RAISING THE BENCHMARK

LBMA & the London Bullion Market

Ruth Crowell, Chief Executive

15th June 2015
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
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
LBMA GOOD DELIVERY LIST

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

Annual production of 67 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.
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.
EU CONFLICT MINERALS UPDATE

Draft Regulation –

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
LBMA PRECIOUS METAL PRICES

Moving from Historic to New Prices

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
LBMA SILVER PRICE

Administered by Thomson Reuters, CME Group Calculation Platform

- 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.
- Open to New Participants
ICE Benchmark Administration (IBA) acts as calculation agent & independent administrator

LBMA owns the intellectual property and Ordinary Membership is a prerequisite for participation


Open to New Participants
## LBMA PRECIOUS METAL PRICES

### Overview

- All electronic auction based, different administrators
- New LBMA subsidiary company “Precious Metals Prices Ltd.”

<table>
<thead>
<tr>
<th>Metal</th>
<th>Platform</th>
<th>Compliance</th>
<th>Participants</th>
<th>Go - Live</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold</td>
<td>ICE Benchmark Administration</td>
<td></td>
<td>7</td>
<td>20 March 2015</td>
</tr>
<tr>
<td>Silver</td>
<td>CME</td>
<td>Thomson Reuters</td>
<td>6</td>
<td>15 August 2014</td>
</tr>
<tr>
<td>Pt &amp; PD</td>
<td>LME</td>
<td></td>
<td>4</td>
<td>1 December 2014</td>
</tr>
</tbody>
</table>
MARKET IN TRANSITION
Responding to the Changing Landscape - EY Study

FEMR Objectives:
- Transparency
- Openness
- Equality of opportunity
- Safeguards
- Effectiveness

Competition
- Global Centres (China, India, Singapore)

Potential Services for Market Enhancement

Information Services
- Transactions reporting and matching
- Pricing and benchmarking
- Authorisation services (GDL, Membership, Vaulting)

Clearing Services
- Spot clearing or unallocated settlement
- Derivatives clearing

Platforms
- OTC trading platform
- Exchange services
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.
LBMA 2015 EVENTS

Conferences & Forums

► LBMA Bullion Market Forum
Shanghai, 25 June
► In partnership with the Shanghai Gold Exchange, the focus is on issues relating to the local bullion market
► Registration is open. Please visit the LBMA website

► LBMA/LPPM Precious Metals Conference
Vienna, Austria, 18 – 20 October
► The speaker programme includes keynote addresses from Lord Gus O’Donnell, Strategic Advisor – The Toronto-Dominion Bank Group and John Authers, Senior Investment Columnist, Financial Times
► Registration will launch in June
The first LBMA Gold Price sets at $1,171.75. Read more here.
Contact

ruth.crowell@lbma.org.uk

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.
GOOD DELIVERY GOLD

In London Vaults

1 bar weighs ~12.5 kg
1 bar has a value of
~US$0.48 million

There are ~500,000 bars in the London vaults, worth a total of
~US$237 billion
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