

# LBMA News

By Ruth Crowell, Chief Executive, LBMA

## MEMBERSHIP

Citibank was reclassified as a spot Market Maker on 25 September and Morgan Stanley was reclassified as a spot and options Market Maker on 16 October. This brings the total number of LBMA Market Makers to 13. The full list of Market Makers on the LBMA website shows the products (spot, forwards and options) provided by each company.

On 7 October, China Construction Banking Corporation was admitted as an Ordinary Member.

These changes brought the membership to 146 companies, comprising 77 Members (of which 13 are Market Makers) and 69 are Associates.

## GOOD DELIVERY LIST

On 21 November 2014, the silver refinery of Umicore Precious Metals (Thailand) Ltd was admitted to the Silver List. This increased the number of countries represented on the Good Delivery List to 28.

There are now currently 73 refiners on the Gold Good Delivery List and 80 refiners on the Silver Good Delivery List.

## COMMITTEES

### Management Committee

The Committee worked with the Executive, the Regulatory Affairs Committee and the Market Makers group on implementing a number of important changes relating to the precious metals benchmark prices. The Committee approved the set-up of a 100% fully owned subsidiary of the LBMA to own the intellectual property (IP) rights in the new benchmark prices, Precious Metals Prices Limited (PMPL). PMPL was incorporated on 28 November 2014 and is run by the LBMA Executive, independent of the LBMA Management Committee. This has also required the LBMA to formally expand its scope into all four precious metals. More detail on the work done can be found in Regulatory Affairs Committee below.

The Committee is also focusing on the long-term strategy and structure

of the Association. This is in view of the fact that the market needs more support given the changing regulatory and infrastructure landscape. While its role as a hybrid trade association and market body has evolved organically over time, there is a need to proactively ensure it is equipped to adequately support the market on a long-term basis. The LBMA's role in providing market infrastructure has recently increased from the Good Delivery accreditation to encompass benchmarks. Going forward, it will have broader scope of work to contend with as regulation increases. These regulations include US Dodd-Frank, MIFID and MIFIR, as well as the potential regulation resulting from the Fair Effective Markets Review (FEMR). FEMR focuses not only on benchmarks, but on the entire structure and conduct of the London precious metals market.

The Committee needs to position the LBMA in a way that allows the Association to deal with the changes that may potentially affect the market. The Committee is therefore considering the structure, governance and organisation of the LBMA to ensure that it continues to meet the requirements of its members in an ever changing financial environment. This involves consultation with other market participants and organisations, as well as the regulators.

The Committee also reviewed the work of the Sub-Committees below. This included assisting the PAC in delivering yet another successful LBMA conference in Lima, Peru (see page 12 for details).

### Regulatory Affairs Committee

The main focus of the Committee in recent months has been co-ordinating with the Management Committee and the Market Makers about important changes to the administration of the gold, silver, platinum and palladium precious metals benchmark prices.

Following consultation with the market (which included holding two market surveys, a seminar and various meetings with market participants, solution providers and the regulator), the LBMA

announced on 7 November that ICE Benchmark Administration (IBA) had been selected to be the third-party administrator for the LBMA Gold Price. IBA is an independent specialist benchmark administrator and will provide the price platform and calculation methodology, as well as the overall administration and governance for the LBMA Gold Price. The LBMA will hold the intellectual property (IP) rights. The new LBMA Gold Price is scheduled to be introduced in Q1 2015.

Only 10 days before the 1 December launch, the LBMA agreed to take ownership of the historic and future intellectual property of the platinum and palladium prices. This was in response to a request from the London Platinum & Palladium Fixing Company Limited (LPPFCL) and after consultation with the Regulatory Affairs Committee and the Management Committee. This transfer of ownership took effect on 1 December, and the prices are now known as the LBMA Platinum Price and the LBMA Palladium Price. The London Metal Exchange (LME) provides the price platform, calculation methodology, administration and governance for both prices, with the intellectual property (IP) rights under the ownership of the LBMA.

As reported in the last edition of the *Alchemist*, the LBMA Silver Price was successfully implemented on 15 August, marking the end of the 117 years of the London Silver Fix. The platform and the calculation methodology for the LBMA Silver Price are provided by CME Group, whereas Thomson Reuters has ultimate responsibility for the administration and governance. The LBMA holds the IP rights to the LBMA Silver Price. There are now six price participants that have been accredited to contribute to the LBMA Silver Price, three more than contributed to the historic silver fix price.

Once the LBMA Gold Price is introduced in Q1 2015, the LBMA will own the intellectual property rights for all four metals. There have been concerns raised that the market has become fragmented with three different platforms covering the four precious metal

prices. However, it is worth noting that whilst there are three different platforms, they do share broadly the same features, namely, they are electronic, auditable, tradable and auction-based solutions. With these auctions come improved transparency, more direct participants and, most importantly, independent administrators. All market participants are encouraged to contact the administrators to find out more regarding becoming a direct participant.

The LBMA also announced in November that the Gold Forward Offered Rate (GOFO) dataset will be discontinued and will no longer be published by the LBMA after 30 January 2015. This was due to contributors to the dataset becoming less active in these markets and, after 30 January, there would be insufficient number of contributors to create a critical mass. Gold IRS market participants looking to wind down existing trades are encouraged to contact TriOptima's triReduce Team (Mattias.palm@trioptima.com).

As the tsunami of regulations continues to push forward, the Committee remains focused on understanding the impact that both European and US regulation will have on the Precious Metals Markets. For further information, please read the Regulation Update on page 26.

### Physical Committee

Since the last edition of the *Alchemist*, only one new refiner has been added to the Good Delivery List – in contrast to the record number of accreditations mentioned in *Alchemist* issue 75. The pace of work in this area has accordingly returned to a more normal level. However, there are still a number of active applications underway (including three for silver and two for gold), with several more at an advanced stage of preparation.

