



RAISING THE BENCHMARK

LBMA: Evolution, relevance and the way forward

Ruth Crowell, Chief Executive

August, 2015

ROLE OF LBMA

Trade Association

Maintaining & Enhancing the efficiency of the London Bullion Market

- ▶ **Accreditation**
 - ▶ **Metal Quality – The Good Delivery System**
 - ▶ **Probity – Membership**

- ▶ **Market Development**
 - ▶ **Regulatory Response**
 - ▶ **Global Value-chain Consultation**
 - ▶ **Statistics, Documentation & Information**
 - ▶ **Strategic Projects (Benchmarks, Responsible Gold, Certified Reference Materials etc.)**

- ▶ **Competent Authority for Bullion**
 - ▶ **Contacts with Regulators and government agencies**
 - ▶ **Principal OTC Market contact for media, investors & public**



BULLION – A GLOBAL MARKET

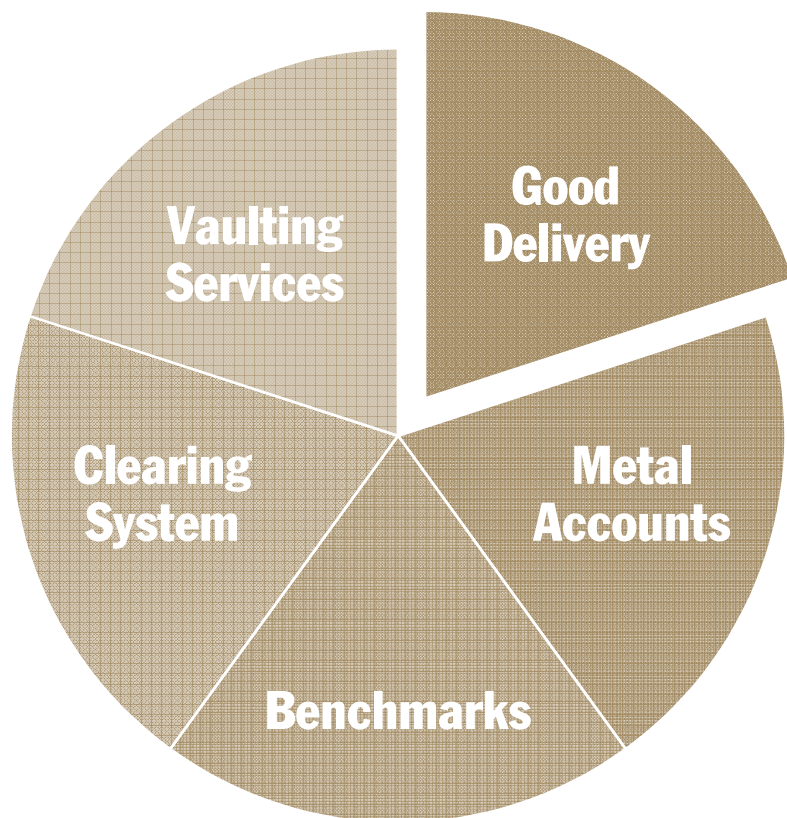
Key Elements



- ▶ **Global membership and client base**
- ▶ **Principal to Principal trading**
 - ▶ **Spot, Forwards and Options Trading**
- ▶ **Loco London**
 - ▶ **Represents the basis for international trading and settlement in gold and silver**
- ▶ **Liquidity**
 - ▶ **2011 Survey Daily Turnover \$240billion – Spot Gold**

LONDON BULLION MARKET

Key Elements



- ▶ **Market Infrastructure provided by LBMA, LPMCL & Benchmark Administrators**
- ▶ **LBMA – Good Delivery**
- ▶ **LPMCL – Metal Accounts, Clearing System**
- ▶ **Vaulting – LBMA & LPMCL**
- ▶ **Benchmarks – LBMA & 3rd Party Administrators**





LBMA GOOD DELIVERY LIST

Includes the world's pre-eminent refiners of gold and silver located in 31 countries.

