

LBMA Biennial Dinner

Goldsmiths' Hall – 2 November 2006

Remarks by Jeremy Charles, LBMA Chairman

My Lords, Ladies and Gentlemen, I would first like to offer you a very warm welcome to this, the ninth Biennial Dinner of the London Bullion Market Association.

It is a privilege to be able to address you in this magnificent and historic building and I am particularly pleased that the Prime Warden, Sir Jerry Wiggin, has been able to join us this evening.

I would like to thank him and the Goldsmiths' Company for allowing us to have this wonderful and appropriate venue for our dinner.

Looking at the guest list, I am also delighted to see so many old and distinguished friends of the market here this evening, as well as those of you who currently use or work in the market.

Tonight we also have representatives from the Treasury, from Her Majesty's opposition, from our regulators and from other metal markets. It is also a great pleasure to welcome all of the six previous Chairmen of the LBMA. I believe that this is the first time that they have met together in this capacity.

Our chief guest, an old friend to many of us, is Kelvin Williams of AngloGold Ashanti. For many years Kelvin was the public face of Anglo as far as the bullion market was concerned – whether in relation to its pioneering and very successful hedging programme or its strenuous advocacy for more and better promotion of gold.

This is the third time in succession that we have held our dinner here – and for good reason.

Goldsmiths' is the ideal setting for this important LBMA event, and not just on account of its name or indeed because of the gilded splendour around us.

More importantly, (and unlike many of the City's other ancient livery companies), the Goldsmiths' Company continues to play a very active and, in fact, vital role in the precious metals market.

If you were fortunate enough to visit Goldsmiths' annual autumn fair which was held here last month, you will have seen how the company encourages the craftsmen in the jewellery and silversmithing industries to produce works of tremendous originality, whilst at the same time adopting the latest technology.

Some of you may not be aware that this building also accommodates the London Assay Office, which is responsible (as it has been for more than 700 years) for testing and hallmarking the precious metal goods we all see in our shops.

Most of the LBMA members tend to be at the other end of the value added chain but there is no doubt that we feel very much at home here in this historical building.

History is, of course, something that many of the members of the LBMA have in abundance.

Our oldest member has played an active role in the London market for over 300 years and the reason that we are meeting here tonight in London, rather than in any other city that has a history in gold trading, is because during these 300 years, the London Bullion Market has steadily grown and developed into what it is today – the world's premier wholesale market for precious metals.

We are still welcoming new members to the London bullion community and it is a great pleasure to see that this year we have added Standard Chartered Bank and Bear Stearns to the long and very distinguished list of companies which are now members of the LBMA.

This list in fact now extends its membership to 20 different countries and I sometimes wonder if we should consider a more international name for our Association.

The LBMA now plays a central role in the development of our market and although less than 20 years old, has certainly reached a status that, to quote the old cliché, "if it didn't exist, it would have to be invented".

But thanks to the foresight of our predecessors and also to the encouragement of the Bank of England, it does exist and I would suggest that it has served us very well over the last two decades.

The products and services provided by the members of the London Bullion Market encompass a very wide range and the LBMA itself is of course also responsible for the specification and monitoring of the de facto international standard for precious metals bars.

In recent years, our educational role, through various seminars and our annual conference, has become ever more important in helping others to understand the many different facets of the precious metals business.

In terms of the size of the Executive office, the LBMA may appear to be a very small trade association, but it punches well beyond its weight.

This is in no small part due to the insights and the efforts expended over the years by so many eminent representatives of the Member companies who have served the LBMA in various capacities.

I would like to thank in particular Simon Weeks, our Chairman for the last four years, for his effective and thoughtful leadership. And of course the same must be said about our previous Chairmen.

But it is not just the contributions of the Chairmen that make a difference. The LBMA has been very well served by the many people on our various committees.

Thanks to the input of time, energy and knowledge by these people and to the efforts of a hard-working Executive, the LBMA has established an enviable name for itself.

This applies not just in the UK, our home base, where the bullion market is a relatively small but extremely important part of the financial services sector.

In fact, the LBMA is even more renowned in many other countries where gold and silver are produced, refined or used in greater quantities than is the case in the UK domestic market.

I think many of you would be surprised to learn of the extent to which the LBMA "brand" is respected in places like India, China, Russia and even Latin America. Much of the reason for this lies in the LBMA's Good Delivery List and its careful stewardship by the Physical Committee. This list has developed to become recognised as the acknowledged standard for gold and silver bar production throughout the entire world.

The LBMA's reach has been greatly enhanced by our annual conference. I believe that these conferences have been particularly successful because we have held them close to the most important bullion markets rather than in the most attractive destinations (though I have to admit that this year's conference venue in Montreux managed very successfully to combine both aspects).

