

Delivering the London Gold Price

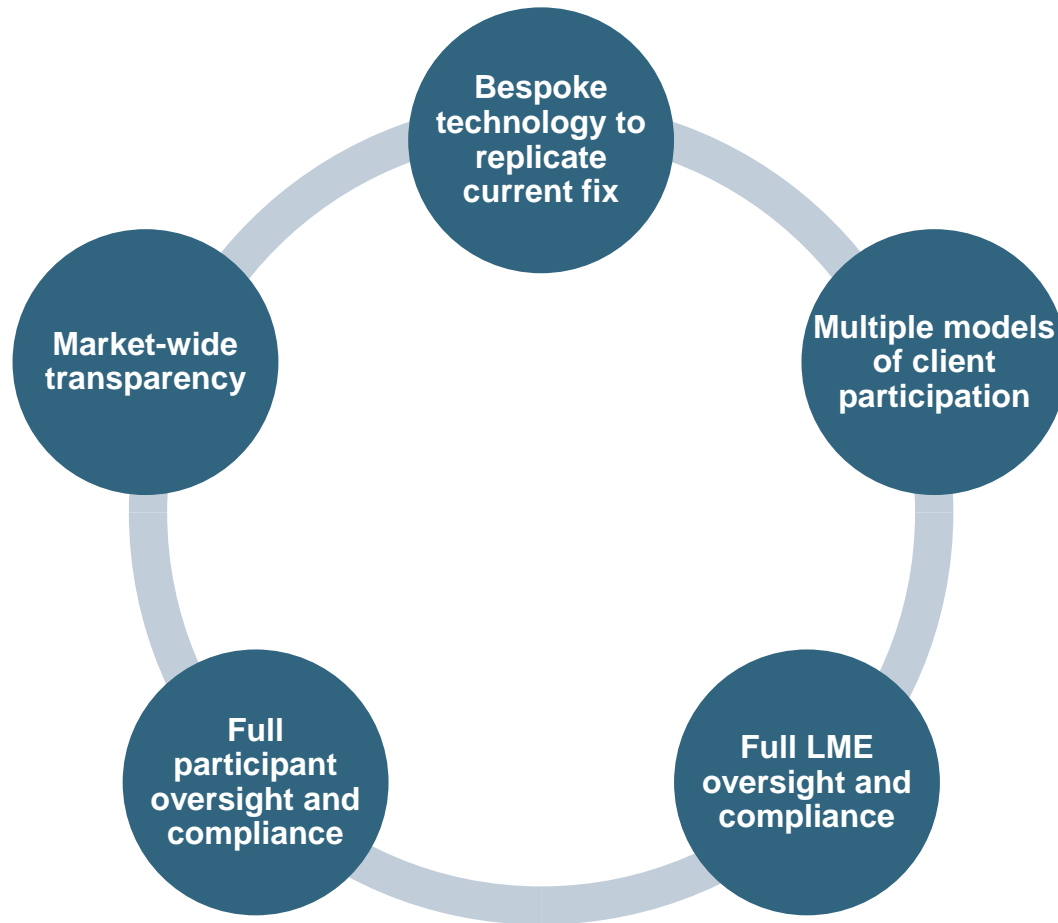
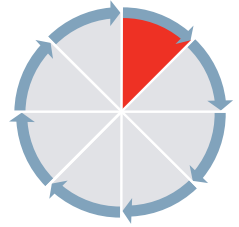
Presentation to the LBMA
24 October 2014

LME's eight differentiating elements

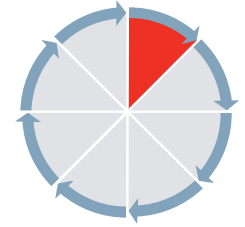


1. Bespoke technology solution (LMEbullion)

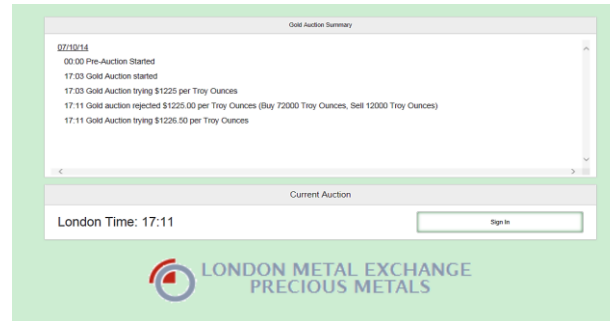
LMEbullion optimised for the gold pricing process



Multiple LMEbullion interfaces supporting key roles



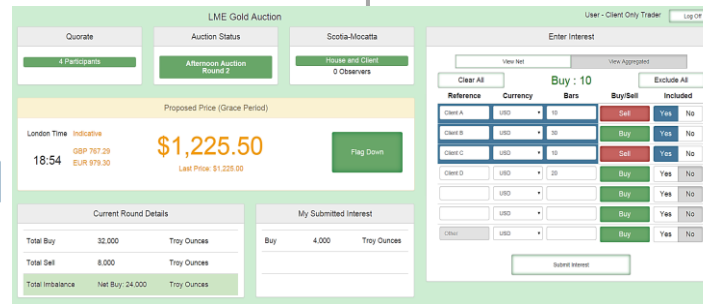
- Publicly Available Web Interface
- Real-time auction commentary
 - Anonymised Buy/Sell figures
 - Discovered Price