**Annual production of 73 LBMA Gold Refiners
~85-90% of annual world gold production.**

The international standard for the quality of gold and silver market bars and is used by precious metal exchanges around the world to define in whole or in part the refiners whose gold and silver bars are accepted in their own markets.

First created in 1750

GOOD DELIVERY ACCREDITATION

Average Application Time: Six Months

Non-technical criteria that must be satisfied before accepting an application for assessment

- ▶ **Details of Owners and Directors**
- ▶ **In business for 5 years**
- ▶ **Operating History – 3 years**
- ▶ **Tangible net worth - £15 m**
- ▶ **Refined production – 10 tpa for gold (50 tpa for silver)**
- ▶ **Responsible Gold Policy & Audit**

Technical Assessment – two parts:

- ▶ **Assaying test – 24 gold reference samples (10 for silver)**
- ▶ **Bar test - 11 bars inspected in London;
5 bars tested by each of two referees (double blind)**

LBMA GOOD DELIVERY LIST

Proactive Actively Monitored & Developed



Non-Technical Data

- ▶ Annual collection of Tonnage, Financial Net worth & RGG Audit

Proactive Monitoring

- ▶ Mandatory Testing every three years or as problems arise

Proficiency Testing

- ▶ Voluntary, anonymous annual testing for assay labs

Certified Reference Materials

- ▶ AuRM 1, 2 & 3
- ▶ AgRM 3 (potential)



EU CONFLICT MINERALS UPDATE

Final Regulation - 2016

Regulation on Responsible Sourcing of minerals from conflict-affected and high-risk areas (global focus, not just DRC)



- ▶ **Gold Industry ahead of the game compared with Tin, Tantalum & Tungsten**
- ▶ **This is due to RGG global, long term focus which includes AML,**
- ▶ **EU plans to recognise industry schemes such as LBMA due to RGG & OECD work**

LBMA PRECIOUS METAL PRICES

FCA Recognition for Silver Fix Transition Work

Enhancements

- ▶ **Electronic Auction Platform**
- ▶ **Independent Administrator with IOSCO & Regulatory compliance**
- ▶ **Increased transparency of live auction available to public**
- ▶ **Increased direct participation**

Motivation for Change

- ▶ **Negative perception of the word “Fix” or “Fixings”**
- ▶ **LIBOR scandal & subsequent legislation**
- ▶ **Decreased number of contributors, Fixing Companies Announcement**

Consultations & Challenges

- ▶ **Silver Price – three months, RFP process & implementation**
- ▶ **Gold Price – RFP process, implementation & UK Regulation**
- ▶ **PGM Prices – 48 hours notice**

LBMA PRECIOUS METALS PRICES

Transparent, Open to New Participants & Independently Administrated

The screenshot displays the LBMA SilverPrice website interface. The top section shows a search bar and navigation tabs. The main content area is titled 'The LBMA SilverPrice' and contains a table of auction data for 15AUG14. The table has columns for Buy Vol, Price, Sell Vol, St Time, End Time, and Date. The data shows several auction rounds, with Round 4 having the highest volume at 3.25. Below the table, there is a section for 'LDNXAG=' which provides a summary of the current price and volume.

Buy Vol	Price	Sell Vol	St Time	End Time	Date	
LBMA SilverProc	19.860			12:02:00	15AUG14	
AUCTION ROUND1	0	19.930	12.50	12:00:00	12:00:30	15AUG14
AUCTION ROUND2	0	19.900	10.00	12:00:30	12:01:00	15AUG14
AUCTION ROUND3	2.25	19.880	8.00	12:01:00	12:01:30	15AUG14
AUCTION ROUND4	3.25	19.860	5.25	12:01:30	12:02:00	15AUG14
AUCTION ROUND5						
AUCTION ROUND6						
AUCTION ROUND7						
AUCTION ROUND8						
AUCTION ROUND9						
AUCTION ROUND10						
AUCTION ROUND11						
AUCTION ROUND12						
AUCTION ROUND13						
AUCTION ROUND14						
AUCTION ROUND15						
AUCTION ROUND16						
AUCTION ROUND17						
AUCTION ROUND18						

