

LBMA Annual General Meeting

Wednesday 25 June 2008

Remarks by Jeremy Charles, LBMA Chairman

Ladies and gentlemen, it is now my pleasure to present the report on the activities of the LBMA during the past year.

Perhaps I could begin by briefly outlining how things work at the Association. The Management Committee, which is our board of directors, meets approximately six times a year in order to make decisions on the recommendations of our various subcommittees.

We are, of course, going to hear from the Chairman of each subcommittee shortly and I do not want to duplicate what they are going to report to you.

The Management Committee also deals from time to time with issues that arise, but which are not covered by any of the subcommittees, such as office relocation, staffing matters and other issues that may appear unexpectedly such as REACH, which I will be talking about shortly.

This system has served us well over the years, but it is worth remembering that the success of our Association is very dependent on the goodwill of many of the Members in allowing their staff to devote their time as well as their expertise in supporting the LBMA.

In addition to the members of subcommittees, I would also like to mention those who provide their expertise on an ad-hoc basis on subjects that affect our market, such as the VAT regime. On behalf of the LBMA, I would like to extend our gratitude to all of you.

It has been another tumultuous year for the precious metals market with new high prices being reached in a number of metals, including, of course, gold. The \$850 level, which a few years ago seemed like an unscalable peak, was finally reached and in fact easily surpassed.

Gold has recovered its safe haven status while, on the other hand, many other investments have looked decidedly shaky. Of course it is not just gold and it is not just precious metals that are rallying. We are still in an extended commodities boom affecting above all energy, agricultural commodities and base metals, as well as the metals in our sector. Although some commentators seem to believe that the best of the market is behind us, their comments appear to be somewhat premature.

The credit crunch and the focus on gold's safe haven role highlight something that is most important for our market – namely, the fungibility represented by the OTC market and the Good Delivery Lists that provides its backbone.

The enhanced profile of precious metals has been reflected in both an increased number of phone calls to the LBMA Executive as well as in the huge increase in the number of hits on the LBMA's website. We have seen a considerable increase in media attention to our market. Only recently a television programme was aired about gold that simply would not have been made a few years ago. And I am delighted that the Bank of England is producing an animated educational film about the gold bars in its vault. Everyone, it seems, wants to organise a conference or seminar about gold these days.

Jewellery demand may have declined somewhat because of the high prices, but central banks continue to sell, mining companies continue to produce and investors continue to buy. In between we have the OTC bullion market which is centred here in London. The infrastructure needed to support this apparently simple intermediation role has worked extremely well during the exceptionally busy periods of trading that we have all seen during the past year. It is the way that the various elements, (the clearing system, the Good Delivery Lists, the fixings, the GOFO forward trading benchmark) interlock to form a seamless whole that makes the loco London contract the preferred choice for investors, the official sector, the fabricators and regional dealers around the world.

Let me now come to REACH which I mentioned earlier. For those of you who remain unaware, REACH is the European Union legislation concerning the registration of chemicals.

Just two years ago when the announcement was made about the introduction of this legislation, the Chief Executive prepared and circulated a briefing note to all Members and Associates about the new legislation and this was discussed in the Management Committee.

We took the view then that the appropriate body to deal with REACH was Eurométaux in Brussels and we suggested that any companies who felt that they were affected by it should contact this organisation. In due course the European Precious Metals Federation ("EPMF") established the Precious Metals Consortium and many of the European refiners which are within the LBMA Membership have already joined the Consortium to prepare for registration with the European Chemicals Agency. But for those others which simply import bullion in the form of large bars or perhaps grain in the case of silver, we believed that these metals were not substances and therefore would not be included in the REACH legislation. Unfortunately in February this year, the Agency announced its opinion that bullion bars were chemical substances rather than articles and that their import into the EU therefore required registration.

Once we became aware of this, the Management Committee set up a REACH subcommittee to look at two issues.

One was whether it might still be possible to gain an exemption for gold and possibly, though less probably, also for silver. The second issue was (in the case that such an exemption proved unattainable) to assist those Members who had to register with the Agency. In order to provide guidance to the Membership, we also organised a seminar which took place yesterday afternoon, and the results and recommendations from that meeting will shortly be circulated to the full Membership.

I would sum up the position as being that it now looks unlikely that we can achieve an exemption for our metals. Thus, any companies which imports precious metals into the EU must pre-register by 30th November 2008 if they intend to continue doing so, and then submit a full registration, possibly as early as December 2010. Full registration must be accompanied by a dossier describing the uses, the environmental impact and any health related aspects of the metals concerned. The EPMF Consortium has been set up precisely to produce these dossiers as a collaborative venture and it is likely that those of our Members that need to register will join the Consortium to share in the cost of preparing these dossiers.

