

London Precious Metal Prices: Raising the Benchmark

By Sakhila Mirza, LBMA General Counsel



Ruth Crowell observes the first auction of the new LBMA Gold Price on 20 March 2015

A 10-month journey

Over the last 10 months, the London bullion market has been subject to sweeping changes with regards to administration and ownership of precious metal benchmark prices for gold, silver and the PGMs.

The three fixing companies who had historically administered these prices are now dissolved and responsibility for the prices has transferred into the hands of independent administrators. The LBMA has also seen its role evolve during the last 10 months and it now owns all four prices.

The journey really began at the beginning of May 2014, when the LBMA only had responsibility for the Gold Forward Offered Rate (GOFO), as well as for the gold and silver forward curves in a joint partnership arrangement with the London Metal Exchange (LME). But by March 2015, both data sets had been discontinued, but the LBMA was not left empty handed, and instead had gained ownership of the four precious metals spot benchmarks. Two, gold and silver, became regulated on 1 April by the Financial Conduct Authority (FCA), along with six other price benchmarks. It certainly has been quite a journey for both the market and the LBMA over the last 10 months. In that time the LBMA has had to:

- launch two RFPs (Requests For Proposals Processes), two market seminars, numerous market surveys, and independent analysis to help understand the best proposal for the silver and gold prices;
- establish a new subsidiary (Precious Metals Prices Limited) under the LBMA, in order to own the intellectual property for all four precious metals benchmarks;

- respond to benchmark consultations launched by the regulators, which included the benchmark consultation under the Fair Effective Markets Review and then the Financial Conduct Authority's (FCA) consultation on the benchmark rules; and
- finally, act as facilitator between the market and the administrators during the implementation processes for all four metals.

Oh, and let me make a quick reference to my (and all lawyers') favourite topic – drafting numerous legal agreements!

All this, against the backdrop of the 'business as usual' agenda.

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From Fixing Companies to Independent Administrators

The LBMA historically has had nothing to do with the administration of the four precious metals daily spot prices. The silver and gold prices, for 100 years (give or take), and the platinum and palladium prices, for about 25 years, have been set by the respective Fixing Companies, all of which have now been wound down. The administration and calculation of the prices have been handed over to independent administrators as follows:

- LBMA Silver Price – CME and Thompson Reuters
- LBMA Platinum and Palladium Price - LME
- LBMA Gold Price – Ice Benchmark Administration (IBA)

The intellectual property all resides with the LBMA, in order to minimise any future market disruption.

Market Requirements and What Changed?

The Silver Fixing Company announced in May 2014, that with Deutsche standing down as a Fixing Member, it could no longer continue in its present form and it made the decision to wind down with effect from 15 August. The LBMA stepped in to work with the market to find and implement a solution to ensure that London and the global market had a silver price mechanism. All in three months! With the clock ticking, the LBMA launched a market consultation asking the market what it wanted. The consensus from the market concluded that it required:

- an independent administrator;
- an electronic auction-based platform;
- expansive participation; and
- an IOSCO Compliant solution.

Following the Silver Price Consultation, made up of RFP, surveys and seminars, a market consensus emerged, with CME and Thompson Reuters (TR) selected to operate the LBMA Silver Price. This left only five weeks for CME/TR to implement the solution within a very tight deadline. On 15 August, 2014, the LBMA invited the press to its offices for the official launch of the LBMA Silver Price. The press were given the opportunity to discuss how the auction process worked and to actually see it live. At 12.00pm, everyone became fixated to the TV screen, which showed the first-ever electronic auction for the first of the four precious metals. It all became clear what the auction process involved.

“Participants enter bids and offers, and where equilibrium is found between the bids and offers,

within a specified tolerance, the price is said to have been found.”

For the press and others seeing this on the screens for the first time it all made sense. More importantly, on this date, market disruption was avoided. London was able to retain its position within the precious metals markets, for continuing to provide a reference point for the global silver markets.

Following suit, the PGMs moved onto an electronic platform on 1 December 2014, and gold moved to an electronic platform more recently on 20 March 2015, but unlike for silver, these moves were not constrained by a fixed deadline, so the transition was less frantic, but not without their own challenges.

All three systems allow any market participant to join the auction platform, subject to their satisfying the participant’s criteria set by the administrators and also the credit requirements. All three systems can be viewed by anyone anywhere in the world, with the auction platform available for view from various service providers. The independent administrators have monitoring and surveillance capabilities, reviewing the activities in the auction platform on a routine basis, all helping to increase transparency and raising the bar.

Regulation

On 1 April 2015, the LBMA Silver Price and the LBMA Gold Price both became regulated benchmarks; therefore, the administrators responsible for these benchmarks will need to be regulated and comply with the FCA rules and regulations on benchmarks. This does not however mean that the participants in these auctions will need to be regulated. The

participants to these benchmarks are not considered to be submitters and therefore are not directly subject to the rules and regulations of the FCA as far as benchmark regulations go. However, they have to comply with the requirements that the administrators have put in place.

Nonetheless, benchmark regulation has provided many challenges, a lot of which have been addressed, but some still remain an issue. To date, the FCA has said that any LBMA price provided in additional currencies will be deemed to be a separate benchmark and will therefore be a regulated benchmark. This would mean that the administrators would have to take responsibility for oversight over the foreign exchange rate being used. The administrators continue to work with the FCA to see if a suitable solution can be found.

However, the regulations don’t stop just at the UK level. The European Union is currently consulting on a draft regulation on benchmarks and, at the moment, it appears that the EU rules will capture all benchmarks which would include PGMs. The level of detail and what that means for how the existing regulations in the UK will change remains unclear. The LBMA will continue monitoring the developments and continue to report and update our members.

What’s Next?

The role of the LBMA certainly expanded over the last year. In addition to the most important work of the LBMA on the Good Delivery List, and regularly holding industry forums, the Association today has helped to make the London bullion market less fragmented and to make it easier for the outsider to understand who does what. Nevertheless, much still needs to be done, but

certainly enough momentum has been achieved. We at the LBMA will continue to work with the market, regulators and governmental bodies around the world to make sure London continues to lead within the precious metals industry and continues to provide for a truly global marketplace.



**Sakhila Mirza, LBMA
General Counsel**

In her role as General Counsel of the London Bullion Market Association, Sakhila is responsible for all the legal and regulatory aspects of the work of the Association. She is the primary contact for regulators and governmental bodies, and travels extensively, presenting on developments in the bullion market. She has taken the lead in responding to government consultations on various financial and industry regulations, which has included responding to the Bank of England, Financial Conduct Authority and HM Treasury’s joint consultation on Fair Effective Markets Review. In addition, she has taken on responsibility for the Association’s work on supply chain due diligence, especially with regard to Responsible Gold Guidance and represents the Association at industry and multi-stakeholder regulatory forums. More recently, she has been proactively involved in the transition of the London precious metal prices onto electronic platforms, leading all the legal and regulatory discussions.

She brings with her a wealth of experience having previously worked in the energy and commodities industry where she dealt with compliance, legal and regulatory matters. She read law at the London School of Economics and went on to qualify as a solicitor.

LBMA/ LPPM Precious Metals Conference

18 - 20 October 2015

Hilton Vienna Hotel
Vienna, Austria

Save the Date

www.lbma.org.uk

Speaker highlights include keynote speakers, Lord Gus O’Donnell, Strategic Advisor - The Toronto-Dominion Bank Group and John Authers, Senior Investment Columnist, Financial Times. The LBMA will provide future updates on its website regarding registration, the speaker programme and hotel accommodation.

If you are interested in exhibiting, please contact sunny.field@lbma.org.uk for more information.



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