Price	Volume	Set Time
19.860	15AUG14	12:02:00

- ▶ **Open to New Participants: Indian Banks?**
- ▶ **Auction visible online via multiple data providers**
- ▶ **All electronic auction based, different administrators**
- ▶ **New LBMA subsidiary company "Precious Metals Prices Ltd."**



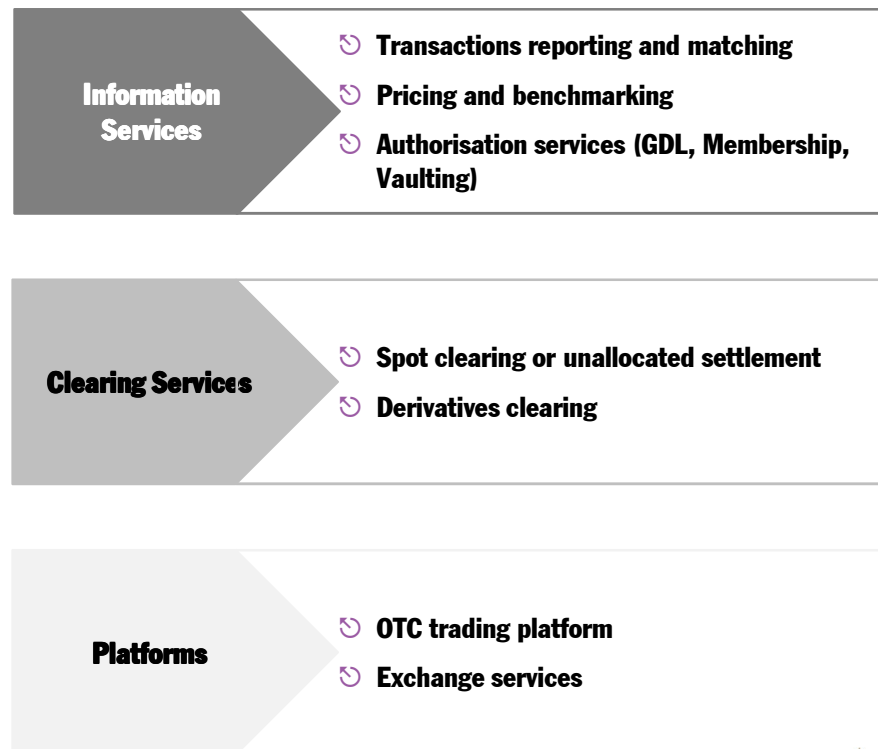
MARKET IN TRANSITION

Responding to the Changing Landscape - EY Study

FEMR Objectives:

- ▶ **Transparency**
- ▶ **Openness**
- ▶ **Equality of opportunity**
- ▶ **Safeguards**
- ▶ **Effectiveness**

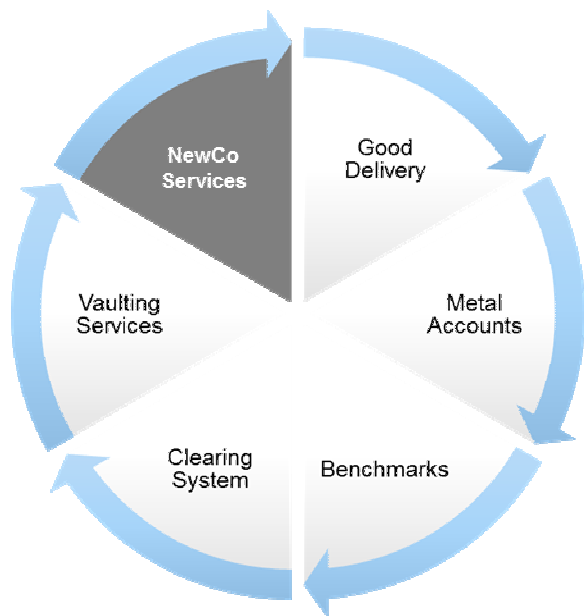
Potential Services for Market Enhancement



