

The Leo Schachter Diamonds Bible

OUR BELIEFS
OUR PRACTICES
OUR RESPONSIBILITIES

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Introduction

We call this guide The Leo Schachter Diamonds Bible. It is your guide and ours to the beliefs, practices, and responsibilities that we adhere to as a company and as individuals. Every organization sets standards of behavior for its members, either by custom or by establishing clear rules. This is especially important in our company where uncompromising standards of integrity have been a guiding principle since its founding by Leo Schachter in 1952. At the heart of what we do in our work is the way we act toward one another, the way we act with suppliers and customers and the way we expect and require others to act with us.

Responsibility, transparency and accountability are becoming increasingly important for all corporations, but nowhere more so than in the diamond industry, where the key to building long-term relationships is trust. As a leader in this industry, Leo Schachter has taught us to take the lead in all these matters.

Maintaining our integrity is no easy task, especially when it relies on the actions of each and every member of the organization; approximately 900 people spread out in 10 countries. Our multi-cultural orientation is our strength, but it is also a challenge. With our different backgrounds, we still need to serve our customers as one seamless organization, whether they deal with us in New York, Botswana or Hong Kong. And we need to speak in one voice to the business world, whether we speak amongst ourselves in Hebrew, Chinese or English. Bringing all of us together with unity of purpose and a common dedication to the same high standards of integrity, is the purpose of this handbook and the accompanying presentation. This is our corporate heritage and responsibility.

At the heart of our corporate heritage is the strict adherence to Best Practice Principles. These can be grouped into three overall headings:

- Business Responsibilities
- Social Responsibilities
- Environmental Responsibilities

This handbook is divided accordingly into three sections, each giving you the guidelines you will be expected to adhere to in your work at Leo Schachter.

The Book of Business Responsibilities

This section will deal with the following topics:

- Maintaining impeccable ethical standards
- Preventing money laundering, terrorism financing and other financial offenses
- Adhering to the Kimberley process
- Full disclosure of information about each diamond we polish and sell
- Establishing proper procedures of supply chain compliance

ETHICAL STANDARDS

Maintaining high ethical standards is not only a moral issue; it's a business issue. The consumers who buy our diamonds must be able to trust the integrity of the jewelry retailer, who in turn puts his trust in the wholesalers and manufacturers he buys from. The chain of trust goes on up until the mining companies that dig up the rough.

One indiscretion can have unpredictable results that would reflect badly on our industry and on our company; clearly not an acceptable outcome.

Today's consumer is increasingly concerned with ethical issues and demands a commitment to honesty from the industries it deals with. This is a commitment we of all industries cannot afford to break.

Your commitment to honesty is personal. Never think that cutting corners is acceptable. Always assume that your business conduct will eventually be made public, and act accordingly. Here are some basic activities to avoid:

- Activity that could result in a conviction if it were uncovered
- Trading in rough diamonds from conflict countries
- Practices that harm or endanger anyone's health or welfare
- Conduct meant to deceive, mislead, cheat or delude a customer – whether your own customer or someone further down the pipeline

Ethical standards may seem to be a simple matter of common sense, but they are also a matter of geography. People in different countries may interpret the same action in different ways. As a company operating on four continents, we are in a position to appreciate differences in business cultures so let's not just rely on common sense and let's be sure to be aware of the laws of each country we operate in. The national laws of the country **you** work in are applicable to you as an individual and to us as a company. Make sure you are aware of every law that can impact the way you conduct business.

When you run into a situation not governed by national law, follow the guidelines of the appropriate UN resolutions or International labor organization (ILO) conventions. You can find detailed information on business regulations for multi-national companies in the Organization for Economic Development Guidelines for International Enterprises and

you can always approach the designated compliance officer and ask for the applicable regulation.

FINANCIAL INTEGRITY

You are required to adhere strictly to all relevant national and international laws concerning money laundering, terrorism financing, bribery, corruption, smuggling, embezzlement, fraud, racketeering, transfer pricing and tax evasion.

Since the diamond industry involves transfers of large amounts of money in return for very portable assets, it can be a tempting vehicle for unscrupulous people to exploit for illegitimate purposes. Recognizing that money laundering is not just the concern of banks, the **USA Patriot Act**, which was enacted in response to terrorism, significantly expanded the definition of "financial institution" to include dealers in jewels and precious metals.