It was particularly unfortunate that it only became apparent that bullion bars would be considered as substances under REACH after the deadline had passed for applying for gold to be classified as an exempt metal on the basis that it is of minimal risk to health or the environment.

Let me now briefly comment on some of the activities overseen by the subcommittees.

Firstly I would like to congratulate the Physical Committee on a very fruitful year which, apart from the routine work of overseeing applications for listing and monitoring of the Good Delivery Lists, has included a number of special projects.

The first was the publication of new rules on the marking and physical form of bars as well as working towards the publication of a visual guide to the acceptability of Good Delivery bars in terms of their physical appearance.

Another major achievement has been the development of a website that allows the London vaults to view photographs and drawings of Good Delivery bars, both those currently listed and those on the Former List.

Another project in the Physical Committee area is the production of reference materials in both gold and silver which are currently being manufactured by two refiners: for silver, Krasnoyarsk in Russia and for gold, Tanaka in Japan. These materials will be sold by the LBMA to Good Delivery refiners and others and they will help to improve the consistency and accuracy of the refiners' analytical work.

I would like to express the LBMA's thanks to Dr Mike Hinds of the Royal Canadian Mint and the members of the project Steering Committee for all the efforts they have expended and which will, I am sure, result in a very successful outcome when the materials are finally available for distribution in the middle of next year.

The PAC has also had a very busy year. The decision to hold the Conference in Mumbai clearly represented a challenge and I am pleased to say that the Executive rose to this in its usual professional way.

For many people attending the Conference, Mumbai was perhaps the first and the only opportunity for them to experience at first hand the amazing Indian market for precious metals. The excursions to the Zaveri Bazaar and the visit to the manufacturing operations in the SEEPZ export processing zone made an unforgettable impression on those who took part.

We are now looking forward to a very different but also equally unforgettable experience at this year's conference in Kyoto on 28-30 September. With our decision to invite the LPPM to be the joint host for the Conference, I am sure we will have a huge attendance as well as a varied and fascinating programme.

Elsewhere in the PAC brief, we have a number of events which are worth comment. The Annual Party in February this year, organised single-handedly by Ruth Crowell, was a memorable success for the very large number of staff from Member companies who attended.

Later this year we can look forward to the Biennial Dinner at Goldsmiths' Hall in November.

Next year's venue for the conference will be Lima in Peru and further details about the date and location will be circulated in due course.

The *Alchemist* - our quarterly journal and members' newsletter combined - has reached the milestone of its fiftieth edition, all of them expertly edited by Susanne Capano.

The *Alchemist*, the website and the Conference are all very important vehicles for getting across the messages about what the London bullion market does and what it can offer.

We have decided recently to find out from a selected group of Members what they feel about the way that we use these to disseminate our message and indeed the way people feel about the LBMA more generally. Some of you will no doubt be contacted by the PR agency that we have commissioned to do this work.

Turning to membership, although as we will hear shortly this has continued to grow, it is important to realise that we are in no way desperate to bring in more companies at any cost.

Our Membership Committee has a very important role to play, namely ensuring that it acts as a gate-keeper only recommending companies to the management committee that are appropriately qualified to be either Members or Associates.

Nevertheless, there are a number of first-grade institutions (for instance in emerging markets) that might be admitted to the Association and the Membership Committee is carefully considering the conditions under which such companies should be allowed to apply.

Finally, a brief mention of the Finance Committee, which oversees how we invest our considerable balance of funds, prepares our budgets and examines and eventually recommends the draft accounts which I trust we will be approving later today.

I mentioned briefly the LPPM in connection with the Kyoto Conference. I think it is worth also noting that we have been cooperating with the LPPM in other ways. We will very shortly be publishing a joint guide of the London precious metals markets which will cover not only gold and silver but also platinum and palladium. In addition, we have given permission to the LPPM to use the LBMA Good Delivery system and documentation as the basis for a major re-vamp of its own system.

And now, finally, I would like to repeat what I and most chairmen have said in the past. This is your organisation and we welcome your participation and your feedback. Comments on what we are doing, or perhaps even more importantly what we are not doing but should be, would be gratefully received by the Chief Executive and the Management Committee.

On a personal note I would like to use this opportunity to thank the Executive and the members of the Management Committee for the considerable support they have all given to me during this past year. It has been a real honour for me to serve as the LBMA Chairman for the past 12 months and there is no doubt that without the dedication of the people around me the Association would not have made the significant strides forward that it has.