Alchemist

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Pictured above are a selection of Russian gold coins including 10-rouble coins, which are featured in the article by Valery Lebedev on page 10, in which he investigates the history, and the future, of investment coins in Russia.

We've earned our place at the table

The Toronto-Dominion Bank (TD) is now a full member of the LBMA and the LPPM

TD is proud to take its place beside other industry leaders as a full member of The London Bullion Market Association and The London Platinum and Palladium Market. We also hold the distinction of being the only full service publicly traded bank in the OTC precious metals markets with an Aaa rating from Moody's.

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TD

The Early Development of the London Gold Fixing

By Dr Rachel Harvey, Postdoctoral Research Scholar, Columbia University

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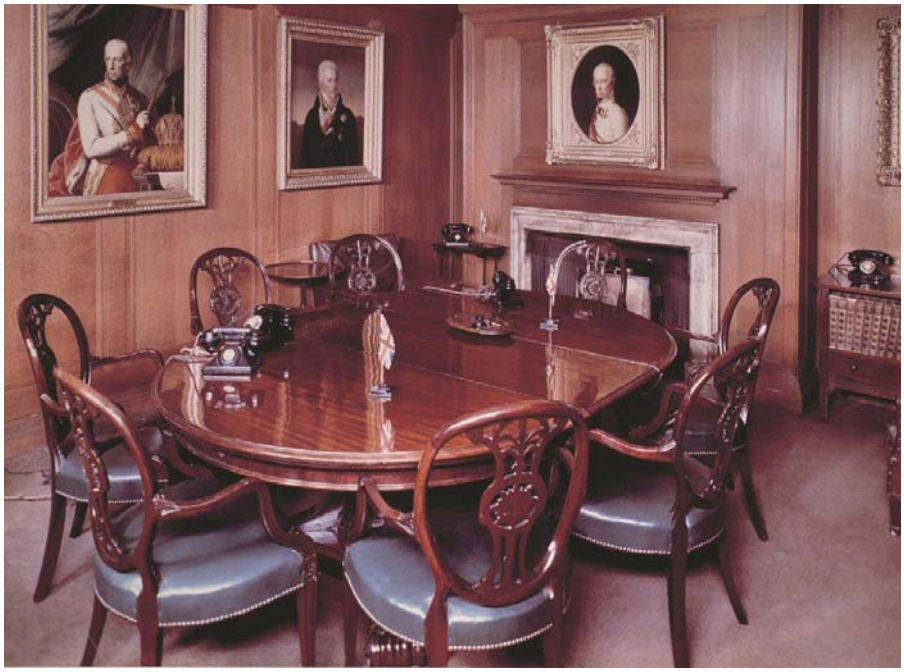

The Gold Fixing Room, N. M. Rothschild & Sons, New Court, St. Swithin's Lane. Reproduced with the permission of The Rothschild Archive.

Introduction

The historic trading rituals of the London Gold Fixing provided it with an immutable quality. It appeared, in many ways, to be frozen in time. Recent analysis of documentary evidence reveals, however, that the practices of the Gold Fixing were far from static. Rather than developing over a relatively short period, they actually emerged over several decades, with the Gold Fixing only achieving its most recognisable form near the end of the 1930s.

There is of course a well-known story about the development of the London Gold Fixing[1]. Tim Green, in his masterful unpublished history of Mocatta & Goldsmid (1979), discovered evidence that the Gold Fixing existed prior to the First World War. It was an informal gathering of the four bullion brokers - Mocatta & Goldsmid, Pixley & Abell, Sharps & Wilkins, and Samuel Montagu & Co. - at which a single price of gold was established that cleared the market. The First World War halted the informal fixing, but after the cessation of hostilities, a more formal process was established on 12 September, 1919. At 11:00 that morning, N.M. Rothschild & Sons determined the best sterling price for gold. The merchant bank, which was not involved in the market making prior to 1914, was the main agent for the South African mining companies and had been invited by the Bank of England to act as the market's chairman. Once the price was determined by N.M. Rothschild & Sons, the four bullion brokers were granted the opportunity to bid on the gold. Just as in the period prior to 1914, a single price was established at which the market cleared.

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At first, market dealings were conducted over the telephone. Within a short period of time, it was determined that meeting in person would be far more practical. The bullion firms then began to conduct their negotiations at the offices of N.M. Rothschild & Sons. Initially, no outside communication was permitted during the proceedings and Johnson Matthey & Co. was not involved. Over time, however, the refiner was invited to join the Gold Fixing and

1. The more well-known story of the Gold Fixing was taken from archival documents including, RAL, XI/35/64, Memorandum: *Gold Market, October 1937, the writings of Timothy Green on the gold market* (1968, 1979, 1981).

Excerpt from *"The World's Gold Market"* Wall Street Journal, April 20, 1907

If a stranger was to stop an average Londoner . . . to ask him the way to 'the gold market,' he would be answered with a stare of amazement. Even among the city numbers there are few who have actually seen the mechanism they admire so much. It is probably a mystery to them as to the ordinary public how gold is handled in London…

…At a place which, for obvious reasons, cannot be divulged, the bullion brokers meet punctually at a quarter to two o'clock. Some, or possibly all, of them have certain amounts of the precious metal to dispose of. Others may have buying orders, and there is nothing to prevent a broker acting for both sellers and buyers…

…By way of concrete example we may take their meeting of one Monday last month. It was an unusually interesting day, and very significant of the existing situation.

The demand for gold was keener than ever, and there were a good many small buyers in the market. The action of the Bank of England was uncertain, and still more so was that of the New York banks. Though the price was fixed at 77s. 9 3/8d., it was a question if the Americans might not go a fraction better. The Bank of England intimated through its broker that it would like to have all the gold available and would give 77s. 9 3/8d. for it. There is at present a tacit understanding that the bank is to have preference when it is willing to pay the best bid by any other buyer. In one corner of the city there is thus a faint survival of nobless oblige. The bank exercised its call on Monday's gold.

From the board room the bullion brokers rushed to their offices. There telephones and telegraphs were set in motion to report results to clients in various parts of the world. Cable messengers reached New York almost as soon as an office in Throgmorton Street[2] could be called up. Answering rings were soon heard, most of them inquiries from buyers who had been impatiently waiting the result of the official board.

telephones were installed, allowing the brokers to maintain communication with their respective offices. The term 'flag up' was adopted at some unknown time to signal the desire to pause the dealing process, with the physical Union Jacks flags being added at a later point in time (a gift to the market from George Matthey, a descendent of one of the founders of Johnson Matthey & Co).

As outlined above, the history of the Gold Fixing was an informal affair prior to 1914 and became increasingly formalised after the First World War in what seemed to be a relatively short period of time. Recently discovered archival evidence suggests an alternative scenario. A *Wall Street Journal* article (see panel opposite) from 1907 contains evidence that the Gold Fixing was a far more formal affair than originally believed. The meeting was held at 13:45 - the start time of the Silver Fixing. Based on this information, it is highly likely that the Gold Fixing was held at Sharps & Wilkins and used a format similar, if not exactly the same, as the Silver Fixing. It was thus a well-established routine by 1907.

Based on this new evidence, the 'start' of the Gold Fixing on 12 September, 1919 instead represented a resurrection and reconfiguration of a formalised pricing ritual. While N.M. Rothschild & Sons became a participant and the pricing ritual was no longer held at the offices of Sharps & Wilkins, the Gold Fixing, in many ways, looked much the same as it did prior to the First World War. Such continuity conceals how the preservation of the structure and pricing method was far from guaranteed.

Discussions after the First World War about what form the London gold market should take were intimately connected to the Bank of England's (the Bank) desire to restore the international importance of sterling and the City of London. A key component of this strategy was to ensure that the London gold market retained its pre-1914 pre-eminence. Thus the Bank determined that South Africa's gold must be marketed in London. To accomplish this goal, the Bank negotiated agreements with the South African mining companies to ship their gold to London. After its arrival, the agent for the mining companies, N.M. Rothschild & Sons, would find buyers for the precious metal (Ally 1994).

The next challenge was to decide how the gold should be marketed. In their conversations with the Bank about the disposal of South African gold, N.M. Rothschild & Sons appeared to favour selling the gold directly to end users themselves - whether they were located in India, New York or some other location[3].

By selling the gold to the brokers in London, the merchant bank argued, the South Africans would receive less profit. In addition, N.M. Rothschild & Sons favoured utilising bilateral contracts. If two buyers each wanted a portion of the gold on offer at two different prices, the merchant bank would accept both bids[4].

Discussions after the First World War about what form the London gold market should take were intimately connected to the Bank of England's (the Bank) desire to restore the international importance of sterling and the City of London.

The Bank favoured, however, an alternative mechanism. The position of the central bank was that the gold should be disposed of in London through intermediaries in the market - the bullion brokers.

Not only should the gold continue to arrive in London, but it should be marketed there. In addition, the practice of establishing a single price should continue. The Governor of the Bank at the time, Sir Brien Cokayne, thus desired, "an open market for gold in which not only every seller would know that he would receive the highest price the world could pay but also every buyer would know that he would get his gold as cheaply as the world could supply it"[5].

As evident by the first fixing on that Friday morning in September 1919, the wishes of the Bank were enacted. In pursuit of its goals to re-establish London as an international financial centre and clearing house, the Bank ensured that the London Gold Fixing was to be resurrected and in a manner consistent with its pre-1914 form. Yet the pricing ritual, as noted above, was different. Besides no longer being held at

2. Research also revealed that the Silver Fixing appeared to start in the 1870s.
3. RAL, XI/111/153, *Proposed Reduction in Refining Charge: Interview with the Bank of England*, 13 June, 1919.
4. BEA, C40/360/90, Sir Brien Cokayne's notes on a meeting with Anthony G. de Rothschild, 6 August, 1919.
5. BEA, C40/360/90, Sir Brien Cokayne's notes on a meeting with Anthony G. de Rothschild, 6 August, 1919.

Sharps & Wilkins, not all the brokers were regular participants. It appeared that for the first few years, only Mocatta & Goldsmid was present at each fixing. By 1925, all the bullion brokers were at each meeting and, in 1926, Johnson & Matthey & Co. was invited to join the process.