What is Money Laundering?

Money laundering is a technique used to hide 'dirty money' and turn it into legitimate funds that can be re-circulated in the economy. Dirty money may come from the proceeds of the sale of illegal substances, from fraud or theft or from tax evasion and other crimes. Legitimate funds used for illegal purposes (such as financing terrorism) are also subject to money laundering regulations. It is estimated by the International Monetary Fund that money laundering has reached \$590 billion to \$1.5 trillion per year.

To understand money laundering it is helpful to be familiar with the stages of the money laundering process:

1. **Placement:** In this stage, the money launderer will put the money obtained from illegal activities into the system, for example by making a cash deposit in a bank
2. **Layering:** In this stage, money is moved between accounts through transactions designed to disguise the original source of the funds and to obscure the audit trail
3. **Integration:** In this stage the funds are reintroduced into the economy and appear to be legitimate

To combat money laundering activities, lawmakers and regulatory bodies have created rules and restrictions that apply to many businesses and organizations. For example, all organizations in the US must report any cash transaction over \$10,000 to various authorities. Failure to file these reports can result in significant fines.

A broad variety of businesses are potentially exposed to money laundering risk. The costs of non-compliance can be high and may include fines, criminal penalties, seizure of funds and damage to our reputation. Beyond the harm it can cause to ourselves and our industry, money laundering must be fought in order to prevent the human suffering of the victims of crime and conflict.

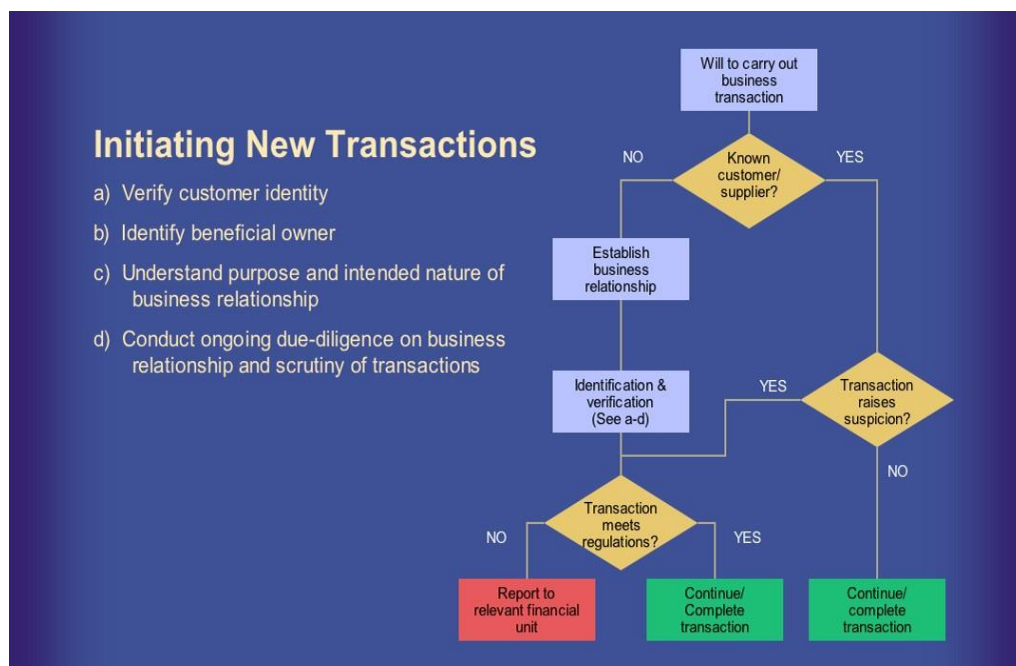
Preventing Money Laundering

In order to minimize the possibility of money laundering, Leo Schachter Diamonds has appointed the CPA firm Samuel S. Adelsberg & Co as an independent financial auditor. Leo Schachter will appoint a designated Financial Compliance Officer and he will report directly to the CEO of the Company. In this capacity he also conducts periodic seminars for the accounting and export departments and the Company has a full Anti Money Laundering Policy (AML Policy) defining and designating risks and processes.

