synthetic, reconstructed, composite or simulant diamonds within the Assessment period, what steps has the company/entity/facility taken to ensure these stones are fully disclosed and segregated further down the supply chain, as far as the ultimate consumer?

## KEY LEGAL REGULATIONS

In addition to the BPPs and the various diamond industry bourse and trade association rules and regulations, the issue of disclosure also has possible legal implications. De Beers and its Sightholders operate in multiple global jurisdictions each with their own laws and legal systems and as such, the obligations and consequences of non-compliance to disclosure requirements will vary by jurisdiction. However, in terms of De Beers benchmarking the severity of non-disclosure, consideration should be given to adopting a minimum base standard in the application of disclosure requirements.

In the UK, the most relevant legislation is the Fraud Act 2006 which includes but is not limited to: (i) offences of fraud by false representation; and (ii) fraud by failing to disclose information that one is under a legal duty to disclose. In addition, also of relevance are The Proceeds of Crime Act 2002 and The Money Laundering Regulations 2007, given the potential association between non-disclosure of synthetic diamonds and financial crime. It is expected the majority, if not all, jurisdictions in which De Beers' Sightholders operate will have equivalent legislation in place making non-disclosure not only a breach of the BPPs but also likely giving rise to criminal liability which has obvious consequences for the ability of a Sightholder to maintain ongoing Sightholder status.

# SUGGESTED IMPLEMENTATION APPROACH

The additional BPP requirements call for all Sightholders to conduct a pipeline risk assessment of contamination points.

- Risk analysis of contamination points – identify areas that are at risk for contamination. The longer the pipeline the greater the risk, creating increased opportunity for undisclosed synthetic diamonds to be exchanged for natural diamonds or added into parcels intended for clients. It is a requirement that all Sightholders map out their diamond pipeline. Please refer to ‘Pipeline risk assessment of Contamination Points’ for more information. Once identified, all contamination points must be assessed and labelled low, medium or high risk.
- To address the identified contamination points Sightholders are required to create a unique policy, procedure and training programme for each risk. Procedures should include testing for high risk areas, and the process for managing test referrals should be made available to clients. Procedures could also include a combination of the following:
  - Full disclosure at all times – including verbal disclosure prior to and during sale, and written disclosure in each bill of sale, receipt, laboratory certificate or other documentation relating to the sale in the relevant local language. Any term used to conceal the fact that a diamond is synthetic diamond or misinforms the consumer must not be used.
  - Assurance – In accordance with the guidance of the World Federation of Diamond Bourses (WFDB) and the WFDB Charter, the following assurances should be given on all invoices and memos:
    - 1) *“The diamonds herein invoiced are exclusively of natural origin and untreated based on personal knowledge and/or written guarantees provided by the supplier of these diamonds.”*
    - 2) *“The diamonds herein on memo are exclusively of natural origin and untreated based on personal knowledge and/or written, guarantees provided by the supplier of these diamonds.”*

Stronger assurances should be given on invoices where all goods are either still in their natural rough form or are able to be fully tested prior to sale; the following text is proposed for these cases:

“On behalf of [Sightholder name], and with its full authority, I declare by way of this written assurance that the diamonds [invoiced/sent by memo] and contained herein are exclusively natural diamonds meaning that the referenced [parcel/box] contains no synthetic diamonds or diamonds that have been treated.”

The above assurances will form a “Chain of Accountability” and although will not suffice on their own, will strengthen your procedures.

## ACCESS TO EFFECTIVE DETECTION EQUIPMENT:

- Goods can be tested prior to confirming acceptance of the shipment and depending on the size of your pipeline, before the point of sale. Detection equipment can be purchased but if your company is not in possession of effective detection equipment then goods that are coming through identified high risk contamination points should be sent to a reputable gemmological institute for testing. Detection machines and instruments are available on the open market; in addition to this the De Beers Group designed and developed.
- DiamondSure™ and DiamondView™ to facilitate the detection of synthetic diamonds. An Automated Melee Screening instrument (AMS) has been developed to enable the screening of large parcels of melee stones. These machines can be ordered via the International Institute of Diamond Grading and Research website: [www.iidgr.com](http://www.iidgr.com).