The other elements traditionally associated with the Gold Fixing developed slowly. Phones appeared to only be introduced a few years after the 12 September, 1919 fixing - perhaps as late as 1923. Initially, only one phone was available for the brokers who had to "queue up in order to use it"[6]. In the chaos created in international monetary markets when sterling was decoupled from gold in September 1931, it appears that more phones were added. At this time, each participant was provided with their own line (the direct line between N.M. Rothschild & Sons and the Bank was only installed some time in 1936). Around 1931, the Gold Fixing also moved to its permanent home in the offices of N.M. Rothschild & Sons - the conference room initially known as 'Mr. Anthony's Room'. Prior to this moment, the pricing ritual took place in two other rooms on the same premises.

In the chaos created in international monetary markets when sterling was decoupled from gold in September 1931, it appears that more phones were added.

By the early 1930s, most of the elements of the Gold Fixing were in place, with the exception of one: the small Union Jack flags. Prior to their introduction, as noted earlier, the term 'flag up' was used. Unfortunately, the historical record is silent on when the flags became part of the pricing ritual. Some clues do suggest, however, that they were added in the 1930s and most likely after 1937. Besides descriptions of the Gold Fixing prior to 1937 containing no mention of the flags, the individual responsible for their introduction, George Matthey, only became actively involved in the Gold Fixing in 1939 (McDonald and Smyrk 1984). Given this latter piece of information, the flags might have only been introduced to the market as late as 1939 - perhaps as a patriotic gesture in the shadow of the oncoming war.

Thus by the start of the Second World War, the rituals synonymous with the Gold Fixing throughout the 20th century, were established. Attesting to their new permanence was that when the market resumed after an almost 15-year hiatus in 1954, the trading practices were reinstated. As noted above, the immutable hue surrounding the Gold Fixing's routines is, however, a relatively recent condition. The market's trading rituals slowly developed over several decades. Thus, it is now evident that the Gold Fixing was characterised by far more change than its traditional image might suggest.

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Dr. Rachel Harvey is a Postdoctoral Research Scholar at Columbia University. Her research focuses on the history of global financial markets and the centrality of socio-cultural processes in their emergence and functioning. She is currently completing a book manuscript, The Golden Standard: the Moral Foundations of a Global Financial Market, which explores the globalisation of the London Gold Fixing in the latter half of the 20th century. Dr. Harvey is a Visiting Research Fellow at the Centre on Global Legal Transformation, Columbia University; a Researcher with the Global Finance and Law Initiative; and a Fellow with the Framing the Global Research and Publication Project, Indiana University.

6. BEA, C43/661/172, Letter to J.B. de K Wilmot, SARB from L.T.G. Preston, Bank of England, 10 August, 1955.

A Day in the Life of an Operations Manager

By Sunny Field, Operations Manager, Precious Metals Department, Mitsubishi Corporation International (Europe) Plc

6:00 AM

Another dark morning in Kent. I live a two-hour commute from the office, so although I do not actually get into the office until 8am, I have plenty of time on the train to start the day's work – oh, the joys of the BlackBerry. Working for a Japanese trading company means that my day starts early. Tokyo is eight hours ahead in summer and nine hours in winter, so there is little overlap in business hours with London.

I start the day by reading through the emails sent overnight by our New York and Tokyo offices, and I answer any queries that I can. Tokyo advises that one of its Asian customers has been unable to make a substantial Yen payment due to a power cut following a typhoon in Hong Kong. I notify our Treasury department by email as they are responsible for the funding. I hope this will not affect other outgoing payments, so I follow up with a phone call to make sure.

That done, and assuming there are no other urgent issues requiring my attention, I read the business and market reports sent by the other offices, and scan the general news on the market. That gold is worth more than platinum still takes a bit of getting used to!

8:00 AM

I arrive at the office and discuss any problems or outstanding issues with the back office and ensure that any requiring attention are resolved as soon as possible. The back office may not be the most glamorous of departments in precious metals trading but it is the backbone of any financial institution. It performs an important function, including settling confirmations, regulatory compliance and updating IT systems that handle position-keeping, clearance, trade settlement, trade maintenance and risk management.

Any problems need to be treated urgently to ensure that the back-office operations run as smoothly as possible throughout the day. Unfortunately, I've just been informed that our metal account doesn't reconcile because a customer hasn't delivered some metal to us and therefore our account is overdrawn. The back office is investigating and will need to ensure that the discrepancy is resolved before releasing today's instructions to our metal clearer and confirming that we can reconcile our accounts.

With the recent introduction to loco London clearing of platinum and palladium, I have been given the added responsibility of ensuring that both Mitsubishi International Corporation (MIC) and Mitsubishi Corporation Tokyo (MCTOK) are prepared and set up to trade loco London for both metals. I discuss this on the telephone with our London clearer and the MIC and MCTOK offices.

9:00 AM

Now down to the nitty-gritty. I check the profit/loss, credit reports and metal balances. I discuss the metal positions with our front office and they tell me about trades that have been arranged for the next two days. The back office confirms these with the customer and arranges the settlements accordingly.

9:30 AM

Time for a quick morning meeting with the dealers to discuss new business projects and any issues with current business. A customer has a specific requirement outside the usual trading arrangements and we need to discuss this with our legal and tax specialists. Although there are no insurmountable legal issues that have been identified, the delivery location is causing a tax problem. Our accounts department is looking into this matter and will report back later in the week.

I also have some discussions about some potential new customers. I am responsible for managing the new European clients and need to ensure that all the relevant documentation and *Know Your Customer* checks have been carried out before handing over to MIC for final validation and approval.

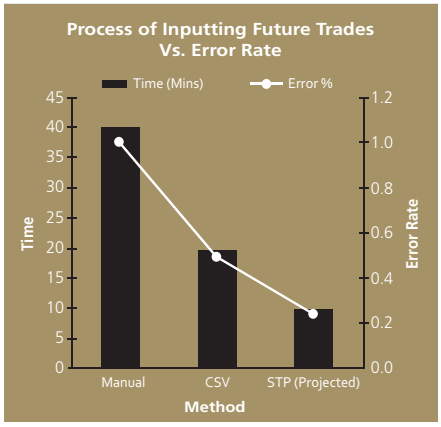
10:30 AM

It's time to get a cup of tea to give me the strength to think about IT systems, never the simplest or most enjoyable of tasks. IT has transformed operations in our business and I find it hard to imagine how we could operate without modern technology including the web, emails, trading systems, etc. But it is also a source of technical problems too. Maybe I'll grab a strong cup of coffee as well!

At one stage, futures that were traded electronically were entered manually into the system and then manually reconciled. The process was even more time-consuming and inefficient than it sounds! However, I've managed recently to automate this function, which has improved efficiency and accuracy, as well as reducing risk and the amount of manual intervention in the back-office processes. Now I'm looking into further improvements such as Straight Through Processing (STP). This will enable our trading software to interface directly with our trading system and significantly reduce the amount of manual intervention required. If I am not careful, I will end up being replaced by a robot.

The IT project I'm managing is evaluating the futures trading software. The task is to choose the system that is most user-friendly for the front office whilst improving the data reconciliations, live feeds, positions and accuracy for back office functions. More than anything, it needs to be cost-effective too! The aim is to improve the efficiency of the back office by automating several different functions and reducing the amount of manual intervention by delivering STP wherever possible.

By streamlining and improving our procedures and processes, we hope to allow the front, middle and back offices to share the efficient trade validation process in real time. Testing, trials and errors are time-consuming and frustrating.



The graph above illustrates that moving from manual processing to full STP can deliver savings in time as well as a reduction in the rate of error.

12.00 PM
All payments/settlements are submitted to me for approval and then passed to our accounts department for payment.

12.30 PM
Time for my weekly Japanese lesson. I've been having lessons for the past two years and it's allowed me to understand how to confirm numbers orally over the phone both with the Tokyo office and Japanese customers. It has also helped me to introduce myself and order food and drink. Fluency in the language, however, is some way off and may take decades.

1:30 PM Lunch
Good old chicken Katsu curry at my desk as the phones, emails and conversations reach fever point at the opening of the New York market. My attention is then drawn to dealing with outstanding queries and approving last-minute same-day trades.

2:30 PM Audit time
With tighter compliance and regulations in place, Mitsubishi has audit testing every six months. I need to check through each back-office process and try (so far as is reasonable) to ensure that our key controls deliver minimum risk exposure and maximum protection. I'm responsible for compliance-related issues and identifying new control procedures relating to any new processes. This is time-consuming, but clearly necessary, and helps ensure that we are not exposed to any risks.

3:00 PM
I have to interview someone for the position of metals administrator. I'm looking for a person with talent and potential as well as someone who will go the extra mile to deliver results. The technical requirements are analytical skills, attention to detail and innovative IT skills. To qualify for an interview, each candidate has to pass a maths test I prepared, with a pass mark of 70% or more.

3:45 PM
There's a problem with a metal delivery. The amounts don't agree and the account is short. In order to reconcile the accounts, we arrange for the front office to make a same-day trade and the transaction is settled before the close of day.

5:00 PM
We start to hand over to MIC in New York. I am responsible for ensuring that all positions and the P&L are correctly reported to MIC and that all data has been checked and agreed.

5:30 PM
Another day has finished and I start the journey home. But not, of course, without my trusty BlackBerry! As we trade on behalf of the New York office, we're always on call to deal with any problems or questions that may arise throughout the evening.

Sunny Field
Operations Manager, Precious Metals Department
Mitsubishi Corporation International (Europe) Plc

A graduate of the University of Birmingham (Business Management), Sunny joined Mitsubishi Corporation in 2005 as a Back Office Contracts administrator. Having gained wide experience in the functions of the Back-Office, in 2006 Sunny moved into Front Office Trade Support, which provided more direct exposure to the markets. In 2011 she moved into her current role as Operations Manager for the Precious Metals department.

Sunny is responsible for ensuring accuracy and efficiency in day-to-day operations, developing innovative new systems, implementing the strategic objectives of the Precious Metals Department and liaising with Mitsubishi offices in Tokyo & New York.




Russia's Investment Coins

- *Past, Present and Possible Future Outlook*

By Valery Lebedev, Director, Precious Metals Department, MDM Bank

Modern Russian investment coins began to be produced in the early 1970s. Owing to a severe domestic food shortage, the authorities in the former USSR decided to import grain from the USA, Canada and Argentina in exchange for gold.