When initiating a business relationship on behalf of Leo Schachter Diamonds, you must be careful in the selection, screening and acceptance of suppliers and purchasers of rough and polished diamonds, ensuring that our AML policies and procedures are adopted with due diligence during the selection process. The AML policy continues with transaction monitoring and worker training. Anyone conducting business on behalf of this company is required to follow these specific steps designed to increase transparency:

- Before establishing any new business relationship, every supplier and client must be given a full Know Your Counterpart (KYC) packet asking for background information to establish the authenticity of the entity, including owners, control, and banking relationships. This is included in the Supplier Protocol Forms required of new suppliers and clients
- It is your job to verify the identity of your clients and suppliers, to understand the nature of their business and the source of their funds
- Our internal records should indicate who introduced the customer or supplier, or the circumstances in which they became known to us
- Any unusual business transaction must be reported to the financial compliance officer in your Leo Schachter company

The flow chart below summarizes the process you should follow in order to comply with these standards.



Once the transaction has taken place, the following records must be kept for one year at our offices and for at least the next six years in our warehouse:

- Customer/supplier information provided
- Financial transaction associated with each such customer/supplier
- Diamond transaction (memo or invoice) associated with each customer/supplier
- Reports submitted concerning suspicious or unusual activity

While following these basic rules, you are required to comply with national and international legislation, including the USA Patriot Act, specifically the Regulations for Jewelers and Metal Dealers issued by the US Treasury's Financial Crimes Enforcement Network, in accordance with USA Patriot Act Section 352. These regulations apply to any wholesaler, supplier, distributor, manufacturer or trader who buys and sells more than \$50,000 of jewels, stones or precious metals in a year.

Cash Transactions

Company policy is to discourage cash transactions. It should be pointed out to the customer that cash is unacceptable because of associated risks, such as loss, mistakes in counting, counterfeiting, extra transporting costs and additional bank charges.

We can accept wire transfers or checks. Even if the refusal of cash will result in a delay in receipt of payment, this should be our policy. If it is determined, after a discussion with the Financial Compliance Officer, to take a cash sale you must take the following steps:

- Have the customer sign on the invoice that he has given cash and that such monies come from legitimate sources and have not been transported in violation of any national or international laws
- Report the cash transaction to the head of the accounting department. The monies should be given to the head of Accounting to be counted and checked for authenticity
- A numbered receipt should be issued in the cash account. The monies should be deposited in the bank along with the required government documentation if the amount is above \$10,000
- The financial compliance officer in the company should log the transaction in the logbook and report it to the government authorities to assure compliance with the law

Unusual transactions

Even if a payment is not in cash, a transaction may be unusual and if so, should be reported to the financial compliance officer. Examples of unusual transactions include:

- Unusually large number of wire transfers
- Transactions conducted in bursts of activity within a short period of time
- Unexplained repetitive or unusual patterns of activity. Such activity can be in the form of movements of money; purchases or sales of diamonds or jewelry

- Third party transactions where the money coming in is not from the client directly

When in doubt, err on the side of caution and report the unusual activity to the Company compliance officer noted in your Employee Handbook.

Any suspicious transactions that may relate to terrorist activity should be reported to the Financial Crimes Enforcement Network toll-free hotline: 1-866-556-3974.

THE KIMBERLEY PROCESS

The most notorious financial abuse of the diamond industry has been the funding of terrorist wars against legitimate and internationally recognized governments. Diamonds traded for this purpose have come to be known as “conflict diamonds”. In addition to causing untold suffering to its victims, the issue of conflict diamonds has caused serious damage to consumer faith in the diamond industry.

To combat this scourge, the World Diamond Council instituted a system of warranties that is mandatory for all buyers and sellers of rough and polished diamonds. The system, inaugurated in May 2000, is known as the Kimberley Process.