## BUYING FROM TRUSTED SUPPLIERS:

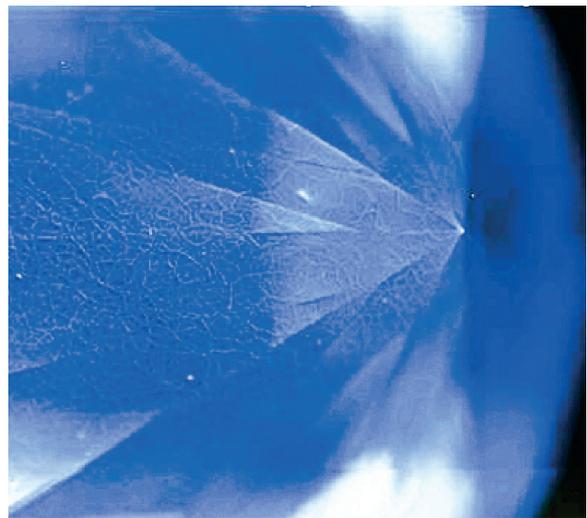
- De Beers sells its own production from mines in Botswana, Namibia, South Africa and Canada, and you can be sure that all diamonds you purchase from De Beers are natural. Purchases from primary source mines should come with the assurances that support the WFDB declarations. To reduce this risk further, it is De Beers' guidance that Sightholders only buy from suppliers on which they have carried out robust due diligence and with which KYS (Know Your Supplier) and "Chain of Accountability" systems are fully implemented.

## FACTORY CONTROLS IN PLACE:

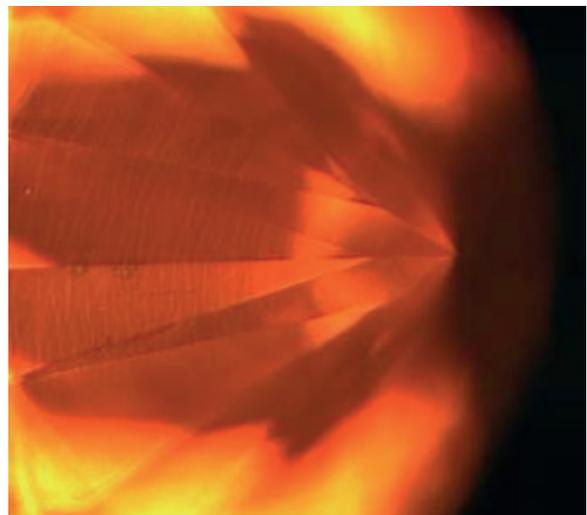
- Implement effective and detailed policies, procedures, security, monitoring and training to avoid "switching" on the factory floor. For more information, please refer to the Product Security section (A.6) of the BPP Requirements.

## REPORTING:

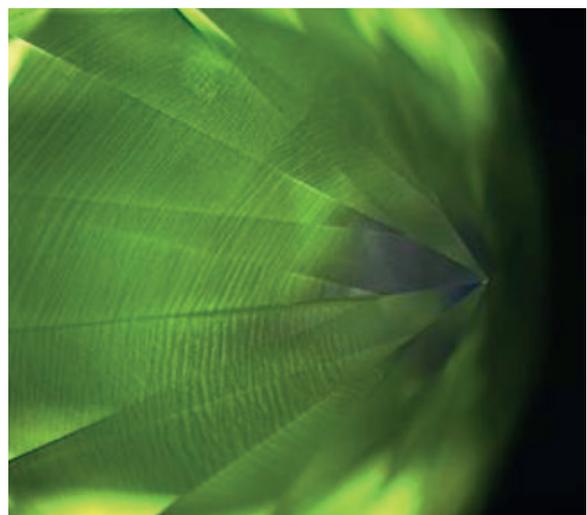
- Take action to notify and report incidents to relevant organisations, bourses, trade associations, law enforcement agencies and suppliers. Inform the BPP team immediately if you have inadvertently supplied undisclosed synthetic diamonds.



DiamondView™ image of a Type IIa natural diamond



DiamondView™ image of a CVD synthetic diamond that has not been heat treated after growth



DiamondView™ image of a CVD synthetic diamond that has been heat treated after growth

## REPORTS OF UNDISCLOSED SYNTHETIC DIAMONDS

In cases where incidents are reported of Sightholders inadvertently supplying undisclosed synthetic diamonds, the BPP team will conduct an internal investigation on the basis of publicly available information. At this stage all information willingly supplied by the Sightholder will be included into the content of the investigation.

The results of the internal investigation will be formally presented to the BPP Committee, which in turn will make an informed decision on whether further action is required. Further action could be taken in the form of specified extraordinary audits which may pressure test the procedures and the identified risks of the Sightholder in question. Please note that 'non-disclosure of synthetic diamonds, treated diamonds or diamond simulants' is a listed material breach of the BPPs and may result in the loss of Sightholder status.