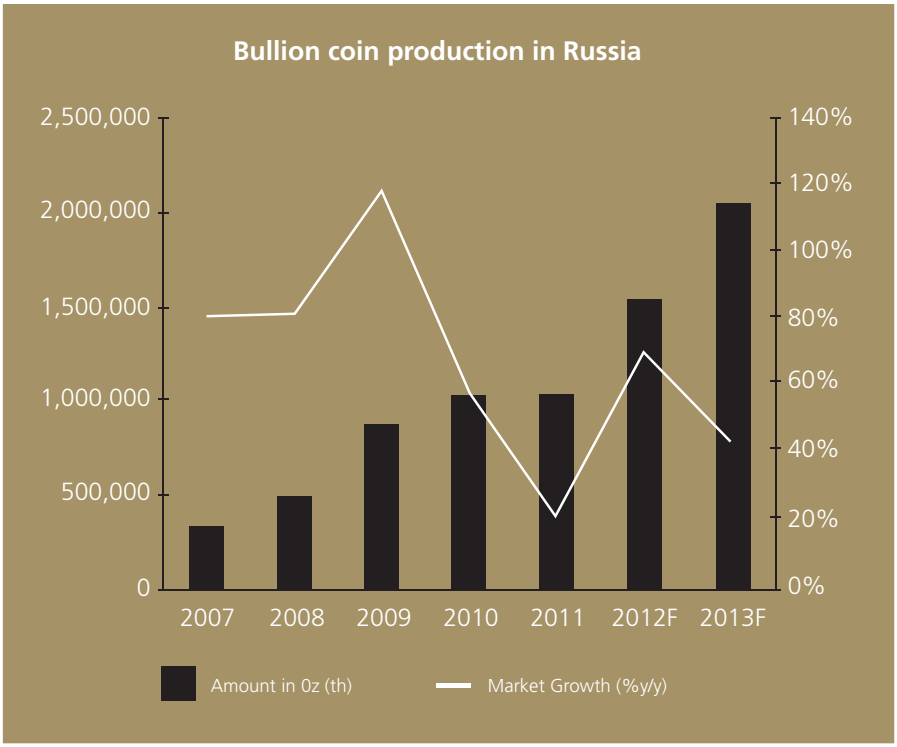
Those countries interested in securing long-term contracts with the USSR suggested that the Soviet government pay some of the contracts using investment coins. These coins typically trade at a premium of between 5% to 10%. In 1975, the Central Bank of the USSR issued the first consignment of 250,000 gold 10-rouble coins (Au-900, 7.742g). Between 1976 and 1982, one million coins were minted annually. In 1980, a further 100,000 gold 10-rouble coins of 'proof' quality were issued to mark the XXII summer Olympic Games in Moscow. In addition to payments under foreign trade contracts, 10-rouble coins were sold to foreign tourists in exchange for foreign currency. These 10-rouble coins were not in circulation within the USSR.

Historical note: *The 10-rouble coins minted between 1975 and 1982 were a repeat minting of 10-rouble coins minted in 1923, which were also produced for sale to foreign countries. However, in 1925, western European states introduced a 'gold blockade' against the USSR by excluding 'Seeder' 10-rouble coins from being used as a means of payment. To circumvent the blockade, Russia used the gold intended for minting the 10-rouble coins in 1925 and 1926 to mint the pre-revolutionary 10-rouble gold coins of Tsar Nikolai's reign (presumably by using the impresses of 1911), which were not subject to restrictions of the 'gold blockade'. In total, more than 2 million pre-revolutionary pieces were minted.*

In 1924, a decision was taken to issue coins with a new design, with the State Emblem of the Russian Soviet Federated Socialist Republic (RSFSR) being replaced with the State Emblem of the USSR. However, since only proof copies were ever issued in 1925, these coins are now extremely rare. At present, only a handful of 10-rouble coins dated 1925 are known to exist, two of which are kept in the State Museum of Fine Arts, named after A. Pushkin, and another three are kept in the GOZNAK museum. Minted proof copies of the 10-rouble coin were also made in copper and only one copper 10-rouble coin is known to exist. This was sold in April 2008 at the 'Collectors' Russian Coins and Medals' auction in Moscow for a record price of RUB 5 million (the opening price was RUB 1 million).

Following the break-up of the USSR, the 10-rouble coins issued between 1975 and 1982 continued to be considered legal tender. After the denomination in 1998, the 1999 10-rouble coins lost their currency status within the Russian Federation. However, in 2001, the Board of Directors of the Central Bank of the Russian Federation decided that 10-rouble coins issued between 1975 and 1982 should be returned to legal tender status, and this gave rise to the investment coin market in Russia.

By 2005, when stocks of 10-rouble coins in the Central Bank of Russia's vaults began to run low, the Central Bank of Russia's Board of Directors took the decision to issue a new type of investment coin for the first time since 2006 – the St. George the Victory-bearer (Au-999, 7.78g), which was issued for a period of five years between 2006 and 2010, during which 3,420,000 gold coins were produced.

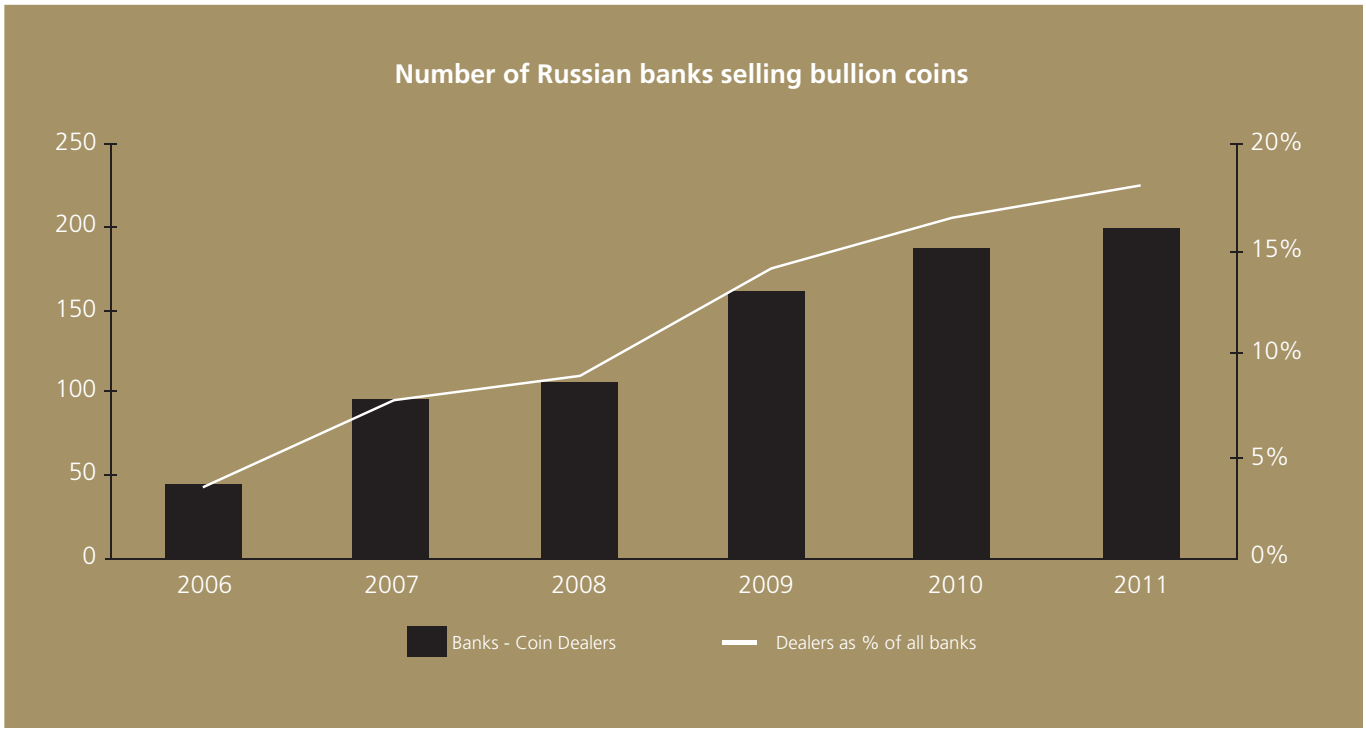


This period coincided with the start of the world financial crisis in 2008-2009. In 2009, the Central Bank of Russia promptly reacted to higher demand for coins from investors by increasing the production of St. George the Victory-bearer by twofold. In parallel with this, the Central Bank of Russia also issued St. George the Victory-bearer silver coins (Ag-925, 31.10g.). Between 2009 and 2010, 780,000 pieces were minted. This was a relatively small quantity, reflecting the fact that private investors in Russia prefer to buy gold coins, with silver coins typically being bought by individuals on low incomes.

Higher demand from private investors for Russian investment coins was also met by Russian banks selling investment coins. Between 2006 and 2011, the number of such banks increased from 45 to 202, during which time their share of the Russian banking market grew from 3% to 18%. During this period, the Russian market for investment coins developed into a two-tier market structure, made up of the primary and secondary markets.

The primary market is largely made up of the Central Bank of Russia and commercial banks. The GOZNAK Federal State Unitary Enterprise joined these in April 2011 (the Moscow Mint and Saint-Petersburg Mint being part of GOZNAK FSUE's structure). The Central Bank of Russia sells the commercial banks large quantities of issued investment coins at an ex-factory price, which is based on the previous day's pm London gold fixing price divided by 31.1035 and multiplied by the current official rouble-dollar rate of the Central Bank of Russia. A premium of between 5% and 10% is then added to provide the final price. Commercial banks sell investment coins to private investors adding 0.3% to 10% to the ex-factory price quoted by the Central Bank of Russia.

The secondary market is represented by commercial banks purchasing coins from either private investors or 'numismatic' companies. Russian tax legislation requires private investors who have owned investment coins for less than three years to pay 13% tax on the proceeds of the sales. In general, the purchase and selling prices are determined by the laws of demand and supply in the market and can fluctuate widely. Although data on the size of the market is not available, in my opinion, the share of the market is split as follows: 75% private individuals,



15% banks and 10% numismatic companies. Although the presence of the commercial banks in the secondary market is insignificant, banks' quotes for sale and purchase of coins are used as an indicative price for the rest of the market.