LMEbullion Home Page



- Authorised Trader Interface
- Real-time auction information
 - Submission of interest



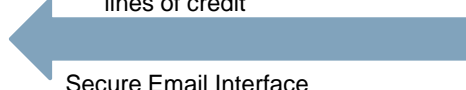
LMEbullion Auction Page



- LME Market Operations Interface
- Real-time auction status
 - Real-time participant status
 - Auction management controls



- Participant Observer / Administrator Interface
- Real-time management of client lines of credit



- Secure Email Interface
- Executed trade notification

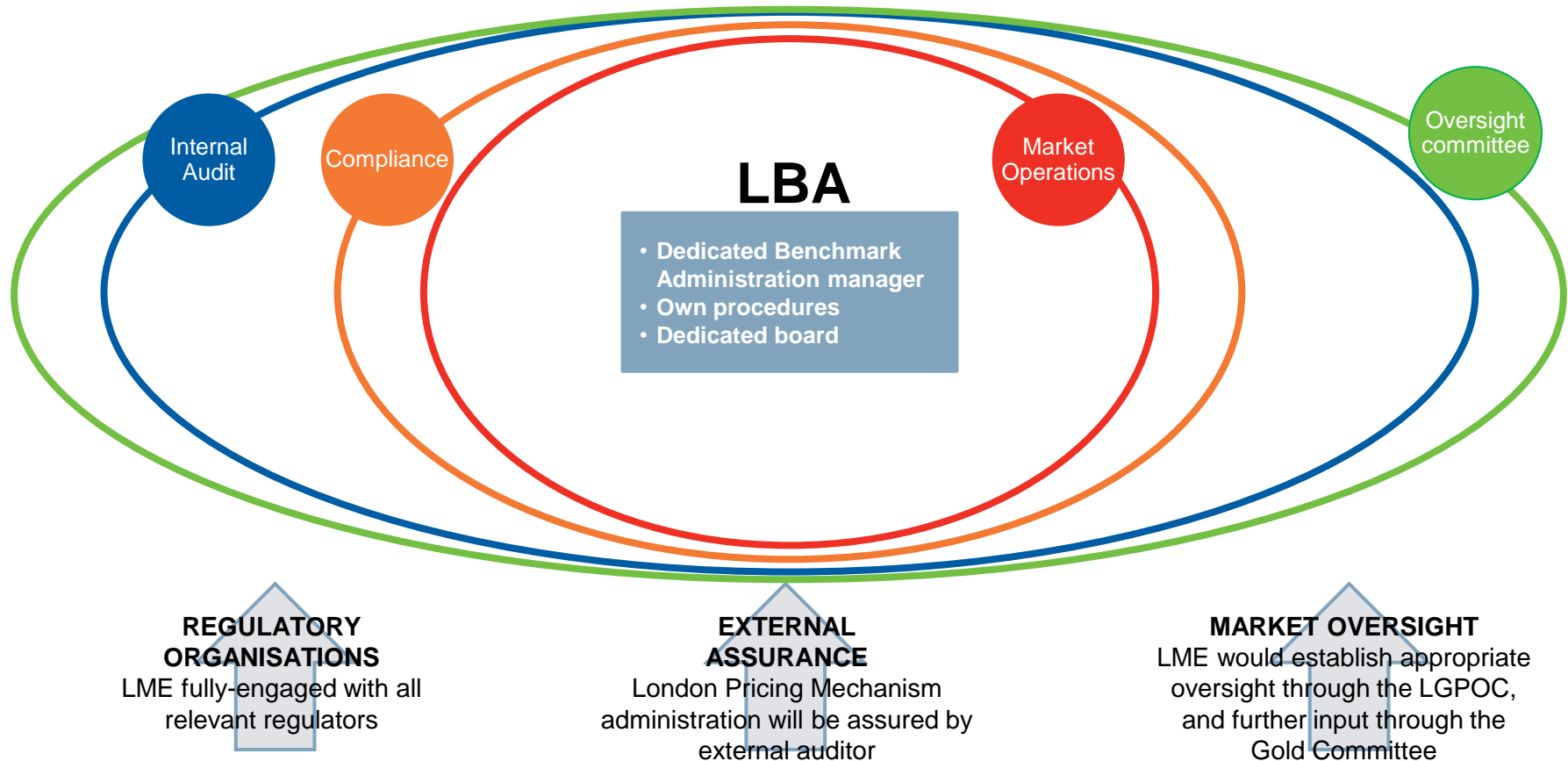
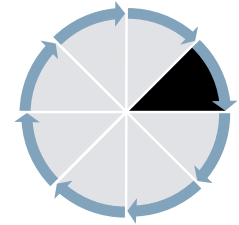


- Market Data Interface
- Real-time transmission to Market Data Vendors
 - Discovered Price

