



LBMA

Regulatory Developments in the Precious Metals Markets

IPMI Seminar

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SCOPE

London Market

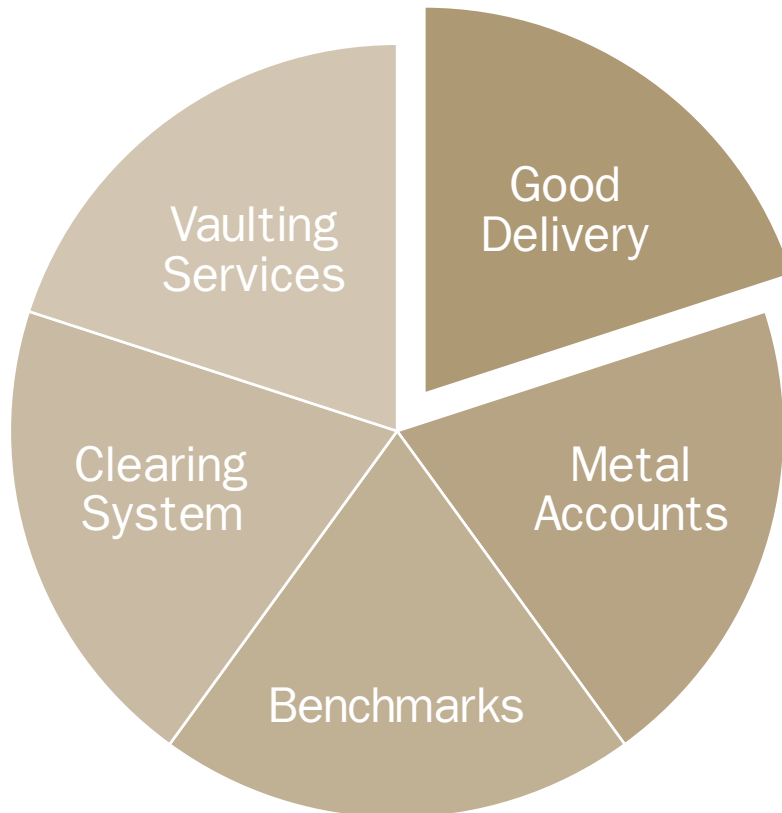
Role of the LBMA

Responsible Gold

Benchmarks

LONDON BULLION MARKET

Key Elements



- ▶ Focused on the Loco London Contract ...
...but with a global membership and client base
- ▶ Principal to Principal trading
 - ▶ Spot, Forwards and Options Trading
- ▶ Benchmarks (Spot & Forwards)
- ▶ Clearing system
- ▶ Vaulting