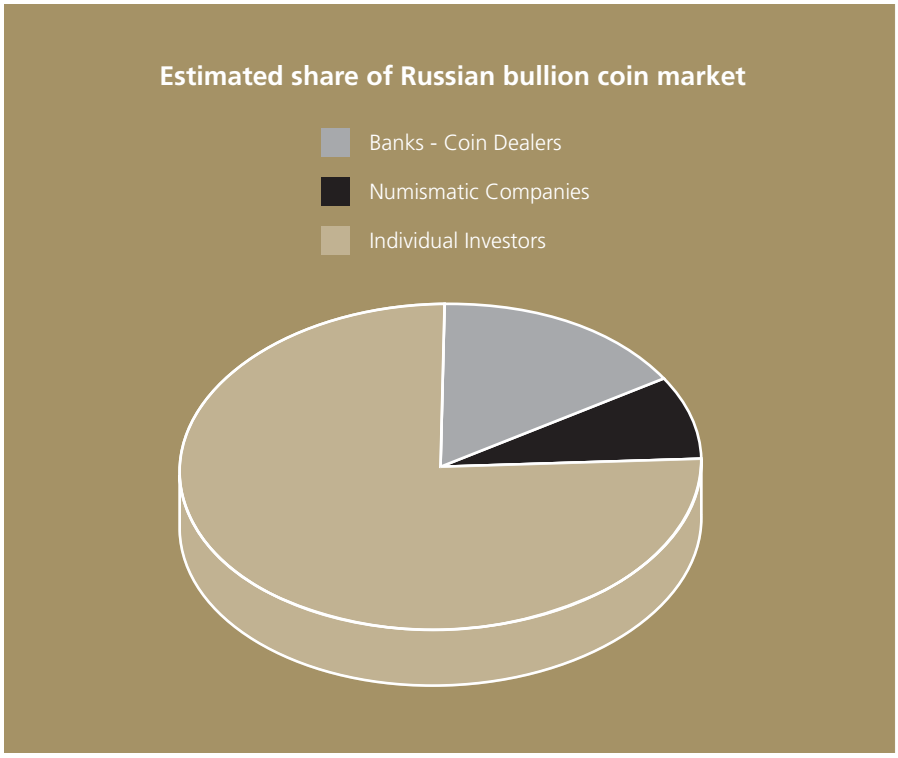
The market for investment coins increased from RUB 4 billion to RUB 52 billion between 2006 and 2011. What other market could boast such an impressive rate of growth? We are anticipating even more impressive market growth over the next two years and we are forecasting that market volume will more than double to RUB 126 billion by the end of 2013. We believe that growth will be influenced by the Central Bank of Russia launching the Olympic monetary programme, under which it is planning to issue gold investment coins with a total weight of 1.25 million troy oz. However, in order for this to happen, we believe that the Central Bank of Russia will need to repudiate its agreement with Sberbank dated December 2, 2010. Pursuant to that agreement, the Central Bank of Russia granted to Sberbank the exclusive right to sell within Russia commemorative and investment coins under the Sochi 2014 programme. But we should remember that the more sellers there are in the market, the more opportunities investors have for buying coins at lower prices, as happened during the St. George the Victory-bearer monetary programme.

In view of the evolving circumstances, the prospects for the Russian investment coin market are uncertain, though we can envisage the following scenario. Sberbank establishes price terms for transactions with Russian investment coins for commercial banks, numismatic companies and private investors. As a result of this, commercial banks will either cease transactions with investment coins or start looking for alternative sources to purchase coins, for example by purchasing coins from abroad. Under Russian law, the purchase of coins containing precious metals, which are used as legal tender by Russia or a foreign state (a group of states) are not subject to 18% VAT. Kazakh investment coins 'The Silk Road' and 'Golden Leopard' will become the most easily obtainable coins in the future because there isn't a customs border between Russia and Kazakhstan. The import of foreign investment coins by Russian commercial banks is a further potential source of supply. However, currently, the costs associated with doing so are prohibitive, because Russian banks have to pay duty of 20% of the coins' contract value as well as import VAT of 18% of the contract value. It therefore makes little economic sense for the banks to import coins in this way. The only real solution would be for the Russian Government to significantly reduce these rates. But, as people say in Russia, hope springs eternal. The third way for foreign investment coins to enter the Russian market is via importation by private individuals. Private individuals are not subject to duty on import of precious metal coins up to the value of $10,000. But where can the necessary number of people be found? I think that if there is a stable demand for coins, such people will definitely appear.

But I still think that the Central Bank of Russia will find a solution that will be satisfactory for all participants of the Russian investment coin market, for example, by launching another monetary programme alongside the Olympic monetary programme.

Valery Lebedev
Director, Precious Metals Department
MDM Bank

In 1989 Valery graduated from the Moscow Institute of Cooperation. He received his second degree in Financial Management from the Moscow School of Economics in 1998, and has worked in banking ever since. In 2006 he became Head of the Precious Metals Department in the Bank of Project Finance and is now currently Director of the Precious Metals Department at MDM Bank. Valery is also a recognised expert in bullion coin.



METALOR WAFERS

Investment products from the oldest LBMA gold refiner in Switzerland

DataMatrix

Metalor uses the latest engraving technology to apply upon each wafer its serial number together with a DataMatrix code. Embedded within the DataMatrix is various information related to the fabrication (and origin) of the wafer and makes each piece unique.

Certificate

Metalor products are elaborated and manufactured in respect with the renowned Swiss Excellence. Fineness of gold is certified by official sworn assayers. Metalor's assay laboratory is ISO 17025 certified through STS – the Swiss Testing Service. Metalor has been an Official Referee of the London Bullion Market Association (LBMA) since 2003. Bullion products are accredited with LBMA, LPPM, TOCOM, COMEX, Shanghai, Dubai and other major markets. Metalor is also a supplier of gold standards to the ASTM International Organization.

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METALOR®

The Golden Revolution:

- *Why a Gold Standard lies in our near future, and how we might get there*

By John Butler, Chief Investment Officer, The Amphora Commodities Alpha Fund

Contrary to the conventional wisdom of the current economic mainstream that the gold standard is but a quaint historical anachronism, there has been an unceasing effort by prominent individuals in the US and also a handful of other countries to try and re-establish a gold standard ever since President Nixon abruptly ended gold convertibility in August 1971. The US came particularly close to returning to a gold standard in the 1980s. This was understandable following the disastrous stagflation of the 1970s and severe recession of the early 1980s, at that time the deepest since WWII. Indeed, Ronald Reagan campaigned on a platform that he would seriously study the possibility of returning to gold if elected president.

Once successfully elected, he remained true to his word and appointed a Gold Commission to explore both whether the US should and how it might reinstate a formal link between gold and the dollar. While the Commission's majority concluded that a return to gold was both unnecessary and impractical – Fed Chairman Paul Volcker had successfully stabilised the dollar and brought inflation down dramatically by 1982 – a minority found in favour of gold and published their own report, *The Case for Gold*, in 1982. Also around this time, in 1981, future Fed Chairman Alan Greenspan proposed the introduction of new US Treasury bonds backed by gold as a sensible way to nudge the US back toward an explicit gold link for the dollar at some point in future.

In the event, the once high-profile debate in the US about whether or not to return to gold eventually faded into relative obscurity. With brief exceptions, consumer price inflation trended lower in the 1980s and 1990s, restoring confidence in the fiat dollar. By the 2000s, economists were talking about the 'great moderation' in both inflation and the volatility of business cycles. The dollar had been generally strong versus other currencies for years. 'Maestro' Alan Greenspan and his colleagues at the Fed and their counterparts in many central banks elsewhere in the world were admired for their apparent achievements.

We now know, of course, that this was all a mirage. The business cycle has returned with a vengeance with by far the deepest global recession since WWII, and the global financial system has been teetering on the edge of collapse off and on for several years. While consumer price inflation might be low in the developed economies of Europe, North America and Japan, it has surged into the high single- or even double-digits in much of the developing world, including in China, India and Brazil, now amongst the largest economies in the world.

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The economic mainstream continues to struggle to understand just why they got it so wrong. They look for explanations in bank regulation and oversight, the growth of hedge funds and the so-called 'shadow banking system'. They wonder how the US housing market could have possibly crashed to an extent greater than occurred even in the Great Depression. Some look to global capital flows for an answer, for example China's exchange rate policy. Where the mainstream generally fails to look, however, is at current global monetary regime itself. Could it be that the fiat-dollar-centred global monetary system is inherently unstable? Is our predicament today possibly a long-term consequence of that fateful decision to 'close the gold window' in 1971?

I believe that it is. But what that implies, given the damage now done to the global financial system, is that there is no way to restore a sufficient degree of credibility and trust in the dollar, or other major currencies for that matter, without a return to some form of gold standard. This may seem a rather bold prediction, but it is not. The evidence has been accumulating for years and is now overwhelming.

Money can function as such only if there is sufficient trust in the monetary unit as a stable store of value. Lose this trust and that form of money will be abandoned, either suddenly in a crisis or gradually over time in favour of something else. History is replete with examples of 'Gresham's Law', that 'bad' money drives 'good' money out of circulation; that is, that when faith in the stability of a money is lost, it may still be used in everyday transactions – in particular, if it is the mandated legal tender – but not as a store of value. The 'good' money is therefore hoarded as the

superior store of value until such time as the 'bad' money finally collapses entirely and a return to 'good' money becomes possible. This monetary cycle, from good to bad to good again, has been a central feature of history.

In the present instance, we find a growing number of countries expressing concern about the stability of the dollar amid relentlessly expansionary US monetary policy, excessive dollar reserve accumulation and the associated surge in inflation, including China, India and Brazil. The 'Arab Spring' of 2011 originated in part from soaring food price inflation.

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Concern is increasingly giving way to action. China has entered into bilateral currency swap arrangements with Russia, Brazil, Argentina, Japan, South Korea and Thailand as all these countries seek to reduce their dependence on the dollar as a transactional currency. As the dollar's role gradually declines, global monetary arrangements are likely to become increasingly multipolar, as there is no single currency that can realistically replace the dollar as the pre-eminent global monetary reserve. The euro area has major issues with unsustainable sovereign debt burdens and an undercapitalised financial system. Japan's economy is too small and too weak to provide a dollar substitute. And while China's economy has been growing rapidly, its financial system is not yet mature or robust enough to instil the necessary global confidence in the yuan as the dominant reserve currency. Yet growth in global trade continues apace, to the benefit of nearly all economies. A global currency facilitates global trade.