LBMA VISION

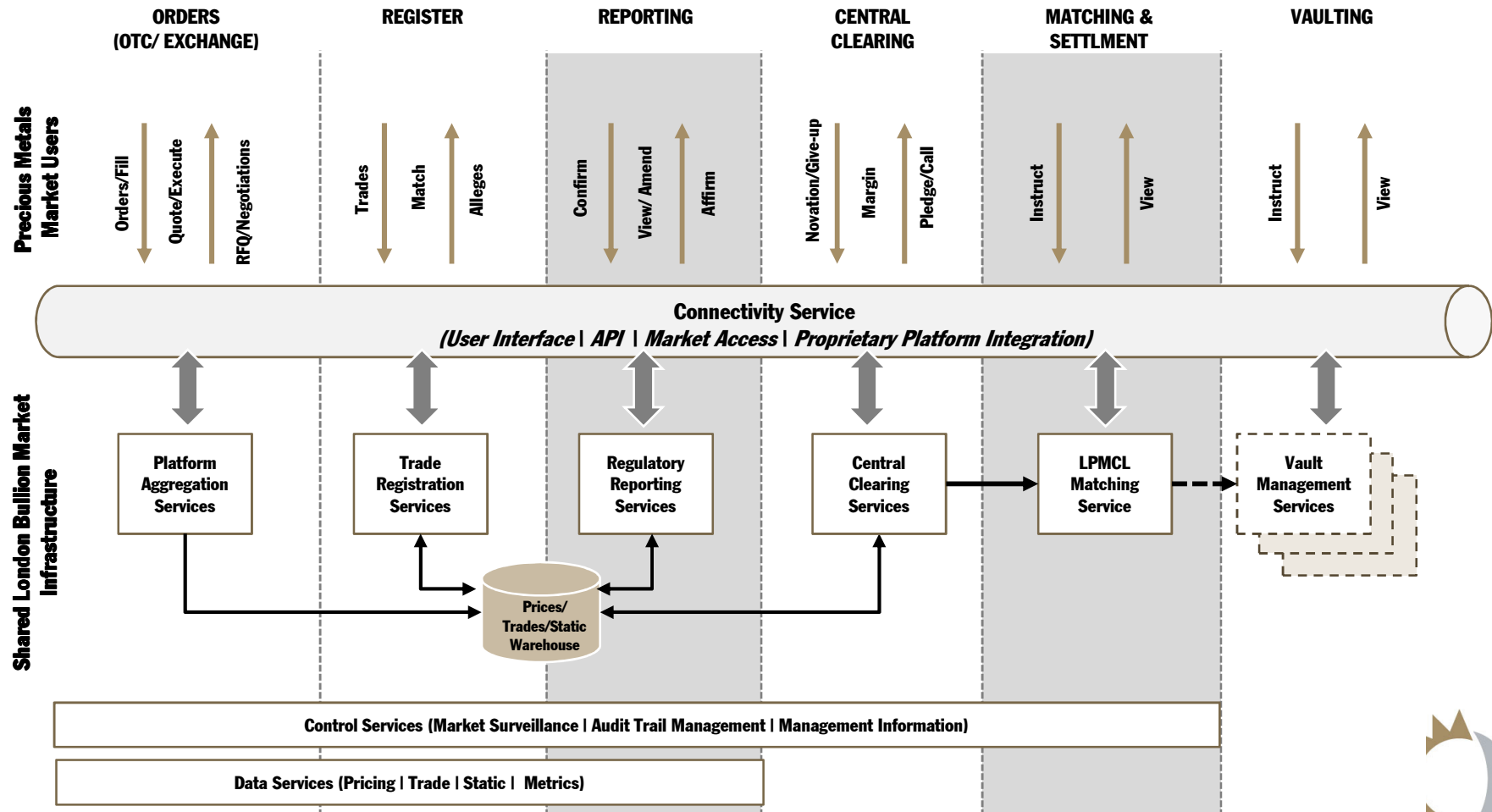
New Services for the Global Bullion Market

Develop the precious metals market landscape to meet the current and future needs by implementing new services, new corporate structure and new governance



TECHNOLOGY INFRASTRUCTURE

Integrate with bank platforms, not a substitute



SPECIFICATIONS FOR A 1KG 9999 GOLD BAR

Endorsed by the LBMA, SGE & ?