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

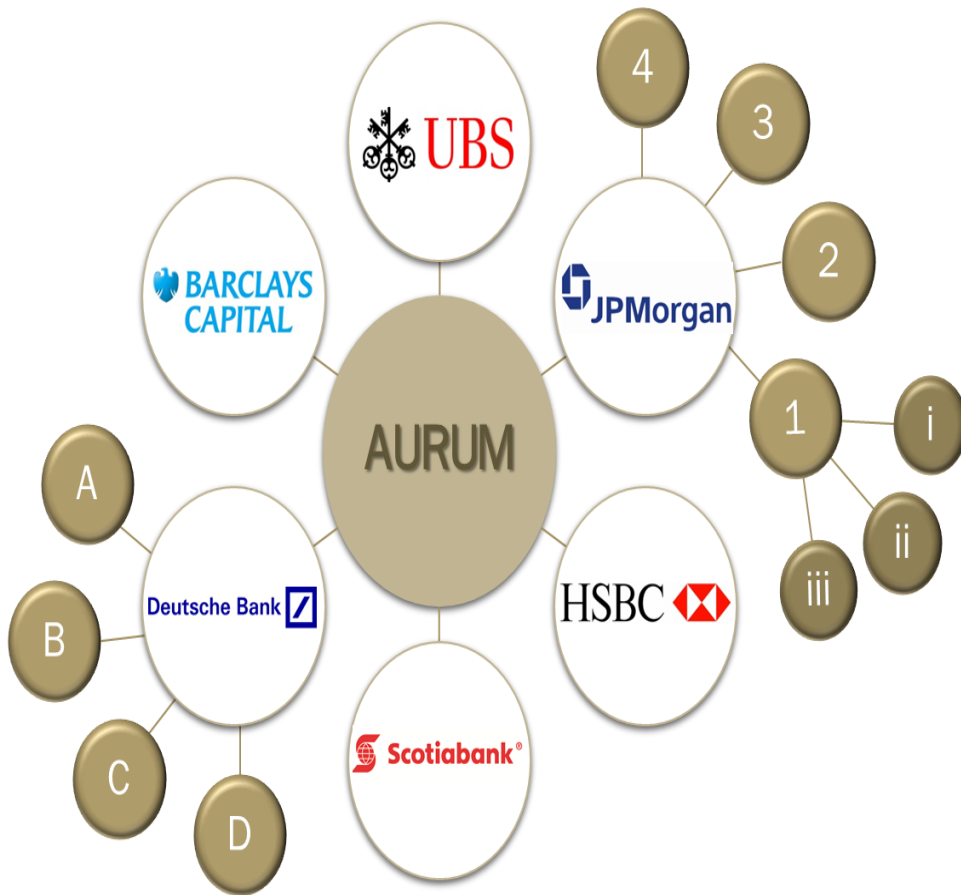
Allocated



- ▶ 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.

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



ROLE OF LBMA

Trade Association (not an exchange)

Maintaining & Enhancing the efficiency of the London Market for Gold and Silver Bullion

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

- ▶ Market Development
 - ▶ Regulatory Response
 - ▶ Conferences & Seminars
 - ▶ Statistics, Documentation & Information
 - ▶ Ad-hoc Projects (Silver Price, Responsible Gold, Certified Reference Materials etc.)

- ▶ Communication
 - ▶ Contacts with Regulators and government agencies
 - ▶ Principal OTC Market contact for media, investors & public



LBMA GOOD DELIVERY LIST

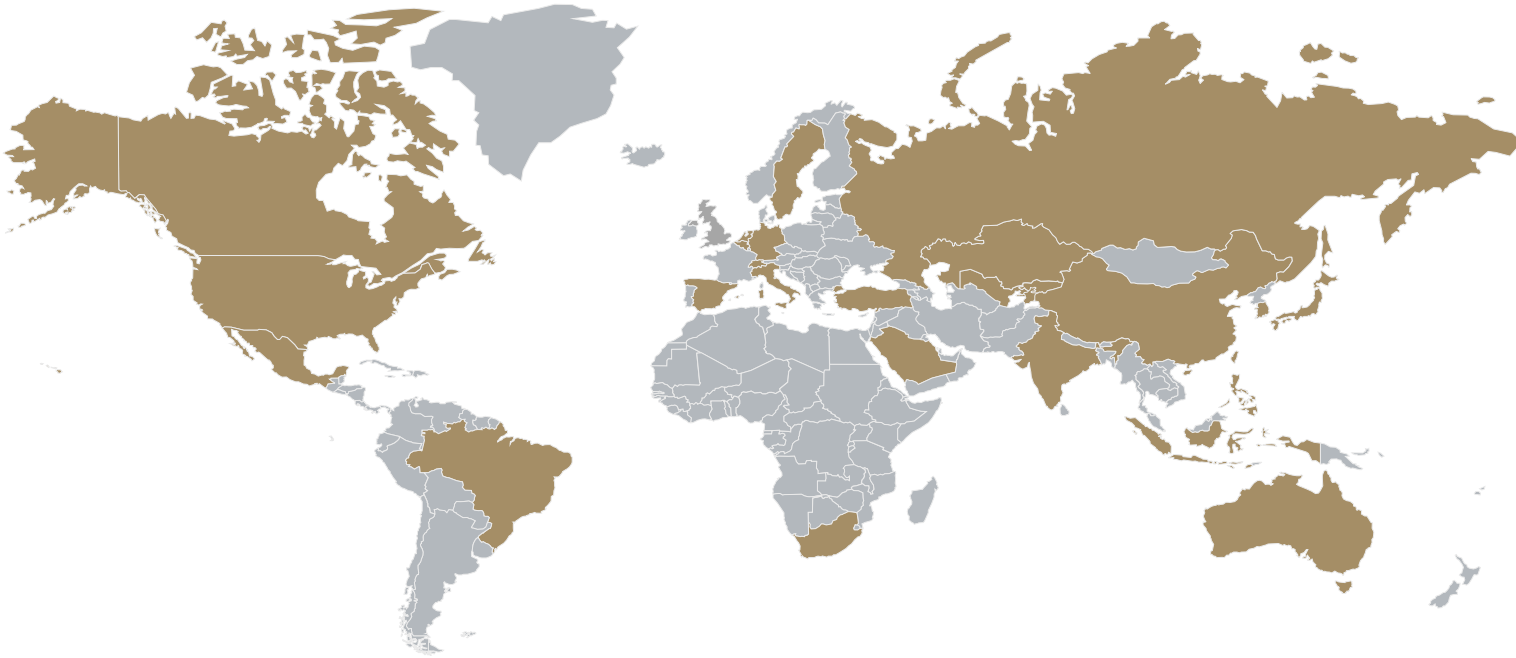
Includes the world's pre-eminent refiners of gold and silver located in 27 countries.

