

Conflict minerals disclosure would hurt stock value

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(Phys.org) -- Proposed federal rules that would require companies to disclose their use of “conflict minerals” — those mined in the Republic of Congo and neighboring countries and linked to armed conflict and human rights abuses — would cost shareholders billions of dollars, predicts a University of California, Davis, study.

The study, led by Paul Griffin, a professor in the UC Davis Graduate School of Management, looks at the costs of implementing section 1502 of the Wall Street Reform and Consumer Protection Act, a broad national reform of the U.S. financial system signed into law by President Obama in 2010. Section 1502 would require publicly traded companies to report to shareholders and the Securities and Exchange Commission whether their mineral supplies come from strife-torn areas of Central Africa.

The SEC is scheduled to hold a hearing Aug. 22 to decide whether to make the disclosure rules final.

“While Congress continues to press the SEC to issue final rules, companies also express the view that section 1502 comes with a hefty price tag, not only for the out-of-pocket costs of compliance and implementation, but also because of the potential loss of shareholder value from uncertainty about conflict minerals resourcing and customers’ and others’ social concerns,” Griffin said.

Conflict minerals — such as gold, tantalum, tungsten and tin — are

found in such common consumer products as cell phones, game consoles and most products with integrated circuits (including automobiles).

Griffin and his research team examined 206 companies from December 2010 through March 2012 and found those companies — half who had voluntarily disclosed before the law became mandatory — lost \$6.5 billion in shareholder value due to declining equity values. Both disclosing and nondisclosing companies were affected because of the ripple effect in capital markets when uncertainties arise about a particular business practice — using conflict minerals, in this case.

The losses experienced by the firms were similar to earlier predictions by academic researchers and [company](#) trade groups, Griffin said, but exceeded the SEC’s estimated compliance cost of \$71 million.

The proposed disclosure rules would not prohibit companies from using conflict minerals, nor impose penalties for their use.

If approved, however, the rules could trigger additional state regulation. California in 2011 approved Senate Bill 861, which precludes companies in violation of Dodd-Frank reporting requirements from contracting with state agencies. SB 861 is expected to take effect after the SEC adopts its final rules. Maryland has adopted similar legislation.

“In their pursuit of a social remedy to expand transparency and eliminate trade in U.S. companies’ use of conflict minerals, the U.S. Congress and the SEC should understand the amount and cost of this remedy, and who bears that cost,” the report concludes.

The full study “Supply Chain Sustainability: Evidence on Conflict Minerals,” is co-authored by David Lont of the University of Otago in Dunedin, New Zealand, and Yuan Sun, a doctoral student at the UC Berkeley Haas School of Business.

More information: papers.ssrn.com/sol3/papers.cfm?abstract_id=2129371

Provided by UC Davis

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