



# **A guide to** The London Bullion Market Association

# Introduction

## The London Bullion Market Association



**The LBMA is the pre-eminent body for the world's largest and most important market for gold and silver bullion. The London Bullion Market is centred in London with a global Membership and client base, including the majority of the central banks that hold gold, private sector investors, mining companies and others. The LBMA's Membership includes more than 145 companies, including traders, refiners, producers, fabricators, as well as those providing storage and secure carrier services.**

The LBMA was set up in 1987 by the Bank of England, which was at the time the bullion market's regulator. The London Bullion Market is a truly international market, in that although dealers in other bullion trading centres may trade in their local markets and commodity exchanges, they also deal extensively in "Loco London". This term means that the gold or silver will be settled in London by the LBMA Member, either by way of book transfer or physically. Hence membership of the LBMA is vital to the London Bullion Market.

Central to the LBMA's quality assurance work is the maintenance and publication of the Good Delivery Lists for gold and silver, which are universally acknowledged as the de facto international standard for bullion. In the refining industry, accreditation on the LBMA Good Delivery List is globally recognised as the benchmark standard for the quality of gold and silver bars, due to the stringent criteria that an applicant must satisfy. The List is used by many precious metals exchanges around the world to define in whole, or in part, the refiners whose gold and silver bars are accepted in their own markets.

### **Loco London – a Unique Marketplace for Precious Metals**

As previously mentioned Loco London is a concept that is perhaps the most important aspect of the London bullion market as it represents the basis for international trading and settlement in gold and silver and has evolved over time since its creation in the second half of the nineteenth century. London developed as the centre through which gold from the mines of California, South Africa and Australia was refined and then sold. With this business as a base, and supported by the increasing acceptance of the London Good Delivery List, London bullion dealing houses established global client relationships. These clients opened bullion accounts with individual London trading houses. It soon became evident that these "loco London" accounts, while used to settle transactions between the bullion dealer and client, could also be used to settle transactions with other parties by transfers of bullion in London. Today, all such third party transfers on behalf of clients of the London bullion market are effected through the London Bullion Clearing which is organised and administered by the London Precious Metals Clearing Limited.

As a result, the loco London price has become the common denominator amongst dealers around the world. The settlement process can be likened to that in international foreign exchange markets, where settlement is effected by debits and credits over currency nostro accounts in the relevant banking systems. A credit balance on a loco London account with an LBMA member represents a holding of gold or silver in the same way that a credit balance in the relevant currency represents a holding of dollars on account with a New York bank or yen with a Tokyo bank. In fact, because of these advantages, nearly all global OTC gold and silver trading is cleared through the London bullion market clearing system. Clients of the market include investors, ETFs, funds, miners, refiners, manufacturers as well as, of course, central banks.

### **Financial Market Regulation**

Since the passage of the Financial Markets Act 2012, responsibility for the regulation of the major participants in the London bullion market lies with the Prudential Regulation Authority ("PRA") at the Bank of England. The PRA is now responsible for prudential banking regulation of most of the firms active in the bullion market. The PRA works closely with the Financial Conduct Authority (FCA) which is responsible for consumer and competition issues.

Trading in spot, forwards and wholesale deposits in the bullion market is underpinned by the Non-Investment Products (NIPs) Code which has been drawn up by participants in the UK foreign exchange, money and bullion markets. It sets out the standards of conduct and professionalism expected between market practitioners with each other and with their clients, and can be downloaded from the Bank of England's website at: [www.bankofengland.co.uk/markets/documents/forex/fxjsc/nipscode1111.pdf](http://www.bankofengland.co.uk/markets/documents/forex/fxjsc/nipscode1111.pdf)

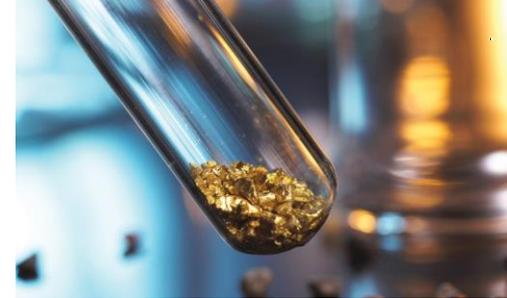
### **Precious Metal Prices**

Since March 2015, the LBMA's wholly owned subsidiary Precious Metals Prices Ltd has owned the daily spot price benchmarks for the precious metals markets. Prior to this, the LBMA had no formal role in the precious metals benchmarks as the administration and distribution was overseen by three separate Fixing Companies. In May 2014, the LBMA was tasked with the ultimate responsibility for ensuring there was no market disruption when the Silver Fixing Company announced they would wind down their administration of the 'Silver Fix' on 14 August 2014. The LBMA worked with the market, The Silver Fixing Company Limited, as well as the FCA, updating the regulator on the progress of the launch of the new LBMA Silver Price. Since the successful launch, the London Platinum and Palladium Fixing Company also announced their intention to wind down and move the administration over to a third party. The LBMA worked closely with the newly appointed Administrator, and successfully launched the LBMA Platinum and Palladium Price on 1 December, 2014. More recently, the LBMA has gone through the same process for Gold as it did for Silver, and the LBMA Gold Price was successfully launched on 20 March, 2015.