## KEY DECISION MAKERS AND CHECKLIST FOR BPP COMMITTEE CONSIDERATION

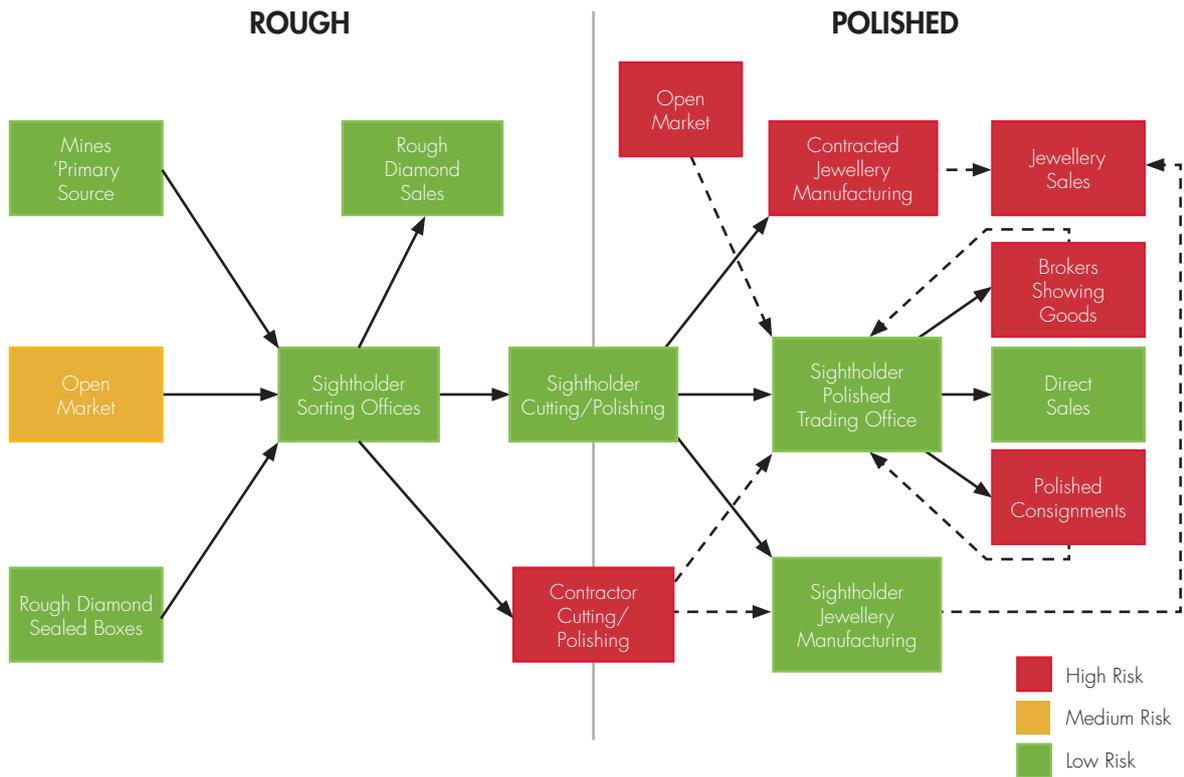
- Existing policies – All Sightholders have existing policies and procedures on disclosure. These will need to be reviewed to ensure that they are robust enough to address the risks involved in the Sightholder pipeline; this is applicable to all Sightholders.
- Size, shape and quantity of goods – melee carries a different risk from large stones and procedures must be robust enough to reflect the attributed risk. For example, polished diamonds over 0.30cts which are entering your pipelines through identified high risk contamination points must all be tested prior to assurances being made at the point of sale.
- Availability of detection equipment.
- Past BPP compliance record.
- Bringing the industry into disrepute - we have a shared responsibility to maintain the reputation of De Beers and its Sightholders.
- Assurances for "Chain of Accountability."
- Immediate notification to the relevant body.

Please Note: If undisclosed diamonds are found at any point in the pipeline, De Beers' investigation will be focused on the seller prior to the incident.