It was precisely a multipolar world amid rapidly growing international trade that ushered in the classical gold standard in the 1870s. Although gold had been in the ascendant in global monetary affairs for several years, growing German political and economic clout provided an important tipping point as Germany favoured gold for settlement of international balance of payments. While the Bank of England was the dominant central bank of its day, reflecting British economic power, it never sought to impose a gold standard on its trading partners. Rather, it accepted the gold standard as an international *fait accompli*.

The US Federal Reserve may find it plays a similar role in the near future. While it is certainly possible that, in order to restore confidence and trust in the dollar, the US relinks the dollar to gold on its own initiative, more likely is that another country, or group of countries, where economic power is in the ascendant, where there are large and growing current account surpluses, and where a meaningful amount of gold has already been accumulated, will be the first movers. All of the BRICs are potential candidates, as are certain oil-producing countries and, possibly, Germany and Japan.

When presented with a *fait accompli*, the US will have little choice but to go along or find that the dollar not only loses reserve currency status entirely, but also is no longer accepted for international transactions. In the event, we believe a decision to accept the new global gold standard will be rather easy to reach.

While it is unclear just what kind of gold standard will prevail – history provides a range from which to choose, some of which worked better than others – the key point is that, whatever form of standard prevails, it must restore a sufficient degree of credibility and trust in global monetary affairs. That requires that, simultaneously alongside the return to gold, there must be a dramatic deleveraging of the undercapitalised financial system in the US, euro area, UK, Japan and also a handful of other countries. Fortunately, this is easily accomplished. All that is required is that the rate of gold convertibility is set at a gold price sufficiently high to imply that existing debt burdens, now clearly excessive, are reduced to levels that can be credibly serviced from existing levels of national income and, in the case of sovereign debts, from tax revenues.

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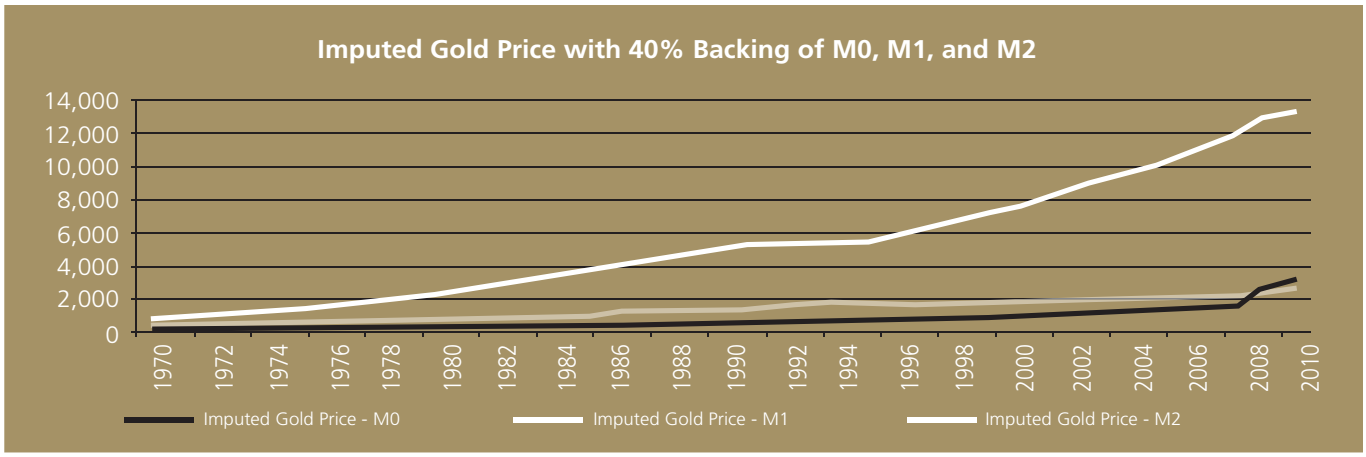


However, given just how overleveraged financial systems are, and how large sovereign debt burdens are becoming amid unprecedented peacetime deficit spending, the rise in the price of gold will need to be an order of magnitude higher than it is today. That may surprise some, given that the price of gold has been rising for years. But what should really surprise us is that the growth of money and credit has been far greater. Simply taking the numbers as they are and allowing the gold price to rise sufficiently to compensate for decades of cumulative, excessive money and credit growth implies that a credible gold conversion price in dollars would be above $10,000. The credible, sustainable conversion prices in euros, yen, sterling and other developed world currencies would also lie far higher than where they are today.

From an investor's perspective, there are far greater implications of a return to a gold standard than merely the large rise in the gold price. The dynamics and determinants of interest and exchange rates, and risk premia for the entire range of assets, are going to change. For example, for those countries that return to gold, exchange rates will become essentially fixed. Interest rates, however, while nominally still under the control of central banks, will need to be set at market-determined levels, not below, or gold reserves will be depleted, eventually leading to a funding crisis. Risk premia for most assets will need to rise, primarily because, constrained by the gold standard, both monetary and fiscal authorities will have less flexibility to provide stimulus during economic downturns. As such, cyclical profit swings will tend to be larger, as will the number of bankruptcies.

While a lack of policymaker flexibility and increased risk of corporate bankruptcy might concern some investors, consider that it was precisely an excess of policymaker flexibility – chronically loose monetary and fiscal policy – which got the developed world into its current predicament. This point is clear: poorly managed fiat currencies and the financial systems built upon them caused the global credit crisis, not gold. And what a world of 'too big to fail' needs are reforms that indeed allow large firms to go bankrupt from time to time, so that capitalism can in fact work as intended.

It is worth considering why bankruptcy has become such a bad word. While no investor wants to lose money on a bankrupt enterprise, when looking at a capitalist economy as a whole, bankruptcy is absolutely essential to economic progress. Josef Schumpeter's 'creative destruction', unlocking resources in unproductive enterprises and moving them to where they can be more efficiently employed, or mixed with new technologies or business techniques, is what capitalism is all about. Real long-term economic progress depends on it.

There are other reasons not to fear gold but rather embrace it. A gold standard will reward savings, something that is sorely lacking in much of the developed world.

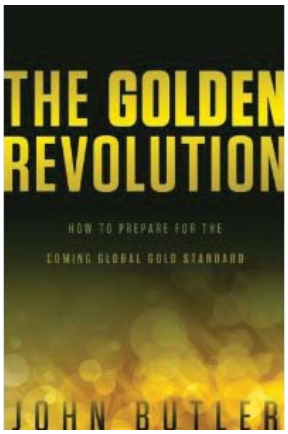
There are other reasons not to fear gold but rather embrace it. A gold standard will reward savings, something that is sorely lacking in much of the developed world. It will rationalise government finances, in particular by making it difficult if not impossible for countries to incur large debts and then try to pass these off on future generations, something of dubious morality. Absent easy money, it will force economies to become more flexible, and labour and capital to become more mobile. By implication, financial leverage will also be limited and 'too big to fail' will instead become 'too big to bail'. Indeed, absent easy money or bailouts, the financial sector will only grow to the extent that it actually serves the broader, productive economy. Huge numbers of engineers and other quants who went to the City looking for outsize bonuses will make their way back into real industries making real things, where they will be joined by fresh graduates and lay the groundwork for what is likely to be an era of great industrial innovation.

Investors should not fear the golden revolution. Rather, they should welcome it. After all, they don't call particularly prosperous historical episodes 'Golden Ages' for nothing.

John Butler
Chief Investment Officer
The Amphora Commodities Alpha Fund

Currently serving as the Chief Investment Officer of a commodities fund, John was previously Managing Director and Head of the Index Strategies Group at Deutsche Bank in London, where he was responsible for the development and marketing of proprietary, systematic quantitative strategies for global interest rate markets. Prior to joining DB in 2007, John was Managing Director and Head of European Interest Rate Strategy at Lehman Brothers in London, where he and his team were voted number one in the Institutional Investor research survey. In addition to other research, he publishes the Amphora Report newsletter which appears on several major financial websites.

A cum laude graduate of Occidental College in California, John holds a Masters Degree in International Finance and Economics from the Fletcher School of Law and Diplomacy, associated with Harvard and Tufts Universities.



Building a Bibliography of Books on Gold and Silver

by Timothy Green, Author and Journalist

Introduction

The challenge in compiling a bibliography of useful books on gold and silver is not so much what to include, but what to leave out. In over 40 years of writing about both metals, I have collected or borrowed a myriad of titles on every aspect of the metals. Now, we have come up with a selection of 23 categories ranging from Assaying and Hallmarking, Coins, Investment, Metallurgy, Jewellery Design, Gold Rushes, Markets, Mining and Technology, to Silver in India, embracing more than 200 books.

Fortuitously, a panel of experts agreed to join us in the search, recommending books on their specialities. Notably, Professor Barry Eichengreen at the University of Berkeley, California, responded the same evening to an initial email from me on a Sunday lunchtime. He then contributed reviews on key books on the internal monetary system and central banks. Dr Chris Corti of COReGOLD Technology Consultancy provided indispensable recommendations on Science and Technology. From the London Market, Jonathan Spall of Barclays Capital chipped in with books on fast-moving modern markets, while Frederic Panizzutti from MKS Finance, Geneva, proposed essential books from a European perspective. On Silver, Mike DiRienzo, of the Silver Institute, pointed us to American publications. The LBMA is grateful for their guidance and that of others, including the Goldsmiths' Company and the London Library.

For anyone seeking a broad briefing, we have selected 15 titles that rate as most 'useful'. The earliest is the *Report of the House of Commons Select Committee on the High Price of Bullion* in 1810, which gives the verbatim testimony of the Bank of England's Bullion Office and its broker, Mocatta & Goldsmid (now ScotiaMocatta), into how the market worked and the price was set. The most up-to-date book is Shayne McGuire's *Hard Money: Taking Gold to a Higher Investment Level in 2010* (precisely 200 years later).

Fortuitously, a panel of experts agreed to join us in the search, recommending books on their specialities. Notably, Professor Barry Eichengreen at the University of Berkeley, California, responded the same evening to an initial email from me on a Sunday lunchtime.

The most practical introduction is *Gold* by Susan La Niece, a senior metallurgist in the British Museum's Department of Conservation and Scientific Research. She explains its brilliance, colour and unique properties of resisting corrosion and reflecting light. Dedicated chapters on gold's role as money, the art of the goldsmith (ancient and modern), jewellery and adornment are brought vividly to life in colour illustrations from the British Museum's own collections.