### **Events, publications and the LBMA website**

The LBMA organises regular events for members including an annual precious metals conference, biennial assay and refining conference, as well as regular webinars, forums and social events throughout the year. The Alchemist, the LBMA's quarterly journal, contains articles of general interest to all participants in, and observers of, the bullion market. You will find more details about all the events and publications on the website at [www.lbma.org.uk](http://www.lbma.org.uk).

# The LBMA Good Delivery List



**In the refining industry, the LBMA Good Delivery List includes the world's pre-eminent refiners of gold and silver, located in 28 countries. The List is widely recognised as the de facto standard for the quality of gold and silver market bars and is used by precious metal exchanges around the world to define in whole or in part the refiners whose gold and silver bars are accepted in their own markets.**

Since its foundation in 1987, the LBMA has maintained the Good Delivery List of gold and silver refiners which had previously been managed by the London Gold Market and the London Silver Market respectively. The List includes the refiners which have met the LBMA's requirements for assaying accuracy and bar quality and whose large bars are therefore acceptable in the London vaults operated by a number of LBMA members.

Maintenance of the Good Delivery List, including the accreditation of new refiners and the regular retesting of listed refiners, is one of the core activities of the LBMA. This activity is carried out by a fulltime, professional Executive and is overseen by the LBMA Physical Committee, which consists of representatives of members of the Association involved in the vaulting and clearing of bullion.

In order to be listed, a refiner must first satisfy the Physical Committee as to its standing, ownership, net worth and operating history. In particular, it must have produced at least 10 tonnes of refined gold or 50 tonnes of refined silver annually for a period of at least three years before it can be considered for technical assessment.

Once an application is accepted for consideration, the first stage of technical testing involves an assessment of the refinery's assaying ability. This is done by the LBMA sending it a set of reference samples that the refiner's laboratory must assay within the exacting criteria laid down by the LBMA.

If the assaying test is passed, the refiner is then required to submit bars for inspection by representatives of the London market and then technical testing by two of the LBMA's five Good Delivery Referees (which are located in Japan, South Africa and Switzerland).

The Good Delivery Rules, which describe how applications are processed, also contain full details of bar specifications, and the inspection, weighing and packing procedures practised in the London vaults. The current geographical make-up of the List is shown below.

Area	Gold and Silver	Gold Only	Silver Only	Total
Africa	1	0	0	1
Americas	9	2	1	12
Asia	30	13	21	64
Europe	12	4	8	24
Oceania	1	0	0	1
<b>Refineries</b>	<b>53</b>	<b>19</b>	<b>30</b>	<b>102</b>

Total refined gold production by the refiners on the List was estimated to be 4,600 tonnes in 2013, owing to recycling of scrap material, above world mine production of 3,061 tonnes (source Thomson Reuters GFMS). For silver refined production by listed refiners in 2013 was estimated to be 29,984 tonnes, above the 25,981 tonnes of mine production in 2013 (source: Thomson Reuters GFMS). The Gold refined by refiners on the List make up about 85-90% of world production.

Total estimated annual refined gold and silver production by the refiners on the List are shown in the table below (tonnes).

	2008	2009	2010	2011	2012	2013	2014
Gold	4,439	4,786	4,377	4,410	4,283	4,600	n/a
Silver	21,918	22,247	24,444	26,972	28,373	29,984	n/a

When a refiner ceases to produce the minimum quantities of refined metal required by the LBMA or if it fails to satisfy the Good Delivery criteria in any other ways, it will be transferred to the Former List.

In addition, the Former List includes:

- The names of companies that formerly operated Good Delivery refiners but which no longer exist, e.g. as a result of merger, takeover or closure.
- Description of the acceptable bars which were formerly produced but which have been replaced by new bars with different markings or dimensions.

In all these cases, Good Delivery bars produced before the transfer to the Former List are still considered Good Delivery in London.

In addition the LBMA administers a system of regular proactive monitoring of refiners on the List, to ensure the reputation of the List and the refiners on it. A description of how the proactive monitoring system works is described in the Good Delivery Rules.

# The LBMA Responsible Gold Guidance



The Responsible Gold Guidance (RGG) became a formal requirement of Good Delivery for all LBMA accredited gold refiners in January 2012. Since then, all 72 of the world's leading refiners have accepted the Guidance in principle and begun implementation. 70 refiners\* have completed their independent third party audit with no instances of zero-tolerance non-compliances. In addition, the scope of the LBMA RGG has been extended so that from May 2015, all Associate Refiners of the LBMA (who are not Good Delivery List refiners) also have to comply with the guidance.