2. Best-in-class administration capabilities

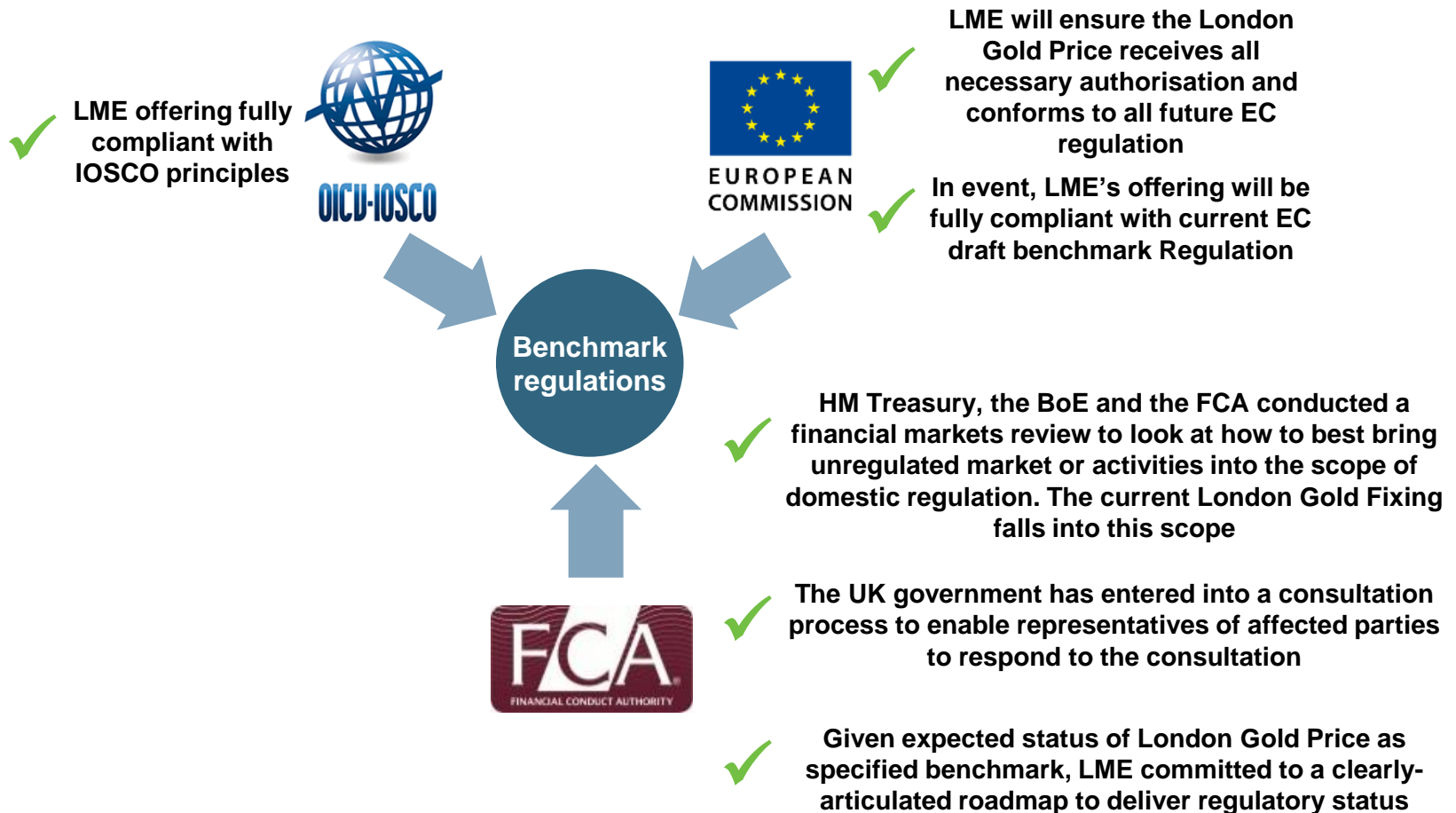
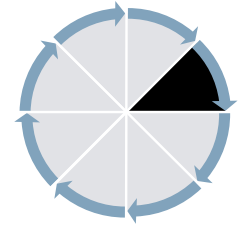
LME's benchmark administration...

Administration services will be provided by dedicated LME Benchmark Administration ("LBA") entity



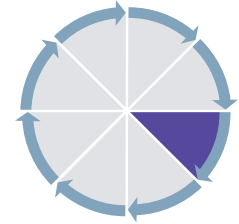
LBA will leverage the LME's proprietary technology, regulatory and infrastructure management experience

...respecting all current and future regulatory requirements

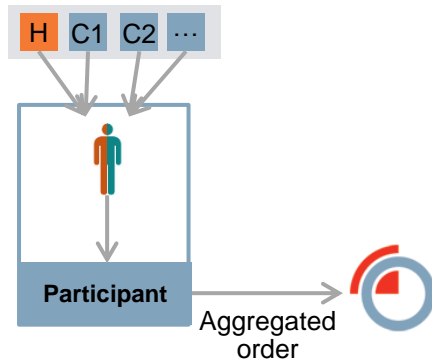


3. Flexible client participation model

Multiple models of client participation

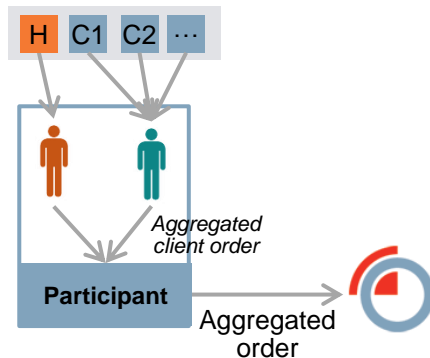


A Dual-capacity trader submits aggregated client and house demand



- Most similar to current model – one dual-capacity trader aggregates house and client demand to input net orders
- LME can provide degree of auditing via participant visits, but no audit trail of client orders through LMEbullion
- For those participants wishing to prioritise status quo, and to maintain primary compliance responsibility in-house