# PIPELINE RISK ANALYSIS OF CONTAMINATION POINTS

In order to manage and define areas at high risk for contamination we require all Sightholders to produce a diagram to map out the supply pipeline. You will need to provide policy, procedures and training for all contamination points identified, furthermore for the purpose of BPP compliance testing is only required at high risk contamination points. For more information on how to assess contamination points please refer to the Disclosure Practice Note at [www.debeersgroup.com](http://www.debeersgroup.com)

Please see below for an example:



# BPP MELEE ASSURANCE PROTOCOL: GUIDANCE FOR ROUGH AND POLISHED DIAMONDS IN THE 0.01CT AND BELOW CATEGORY

## INTRODUCTION

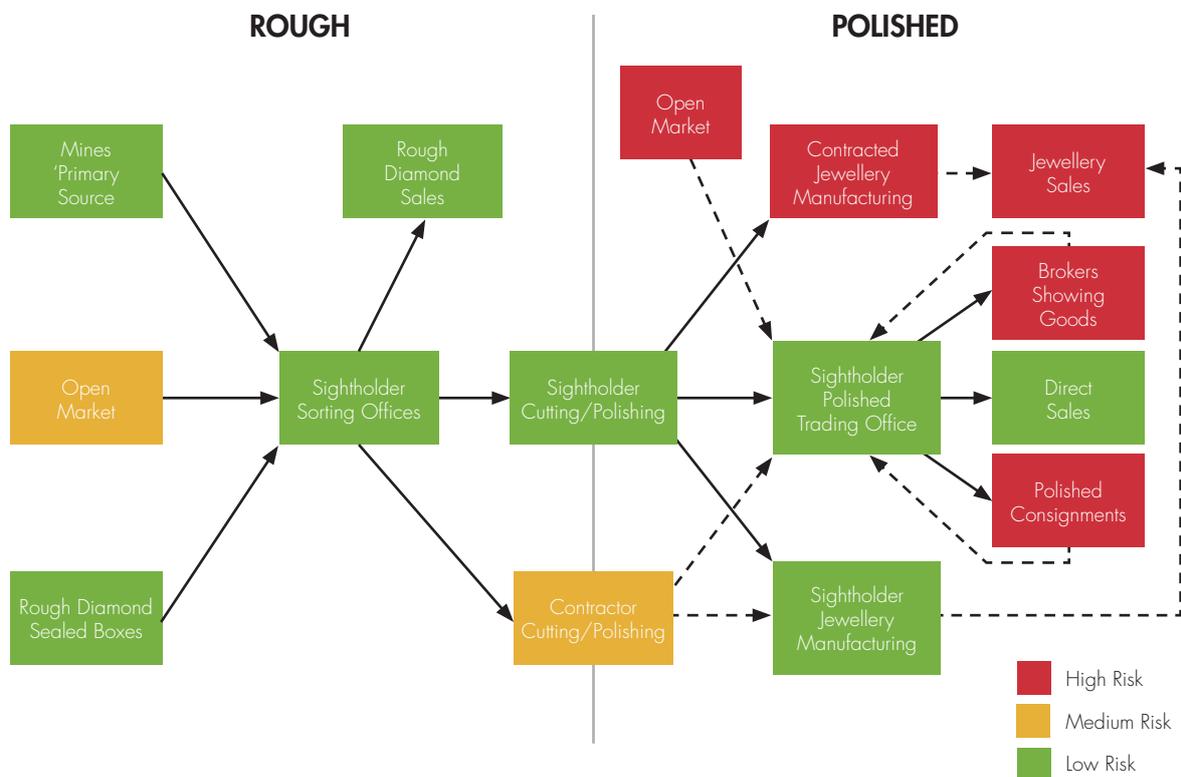
The BPP Melee Assurance Protocol only applies to rough and polished diamonds in the 0.01ct and below category.

De Beers developed the BPP Melee Assurance Protocol, a pipeline of sealed melee/sealed diamonds in the 0.01ct and below category, to support Sightholders in providing their customers and stakeholders with independent assurance that these diamonds are conflict free and of natural diamond origin by taking additional steps to minimise the risk of undisclosed synthetic diamonds entering the natural diamond pipeline.

The BPP Melee Assurance Protocol is based on establishing systems that provide for the segregation and protection of diamonds that are 0.01ct and below from other diamond inventory, therefore providing an important point of differentiation and confidence in the business practices involved during the manufacturing process. Independent third party auditing of these segregated systems provides assurance to customers and stakeholders that the mitigating action has been applied to address the risks posed, thus enhancing consumer confidence and adding value to diamond jewellery products and the diamond industry as a whole.