The LBMA has taken its role as accreditor of the world's gold refiners and expanded the scope of its requirements, to include OECD Due Diligence, by the creation of the Responsible Gold Guidance. The Guidance operationalises and extends the OECD Gold Supplement for refiners and builds on existing Anti-Money Laundering and Know Your Customer management systems and auditing practices. It also makes what is a voluntary system (the OECD Guidance) mandatory for all refiners wishing to sell into the London Bullion Market. This framework is intended to assure investors and consumers that all London gold stocks are conflict-free due to compliance with an audited, conflict-free process.

## Structure & Development

The Guidance is based on the OECD Due Diligence Guidance issued in December 2010 as well as Swiss and US KYC, Anti-Money Laundering and Combating Terrorist Financing regulations. The structure of the Guidance combines and expands leading refiners existing AML, KYC and security policies, management systems and audit processes to include risk-based due diligence in order to avoid contribution to conflict.

The LBMA Responsible Gold Guidance mirrors the OECD five-step framework for risk-based due diligence in the mineral supply chain. The definitions are based on the OECD's definitions as well as the Financial Action Task Force on Money Laundering's definitions (FATF). International auditing standards that independent and competent third parties auditors must use include ISAE 3000 and ISO 19011:2002, to incorporate both US and EU auditing systems for AML and KYC.

The LBMA Guidance goes beyond the requirements of the OECD Guidance in both its auditing requirements and its definition of conflict. Auditing is required for all refiners' production regardless

of the source of their feedstock. This ensures that all metal going through the refinery is conflict-free.

The LBMA has also created a Third Party Audit Guidance document to assist auditors conducting Responsible Gold Audits. This document provides transparency and consistency to the process. It is mandatory for all refiners to use an auditor approved by the LBMA, also known as the Recommended Service Provider (RSP), and the RSP must self-certify every year that they continue to have the expertise to audit under the LBMA RGG.

## Mutual Recognition & Industry Harmonisation

In addition to the LBMA, the organisations listed below are all dedicated to working together to avoid duplication of costs, particularly with regard to audits.

- Responsible Jewellery Council (RJC): Chain-of-Custody certification available for responsibly-produced and conflict-free gold, and conflict-sensitive sourcing practices.
- World Gold Council (WGC): Conflict-Free Standard for gold mining companies operating in conflict-affected areas. Supports LBMA refiner due diligence.
- Conflict-Free Sourcing Initiative (CFSI): Assists companies from a range of industries addressing conflict minerals issues in their supply chains.

The LBMA recognises and supports the WGC's Conflict Free Gold Standard and the Fairtrade Fairmined standard. The WGC's standard greatly reduces the refiner's due diligence burden on mined production received that have gone through the audited Conflict-free process. The LBMA has also agreed mutual recognition of conflict-free refiner audits with the CFS programme as well as the RJC.

	LBMA	RJC	CFSI	WGC
Applies to	Refiners	All supply chain	Refiners	Mining Companies
Focus	OECD Due Diligence, KYC and AML	Code of Practices; OECD Due Diligence	Country of origin, Dodd Frank Act	Conflict-free, OECD Due Diligence
Audit outcome	Good Delivery Accreditation	CoC Certification	Validated Smelter/Refiner list	3rd party assurance of Due Diligence
Harmonisation	Audit Recognition: RJC CoC. CFS audits = Responsible Gold Requirement	Audit Recognition: LBMA, CFS = conflict-sensitive sourcing only	Audit Recognition: RJC, LBMA audits = CFS Opportunity for harmonisation with LBMA and RJC	Supports refiner Due Diligence for mined gold under LBMA, RJC and EICC

## OECD Due Diligence Guidance and Implementation

The OECD Due Diligence Guidance is seeking to establish a global framework to help companies to manage their mineral supply chains. The objective is to enable companies, through due diligence, to put in risk-based processes that will enable continued sourcing of minerals from so-called "red-flag locations" if the appropriate processes and controls are in place. LBMA Members as well as refiners have contributed to this work. Ruth Crowell, the LBMA's

Chief Executive also acted as the co-facilitator of the OECD Gold Supplement Drafting Committee and vice-chair of the OECD Multi-stakeholder Governance Group. All of the organisations listed above have also supported and been involved in the work of the OECD Due Diligence Guidance - Gold Supplement. This is in order to ensure that all these emerging initiatives work in concert towards a common goal of reducing the violence and human rights abuses funded by conflict minerals.

\* The remaining two (government owned refiners) are in the process, but have to wait for their government to amend existing legislation in order to allow information to be disclosed.