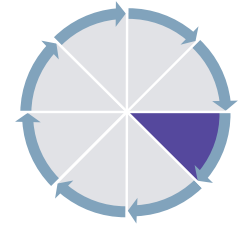
B House and client trader separately submit aggregated demand



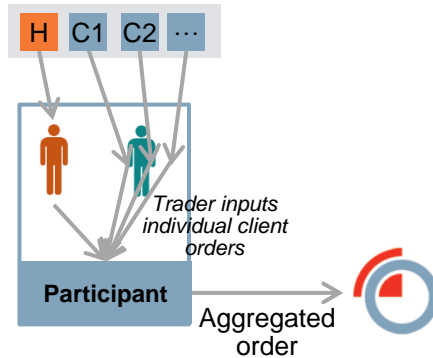
- House trader and client trader (both employees of the participant) separately log-in to the system
- House trader submits house interest
- Client trader submits aggregated client interest
- Provides audit trail of house vs. client segregation
- Positions still cross internally (i.e. house buy 2,000oz and client sell 2,000oz nets internally for maximum spread to direct participant)

Multiple models of client participation

(continued)

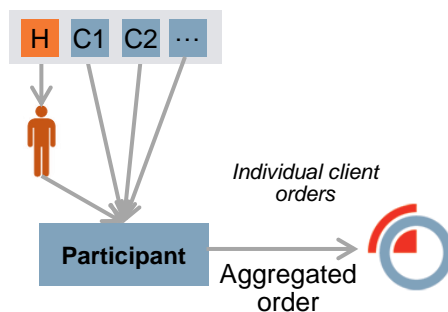


C House and client trader separately submit demand



- LMEbullion screen allows for easy client-by-client order entry
- Full auditing and record-keeping by LMEbullion
- Positions still cross internally

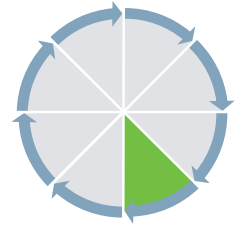
D Direct client access



- LMEbullion screen can be deployed to clients
- Per-client credit limits can be configured by member
- Full auditing and record-keeping by LMEbullion
- Positions still cross internally

4. Support for participants' compliance procedures

What do participants need from an administrator?



1

“Is the London Pricing Mechanism properly administered?”

Multiples lines of defence

Engagement with all regulatory stakeholders

(covered in previous section)

2

“Can I be confident that my traders are observing the Submitter Code of Conduct?”

Participant visit programme

LMEbullion order and trade monitoring

LMEbullion record-keeping

3

“Can I be confident that my clients are behaving appropriately?”

LME oversight of clients where required

2 Providing confidence to participants



Participant agreement

- Legal contract between LME and participant
- Embodies existing Submitter Code of Conduct (“SCoC”), with changes required to reflect process evolution
- Provides LME with required surveillance powers

LME actions

2A

Participant visit programme

Checking systems, processes and structural compliance with SCoC

2B

Order and trade monitoring

LME CMS system used to provide real-time and delayed monitoring of market activity

2C

Electronic record-keeping systems

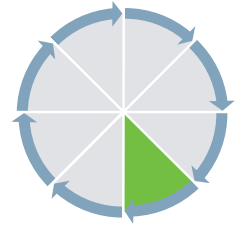
Full record-keeping support on behalf of participants

LME reports back to participants

- Full support of participant’s compliance departments in ensuring self-governance
- LME positioned to provide all information required by compliance departments to assess their organisations’ compliance with SCoC

3 Two models of client compliance

LME can take on burden of end-client surveillance and monitoring



Model 1

Participant takes responsibility for client

- Client has no direct relationship with LME
- Client surveillance and compliance hence the responsibility of the participant

Model 2

LME takes responsibility for client

- Client enters into client participant agreement with LME, including Client Submitter Code of Conduct (“CSCoC”)
- LME takes on surveillance and compliance role in respect of client

LMEbullion provides full record of client activity

LMEbullion can store client data for record-keeping purposes

Participant takes responsibility for client monitoring and enforcement

LME takes responsibility for client monitoring and enforcement

3 LMEbullion offers full overview of client activity



Real-time

- Participant compliance login gives access to real-time view of house, client trader and direct client activity

