

THREE YEARS ON - THE LBMA GOLD AND SILVER PRICE AUCTIONS TODAY

BY MATTHEW GLENVILLE, CHIEF OPERATING OFFICER OF IBA

In 2014 ICE Benchmark Administration (IBA), an independent subsidiary of Intercontinental Exchange, was set up with the aim of bringing transparency and reliability to global benchmarks which are essential to the functioning of markets and the business communities they support.

As we approach the third anniversary of IBA's administration of the LBMA Gold Price, Matthew provides an update on the changes to the auctions so far.

Since IBA took over as administrator, participation in the LBMA Gold Price auction has increased from 4 to 12 participants and for silver, which IBA only began administering in October 2017, from 7 to 10. Such strong and growing involvement demonstrates the market's confidence in the processes which IBA has developed.

The Direct Participants in the daily auctions comprise a mix of banks, as well as other financial and non-financial entities, and represent the diverse interests of the market. CNT Inc, based in Massachusetts, has just become a Direct Participant in the silver benchmark. The inclusion of this US based precious metal wholesaler clearly demonstrates the breadth of interest from companies across the globe.

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INCREASING TRANSPARENCY AND BUILDING CONFIDENCE IN THE AUCTIONS

The increased confidence and participation in the benchmark setting process is the result of a number of factors, including IBA's extensive investment in its electronic auction platform and its independent governance structure.

Last year, IBA established the Precious Metals Oversight Committee which oversees the rules and methodologies surrounding the determination of both benchmarks, considers conflicts of interest and how they should be managed, and contributes to their ongoing evolution. The committee has an independent Chair with its members representing different segments of the industry and thus brings important product and market expertise to the governance process.

Both benchmarks are electronically traded using ICE's platform which allows participants to place, change or withdraw orders at any time during the auction. The platform has been designed to help mitigate perceived conflicts of interest by allowing client and house orders to be segregated by inputting orders via separate screens and log-ins. It provides a complete electronic audit trail of trading and auction activity for compliance teams.

The electronic auction process is now more transparent with clear information around how the price is determined and also how the process works. All of the information such as price and volumes that participants can see is available to the rest of the market in real time throughout the auction. This information is also available immediately after the price setting through professional redistributors and becomes freely available after a delay (please see LBMA News on page 29 for forthcoming changes to this policy). This ensures that all can see the auction volumes, the process involved and how the final price is established.

IBA's dedicated surveillance team is supported by bespoke technology that performs thousands of calculations a day to actively monitor trading activity throughout the auction.

Central clearing is now a feature of both auctions. The take up of this offering has been substantial with approximately 70% of the traded volume in the gold auction and about 80% of the traded volume in the silver auction being centrally cleared.

The silver auction has seen an even more dramatic increase in the number of participants placing orders in the final round from around 0-20% to

60-90%

This has removed the potential for credit lines to be a barrier to entry for qualifying direct participants and so enabled a broader breadth of participation than simply banks.

While central clearing has contributed to a significant increase in participation and liquidity in the auctions, it is of utmost importance that the integrity of the benchmarks is preserved.

IBA has defined criteria and procedures which are used to vet new participants. Direct Participants are required to be LBMA Members or Associates, and the LBMA conducts its own KYC and due diligence checks. IBA conducts its own stringent KYC checks and onboarding procedure, during which potential participants must demonstrate that they have the appropriate financial standing, experience and compliance infrastructure.

These developments have improved the benchmark setting process which is demonstrated by the increases in trading activity and the way in which participants react to price movements during the auction.

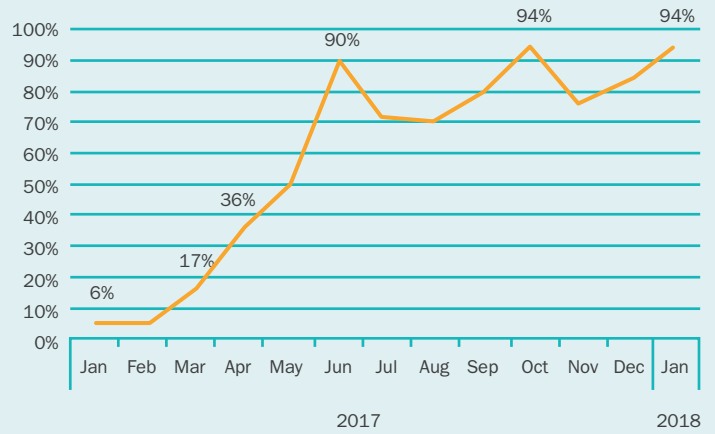
INCREASED TRADING FLEXIBILITY AND VOLUMES

IBA defines trading flexibility as the percentage of auctions with a higher number of participants placing orders in the last round than in the first round (see charts).