Switching to the technology of jewellery, nothing equals Oppi Untracht's *Jewelery: Concepts & Technology*. Untracht was a polymath on jewellery. This *magnum opus*, weighing three kilos, contains 900 colour and black and white

photographs, and as many drawings and diagrams. The book details every technique jewellery craftsmen the world over use now – or used in the past.

An equal tour de force is Christopher Corti and Richard Holliday's *Gold – Science and Applications*, published in 2010, covering developments in applications of gold, notably in catalysis and nanotechnology. Once Corti and Holliday set the scene in high technology, 16 further chapters are contributed by leading experts covering metal joining, jewellery production, electroplating, bonding wire, dentistry, thick film pastes and decorative gold materials.

Gold rushes and mining, of course, are an integral part of the story. On the rushes, my favourite is *The World Rushed In: The California Experience, An Eyewitness Account* by J. S. Holliday. It is a deeply moving account of the scramble to California in 1849, based on the diary of William Swain, who trekked across the plains and over mountains with 30,000 other prospectors to reach the diggings. On mining, the unique South African story is well told in Theodore Gregory's *Ernest Oppenheimer and the Economic Development of Southern Africa*. Oppenheimer's major achievement was backing the new gold fields in the Orange Free State in the late 1940s, which yielded four of the industry's seven 'super' mines over the next three decades. This is an essential book on the role of gold mining in South Africa.

If you want to ship gold from London to Paris or California to London, or silver bars to Hamburg or silver dollars to Shanghai and bars to India, then this tells you how to pack it, what ship it goes on and how much it costs.

In a blaze of gold, silver must not be forgotten – not least, *Silver, Its History and Romance* by Benjamin White, first published in 1917 and now printed on demand by Nabu Press. White worked in the London Silver Market for 40 years and, finding no one had written its history, decided to write it. This book is a unique source of data on the 18th and early 19th centuries. In the story of silver, India has played a key role, which is tackled by S. L. N. Simha and Janaki G. Krishnan in *The Saga of Silver*. More than 30 tables of statistics on production, prices in major markets, Indian imports and world consumption make this a basic source. And we must not forget Stephen Fay's *The Great Silver Bubble* on Bunker Hunt's attempt to corner the silver market in 1980.

Finally, among the books we chose for the bibliography, I would nominate the most original. Ernest Seyd's *Bullion and Foreign Exchanges*, published in 1868, is not just the best account of the London Market for gold and silver in the 18th century, but the most thorough at 700 pages of data. If you want to ship gold from London to Paris or California to London, or silver bars to Hamburg or silver dollars to Shanghai and bars to India, then this tells you how to pack it, what ship it goes on and how much it costs. This is a bullion dealer's handbook *par excellence*, now a collector's item, but you may find it on the AbeBooks website.

Good reading.

Timothy Green
Author and Journalist

Timothy Green has been writing about gold for over 40 years. His first book, The World of Gold, came out in 1968 and was revised several times. He also wrote The Gold Companion: The A-Z of Mining, Marketing, Trading and Technology for the Swiss company MKS Finance SA. His latest book, The Ages of Gold, on the 6,000 years' history of the metal, was published in 2007 by GFMS, the precious metals research company, for whom he was also a consultant on world gold markets for three decades. In 2010, he wrote Building a Global Brand, The London Good Delivery List 1750-2010 for the LBMA.

Forecast 2012 Survey

Metal	Average 1st week Jan 2012	Average 2012 Forecast	2011 Year Average
Gold	$1,603	$1,766	$1,572
Silver	$28.96	$33.98	$35.11
Platinum	$1,412	$1,624	$1,720
Palladium	$655.00	$735.52	$733.63

Forecast contributors expect all four metals to increase in price during 2012 by at least 10%. However, continued uncertainty in the global economy means that contributors are also expecting significant volatility in prices for all metals in the year ahead.

Forecasters expect gold to hit record highs again this year, with a predicted average high of $2,055 during 2012. Analysts cite continued negative real interest rates in the eurozone, expected weakness in the US dollar, debt problems in the US and Japan, as well as further central bank purchases of gold, as factors that could help the gold price break through the $2,000 barrier in 2012. On the downside, the possibility of an improvement in the US economy, China switching towards easing rather than tightening of monetary policy, as well as continued uncertainty in the Middle East and eurozone, are cited as potential negative influences on the gold price. However, overall, analysts remain bullish about gold in 2012, predicting an average of price of $1,766, a 10.2% increase from that recorded in the first week of the year.

Of the four metals, analysts are most bullish about the prospects for silver, with the average price in 2012 forecast to reach $34, 17.3% above the average price in the first week of 2012. But analysts also cite concerns about oversupply and sluggish demand as possible factors that could depress the price of silver during 2012. If analysts are proved right, then silver is in for a roller-coaster ride in 2012.

Analysts are also bullish about the prospects of platinum, forecasting an average price of $1,624, 15% above that recorded in the first week of 2012. Some analysts expect the price to come under pressure in the first half of 2012 on the back of continued sluggish diesel car sales in Europe and Asia, but see increased demand from China, an improvement in the US and euro economies as positive factors that could push up prices later in the year. For palladium, analysts forecast an average price of $735, 12.3% higher than the average in the first week of 2012. The depletion of Russian stockpiles as well as strong links to the US and China automobile markets are seen as factors which could have a positive impact on prices.

To find out more about what will happen to prices for precious metals this year, and what factors are likely to influence their price, read the complete 2012 Forecast Survey, which is now available on the LBMA's website.

Metal	Actual 2010 Average	1st Week Jan 2011	Average Forecast 2011	Actual 2011 Average	Winning Forecast	2011 Winning Analyst	Company
Gold	$1,225	$1,375	$1,457	$1,572	$1,550	Edel Tully	UBS
Silver	$20.19	$29.65	$29.88	$35.11	$34.05	David Jollie	Mitsui & Co Precious Metals Inc
Platinum	$1,610	$1,735	$1,813	$1,720	$1,715	Rohit Savant	CPM Group
Palladium	$526.38	$768.00	$814.65	$733.63	$730.00	Rohit Savant	CPM Group

2011 Forecast winners, David Jollie and Edel Tully pictured collecting their prizes at the LBMA offices recently. (Rohit Savant was unable to make the photoshoot and will receive his prizes separately).

Forecast 2012 is now available on the LBMA website. If you would like a hard copy, please contact alchemist@lbma.org.uk.

The London Bullion Market Association is delighted to congratulate the winning analysts in the 2011 precious metals *Forecast*. The aim of the LBMA *Forecast* is to predict the average, high and low price for each metal as accurately as possible. The prediction closest to the average price in 2011 won (based on the $ daily pm fixing price).

The winning analysts were Edel Tully (gold), David Jollie (silver) and Rohit Savant (platinum and palladium). Many thanks to all the *Forecast* contributors for another excellent year.

The LBMA is grateful to Metalor Technologies SA for its generous donation of all of the prizes for the Forecast. The winners for each of the four metals each received a 1oz gold bar.

Obituary

Stewart is seen fourth from the left at a dinner hosted by the London Bullion Market in the mid '80s marking the retirement of Dennis Suskind (seated left of Stewart). Readers may recognise some of the other attendees.

Stewart R V Pixley 1921 – 2011

It is with great regret that we announce the recent death of Stewart Pixley, at the age of 90. The last individual representing a line of family names associated with the market for over a century, his contemporary being Jock Mocatta.

Stewart became a partner of the family firm of Pixley and Abell in 1947 following seven years in the army. He was the great-grandson of the founder of the firm in 1852, the sixth to carry the family name and the fourth Stewart. In 1957 he amalgamated the partnership with Sharps & Wilkins who were founded in 1811 to form Sharps, Pixley and Company. In 1966 the company was acquired by Kleinwort Benson Limited becoming Sharps Pixley Limited. Stewart retired in 1972 for health reasons. He was a Liveryman of the Goldsmiths' Company and Freeman of the City of London.

Stewart came from a gentler time in the market; of bowler-hatted attendees at the Gold Fixing, of silver pinned at $1.29 per ounce until 1967 and gold at $35.00 until 1968. As Ed Hoffstatter who Stewart asked to establish Sharps Pixley Inc in New York in 1970 recalls, "Stewart defined for me the meaning of being a true English gentleman". John Coley believes his legacy of the family firm atmosphere is why, to this day, Sharps Pixley people have such an unmistakable identity and camaraderie.

Stewart leaves his wife Mary and two sons.

DIARY OF EVENTS

FEBRUARY 2012
6-9
Mining Indaba Conference
Cape Town International Convention Centre
Cape Town, South Africa
info@miningindaba.com
www.miningindaba.com

MARCH 2012
1
LBMA Annual Party
London, UK
events@lbma.org.uk
www.lbma.org.uk

13
Bloomberg Precious Metals Conference
New York
www.bloomberglink.com

APRIL 2012
17-21
Denver Gold Group European Gold Forum 2012
Zurich, Switzerland
www.denvergold.org

29-30
Dubai Precious Metals Conference 2012
Dubai, UAE
www.dmpc.ae

MAY 2012
14-18
LPPM Platinum Week
London, England

17-19
World Mining Investment Congress
London
sarah.pegden@terrapinn.com
www.terrapinn.com

JUNE 2012
9-12
IPMI Conference
JW Marriott, Las Vegas
www.ipmi.org

AUGUST 2012
6-8
Diggers & Dealers Forum 2012
Kalgoorlie, Australia
www.diggersndealers.com.au

24-26
9th India International Gold Convention 2012
HICC Novotel, Hyderabad India.
www.goldconvention.in

SEPTEMBER 2012
9-12
Denver Gold Forum 2012
Hyatt Regency, Denver, CO
www.denvergold.org

18-21
Fifth International Platinum Conference
Sun City, South Africa
www.platinum.org.za

NOVEMBER 2012
11-13
LBMA Precious Metals Conference
Grand Hyatt Hotel
Hong Kong, China

DECEMBER 2012
10
LBMA Silver Anniversary Event
Mansion House
London, UK

Regulation Update

By Ruth Crowell, Commercial Director, LBMA

LBMA Responsible Gold Guidance

The Responsible Gold Guidance is now a formal requirement of Good Delivery for all gold refiners. The RAC and the Referees have developed this due diligence guidance in order to ensure that all LBMA GD Refiners' Good Delivery bars are free from conflict gold. The LBMA Guidance formalises and consolidates existing high standards of due diligence amongst all LBMA Good Delivery Refiners. This new requirement of Good Delivery is an extension of the LBMA's existing accreditation systems, which currently monitor refiners' financial standing as well as their ability to cast and assay Good Delivery bars. For a copy of the current guidance, please visit www.lbma.org.uk.