Our commitment to the Kimberley Process consists of the following Do’s and Don’ts:

- **Do Not** buy diamonds without an invoice that includes a warranty of compliance with Kimberley and UN resolutions on conflict diamonds
- **Do Not** buy diamonds from a suspect or unknown source of supply, or that originate in countries that have not implemented the Kimberley Process
- **Do Not** buy diamonds from any source that has violated government regulations on conflict diamonds
- **Do Not** buy diamonds in or from any region that is subject to an advisory by a government authority that conflict diamonds are available for sale there
- **Do** include the *World Diamond Council System of Warranties* and the required affirmative statement on all invoices by buyers and sellers of rough and/or polished diamonds. The statement is as 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.”*
- **Do** keep records of all Kimberley Process certificates, warranty invoices received and warranty invoices issued when buying or selling diamonds. The flow of goods must be audited and reconciled annually by the company’s own auditors
- **Do** make these records available for scrutiny by a duly authorized government agency or Third Party Auditor upon request

DISCLOSURE

Anyone who sells a diamond is responsible to give full disclosure of all material information about a diamond and the material steps it has undergone prior to its sale to the purchaser, whether or not the information is specifically requested, and

regardless of the effect on the value of the diamond. This is particularly important for companies who sell treated diamonds, but it is also binding on us at Leo Schachter Diamonds, even though we do not deal in such products.

Our company policy on these matters is that we will not accept, trade or sell the following products:

- Simulated products, including CZ or Moissanite
 - Synthetic, or lab grown diamonds, may be traded but will be done only with full disclosure and separate and distinctive inventories
- Clarity or color enhanced diamonds, including HPHT treated, Yehuda treated, laser drilled, fracture filled or any procedure that artificially improves the clarity or color of diamonds
- Irradiated colored diamonds, including neutron bombardment and linear accelerator diamonds

SUPPLY CHAIN COMPLIANCE

Our ethical responsibilities do not stop at the door to the company. We are part of a long supply chain, and it is our interest and our responsibility to insist that the businesses we work with maintain the same ethical standards that we do. That includes our contractors and subcontractors, our suppliers and our customers.

To insure this compliance, make sure your supplier has been provided with a copy of the **Leo Schachter Supplier Protocols** document which incorporates the requirements of the Responsible Jewellery Council (RJC), DeBeers' Best Practice Principles and Signet's Supplier Resource Protocol (SRSP). Leo Schachter is a certified member of the RJC and has undertaken the responsibility to be sure that we and our suppliers adhere to these protocols thus assuring industry and consumer confidence.

Other appropriate actions may include:

- Offering customers or suppliers assistance on the implementation of the BPPs
- Obtaining a contractual undertaking from the relevant company that it will comply with and implement the BPPs, including an undertaking to carry out assessments and report the results of such assessments to the Sightholder
- If appropriate, and with the consent of the company, carrying out Third Party Assessments at intervals and on a basis to be agreed between the parties

In addition, Leo Schachter has undertaken a strict Undisclosed Lab Grown Diamond (ULGD) protocol that will assure the Leo Schachter pipeline remains intact by testing diamonds and jewelry received for undisclosed synthetic diamonds. The ULGD is attached as an addendum to this booklet and is incorporated in our Pipeline Protocols.

The Book of Social Responsibilities

This section will deal with the following topics:

- Employment
- Health & safety
- Human Rights

EMPLOYMENT

Leo Schachter Diamonds was established in New York in 1952 as a family company. Although the Company has since grown to become a multinational firm, it still maintains much of the family atmosphere of the earlier years, and we consider that an important asset. As an employee of Leo Schachter Diamonds, you are a member of this extended family, and that fact should set the tone of your relationship with your colleagues and management. The company bears this in mind in its employment policies, in addition to complying with all the relevant national and international laws.

Equal Opportunity Policy

It is the policy of Leo Schachter Diamonds to provide equal employment opportunity for all persons and to prohibit discrimination against any employee or applicant because of race, creed, color, disability, national origin, religion, gender, and sexual orientation, veteran's status or age. We select employees on the basis of their qualifications to fulfill the established specifications of their jobs. The criteria we use for employee selection include: education, experience, skills and abilities, attitude, and the willingness to work in a specific environment.

Your Rights as an Employee

Salary:

Salary details will be agreed on before you begin working at Leo Schachter, and documents confirming these agreements will be made available to you. Wages and benefits will be at least the minimum national standard as required by law

Payment of salary and reimbursement of expenses will take place twice a month on the 15th and 30th. All deductions required by law, such as income tax and Social Security tax and disability tax, will be withheld. In addition, you may authorize deductions from your pay for employee benefits, such as medical insurance, dental insurance and other benefits. The net salary will be transferred to your bank account or paid by check and the accounting department will provide a payment slip with details of all payments, reimbursements and deductions.