Historical

- Full logs of per-client activity can be provided to participants

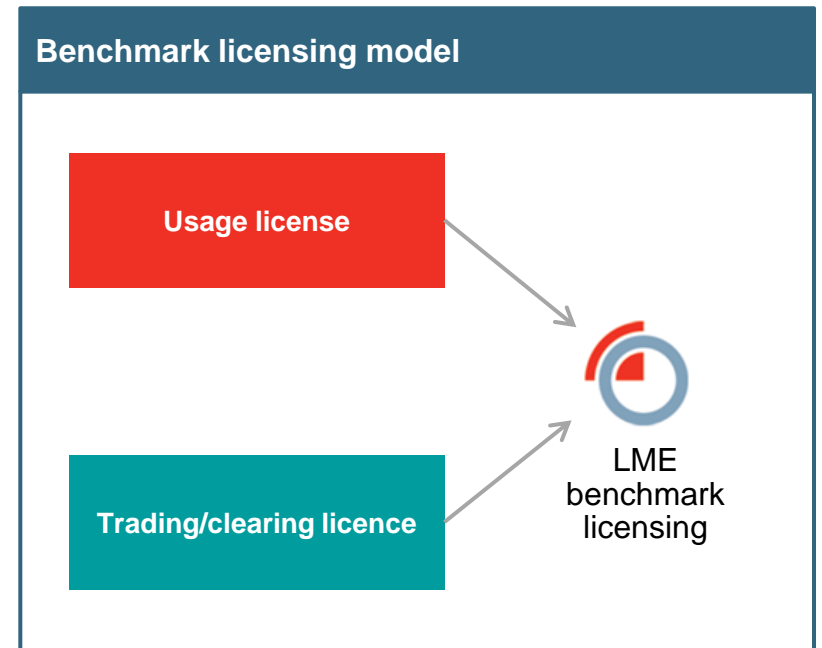
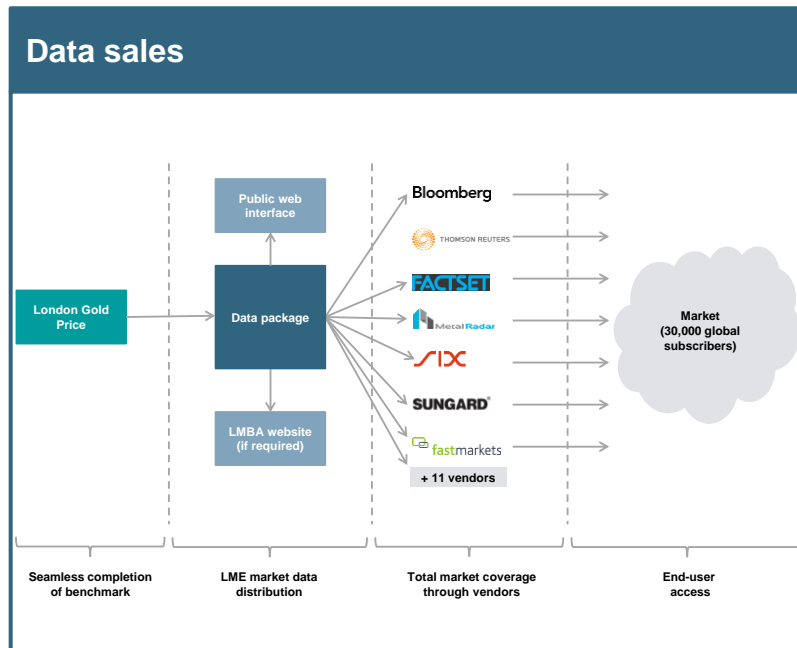
Best-in-class administration capabilities



<p>1</p> <p>“Is the London Pricing Mechanism properly administered?”</p>	<p>2</p> <p>“Can I be confident that my traders are observing the Submitter Code of Conduct?”</p>	<p>3</p> <p>“Can I be confident that my clients are behaving appropriately?”</p>
<p>Multiples lines of defence</p>	<p>Participant visit programme</p>	<p>LME oversight of clients where required</p>
<p>Engagement with all regulatory stakeholders</p>	<p>LMEbullion order and trade monitoring</p>	
<p>(covered in previous section)</p>	<p>LMEbullion record-keeping</p>	

5. Full commercial alignment with London market

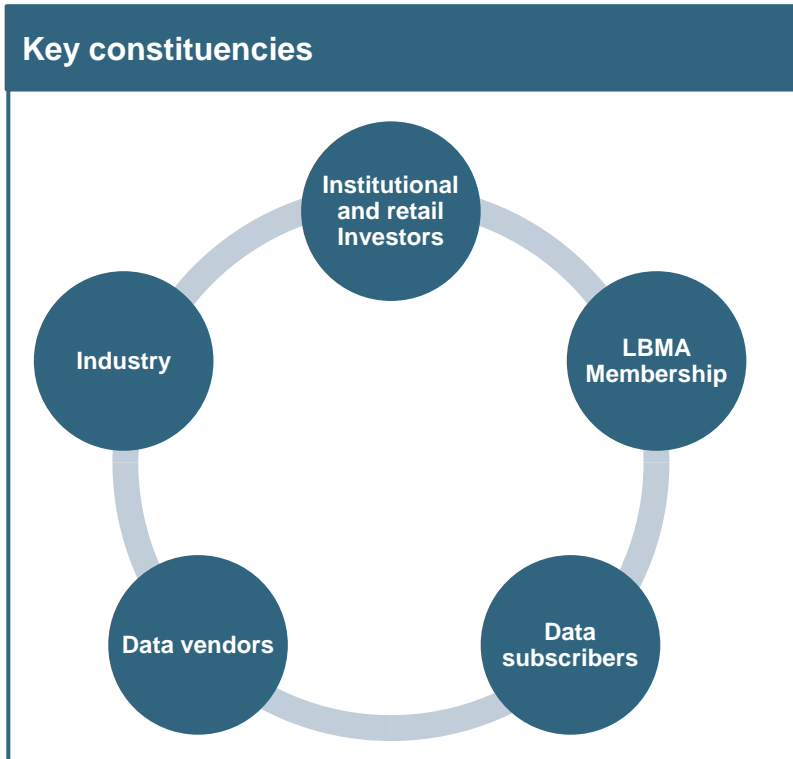
Full commercial alignment with London market