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

The List is widely recognized as the de facto 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.



GOOD GOLD DELIVERY REFINERS



- ▶ List of refiners whose large bars are accepted in London
- ▶ Origin: Bank of England in 1750
- ▶ First London Gold Market list published in 1934
- ▶ Large Bars: approx 400 troy oz
- ▶ To be acceptable as LGD, all bars delivered to London vaults must also meet the LBMA's technical specifications

Achieving Good Delivery Gold Accreditation

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

- ▶ Details of Owners and Directors
- ▶ In business for 5 years with an operating history of 3 years
- ▶ tangible net worth - £15 m
- ▶ Refined production – 10 tonnes pa

Technical Assessment – two parts:

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

Since 2012, Responsible Gold Guidance audit is required

LBMA RESPONSIBLE GOLD GUIDANCE

Purpose & Structure



- ▶ 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.



OECD GUIDANCE

Internationally recognised global framework

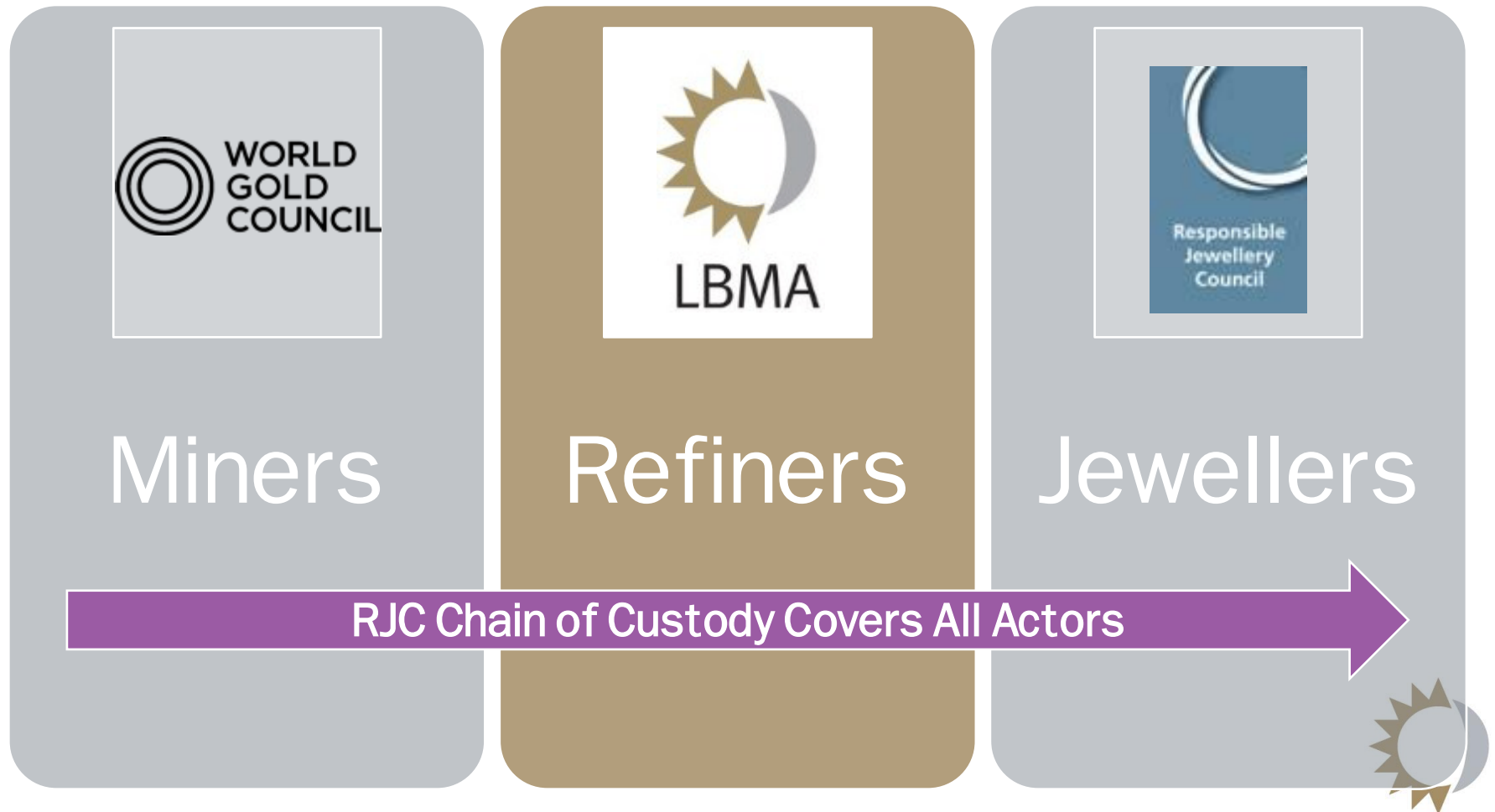


- ▶ Recognised by the **SEC Rules**.
- ▶ **Encourages** responsible engagement in worldwide conflict areas, including DRC.