An employee's starting salary is based upon the nature of the job, professional qualifications and experience. At the end of the year, each supervisor conducts an evaluation meeting with every employee in his or her department. At this meeting, the employee's performance is evaluated, lessons are learned and objectives are established for the upcoming year.

Based on the supervisor's evaluation of the employee's performance, attitude, contribution and potential for the Company, the Company will decide on promotion, transfer or salary adjustments. The evaluations and any salary agreements are to be considered confidential between the employee and the Company.

Working hours

Regular business hours are 9:00am to 5:30pm Monday – Thursday, and Friday from 8:30am to 3:00pm in the summer and 8:30am to 2:00pm in the winter. Your particular hours of work and the schedule of your lunch period will be determined and assigned by your supervisor in compliance with all state and federal laws since some positions might call for a different schedule than the normal business hours. Overtime will not be demanded on a regular basis, and it will be paid for in compliance with state and federal laws.

The New York office will be closed on national holidays and on Jewish religious holidays as detailed in the employee handbook.

Religious and Cultural Needs

We respect the cultural diversity of our employees around the world, and consider it a valuable asset to the Company. If you have any specific needs or requests regarding these matters, they should be directed to your supervisor who will deal with the issue based on professional considerations as well as the Company's policy of promoting diversity and pluralism.

The Company will not interfere with the right of our employees to practice their religion. This includes holidays, garb, organized prayers, modesty, and food requirements. We will also not interfere with the right of our employees to refrain from religious practice.

HEALTH AND SAFETY

Leo Schachter Diamonds is committed to providing a safe and healthy working environment in accordance with the national laws of the countries in which we work, and in keeping with international standards set out in International Labor Organization conventions.

Health and safety issues are the responsibility of the factory manager in each Leo Schachter facility, and the senior manager in each office. These responsibilities include:

- Enforcing accident-prevention policies
- Cooperation with workers' representatives in seeking improvements in safety practices
- Investigation of work-related accidents and sickness, record keeping of incidents, and acting to prevent repetition
- The company is required to provide working conditions that answer the following concerns:
 - Maximum safe number of workers per room
 - Adequate means of escape in case of emergency
 - Appropriate lighting for the task to be performed
 - Emergency lighting
 - Electric wiring according to safety regulations
 - Easily accessible first-aid kits

- Fire extinguisher and fire alarms
- Hygienic washing and toilet facilities for both genders
- Drinking water and facilities for food storage