The Guidance is based primarily on the OECD Due Diligence Guidance issued in December 2010 as well as Swiss Anti-Money Laundering regulations. The structure of the guidance closely follows the OECD five-step framework for risk-based due diligence in the mineral supply chain. Where there is higher risk, then more due diligence is required and vice versa.

The LBMA continues its work on gold supply chain regulation by engaging with the SEC, OECD and various industry bodies, and through developing the Responsible Gold Guidance for LBMA Gold Refiners.

OECD Due Diligence Guidance - Gold Supplement

The LBMA has been heavily involved in the drafting process of the OECD Gold Supplement, which is expected to be published in early February. The publication date was pushed back from December to ensure that members of the OECD Working Group on Gold were able to adequately review and comment on the supplement. The delay has also been due to the larger than expected volume of issues involved in drafting such a supplement.

In December, the WGC, RJC and LBMA submitted a joint letter to the SEC, showing its support for the OECD Due Diligence Guidance and the forthcoming Gold Supplement. To ensure that the LBMA Responsible Gold Guidance works in conjunction with the other industry initiatives, the LBMA is also working closely with the World Gold Council, Responsible Jewellery Council and the EICC. While there has been no formal response, the SEC has delayed publication of final rules to the period January - June 2012. It is hoped this delay is due to the SEC awaiting the outcome of the OECD Gold Supplement.

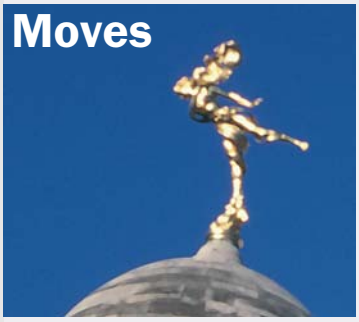
Responsible Gold Guidance Adoption & Implementation Timeline

27 Jan, 2012	Deadline for LBMA GD Gold Refiners to indicate that they accept and will implement the guidelines.
Feb, 2012	Expected Publication of OECD Gold Supplement
Jan-Jun, 2012	Expected Publication of SEC final rules on conflict minerals
***31 Dec, 2012**	First Voluntary** GD Refiner Audit Reports for 2011 due
***31 Dec, 2013**	First Mandatory GD Refiner Audit Reports for 2012 due

* *For some refiners, this may be 30 April, as an LBMA Audit Report will be due no later than one year after the closing of the refiner's financial books.*

** *While an audit report for a refiner's 2011 production is not mandatory, it is encouraged, particularly for refiners that need to meet Dodd-Frank requirements.*

Market Moves



Wolfgang Wrzesniok-Rossbach to Degussa Goldhandel GmbH

Wolfgang joined Degussa Goldhandel GmbH as CEO on 1 November, 2011. With this company, which is backed by one of the wealthiest German families with a long track record in gold investment, a venerable name returns to the bullion market a few years after the original Degussa AG left the precious metals market and was later renamed Evonik Industries AG.

Degussa Goldhandel, with its headquarter located in Frankfurt, will initially concentrate on selling physical precious metals to private and institutional investors offering a wide range of Degussa-branded gold bars and bullion coins. Those will be sold through a branch network in Germany and in other countries such as Switzerland.

Prior to joining Degussa, Wolfgang headed for more than six years sales and marketing for another leading precious metals house, Heraeus Metallhandelsgesellschaft, prior to which he was Head of Precious Metals Trading with Dresdner Bank AG in Frankfurt.

Michael Kempinski to UBS Singapore

Michael joined UBS Singapore in August 2011 with responsibility for Precious Metals in Asia. Michael's career began in 1993 at the Precious Metals desk at Dresdner Kleinwort Benson Frankfurt. In 2000 he moved to Luxemburg to work for Commerzbank. Prior to taking up his new position with UBS Michael was the Regional Head of Precious Metals for Commerzbank Singapore.

LBMA News

By Stewart Murray, Chief Executive, LBMA

MEMBERSHIP

Associates

On 15 November, 2011, OJSC Nomos Bank of Russia was admitted as an Associate.

Ordinary Members

On 16 November, 2011, Industrial Commercial Bank of China (ICBC) was admitted as an Ordinary Member.

On 14 December, 2011, The Toronto-Dominion Bank of Canada was admitted as an Ordinary Member.

On 31 December, 2011, MF Global UK Ltd was removed from the Membership List due to the company going into administration.

These changes brought the membership to a total of 136 companies, comprised of 62 Ordinary Members (of which 11 are Market Makers), 70 Associates and 4 Affiliate Members.

GOOD DELIVERY LIST

Nadir Metal Refinery of Turkey was added to the Gold List on 8 December, 2011.

Jiangxi Longtianyong Nonferrous Metals Company of China was added to the Silver List on 28 December, 2011.

There are currently 62 refiners listed on the Gold Good Delivery List and 72 refiners listed on the Silver Good Delivery List.

COMMITTEES

Management

The Committee met in November, as well as in December for a strategy meeting which included the chairmen of the Sub-Committees. A particular focus in recent meetings has been on regulation, especially the implementation of the LBMA Responsible Gold Guidance. At the Strategy Meeting, it was agreed that the Membership should be consulted about the LBMA's activities and the services it provides to Members. The meeting also discussed the possibility of carrying out surveys of loco London turnover on a regular basis (similar to the survey of Q1 turnover in 2011 which was described in Alchemist 63).

The Committee reviewed plans for the 2012 Conference in Hong Kong during the period 11-13 November, 2012, which will again be held in association with the LPPM. It also approved plans to mark the LBMA's Silver Anniversary in late 2012, which will include a seminar and a special version of the Biennial Dinner, to be held on 10 December. It is hoped that many of the people involved in the founding and subsequent development of the Association will attend.

The Committee also agreed the plans to relocate the Executive office from Basinghall Street to larger premises in the Royal Exchange Buildings, just across Threadneedle Street from the Bank of England. The move is expected to take place in early March.

The Committee also agreed the plans to relocate the Executive office from Basinghall Street to larger premises in the Royal Exchange Buildings, just across Threadneedle Street to larger premises in the Bank of England. The move is expected to take place in early March. The LBMA has grown significantly in the 10 years since moving to Basinghall Street and the new office will allow more room for the staff and better facilities for Members and other visitors.

The LBMA now has a full-time staff of seven plus Aelred Connelly, who has been seconded from the Bank of England to assist in a number of aspects of the LBMA's Good Delivery work. The increase in staff resources has been needed to cope with the increasing workload brought on by the numerous regulatory issues facing the bullion market. Together with the office move, this has resulted in higher costs and the Management Committee has agreed to increase annual subscriptions for Members, Associates and Good Delivery refiners (the first such increase for three years). Details have been sent to all refiners on the List.

Regulatory Affairs

The RAC met in early December to discuss a variety of regulatory issues. These included the LBMA Responsible Gold Guidance as well as the LBMA's work within the OECD Working Group on Conflict Gold. Since the RAC has met, the LBMA has finalised its Responsible Gold Guidance. Compliance with the Guidance is a new requirement for GD Gold Refiners. The Guidance was circulated to all GD Refiners on 6 January, with copies being sent for information to Members and Associates. The main purpose of requiring all GD gold refiners to comply with this Guidance is so that those banks, dealers and users which buy LBMA-accredited gold bars can do so with full confidence that the gold will be considered by the market to be conflict-free, for instance in relation to section 1502 of the US Dodd-Frank Act.

For more information on the LBMA Responsible Gold Guidance and other regulatory issues facing the precious metals market, see the Regulation Update on page 22.

The RAC also reviewed the LBMA's current contacts with regulators, with a view to improving communication between the LBMA and regulators within the UK, EU and US.

Physical

Apart from August, the Physical Committee met each month last year. The main work of the Committee consists of supervising the processing of GD applications and the Pro-Active Monitoring of refiners. From time to time, this also involves fine-tuning the Rules which govern the GD system. Some important changes in the Rules have been agreed recently. The first is that refiners will have to provide data on their tangible net worth and production on an annual, rather than a three-yearly, basis (though the technical testing part of Pro-Active Monitoring will remain on a three-yearly cycle). In addition, the Committee also agreed to an increase in the minimum net worth that applicants for listing must attain, namely from £10 million to £15 million. Existing refiners which do not meet this criterion will be allowed a grace period of two years to increase their tangible net worth.

The final parameters for the new proficiency testing scheme for gold fire assayers were agreed and the exercise will be initiated in early February.

Work is continuing on a new version of the Visual Guide to Good Delivery bars, which will assist vaults, refiners, referees and auditors in clarifying the difference between physical imperfections (i.e. which would be accepted by London vault managers) and more serious defects, which will result in bars being rejected as non-London Good Delivery.

The Executive's workload in the Good Delivery area seems to increase constantly, partly because of the above-mentioned changes in the Pro-Active Monitoring regime but mostly because of the work on Responsible Gold Compliance described above. In addition, there is no let-up in the number of companies interested in being LBMA accredited. Amazingly, as many as 10 refiners (in seven countries) are now pursuing their ambition to achieve this much sought-after status.

These added workload pressures are further reasons why the Committee recommended increases in GD application fees and also in the annual maintenance fees for existing GD refiners, which were referred to earlier.

Public Affairs
The Committee has begun its work on the arrangements and speaker programme for the 2012 Hong Kong Conference. The will take place in November 11-13 over two full days. This extension of the programme is in response to the continued growth in the number of delegates attending and the need to have more efficient ways of fostering contacts between them.

Finance
The Committee met in September to review the three-year budget forecast in the light of the income and expenditure for Q1 to Q3 2011 and the financial implications of the Executive's move to the new premises.