Those of you who were lucky enough to attend the Montreux conference not only enjoyed the most wonderful networking opportunity with many of the top decision makers from the central banking and mining communities.

They also heard some truly inspiring speakers who educated, informed and occasionally amused us. I am certain that no-one left Montreux feeling that their time or money had not been well spent.

We should all be grateful to the Public Affairs Committee for organising this very successful series of conferences and we wish them every luck in facing the challenges of repeating this trick next year in Mumbai!

In short, we have done a lot to establish and foster the LBMA's reputation and brand-consciousness. We need to maintain and build on this to ensure that the global bullion market continues to see London as the destination of choice to transact business.

At the same time of course we cannot be the only market and we must recognise and work with other markets, such as the traditional exchanges as well as those new exchanges which are now making themselves heard in locations which include Shanghai, Dubai and Chicago.

Part of the reason for the success of the London Bullion Market is of course that it is centred here in London.

Being located in this vibrant city has represented a significant positive benefit for the bullion market and all of its members.

A combination of history, geographical location and a dynamic work ethic has helped London to grow into the world class financial centre that it is today.

In my opinion, no other city can match London in the range and quality of the financial services it provides, and this is one of the strengths of the bullion market here, which makes use of many of these services on a day-to-day basis.

You can see all around you that many of the world's largest financial institutions have a presence here and are all major players in the London Bullion Market.

In turn we also contribute in our own way to the success of the City. Employment is created by the growing number of institutions which offer services related to precious metals, or from trading, processing and transportation of physical metals, through to the development of new products and not forgetting the important support services including compliance, legal, regulatory and those provided by our own Association. Needless to say, we want to ensure that this success story continues into the future.

The regime under which the Bullion Markets operate in the UK was developed through close cooperation between the market and the authorities, primarily via discussions which we have held over the years with Her Majesty's Revenue and Customs and their predecessors.

Because these arrangements go back many years and in light of the considerable changes that have taken place across all of London's commodity markets Customs have begun reviewing the key elements of the current trading regime to establish whether it is still required or whether that legislation needs updating

Our goal at the LBMA is to ensure that all parties involved are fully apprised of the importance of this issue whilst at the same time seeking to ensure that any changes to the arrangements will continue to allow the market to function effectively.

In our case these arrangements consist of the Terminal Market Order, The Market Agreement between Customs and the LBMA, the Special Accounting Scheme For Gold and the Investment Gold Directive.

The way these elements fit together is complicated and frankly difficult for many of our market participants to understand.

But I would like to stress that they are essential for the future health of the market and we will continue to work with HM Revenue and Customs to make sure that we have a viable basis on which to continue to develop our market.

A challenge we currently face is the fragmentation of trading liquidity that is taking place. This fragmentation is not just a bullion market phenomenon: it is a fact being seen across many markets.

It does not in itself represent a threat to the clearing role of the London Market but does affect clients' ability to manage their own risks efficiently.

Over the last few years, the increased desire to include commodities for asset diversification has produced a wonderful opportunity for the London Market.

However London has not been alone in recognising this opportunity and there has been an ever increasing scramble to develop new markets, new exchanges and new products on a global basis. The establishment of these new exchanges has led to a more competitive environment and will no doubt lead to some additional participation in the market, but on the other hand this is also helping to create a globally fragmented marketplace.

Trading liquidity, or perhaps I should say the lack of it, is a serious issue for many of these recently established exchanges and this, in my opinion, will continue to be the case going forward.

Trading in London has been affected by this shift too but, unlike every other market, we here in London DO have the ability to improve the situation.

I am referring to the role played by our current nine Market Making Members and the crucial responsibility which they jointly share for providing guaranteed prices.

Without this market-making guarantee, our market would decline, in my opinion. Trading would quickly shift to the next most liquid market and, as we have seen in the very recent past in the US futures markets, once you have let the golden pot slip through your fingers, it is extremely difficult to catch it before it shatters.

So in the light of these challenges, what can be done to ensure the future well-being of our market? We certainly cannot afford to be complacent and to assume that just because we are located in London and because everything has worked well for the last 300 years that the same will apply in the future. I assure you all that in this fast-moving competitive world, things not only can but will change much faster than any of us imagine.

Let us all therefore ensure that we not only strive to improve our own businesses but that we also take responsibility to help secure the business and continued growth of the London Bullion Market.

But all that is for tomorrow (or perhaps the day after depending on how late you stay out this evening).

Tonight is a special occasion and is one which is to be enjoyed to the full. I hope that you all have a wonderful evening.

Thank you.

2 November, 2006