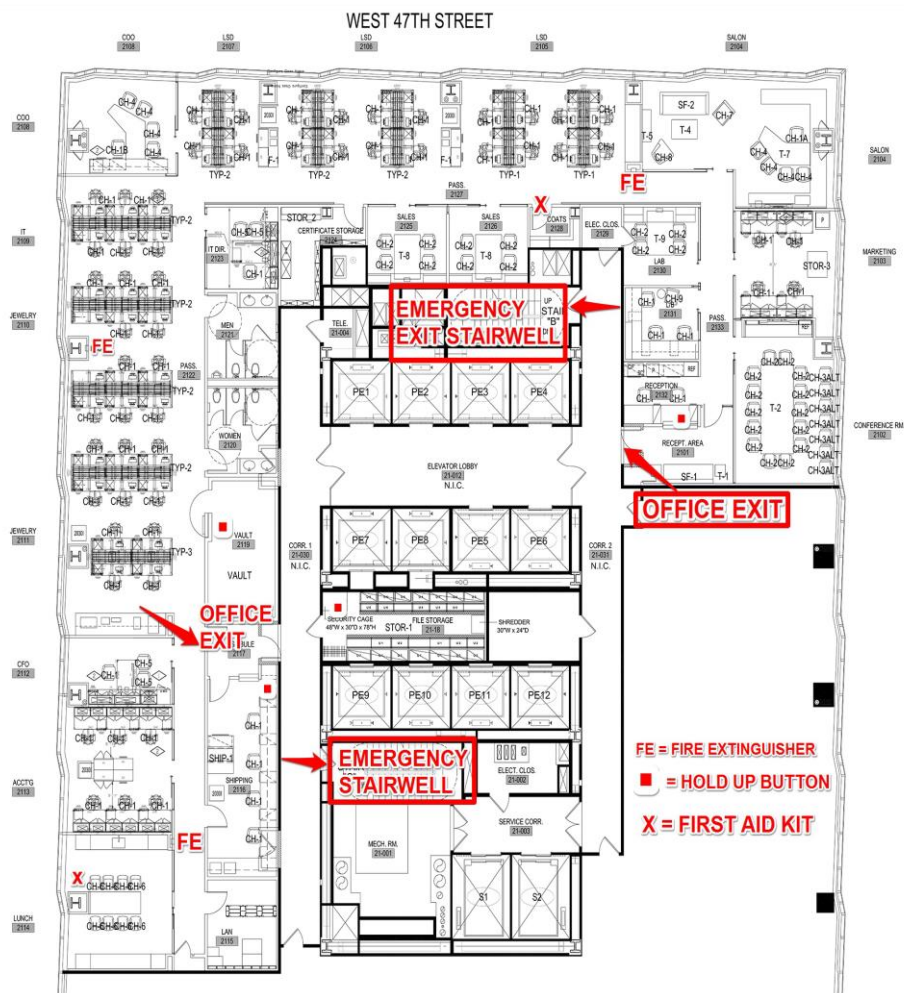
Maintaining a safe working environment is the company's responsibility, and it is the worker's right to insist that this is carried out properly. If you have a complaint or suggestion regarding health of safety in the workplace, follow this procedure:

- If it relates specifically to your work area, bring the issue up with your supervisor
- If it concerns the company or the facility as a whole, then send a written suggestion to the Director of HR, debbie.goldstein@lsdco.com

Workers have the right to remove themselves from work situations in which reasonable concern over imminent and serious danger to life or health is apparent. They will not be subjected to any consequences as a result of this action, nor will they be required to return to the work environment as long as the hazardous situation continues.

Emergency Evacuation

In case of emergency, evacuation maps featuring emergency exits are to be found at all exits from the Company facility. The emergency exits themselves are marked with a red electric sign, which lights up as soon as the electricity supply is affected.



Working Under the Influence

We all recognize that drug and alcohol abuse is harmful to Leo Schachter as a company, and to each and every one of us as individuals. Company policy prohibits the following:

- Illegal use, sale or possession of narcotics, drugs or controlled substances during working hours or on company premises
- Any improper use of legal physician-prescribed drugs during working hours or on company premises
- The use, sale or possession of alcohol on the job or on company premises
- Reporting to work while under the influence of drugs, alcohol, or improperly used prescribed drugs or other intoxicants

The company will notify the proper authorities of any suspected sale, possession, or use of illegal substances by any of our employees. We reserve the right to conduct drug and alcohol testing after a conditional offer of employment, as part of the pre-employment testing. Testing of current employees can be conducted where there is evidence of impaired job performance that may be the result of drug or alcohol use or abuse, or where the company has reasonable suspicion to believe that this policy has been violated and the employee is under the influence of drugs or alcohol. Employees who refuse to submit to drug or alcohol testing or who test positive are subject to immediate discharge.

HUMAN RIGHTS

Respect for the human rights of our workers, of our community and of the citizens of the countries where we do business is an integral part of the beliefs of our company's founders. We subscribe to the principles and policies outlined in the United Nations Universal Declaration of Human Rights of 1948. But our aspiration is not to merely comply with legislation, but to serve as an example for the industry as a whole.

Preventing Discrimination

For the purposes of this context, our definition of discrimination is distinction, exclusion or preference on the basis of race, caste, national origin, religion, age, disability, physical appearance, gender, marital status or sexual orientation in relation to the hiring, discharge, pay, promotion and training of workers.