The Committee's views on vaulting issues are informed by discussions within the Vault Managers group, which meets each quarter to discuss a wide range of basic vaulting issues. The aim is to ensure consistency in the way that the

various vaults carry out operations such as inspections, weighing, assembly of bars on pallets and the formatting of the associated weight lists. The Committee has accepted in principle two recommendations from the Vault Managers. The first concerns year marks. Since 2008, refiners have been required to show a year mark on the bar, either as a separate 4-digit number or as the first 4 characters of the bar number (of up to 10 digits in total). The Vault Managers expressed a clear preference for the latter option, though it is recognised that, in some cases, this might not be practicable because of the 10-digit limit for bar numbers and they also indicated that, whenever possible, an indication of the year of production should be given in weight lists. This would avoid the danger of apparently duplicate bars appearing on published lists (i.e. when a refiner's bars produced in different years are given the same bar number). The next version of the Good Delivery Rules (to be published in January 2015) will clarify how these recommendations will be implemented, e.g. describing the degree to which they will be mandatory.

The Vault Managers' second recommendation was that all refiners (and other depositors) should submit their weight lists as Excel spreadsheets in addition to a non-alterable format. This requirement was incorporated into the new version of the Good Delivery Rules, which was published on the LBMA website in September. This contains a number of changes which refiners seeking accreditation need to be aware of when preparing their applications.

The other main topic discussed by the Vault Managers has been the Vault Operators Accreditation Scheme whose development continues steadily. It is no easy task to produce generic learning and testing material based on the different systems in use in the 12 vaults affiliated to the LBMA. Work on the first of seven modules is now well advanced and is expected to be complete by February 2015.

The technical work carried out by the Referees group in support of the Good Delivery System also falls within the purview of the Committee. At their most recent meetings, the Referees have focused on the arrangements for the Proficiency Testing Scheme which has recently been initiated and whose results will be published in late February 2015. As in the three previous exercises, the sample chosen is a gold alloy within the Good Delivery range – this time at the upper end. An important change is that labs that use ICP to measure the levels of impurities and calculate the fineness by difference are being asked to report on all the significant impurities detected. This will allow them to compare their analytical results with those of the other ICP labs (whose number has increased steadily in the three years that gold Proficiency Testing has been carried out by the LBMA. The Referees agreed to widen possible participation by permitting LBMA members, official assay offices and silver GD refiners to take part. It is gratifying that, partly as a result, the number of participants has increased sharply – by almost 50% – since last year's survey.

The report on the Proficiency Testing Scheme will be made available to participants in time for it to be discussed at the LBMA's forthcoming Assaying and Refining Conference, which will take place in London from 8-10 March 2015. See page 31 for details.

In response to a request from the Committee, the Referees have made good progress in developing proposed new acceptance criteria for Good Delivery applications and Proactive Monitoring. It is clear that the introduction of slightly tighter criteria is justifiable, in part because of the general increase in assaying accuracy on the part of GD refiners' labs. It is hoped that the new criteria will be agreed in time for publication in the GD Rules in the New Year.

#### **Public Affairs Committee**

The main focus for the PAC was finalising the arrangements for the conference in Lima on 9-11 November, as well as the

biennial dinner on 1 December. The hard work paid off, with both events proving to be a great success. Reviews of both events can be found on page 12 and page 14 respectively.

The Committee is now concentrating on plans for the 2015 LBMA/LPPM Conference in Vienna, Austria, which will be held at the Hilton Hotel on 18-20 October. A high-quality programme of speakers and topics is currently being developed and any suggestions for papers or topics should be sent to the Executive. The PAC is discussing ways to ensure that the quality of the event is not compromised by overcrowding, given that Vienna will be a popular venue for many market participants.

The Committee agreed that five charities should benefit from the LBMA's 2014 charitable fund, as outlined below:

- Childhope. Offers recreational and educational support for children exploited in Peru.
- Future Focus. Offers assistance in developing the skills of young people living in Hanwell, West London.
- WorldVision. Provides support to children suffering from the disorder in Syria.
- Action for Children. Supports the most neglected and disadvantaged children in the UK.
- Great Ormond Street Hospital. Offers specialist medical support to children.

#### **Finance Committee**

The recent focus of the Committee has been to develop the budget for the next three years and review current performance. The Committee reviewed the 2014 budgetary performance, noting the unexpected costs raised by the precious metals pricing work. The LBMA's proactive involvement has required additional legal and consultant costs which were not envisaged in the original budget as well as additional staff costs to deal with the Association's ever growing workload. The Committee has also been reviewing the budget from recent LBMA events including the conference in Peru and the biennial dinner as well as the budget for the Assay & Refining Conference in

March. Income has been supported by an ever growing number of membership and GDL applications.

#### **Committee Vacancies**

A vacancy has arisen on the PAC following the resignation of Tom Kendall, Credit Suisse. We would like to thank Tom for all his helpful advice and support during his time on the committee. The PAC is primarily responsible for organising events, most notably the LBMA Conference, as well as the marketing material and publications of the Association. Anyone interested in applying for the vacancy should send a brief statement of their market experience and suitability for the role to [aelred.connely@lbma.org.uk](mailto:aelred.connely@lbma.org.uk).

#### **LBMA Staff**

The LBMA is sorry to announce the departure of Collett Roberts, as the LBMA's Events Co-ordinator. Collett will be leaving at the end of January 2015 after more than six years of service. She has made an important contribution to the work of the Association and will be greatly missed. We wish her all the best for the future.

The Alchemist is published quarterly by the LBMA. If you would like to contribute an article to the Alchemist or if you require further information please contact  
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