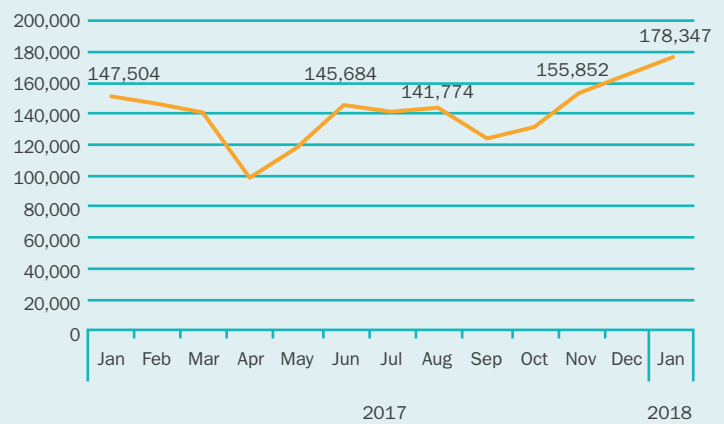
In the gold auction, before the introduction of central clearing, only 10- 30% of auctions had more participants placing orders in the final round. However, this has now increased significantly with this band now in the region of 70-95%. The silver auction has seen an even more dramatic increase in the number of participants placing orders in the final round from around 0-20% to 60-90%.

Trading flexibility results in healthy auction activity and means that the benchmarks perform well. The process is seeing consistently high participation and the number of auctions with large volumes has been increasing. IBA defines large volumes as where the total volume exceeds 200,000 ounces for gold and 3.3 million ounces for silver. A positive outcome of this has been the increased confidence exhibited by certain silver producers who have returned to the auction process.