Revenue split if desired

6. Broader support for the global gold market

Stakeholder interaction across physical / financial markets

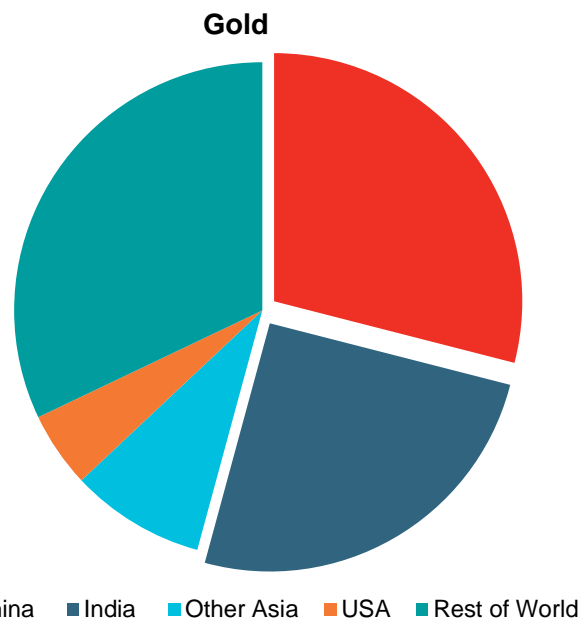


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Asian market connectivity



Overview of global demand by region



Source: Thomson Reuters GFMS, World Gold Council

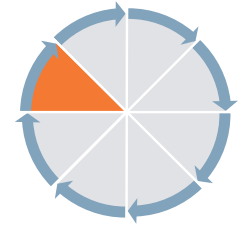
LME/HKEx offering

- **Marketing of the London Gold Price in the Asian region**, utilising HKEx' sales channels to maximise usages of the price, with consequent benefits in relation to data sales, benchmark licensing and trading of the price
- **Dissemination of RMB-denomination prices**, for greater relevance to Chinese market participants
- **Deployment of the London Gold Pricing Mechanism to Asian market direct participants**, utilising HKEx' broad reach into Asian participants, and potentially also an RMB currency overlay powered by HKEx' currency swap capabilities
- **Interaction with relevant Asian exchanges**, such as Shanghai Gold Exchange, to ensure maximum arbitrage potential between the London Gold Price and Asian regional benchmarks

Delivered by LME in partnership with LGMFL and LBMA

7. Expedited pathway to a cleared solution

Potential credit models



Bilaterally cleared

LME can continue to replicate the current settlement process.

All transactions will be physically settled via AURUM and financially settled by the individual participants.

Credit matrix

LMEbullion can incorporate a credit matrix allowing participants to limit their exposure to any individual counterparty.

In certain circumstances a credit matrix can however reduce the amount of business that can be transacted.

Full scenario analysis provided in RFP.