Weight: 1000g minimum

Dimensions: The kilobar should be rectangular.

The dimensions should fall within the following ranges:

Length: 80 – 120mm

Width: 40 – 60mm

Height: 7 – 14mm

Fineness: The minimum acceptable fineness is 999.9 parts per thousand fine gold.

Marks: Refiner's Stamp or Logo, Serial Number, Weight (1kg or 1000g), Fineness (to four significant figures)

Certificate of Analysis (COA):

A certificate of Analysis must accompany each kilobar on dispatch from the Refiner and must include the following information: Refiner's Stamp or Logo, Serial Number, Weight (1kg or 1000g), Fineness (to four significant figures) and Approved Signature.

Notes: Serial numbers must be unique and non-reusable.

Serial numbers must be referenced against inventory lists to provide traceability.

Specifications are for cast bars.

Comments welcomed by other 9999 kilobar markets.

SPECIFICATIONS FOR A 1KG 9950 GOLD BAR

DRAFT for Discussion & Possible Endorsement

Weight: 1000g minimum

Dimensions: The kilobar should be rectangular.

The dimensions should fall within the following ranges:

Length: 80 – 120mm

Width: 40 – 60mm

Height: 7 – 14mm

Fineness: The minimum acceptable fineness is 995.0 parts per thousand fine gold.

Marks: Refiner's Stamp or Logo, Serial Number, Weight (1kg or 1000g), Fineness (to four significant figures)

Certificate of Analysis (COA):

A certificate of Analysis must accompany each kilobar on dispatch from the Refiner and must include the following information: Refiner's Stamp or Logo, Serial Number, Weight (1kg or 1000g), Fineness (to four significant figures) and Approved Signature.

Notes: Serial numbers must be unique and non-reusable.

Serial numbers must be referenced against inventory lists to provide traceability.

Specifications are for cast bars.

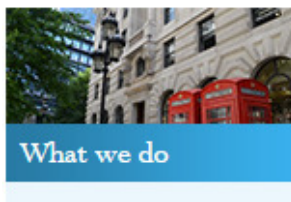
Comments welcomed by 9950 kilobar markets.

FURTHER INFORMATION AND READING



The first LBMA Gold Price sets at \$1,171.75. [Read more here.](#)

1 2 3 4



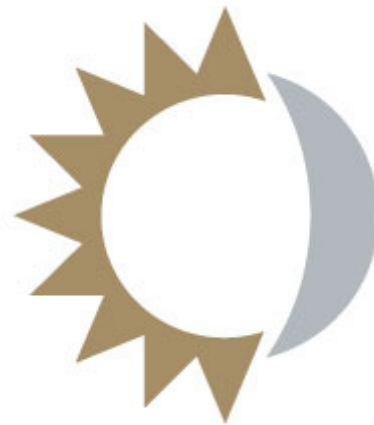
Latest LBMA News

The LBMA Gold Price was successfully launched on 20th March, 2015
For further details relating to the new LBMA Gold Price [read more here.](#)



Contact

ruth.crowell@lbma.org.uk



LBMA

[**www.lbma.org.uk**](http://www.lbma.org.uk)

METAL ACCOUNTS

Unallocated



- ▶ **Equivalent to a current account at a bank**
- ▶ **The metal is the bank's asset: the customer's holding is its liability**
- ▶ **Used by many investors**
- ▶ **Account maintenance fees are charged**