In order to assure prevention of discrimination, we follow these guidelines:

- Workers have the right to express grievances or concerns without suffering any retribution, and to have their grievance or concern examined in a serious manner
- Any issues concerning discrimination should be communicated to Debbie Goldstein (debbie.goldstein@lsdco.com)
- Leo Schachter Diamonds will investigate any allegations of discrimination impartially, promptly and thoroughly, and will take appropriate action
- Concerns that are not dealt with in a timely manner should be referred to senior management at your local company

Harassment

The guiding principle for the behavior of both management and employees in the work place is that every person deserves to be treated with respect and dignity. Harassment of any kind – direct or indirect, physical or verbal – will not be tolerated. This applies to harassment based on sex, religion, race, or any other basis.

By sexual harassment, we mean unwelcome sexual advances, requests for sexual favors, verbal abuse or insults and physical contact. Posters, cartoons and drawings of sexual nature or creating any type of hostile environment can also be considered sexual harassment. Such behavior will not be tolerated and may be grounds for immediate dismissal.

The nature of the diamond trade requires stringent security measures to prevent theft and loss. While we all understand the need for these measures, it can never be an excuse for harassment. It is incumbent on security personnel to respect the dignity of each worker, supplier and customer. When action must be taken for security reasons, it must always be done respectfully, with consideration of the human rights of every person who enters our offices.

If you are subject to harassment, or if you witnessed another worker suffering from harassment, you should feel free to report this to the appropriate company officers. You are protected by law, and there will be no retaliation or impact on career opportunities of any kind against an employee for reporting a violation of this policy to management. Each case will be handled with the utmost respect and confidentiality.

Labor Issues

Leo Schachter Diamonds endorses Convention 138 of the International Labor Organization, which establishes international policies regarding child labor. Our company policy goes beyond the requirements of the charter and forbids the hiring of children under the age of 16 in any of our facilities anywhere in the world. The New York office employs young adults in compliance with all State and Federal child labor laws.

Leo Schachter Diamonds adheres to the requirements of the Universal Declaration of Human Rights prohibiting “all work or service which is exacted from any person under the menace of any penalty and for which said person has not offered himself voluntarily.” In other words – the Company will never use any means of intimidation, whether psychological or physical, to prevent an employee from leaving the Company. Workers are not required to lodge deposits or identity papers with the Company and they are free to leave employment for any reason after reasonable notice. If you notify the Company that you intend to leave, you will be provided with all necessary documentation and assistance.

Leo Schachter Diamonds and the Community

As a company working on four continents and composed of people from a wide spectrum of cultures, we are acutely aware of the connection between pluralism and human rights. It is our policy to respect the interests, customs and cultures of the communities within which we operate, particularly the rights of indigenous peoples. Our factories in Africa and the Far East are staffed primarily by local people, and the Company makes an effort to promote the advancement of local personnel to supervisory positions. In New York, the company hires workers from the full range of cultures and

backgrounds found in the metropolitan area. Besides for benefiting the community, we recognize that cultural pluralism is a valuable business asset, allowing us to interact more effectively with our culturally varied customer base around the world.

The Book of Environmental Responsibilities

This section will deal with the following topics:

- The Community
- The Office Environment
- Aesthetics

THE COMMUNITY

Leo Schachter Diamonds is a multi-national organization, but at the same time it is also a collection of local offices and factories, each working within a community. As an integral part of our local community, we are responsible and accountable for the ways our operations affect the environment around us. We are bound by the local laws and regulations in each of our locations, as well as by a company commitment to maintain the quality of the environment. This can take different expressions, depending on the type of facility.

THE OFFICE ENVIRONMENT

The work of buying, selling and sorting diamonds isn't normally associated with environmental issues. But any large group of people working together can impact the environment, and precautions should be taken to insure that our activities have no negative results. Here are some issues to watch out for:

Paper disposal:

Try to communicate using email where appropriate, rather than using paper unnecessarily. Offices can produce incredible quantities of waste paper, often as a result of carelessness. When you do use paper documents, make sure to shred them once they are no longer needed, and send them for recycling. There are separate receptacles located in the offices in which you are located for recycling.

AESTHETICS

We should never lose sight of what it is that we do; crafting diamonds is essentially an art, and we are in the business of creating beauty. Our concern with aesthetics is closely tied in with our image as a company, both in our own minds and in the eyes of our customers and suppliers. It must become second nature to us as diamond professionals to constantly keep watch over the aesthetic quality of our facilities, and to respect the cleanliness and beauty of the communities we are part of.