GOLD TRADING FLEXIBILITY

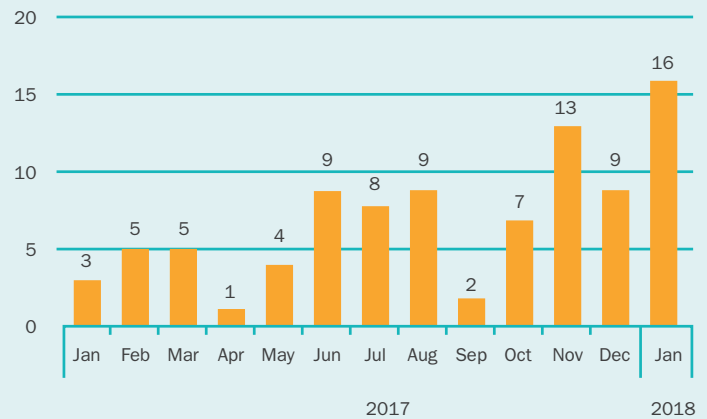


GOLD VOLUMES (MONTHLY AVERAGE) – OUNCES

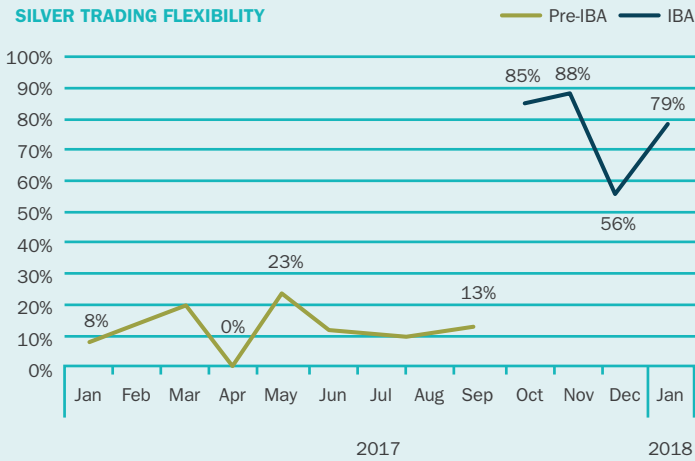


GOLD LARGE AUCTIONS

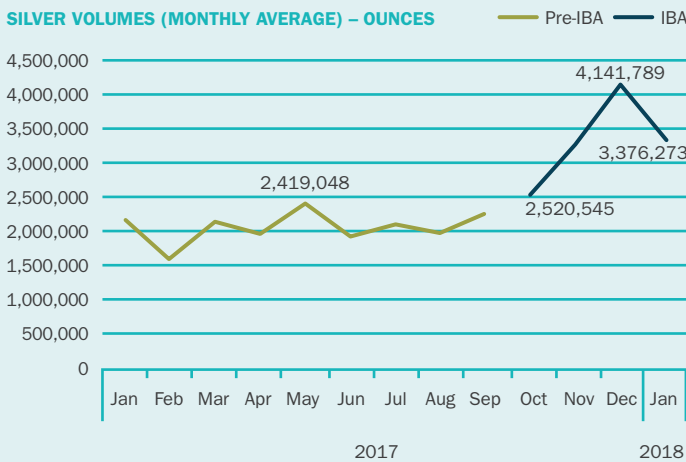
Number of auctions with a total volume exceeding 200,000 ounces



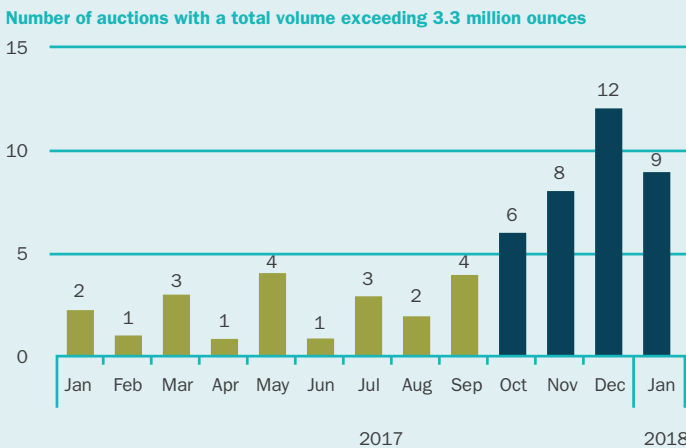
SILVER TRADING FLEXIBILITY



SILVER VOLUMES (MONTHLY AVERAGE) – OUNCES



SILVER LARGE AUCTIONS



LOOKING AHEAD

Today, the LBMA Gold and LBMA Silver Prices are reformed, electronic, transparent benchmarks, representing a diverse set of industry participants. In 2018, we will be focused on increasing participation even further.

Key to this is IBA's Indirect Participant category. While many firms can contribute to the auction not all firms, for example miners and refiners, can absorb the imbalance (the difference between the final buying and selling volume). For such firms, IBA offers indirect participation, which provides them with the ability to input their own orders but does not impact the ultimate volume that they need to transact. They can also manage their own orders on the ICE trading platform during the auction while still being able to trade with their own direct participant at the end of the process.

Indirect Participants are required to sign the same legal documentation as Direct Participants, although the latter cannot view their activity thus helping to mitigate both operational and conduct risk.

If you would like to learn more about the Indirect Participant model, talk to us about becoming a Direct Participant or if you have other questions, please contact the IBA team at IBA@theice.com.

For more information visit: www.theice.com/iba/lbma-gold-silver-price



Matthew Glenville is the COO of ICE Benchmark Administration (IBA), a global administrator for regulated benchmarks.

IBA administers the LBMA Gold Price and LBMA Silver Price. The intellectual property rights are held by the LBMA.

IBA, a subsidiary of Intercontinental Exchange, Inc., also administers the following four systemically important benchmarks: ICE LIBOR, the LBMA Gold Price, the LBMA Silver Price and ICE Swap Rate and also operates the ISDA SIMM Crowdsourcing Facility.