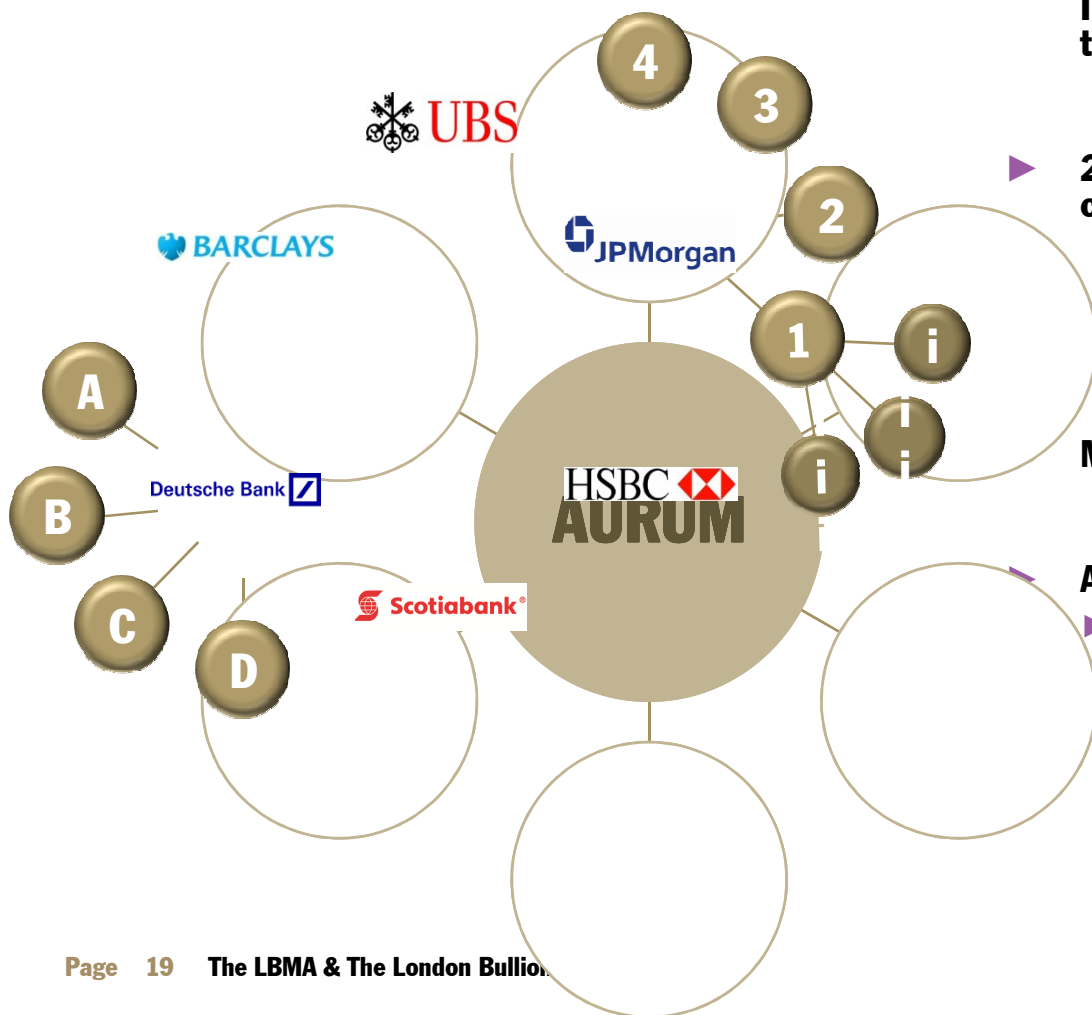
Allocated



- ▶ **Segregated bars are held in the name of individual depositors**
- ▶ **Storage fees are charged**
- ▶ **Used by ETFs and central banks**
- ▶ **More expensive to hold than unallocated**

CLEARING FACILITY...

London Precious Metals Clearing Ltd



► Originally an Automated Matching System via Intranet, developed in 1999 by the LBMA and the clearing members

► 2001-London Precious Metals Clearing Limited created

Automated Matching System-AuRUM

Multilateral agreements on clearing

Actions facilitated:-

- Right to call for physical delivery and allocation of metal
- Transfer of all or part of a credit balance to another member where the caller has a debit balance.



