

Editorial Comment

By Grant Angwin, LBMA Chairman and President, Asahi Refining

All that glitters is not gold, it could be silver, platinum or palladium

On 23 June, the UK held a referendum and made the momentous decision to leave the EU. A week later, the LBMA held its own mini-referendum in the form of a General Meeting at which Members approved, by an overwhelming majority, a number of important changes to its Memorandum & Articles of Association. These changes were necessary in order to support the LBMA's ongoing strategic development and expanding remit.

The Management Committee is now renamed the Board of Directors and its composition has changed from the old structure made up of all Members and the LBMA Chief Executive, to one of Members, executives and independent non-executives. But before I describe the changes in more detail, I think it would perhaps be worth reflecting back on the history of the LBMA, how it was set up, what has changed and why we are here today – or rather what has caused us to be here today.

The LBMA was established in December 1987 and the founding Members (the subscribers to the Memorandum and Articles of Association) were: N.M. Rothschild (Robert Guy), Morgan Guaranty (Guy Field), J Aron (Neil Newitt), Mocatta and Goldsmid (Keith Smith), Sharps Pixley (Les Edgar) and Rudolf Wolff (John Wolf, whose career you can read about on page 9 of this edition of the Alchemist). The above gentlemen formed the Management Committee, and Robert Guy and Guy Field were appointed Chairman and Vice-Chair respectively. The first meeting occurred on 22 January 1988.

I draw your attention to the composition of the Management Committee, which was made up of merchant banks and a trading company. At its inception, the financial institutions were the cornerstone of the LBMA. Since then, we have gone through two significant Board changes. In 1999, the Management Committee was expanded to eight – five from the classification of Market Makers and three from the Ordinary Members. The next major change was in 2011 when the Management Committee was expanded again by one, to allow an additional representative from the Ordinary Member classification. The Management Committee then comprised four Ordinary Members, five Market Makers and the Chief Executive. This change gave greater representation on the Management Committee of Ordinary Members. The pre-eminence of the financial institutions remained, even as the Board was gradually expanded. In 2012, refiners were invited to become full Members of the association in recognition of their increasing contribution to the market.

It was clear, however, by this stage that the structure and governance of the Board was under far more scrutiny than it had ever experienced. This scrutiny came from the regulators, in the aftermath of the global financial crisis and the decision by Deutsche Bank to exit the London Silver Fix in May 2014. Furthermore, the position of financial institutions on the Board gained scrutiny from internal compliance departments.

In June 2014 David Gornall – the then Chairman of the LBMA – stepped down following his allotted 10-year tenure on the Management Committee. Under past precedent, the Vice Chair – Steven Lowe of Scotia Mocatta – would have stood for election as the Chairman. However, following various discussions with the Market Maker Members, it was clear that their compliance departments would not favour a Market Maker assuming the position of Chairman. Furthermore, concerns were expressed over the perceived conflict of interests, both on the Good Delivery List and membership generally.

The Chairman had to be seen to be as neutral as possible and, whilst not perfect, I was asked to stand as the Chairman during this difficult period, having been on the Board as the first refiner for the previous two years. With a degree of trepidation, I put my name forward but on the clear understanding that we had to come up with a Board that had a more independent membership to alleviate the concerns of the regulators and one that would allow the financial institutions to provide representation to the Board.

This brings me full circle to the changes that were agreed at the recent General Meeting. The first major change addresses the composition of the Board and ultimately the governance of the Association. The UK Corporate Governance Code was incorporated and will govern both the Constitution as well as the operation of the Board. While it is vital for the Board to have a strong voice for its Members, it is important that any actual and perceived conflicts between these parties are balanced by having independence on that Board. This independence protects the interests of the wider membership as well as the individuals themselves serving on the Board. To address this, the LBMA has amended the composition of the Board. The biggest change is to add up to three independent Non-Executive Directors (NEDs), including a Non-Executive Chairman.

As reported on page 18, Paul Fisher has been appointed as the new Chairman with effect from 5 September, and I wish him well in his role. Paul brings with him a wealth of financial

market experience following his 26 years at the Bank of England. For the remainder of 2016, I will continue to work alongside Paul as Co-Chairman to provide support and continuity for the market, and to allow Paul time to settle into his new role. At the end of the year, I will step aside and leave the role of Chairman in Paul's capable hands. The other change to report is that the number of LBMA Executive staff on the Board will be increased to a potential three. These changes have been balanced by reducing the number of mandatory Member Representatives from eight to six. It is expected that the new Board will be in place following the LBMA's AGM at the end of September.

It is key to understand the role of independent non-executive directors. Within the UK Corporate Governance Code and related materials, independent non-executive directors are defined as persons "independent of management and free from any business or other relationships which could materially interfere with the exercise of their independent judgement". Part of their role is therefore to safeguard Members' interests, the reputation of the Association and to oversee risk and performance monitoring processes. Paul, as the independent Chairman, will help bring integrity to the organisation as well as helping to raise the profile of the bullion market as a whole. However, he cannot do this without additional NED support.

Beyond governance, the second major change to the Constitution formally extends the scope of the Association to incorporate the platinum and palladium markets. This allows the LBMA to formally support its Members' activities in the PGM market, particularly with regard to regulatory issues. This change also reflects the LBMA's ownership of the intellectual property rights for the platinum and palladium price benchmarks. The LPPM will continue in its current roles and responsibilities, including most importantly, the accreditation of the Platinum & Palladium Good Delivery Lists. The LBMA and LPPM will continue to work closely together on areas of mutual interest, including co-hosting the annual precious metals conference.

So there we have it. As my time as Chairman draws to a close, I am confident that these changes will result in a stronger LBMA which will better protect the interests of our Members as well as providing the regulators with more confidence. This I am sure will equip the LBMA to be a stronger voice for the market. All in all, I foresee a golden future for the LBMA and the precious metals market.