Leo Schachter Diamonds invests heavily in improving and maintaining the beauty of our offices and factories and contributes to cultural activities, and community projects that raise the aesthetic level of the cities and countries within which we operate. In the past, this has included sponsorship of museums and art projects, as well as contributing toward local parks and recreational facilities. We consider these to be investments in our company's future, because, after all, it is our own quality of life that is at stake.

Conclusion

The Company is very proud of its leadership position in the industry and even more proud of the people that represent us. The policies and suggestions outlined in this booklet are to be used as a guide for your daily activities as employees of Leo Schachter Diamonds. Further details are available in the employee handbook. Any suggestions that you might have about the company's Best Practices Policies are welcome. Feel free to send them by email to debbie.goldstein@lsdco.com, or to discuss them with your supervisors.

Addendum

Unidentified Lab Grown Diamond (ULGD) Protocol

1. Diamond Pipeline and Risk Mitigation

Intake of Diamonds / Risk Level (Low, Medium, High)

- Direct rough diamond purchase from DeBeers/Alrosa and other direct mining sources **Low**
- Direct rough diamond purchase from Sightholders **Low**
- Direct rough diamond purchase from market in original sealed bags(non-Sightholder) **Low**
- Direct rough diamond purchase from market (non-Sightholder) **Medium**
- Direct polished non-certified diamond purchase from Market **High**
- Direct polished certified diamond purchase from Market **Low**
- Receipt from LSD polishing factory **Low**
- Receipt from any LSD office of polished diamonds **Low**
- Receipt from outside contractor polishing factory **Medium**
- Receipt from Labs of graded diamonds **Low**
- Receipt from outside contractors of mounted jewelry **High**
- Receipt from customers of returned diamonds **High**

Risk Mitigation

- Direct rough diamond purchase from DeBeers **Low**
 - No testing required
- Direct rough diamond purchase from Sightholders **Low**
 - Random sampling of parcel
- Direct rough diamond purchase from market (non-Sightholder) **Medium**
 - Random sampling of parcels
- Direct polished non-certified diamond purchase from Market **High**
 - Random sampling of parcels as per recommended sampling sizes attached as annex
- Receipt from LSD factory of polished diamonds **Low**
 - No testing required
- Receipt from an LSD office of polished diamonds **Low**
 - No testing required
- Receipt from outside contractor polishing factory **Medium**

- Sampling of 50% of returned goods randomly selected
- Indication of Lab grown diamond will result in full testing of received product
- Receipt from Labs of graded diamonds **Low**
 - Full testing against differing weights, if received
- Receipt from outside contractors of mounted jewelry **High**
 - Random sampling of finished, lab certified product **Medium**
 - Full testing of non-lab certified product received back
 - In any receipt if a single stone is identified from the random sampling, full test of the receipt
- Receipt from customers of returned polished diamonds **High**
 - Full testing of all received, non-certified product
 - Random testing of received certified product

The above testing is to be done with the machines in the offices that handle loose and rough diamonds. The NY machine is able to test mounted jewelry as well as loose diamonds.

Any test result that shows 'referral' 'inconclusive' or 'fail' will be submitted to GIA for a further testing.

Annex 1

Number of stones to test					Percentage of parcel to test				
Quantity	.01-.03	.04-.07	.08-.14	>.15	Quantity	.01-.03	.04-.07	.08-.14	>.15
50	37	40	42	44	50	75%	79%	83.5%	88.4%
100	60	65	72	79	100	60%	65.3%	71.6%	79.2%
150	75	83	94	108	150	50%	55.7%	62.7%	71.7%
200	86	97	112	131	200	42.8%	48.5%	55.8%	65.5%
250	94	107	126	151	250	37.5%	43%	50.2%	60.3%
300	100	116	137	168	300	33.3%	38.6%	45.7%	55.9%
350	105	122	147	182	350	30%	35%	41.9%	52.1%
400	109	128	155	195	400	27.2%	32%	38.7%	48.7%
450	112	133	162	206	450	25%	20.5%	35.9%	45.8%
500	115	137	168	216	500	23.1%	27.4%	33.5%	43.2%

Annex 2

