



The London Bullion Market Association

## PRESS NOTICE

### Good Delivery Status of Bars in Deep Storage

In view of recent press comments, the LBMA wishes to clarify the situation concerning the Good Delivery status of bars reappearing in the market after being held for a considerable number of years in deep storage at central bank vaults, including that of the Bank of England.

The LBMA would like to make it clear that this issue does not concern the quality of the gold. It relates solely to the physical appearance of the bars.

During the past decade, a significant quantity of central bank gold has been sold, primarily through the loco London market. The net amount sold by the official sector has, according to GFMS, been mostly between 400 and 500 tonnes each year.

From time to time, the commercial vaults which were the counterparties of such sellers have observed that some of the bars being delivered to the clearing members in settlement have failed to meet the LBMA's current standards for physical appearance. Bars which do not meet the LBMA's specifications for physical appearance will not be accepted by the London Bullion Market and any client delivering such a bar would either have to replace it with an acceptable bar, have the bar recast into an acceptable form at a Good Delivery refiner or accept a small discount to the current gold price commensurate with the cost of such re-casting. The cost of the re-casting operation, including transport to and from a Good Delivery refiner, is significantly less than \$1 per troy ounce.

Rather than waiting for bars to reappear from such deep storage, with the possibility of them being rejected on a case-by-case basis by commercial vault managers, the LBMA and the Bank of England have discussed how any bars not meeting the minimum appearance standards can be identified within the Bank's own vaults.

Among other requirements, such as the ability to be safely stacked, the LBMA's Good Delivery specification indicate that irregularities such as surface cavities, cracks, holes or blisters should be avoided, particularly on the top surface of a bar. The reason for this is that debris and/or water can accumulate in such irregularities, which can affect the weight of the bar. Many bars which are judged to be perfectly acceptable will have very small flaws of the type described above, these having been produced when the bar was originally cast. However, a bar will only be considered to be unacceptable if it contains a flaw of greater than a certain size. Judgement on where the dividing line between acceptability and unacceptability for such flaws lies is the responsibility of the vault managers in the clearing banks within the London Bullion Market, who as a group have developed considerable experience and expertise on this issue. The purpose of the discussions which have been held between the LBMA and the Bank of England has been to provide a guide which all central banks, including the Bank of England, can use to identify any bars which would not be considered as acceptable by the London market.

**Press Contact:** Stewart Murray, Chief Executive, 020 7796 3067

3 October 2007