The LBMA - Expanding Horizons

Editorial Comment by Stewart Murray, Chief Executive, LBMA

Just over ten years ago, the LBMA Management Committee decided that it was time to expand the Association's horizons and look beyond the shores of the UK for its future development. So a decade later, how has that decision affected the growth, membership and activities of the LBMA?

During the first decade of its existence, membership had been confined to UK companies, albeit that many of them were the UK branches of banks and trading houses whose head offices were located in North America, Asia or elsewhere in Europe. The most fundamental aspect of the changes introduced in 1999 was the decision to allow companies located outside the UK to join the LBMA as Associates, at the same time allowing companies whose activities were relevant to the London gold and silver markets to join. This is in contrast to the basic requirement for Membership (that a company must be actively involved in the UK branches of banks and trading companies, albeit that many of them were the UK branches of banks and trading houses whose head offices were located in North America, Asia or elsewhere in Europe. The most fundamental aspect of the changes introduced in 1999 was the decision to allow companies located outside the UK to join the LBMA as Associates, at the same time allowing companies whose activities were relevant to the London gold and silver markets to join. This is in contrast to the basic requirement for Membership (that a company must be actively involved in the loco-London market). Ten years on the result is that the number of Associates is greater than that of the ordinary Members and that the membership now encompasses 20 countries. Total membership now stands at 120 companies.

Another innovation in 1999 which affected me personally was the decision to appoint a full-time Chief Executive who would ex-officio be a member of the Management Committee. That was how I came to present myself for duty in the LBMA’s tiny office in Frederick’s Place on 1st October 1999.

Looking back at the development of the Association over the next ten years, it seems to me that it has grown from a boisterous teenager, full of energy, into a reasonably mature adult with lots of experience (both good and bad) gained along the way. The workload has increased enormously. Our office space is comfortable without being showy while our systems and methods have improved immeasurably. Although our staff numbers have in effect doubled since 1999, I still find it almost embarrassing to admit to visiting delegations how few we are.

The biggest challenge in 1999 was undoubtedly to organise the LBMA’s first conference which, it had been announced shortly before my arrival, would take place in Dubai in February 2000. We were in effect taking on the Financial Times whose Conference Division had been running an immensely successful gold conference for the previous twenty years. And the nearest we had to conference organising experience was the Great Hedging Debate – staged in Johannesburg – in 1997. But we had some real advantages: an enthusiastic Public Affairs Committee (which justified our slogan - "The Conference for the Industry, by the Industry") and a wonderful conference organiser (Maggie Nash, fresh from the events department at JP Morgan). If that first conference had not been a success, it is quite possible that there wouldn’t have been a second. But it was and we are now eagerly anticipating our tenth in Edinburgh next month. With one exception, every conference has more than covered the external costs of holding the events and thus offset the considerable office overheads attributable to them.

Another area which has seen huge change over the past decade is our stewardship of the Good Delivery List. In 1999, the involvement of the Executive in the processing of applications for Good Delivery accreditation was minimal. There were only two referees, both UK companies, who bore the brunt of testing of applicants, both in relation to the assay test and the testing of sample bars and who therefore knew the identities of the applicants. The logistics of the application process were managed by the “Vaults”, in other words the members of the Physical Committee, who took it in turn to process the applications through the stages of the technical assessment. Today by contrast, we have five referees (located in Japan, South Africa and Switzerland) who carry out their work on a double blind basis (ie, the referee is not aware of who is being tested and the applicant does not know which referee is testing its bars). The management of the process is now completely in the hands of the Executive. And finally proactive monitoring of Good Delivery refiners was introduced in 2004 (involving the regular re-testing of all refiners, including referees, on a three year cycle).

Although not actually part of the Good Delivery system, another activity in recent years has proved very popular with the refiners: the Biennial Assaying and Refining Seminar, first held in June, 2005. A by-product of these meetings was the Reference Materials Project which regular readers of the Alchemist have seen building up to its successful conclusion over the past two years. The success, both technical and financial of the project owes much to the commitment of the project Steering Committee and the expertise of the two manufacturers, Tanaka and Krastsvetmet.

The most recent development and one which is at a very early stage is the idea of commercialising the data on precious metals generated within the market. The genesis of this idea was the need for providers of cleared forwards to have a reliable forward curve, representing actual market conditions at the end of each trading day for the calculation of variation margins.

It is by no means clear where the concept of data commercialisation will lead. Together with some of the projects mentioned above, it does appear that the LBMA is becoming more of a business than the simple trade association of a decade ago. But it seems to me that regardless of the business model, one thing will remain true. The LBMA’s main object will be to work for the good of the companies which together constitute the London bullion market and their customers around the globe.