LBMA GOOD DELIVERY LIST

Technical Specifications



Assay

- ▶ 995-999.9

Size

- ▶ ~400 ± troy oz
Range of LxWxH & undercut

Marks

- ▶ Logo, number, year, assay
- ▶ Clear and durable

Physical Appearance

- ▶ Flat surfaces, no holes or cracks

GDL & GOLD VAULTING

LBMA & Market Intersect

- ▶ **Ten recognised Custodians (6 clearers, 3 shippers & BoE)**
- ▶ **Eight vaulting companies**
- ▶ **Security**
- ▶ **Handling (weighing, storing, packing, shipping)**
- ▶ **Quality monitoring (gate keeper role)**
- ▶ **Almost all gold is held in the form of Good Delivery bars**



MEMBERSHIP

Why it's Important

- ▶ **The VAT “Black Box”**
- ▶ **Aka the Terminal Markets Order**
- ▶ **Fundamental support for UK
Commodities markets**



LBMA RESPONSIBLE GOLD GUIDANCE

GDL Requirement since 2012



- ▶ **To ensure London Market is free from metal that had financed conflict or been used for money laundering or terrorist financing.**
- ▶ **Global, long term focus.**
- ▶ **OECD + KYC, AML + mandatory audits = LBMA Responsible Gold**
- ▶ **All feedstock (mined production, scrap, investment bars) subject to due diligence and audit.**
- ▶ **Risk-based: Higher risk = more due diligence is needed (and vice versa)**
- ▶ **All production (large bars, kilo bars, scrap etc.) therefore conflict-free.**
- ▶ **Focuses on conflict-free process, not conflict-free product.**

LBMA GOOD DELIVERY LIST

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PROACTIVE MONITORING

Why and how?



- ▶ **Previous monitoring by questionnaire**
- ▶ **LBMA's Duty of Care for GD List – the basic building block of the London market**
- ▶ **Also use of the List in many markets (e.g., New York, Tocom, Istanbul, India, Shanghai,)**
- ▶ **2001 - Complaint from a Mint about fineness of some refiners' 999.9 bars**
- ▶ **Stringency of testing over range of 995-999.9**

CASE FOR CHANGE

Regulatory landscape

The potential “shifts” in the regulatory landscape with EU And US proposals calling for increased transparency in the OTC derivatives markets will result in an increased need for internal and external operating effectiveness within the precious metals markets.

- ▶ Self regulatory regimes and voluntary compliance with recent frameworks may not be sufficient going forward and could lead to the introduction of new regulations and/or enhancement to existing regulations that will impact strategic planning within firms.
- ▶ The challenge for regulators and markets will be to formulate regulatory frameworks that will be reasonable but also provide the confidence required for a stable and mature environment that is not overly restrictive and provides the market participants with the flexibility to design new products and risk management frameworks.



FEMR Report produced three key takeaways for the Precious Metals market:

Executive Summary

#43 in markets where OTC trading remains the preferred model, authorities and market participants should continue to explore the scope for improving transparency, in ways that also enhance effectiveness.

Market-led improvements in post-trade transparency in commodities markets

#34 There may also be scope for market-led initiatives to increase post-trade transparency in certain liquid, standardised physical commodities markets. For example, .../... for some of the more liquid, standardised physical markets (such as gold bullion trading) ‘availability of post-trade reporting would provide an understanding of liquidity, help to dispel some concerns over information abuse, work towards levelling the playing field and allow for more reliable benchmarks to be constructed’.

Where was fairness and effectiveness deficient?

Conduct in a number of less heavily regulated OTC markets is covered by the principles-based guidance set out in voluntary market codes, such as the UK Non-Investment Products Code.

Additional areas of focus for LBMA and LPMCL:

- ▶ CRD IV and MiFID II/ MiFIR impact analysis.
- ▶ Global liaison with regulators, policy makers and market participants to formulate and help implement regulations.