Centrally cleared

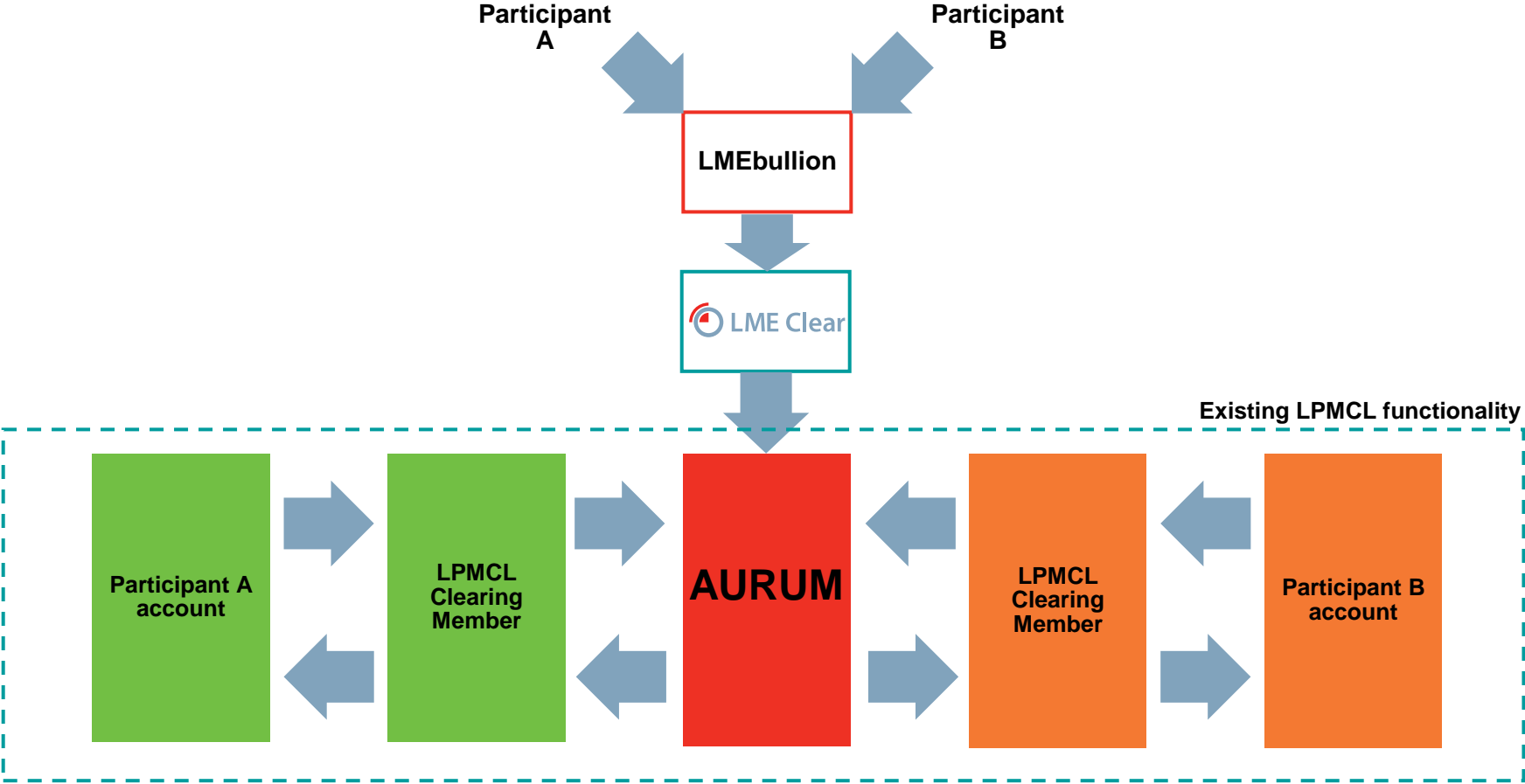
A centrally cleared solution can provide a number of benefits to participants:

- Multilateral netting
- Reduced counterparty risk
- Pre and post-trade anonymity
- Reduced regulatory capital requirements

Would **only be introduced** with market support, and respecting LPMCL settlement

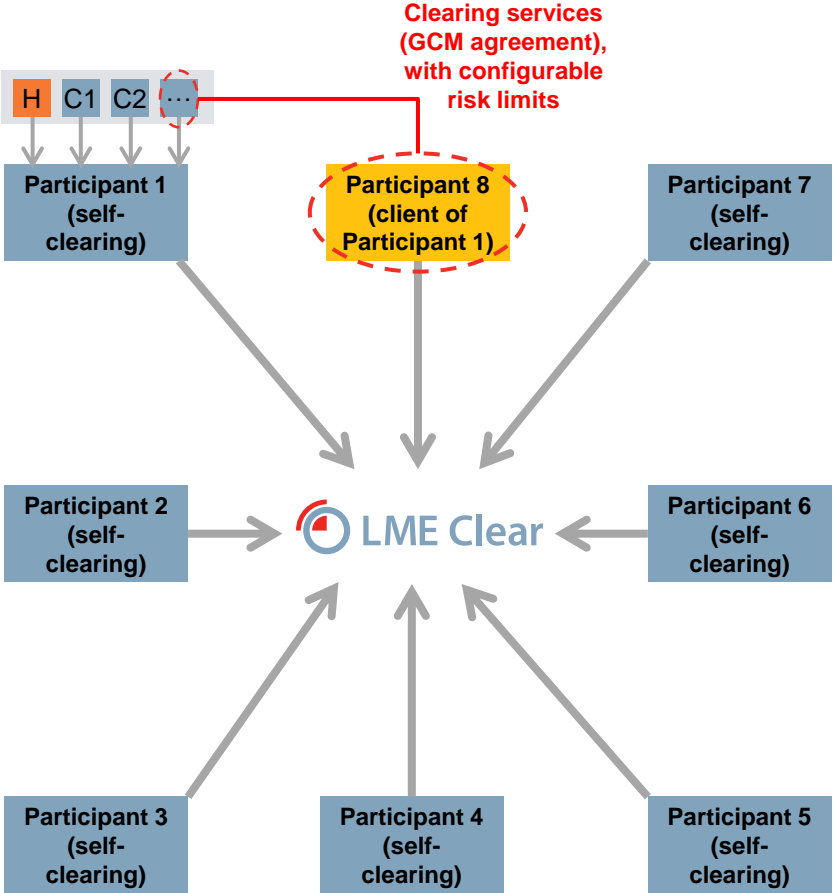
LME can support all models

Pathway to cleared solution



LME Clear fully respects existing loco London delivery mechanism and participants