In November, Terry Carroll informed us that he was retiring from both his position at HSBC and the Committee. Terry's contribution to the work of the Committee, since joining it in July 2001, has been immense and he will be sorely missed. The members of the Committee and the Executive send him our best wishes for a long and happy retirement. There was already a vacancy on the Committee due to the move of Jeremy East to the Membership Committee. The two vacancies have now been filled by Peter Roberts of Mitsubishi (who has transferred from the Membership Committee) and Brian Pereira of Brinks.

In November, Terry Carroll informed us that he was retiring from both his position at HSBC and the Committee. Terry's contribution to the work of the Committee, since joining it in July 2001, has been immense and he will be sorely missed.

VAT Group
Discussion has continued within the VAT Group about the development of a new Memorandum of Understanding on the VAT treatment of bullion market transactions. The aim is to produce a document that will cover both the LBMA and LPPM metals and which will be accepted by both these markets and by HM Revenue & Customs as a practical guide for members. This discussion has been protracted because of the need to resolve two difficult issues (relating to the storage of allocated precious metals and transactions between non-members which are under the effective physical control of members). It is hoped that a final version of the MOU will be available for distribution to all members shortly.

Annual Party
Staff at Members and Associates should mark their calendars for the 2012 LBMA annual party to be held on 1 March. Details of this Members-only event will be circulated shortly to contacts in all companies within the membership. Registration opens at the end of January. The party will cost £25 (plus VAT) per person. Please contact your official LBMA contact closer to the time to be added to your company's list of participants.

Staff at Members and Associates should mark their calendars for the 2012 LBMA annual party to be held on 1 March.

Committee Vacancies

There is a vacancy on the Membership Committee due to the move of Peter Roberts to Finance. There are also two vacancies on the Regulatory Affairs Committee following the departure of Chris Savage and Farham Amin, who have been reassigned internally.

Anyone from a member company interested in applying for these roles should send an email to the Chief Executive with a brief statement of their bullion market experience.

LBMA Executive – Employment Opportunities

There are two positions available at the LBMA Executive, Public Relations Officer and Office Administrator. For a detailed job description, please contact the Chief Executive.

The RAC - Twelve Months On

Editorial Comment Ed Wells, Chairman, LBMA Regulatory Affairs Committee

New regulation, and the threat of ever more regulation, is taking an increasing proportion of our time. To help the Members of the LBMA be more informed about what is going on and to have a stronger voice in the regulatory debate, the Regulatory Affairs Committee (RAC) was established a year ago. Initially there was some hesitation about this move on the grounds that it could duplicate other work being done - for example by Members' Compliance teams - or it would find difficulty coming to an agreed position amongst such a diverse membership. Ultimately, the example of REACH convinced the LBMA Management Committee that it was time to grasp the regulatory nettle.

REACH (Regulation, Evaluation, Authorisation and Restriction of Chemicals) is a piece of European Union Regulation which came into force in 2007 and which governs all chemicals. Regardless of the fact that gold does not pose any risks to human health or the environment, gold is included in its scope. Companies which produce or import a significant amount of gold (>1 tonne per annum) must register and comply with this regulation. Once the LBMA had established that gold was within the scope of the regulation, the Association worked successfully to create an exemption for London Good Delivery bars. However all other gold in the EU still must be compliant with REACH.

The Management Committee wants the RAC to ensure that the London Bullion Market is kept informed in a timely manner about future regulation. The RAC is currently composed of LBMA Member representatives together with a representative from a GD Refiner and the CEO of the International Centre for Financial Regulation. It is not set up to compete with existing groups tackling difficult issues in the financial sector (e.g. the Futures & Options Association with regard to MIFID) but instead to complement their work. The Committee worked effectively to assist the lobbying efforts of the World Gold Council to ensure that gold is treated as a high quality liquid asset in the implementation of Basel III. The LBMA Gold Turnover Survey for Q1 2011 gave the WGC vital statistics to strengthen its work in this area. In doing so it provided a clear picture of the size of the London gold market.

The RAC has since played a leading role in addressing gold supply chain regulation, which required specialist knowledge from the bullion market. Creating the LBMA Responsible Gold Guidance has been the largest body of work for the RAC in the past year. This Guidance is intended to ensure that banks, dealers and users which buy LBMA Good Delivery gold bars can do so with full confidence that the gold will be considered by the market to be conflict-free, specifically in relation to the US Dodd-Frank Act and the OECD Due Diligence requirements. Compliance with this Guidance is now a new requirement for GD Gold Refiners. The RAC has also assisted the LBMA in responding directly to the SEC and the OECD on behalf of the bullion market in relation to proposed supply chain regulations. (For further information on this work, see the Regulation Update on page 22.)

To help the Members of the LBMA be more informed about what is going on and to have a stronger voice in the regulatory debate, the Regulatory Affairs Committee (RAC) was established a year ago.

In 2012, the RAC will continue its work on supply chain regulation, with continued assistance from the Referees and the Physical Committee. There are also plans to repeat the Survey of Turnover to provide regulators and others with a better understanding of the size and importance of the London gold market. Looking forward, however there is still much work to be done in analysing and responding to the other (non-conflict-minerals) sections of the US Dodd-Frank legislation. In particular, the RAC will be looking at possible reporting and position limits for OTC derivatives. These issues are also being looked at in the EU and will need to be addressed there as well.

In 2012, the RAC will continue its work on supply chain regulation, with continued assistance from the Referees and the Physical Committee.

The LBMA will also continue to develop its interaction with UK, EU and US regulators. This targeted approach will improve the levels of awareness and understanding of the bullion industry and the role of the LBMA in representing its Members' interests. In spring 2012, a Management Committee delegation will be visiting US regulators to introduce the LBMA and educate them on the structure and strength of the London market. The focus of the LBMA's regulatory approach for the coming year will continue to be on gathering and disseminating information to the Membership, working to ensure that regulators and policymakers have a better understanding about the role and functioning of the London Bullion Market. We may not be able to prevent new regulation coming our way, but we can help to ensure that it is better informed in the future.

facing facts

Paul Burton
Senior Equities Analyst
Thomson Reuters GFMS

Record Margins = Dividends Windfall?
Producers' margins are outpacing cash cost inflation, so with treasure chests full, will the miners deliver a Christmas present to their shareholders?

Our analysis of the gold mining industry in the Winter issue of the World Gold Analyst, shows that Q3 cash costs for the 70-plus gold producers that we cover, rose 17% year-on-year to $634/oz.

This follows increases of 17% year-on-year in Q2 and 16% year-on-year in Q1 and, indeed, slightly higher annual increases over the past few years.

In a static or declining price environment, such increases could possibly be signalling terminal decline of a mature industry, but with the gold price rise of recent times (even after the recent pull-back), costs of $634/oz look very respectable when measured against a $1,600 to $1,700/oz metal price.

In fact, it is often not entirely understood that the gold price rise is a contributing factor in mining cost inflation. While mine site cost inflation certainly continues to play a strong underlying role, with fuel, electricity, labour and consumable costs continuing their steady climb, other factors are more significant in recent dramatic cost rises. As the gold price gets higher, miners can reduce cut-off grades and bring lower grade mineralisation into ore reserves and thus the mining plan, leading almost invariably to higher unit gold costs. In its Gold Survey 2011, Thomson Reuters GFMS found that declining ore grades was the second most significant factor in upward pressure on operating costs (foreign exchange movements was the most important).

So despite record costs in Q3, cash margins themselves reached record levels with more than 30 companies reporting margins in excess of $1,000/oz, with Mexican gold producer, Minefinders, the industry leader with a staggering margin of $2,264/oz!*

Of course, cash margins do not tell the whole story as the actual cost of mining is higher than that – staying-in-business costs also must be included – but even with all-in costs at around the $900/oz mark in the first half of 2011, the industry is enjoying healthy margins and cashflows.

The fact that producers are making money does not seem to have registered with investors and that's part of the reason for the lacklustre performance of gold stocks this year, despite a strong gold price. What might perk up investors' interest is some positive news regarding what producers are going to do with their treasure chests.

The world's largest producer, Barrick Gold, had a cash margin of $1,290/oz in Q3 and held cash of almost $3 billion at the end of the period. Newmont Mining, the second-largest producer in the world, reported a margin of $1,067/oz and cash of $2.1 billion; and another major North American producer, Goldcorp, recorded a cash margin of $1,461/oz and $1.5 billion of cash.

So the big question is: "Can shareholders expect to receive a share of this cash?" The answer seems to be a qualified "yes".

The three big miners mentioned above all have large capital commitments for their pipeline of development projects, but they are making so much money that it is no longer a case of growth or dividends – the two can coexist. Newmont CEO, Richard O'Brien, said recently: *"Newmont's cash flow and balance sheet strength in the current metal price environment provide us with the flexibility and strength to simultaneously fund our internal growth pipeline and return meaningful cash to our shareholders."*

In fact, under Newmont's new gold price-linked dividend policy, its annual dividend has the potential to increase to $4.70 a share if the company's average realised gold price reaches $2,500/oz. Before shareholders get too excited, Newmont has just raised its quarterly dividend by 17% to $0.35/share, making $1.00/share for the year, so a long way from $4.70.

Goldcorp, meanwhile, has just announced a 32% increase in the annual dividend to $0.54/share and Barrick has upped its quarterly dividend by 25%, from $0.12 to $0.15/share, making $0.51/share for the past 12 months.

So it seems that shareholders will benefit somewhat from gold's dramatic rise of recent times and increased dividends will be most welcome. But as these dividends represent yields of only between 1.1% (ABX, G) and 1.6% (NEM) they are hardly likely to provide much festive cheer to investors, who have seen little capital appreciation of their gold stock holdings over a period when the gold price has risen by around 25%.

Paul Burton Senior Equities Analyst, Thomson Reuters GFMS.

Paul Burton graduated as a mining engineer from the Camborne School of Mines in 1975 and spent almost twenty years working in the South African gold mining industry before becoming editor of *World Gold Analysts* in 1996, a position he still holds. In 2008 he became Managing Director of GFMS World Gold until the company was acquired by Thomson Reuters last year and is now Senior Equities Analyst, Thomson Reuters GFMS.

He is an established speaker on the international conference scene and is Chairman of the FTSE Gold Mines Index Committee.

He holds an MSc in Mineral Economics and an MBA from the University of the Witwatersrand.

* *Minefinders' costs per ounce for gold are offset by revenue credits from their associated silver production, leading to a negative cash cost and thus an anomalous-looking margin in excess of the current gold price.*

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