

Editorial - One Year On. Looking Back, Looking Forward

By Dr Paul Fisher, Chairman of the LBMA

Since I became Chairman a year ago as the first independent chair of the new LBMA Board, the new Board structure seems to have bedded in well, and extensive changes have also been made to improve governance throughout the organisation, including the creation of an Executive Committee, with formal terms of reference.

The Executive Committee, comprising the senior LBMA staff and chaired by the Chief Executive, has responsibility to conduct and review the day-to-day running of the LBMA, leaving the Board to focus on the big strategic issues. I strongly believe that such improvements to governance have been essential for the LBMA to continue to promote its core values of trust, integrity and leadership on behalf of the market.

Over the past year, the spotlight has focused closely on regulatory-related issues and transparency. Most importantly, perhaps, the first ever new Precious Metals Code was issued in May this year. It is deliberately modelled closely on the FX Code produced by the G20 central banks, but considerable work had to be done to match it to the precious metals market. LBMA members will have until June 2018 to implement and attest adherence to the Code. There will be further chances to develop it over time, so we would welcome your continuing feedback.

Additionally, and also in line with the recommendations of the Fair & Effective Markets Review, the LBMA has been focused on enhancing transparency of the market. The Loco London physical holdings information for gold and silver has now been published and the data, along with a detailed commentary, can be found on page 3. Our thanks are extended to the Bank of England and all the commercial vaults for their support. Transparency in this area is something I have been interested in personally for many years and I hope it will help to counter at least some of the more outrageous conspiracy theories.

The next step is to introduce trade reporting for all four metals, through a hub called the LBMA-i. Market Makers are expected to start reporting in the coming months, followed by other members later in 2017. After a period of quality checking, it is expected that the first data will be published in early 2018. I would like to thank all members who have been engaging with that project. The Board is unanimous that trade reporting should be a condition of LBMA membership.

One of the most significant areas of work that the Association has been involved in has been lobbying efforts in response to Basel III's proposed provisions on the Net Stable Funding

Ratio (NSFR) requirements. In December 2015, the European Banking Authority (EBA) published its final report on NSFR, which included a specific section in relation to gold, highlighting concerns about the impact of a higher Required Stable Funding (RSF) for gold. The EBA recommended the introduction of the NSFR in the EU to ensure an appropriate stable funding structure in relation to the degree of asset illiquidity. The LBMA has instructed Norton Rose Fulbright LLP (NRFLLP) to lead the LBMA lobbying effort in Europe. Together, the LBMA and NRFLLP have met with a number of the LBMA members, drafted a position paper to send to key stakeholders, which summarises the impact that NSFR would have on the market and also makes several proposals to address the issues. NSFR provisions are expected to become applicable two years after adoption, which is expected to be in Q3 2020.

The position paper outlined how the proposed higher haircut would have a substantial detrimental impact on the wholesale precious metals market both in terms of the higher cost and resulting reduced liquidity in the market. The main thrust of the proposal from the Board is that the authorities consider carving out short-term lending in the wholesale precious metals markets as well as adopting the LPMCL model, to help mitigate the potential for these unintended consequences.

The last 12 months have been significant in terms of financial regulatory developments, with industry participants compelled to invest more time and resources to navigate the ever-changing regulatory landscape. Lawyers at Reed Smith have been invaluable in providing up-to-date information and guidance on the new regulation. This includes EMIR, MiFID II, Benchmark Regulations and REACH. This list is non-exhaustive, but certainly demonstrates the challenges and in-depth discussions faced at the Committee meetings.

It has been five years since the Association launched its Responsible Gold Guidance (RGG). Both the refiners and auditors have worked hard during this time to understand the demands and expectations of the market and to ensure its successful implementation. As stated in the RGG, all refiners have three months from the end of their financial year to submit an independent audit report to the Association. This year has seen the Association team take a more active stance with refiners and auditors alike to reflect the maturity of the programme and the need to demonstrate the strict governance and control framework that the Association and industry has worked hard to implement. Along with more stringent controls, the Association requires all LBMA GDL refiners to complete

a LBMA audit. A consultation on responsible silver has been completed, with the guidance due to be finalised for implementation in 2018.

The LBMA has also been part of an industry effort to get the EU to formally recognise industry schemes in lieu of introducing regulatory changes. This led to the pilot Alignment Assessment, which was conducted by the OECD in Q1 2017. It is intended that the Assessment will help to establish how responsible sourcing programmes compare with the OECD Due Diligence Guidance in terms of their standards and implementation. This will be used as a mechanism for recognising industry schemes under the new EU Conflict Minerals Legislation, due to come into effect from January 2021. The LBMA is now working on further enhancements based on the recommendations provided in the Assessment.

We have also recently announced that ICE IBA has been chosen to manage the auction for the LBMA Silver Price. It is important that the new platform is seamlessly transitioned with minimal disruption to the market. I am confident that this will be achieved, given IBA's track record of successfully managing the LBMA gold price auction and other important benchmarks. However, the issue of price discovery and reference rates is unlikely to disappear from our agenda. I am sure that the Board will continue to monitor and take advice on future developments in this area.

I have thoroughly enjoyed my first year as LBMA chair. There is a lot more for us all to do, and I hope we can get to a position where the precious metals market is no longer on the defensive, but can stand as an exemplar of best practice for fair and efficient markets. The workload has been both considerable and challenging, and the LBMA Executive, supported by the Board and the other Committees, has shown great leadership and commitment to making our association the global voice for precious metals. So although it is good to review past achievements, we cannot rest on our laurels and must continue to look forward to what we need to deliver in the future.



Dr Paul Fisher, Chairman of the LBMA and formerly of the Bank of England where he spent 26 years in a variety of senior roles most notably as a member of the MPC, the interim Financial Committee and the PRA Board and as Head of Foreign Exchange.