Pathway to cleared solution

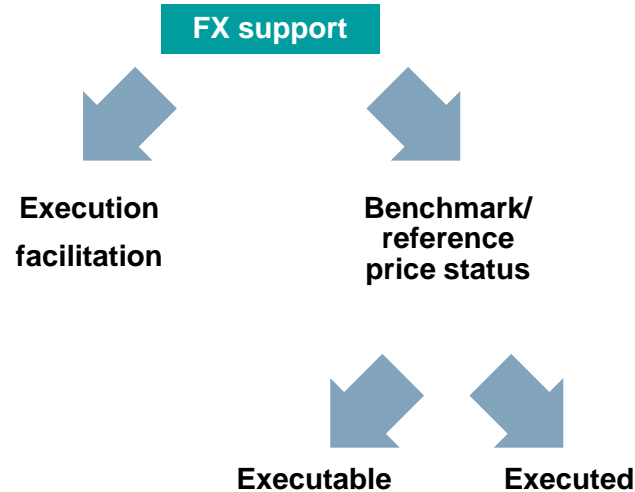


8. Currency support

Comprehensive currency support



Drivers of currency support



FX execution

System matches balanced currency transactions as possible
– default to USD if unmatched

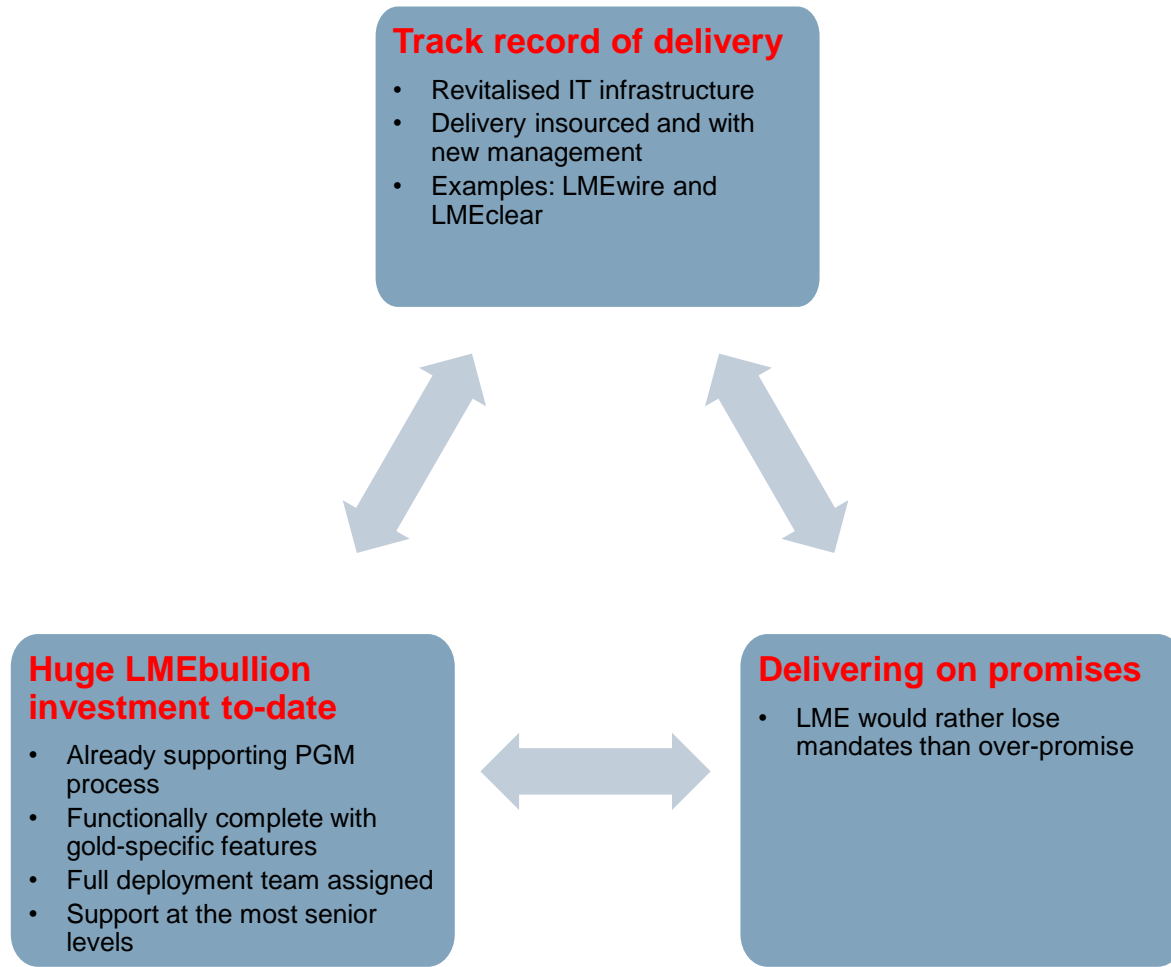
Auto-FX hedging for imbalanced trades to protect against fluctuations through T + 2

LMEbullion support

 LME Clear support

9. Delivery

Absolutely guarantee on delivery



LME's eight differentiating elements



Contact details

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