- ▶ Provides internationally recognised framework for all actors to engage in conflict areas responsibly on a **global level**.
- ▶ The LBMA is currently Co-facilitator for the OECD Interim Governance Group.



GOLD INDUSTRY INITIATIVES

Support & Recognition throughout gold supply chain



NEXT STEPS

Refiner Support & Bullion Bank Implementation

- ▶ Best Practice Guides for Refiners:
 - ▶ Criteria/Indicators for determining High-Risk & Conflict-Affected Areas
 - ▶ Guidance on how best to conduct KYC for scrap
 - ▶ Templates
 - ▶ Other, as needed

- ▶ Regular webinars/seminars to address implementation challenges

- ▶ Developing KYC best practice guide for bullion banks in order to ensure they are compliant with the OECD, SEC due diligence rules.



EU CONFLICT MINERALS UPDATE

Draft Regulation – final expected 2015

Regulation on Responsible Sourcing of minerals from conflict-affected and high-risk areas (global focus)



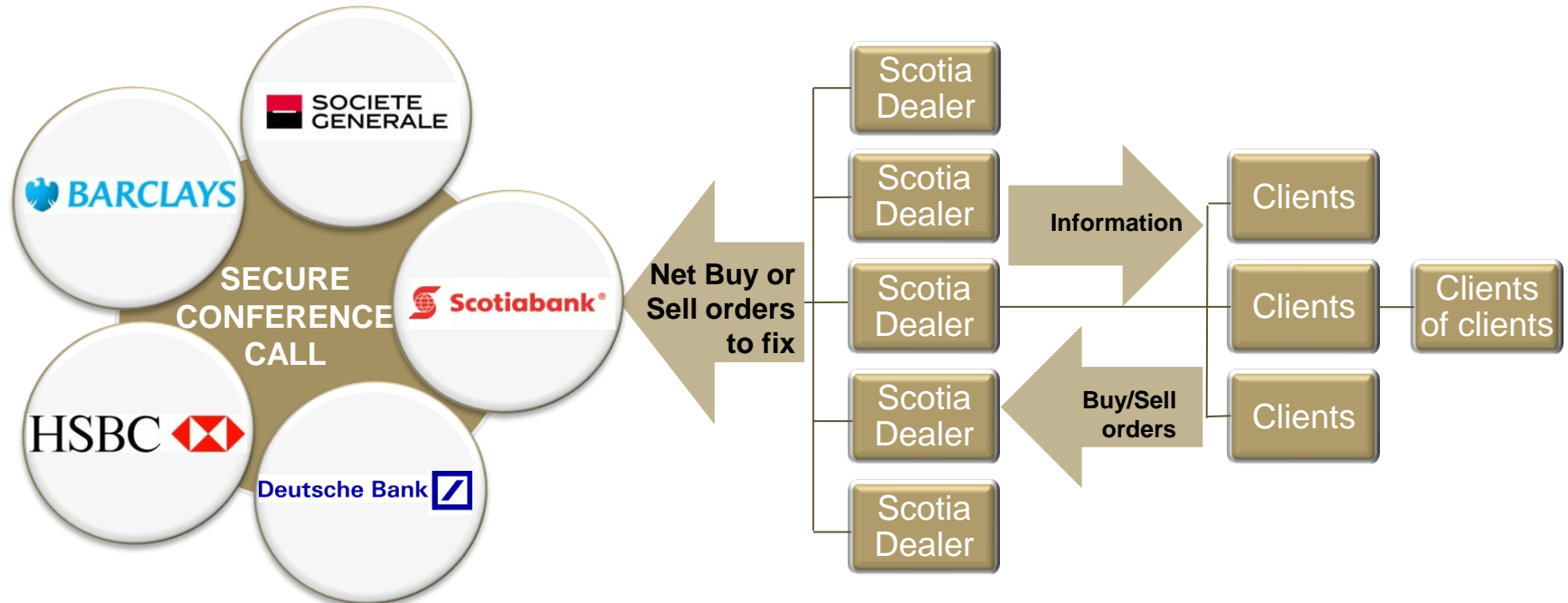
- ▶ Requirement for all importers of gold into the EU (including bullion & coins).
- ▶ All banks and other downstream participants to arrange an independent third party audit under the draft regulation
- ▶ EU plans to publish an EU Audit standard for all downstream audits in member states