## SUGGESTED IMPLEMENTATION APPROACH FOR SIGHTHOLDERS

The additional BPP Requirements for the Melee Assurance Protocol requires all Sightholders to take the following steps for assessment against a sealed pipeline:



1. **Risk Assessment:** Policies, Procedures and Training: In order to manage and define areas at high risk of contamination of synthetic diamonds, Sightholders are required to map out their unique diamond pipeline. A procedure and training programme shall be provided for all contamination points that have been identified. For the purpose of BPP compliance, full testing is required for identified high risk areas, either through a laboratory or through effective in-house detection equipment. Each contamination point has a unique risk level, and will subsequently require suitable actions to be undertaken to address each risk. Risk levels assigned to contamination should be reviewed regularly, and when there are any material changes to the pipeline.
2. **Testing requirements:** Where high risk areas have been identified, further measures must be implemented to reduce the risk. Diamonds from high risk areas, such as polished diamonds purchased on the open market, should undergo full testing to confirm there are no synthetic diamonds included in the parcel. For medium risk areas, sample testing is a requirement. A sample of the polished diamonds manufactured by an off-site contractor must be effectively tested. Please refer to the Disclosure Practice Note for guidance on sample sizes.
3. **Qualifying contractors:** All substantial contractors manufacturing diamonds that are 0.01ct and below qualify for assessment against the BPP Melee Assurance Protocol requirements. Please note that in order to comply with these requirements all non-substantial contractors, who manufacture 0.01ct and below, must be declared on the SMART system as substantial contractors, and participate in the Contractor BPP Programme, in order to qualify for assessment against the BPP Melee Assurance Protocol. Virtual contractors cannot participate in the BPP Melee Assurance Protocol. A list of all contractors participating in the Melee Assurance Protocol must be signed off by a Key Individual for the Group.
4. **Internal Onsite Verification:** the Sightholder shall conduct their own onsite audits on relevant contractors as part of their procedures to meet the Melee Assurance Protocol requirements. The scope of these onsite audits can include:
  - To ensure that the rough-to-polished yield originates from the parcel supplied by the Sightholder, verify that the contractor segregates the relevant diamond parcels from any other diamond parcels in the manufacturing process.
  - Review the effectiveness of the segregation system.
  - Review of systems and controls to prevent substitution and theft.
  - Review of relevant training to staff to ensure these processes are being implemented.

It is not a requirement to employ a third party to conduct these audits; it is sufficient for the Sightholder's BPP Manager or equivalent to assess the procedures are adequate and effective.

A risk-based approach to these audits can be applied, including conducting remote reviews and conducting onsite audits at contractors that present the highest risk. Completion of the Tier B contractor workbook satisfies this requirement.

5. **Tamper-evident packaging:** Implement a process whereby all substantial off-site contractors return polished diamonds, which have been manufactured from designated rough diamond supply, in tamper-evident packaging.

## ACCESS TO EFFECTIVE DETECTION EQUIPMENT AND REPUTABLE LABORATORIES:

Laboratories that do not separate referred or synthetic diamonds, after testing, should not be used.

It is advisable for Sightholders to purchase equipment or third party testing services from reputable organisations to ensure full compliance with the BPP requirements.

In March 2019, the Assure Instrument Testing Program was launched which published performance testing results, as verified by an independent third party laboratory, of eleven diamond verification machines. For more information go to [www.diamondproducers.com/assure](http://www.diamondproducers.com/assure).

This guidance will be reviewed as detection equipment in this size category evolves.

## IMPLEMENTATION APPROACH FOR CONTRACTORS:

The following suggested implemented approach is required for substantial off-site contractors:

1. **Segregation:** Robust, auditable systems shall be in place to ensure that the rough diamonds supplied for manufacturing through the Melee Assurance Protocol are processed separately from all other clients' diamonds in order to provide evidence that the polished yield originates from the rough diamonds provided by the Sightholder. The contractor shall provide all relevant procedures and documentation to evidence segregation systems to the Sightholder, on request, for example during an onsite audit.
2. **Product Security:** robust, auditable systems shall be in place to address any risks relating to product security. This shall include the prevention of theft and substitution of diamonds.
3. **Return of diamonds participating in the Melee Assurance Protocol:**
  - a. **Guarantees:** The contractor shall provide the following two guarantees when returning the polished diamonds:
    - *I (contractor company name) hereby guarantee that the polished diamonds in this parcel are the full yield from the rough diamonds received from (Sightholder company name).*
    - *I (contractor company name) hereby guarantee that the factory has adequate controls, systems and procedures in place to prevent theft and substitution of diamonds, while ensuring the safety and security of all employees.*
  - b. **Packaging:** all polished diamonds manufactured by the contractor that qualify for the Melee Assurance Protocol shall be returned to the Sightholder in tamper-evident packaging to reduce any risk of contamination.







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