Benchmarks



LONDON GOLD PRICE

London Gold Market Fixing Ltd



- ▶ RFP in process in order to outsource the platform & administration to independent third-party, following LBMA Silver Price
- ▶ Clients may place firm orders before the fix and/or clients may change buy or sell instructions during the fix
- ▶ For the price to fix, the net buy or sell orders of all five fixing members must balance within a tolerance of 50 bars
- ▶ All orders are settled at the fixing price
- ▶ Controlled by The London Gold Market Fixing Ltd

LBMA Silver Price and the LBMA Gold Price

Silver Price platform & administration out-sourced to CME and Thompson Reuters

Gold Price platform & administration to be out-sourced to Ice Benchmark Administration

▶ Administrator

- ▶ Implement an electronic system for conducting a tradable auction process
- ▶ Governance, systems and controls
- ▶ Monitoring and surveillance
- ▶ Transparency
- ▶ Audit trail, record keeping

▶ Platform

- ▶ Develop and operate a tradable auction process
- ▶ Calculation agent



LBMA SILVER PRICE

Operated by CME Group & Thomson Reuters

The screenshot displays the LBMA Silver Price terminal interface. The main window shows a table of auction rounds with columns for Buy Vol, Price, Sell Vol, St Time, End Time, and Date. Below this, a summary table provides key price and volume information for 15AUG14.

Buy Vol	Price	Sell Vol	St Time	End Time	Date
LBMA SilverPrc	19.860			12:02:00	15AUG14
AUCTION ROUND1	0	19.930	12:00:00	12:00:30	15AUG14
AUCTION ROUND2	0	19.900	12:00:30	12:01:00	15AUG14
AUCTION ROUND3	2.25	19.880	12:01:00	12:01:30	15AUG14
AUCTION ROUND4	3.25	19.860	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

Summary table details: Price: 19.860, Volume: 15AUG14, Set Time: 12:02:00. Additional fields include Hst. Cls. Dat, Hst. Close, %Net. C, and Net. Chng.

- ▶ Daily Spot Price for London Market
- ▶ CME Group provides the electronic auction platform on which the price is calculated.
- ▶ Thomson Reuters is responsible for administration and governance.
- ▶ The LBMA accredits price participants and owns the intellectual property rights.
- ▶ Currently RFP underway for Gold Price



The Process during Silver and Gold

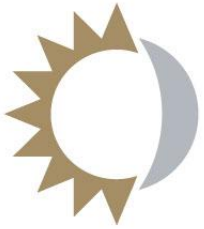
Market Consultation

- ▶ Market Survey
- ▶ Demand for daily silver and gold price for Loco London market
- ▶ Demand for a Price Mechanism which was as robust as the current, with some improvements
 - ▶ Further transparency
 - ▶ Increased direct participation
- ▶ Cumulated in Request for Proposal process including short listed solution providers.
- ▶ Seminar – attended by the market
- ▶ Second market survey (Gold – enhanced market survey)
- ▶ Market Consensus

LBMA Silver Price Go-Live → 15 August 2014

LBMA Gold Price Go-Live → February 2015





LBMA

BENCHMARK REGULATION

- ▶ UK regulation on Benchmark
 - ▶ 7 new benchmarks
 - ▶ Includes LBMA Silver Price and Gold Fix
 - ▶ Discussions with HM Treasury and FCA to make sure this will be a tailored regime

- ▶ EU regulation on Benchmark
 - ▶ Potential to include everything
 - ▶ Speak to local regulators to influence a tailored approach

FURTHER INFORMATION AND READING



- ▶ Website – www.lbma.org.uk
- ▶ The *Alchemist* – the LBMA's quarterly journal
- ▶ Guide to the London Precious Metals Markets
 - ▶ Covers Gold and Silver plus Platinum and Palladium
 - ▶ Designed as a practical user's guide
- ▶ The London Good Delivery Gold List, 1750-2010
- ▶ sakhila.mirza@lbma.org.uk