LBMA

Alchemist

The London Bullion Market Association ISSUE 70 April 2013

In this issue

The highlight of this edition is the recent visit of the Queen and Duke of Edinburgh to the gold vaults at the Bank of England. Read all about their visit on page 3.

A Royal Visit to Remember

By Louise Lee, Manager of Gold and Foreign Exchange Settlement Operations, The Bank of England

The Queen and the Duke of Edinburgh visited the Bank of England in December 2012. In the following article, Louise Lee provides a fascinating insight into their visit.

The Queen is escorted through the Bank's display vault.
Image used with permission from The Governor and Company of the Bank of England.

On a still mid December morning, underneath Threadneedle Street, the Bank of England's vault was buzzing with an air of excitement. Moments later, the doors of the vault swept open to reveal the morning's much anticipated visitors; the Queen and Duke of Edinburgh had arrived. The Queen was in front escorted by our Head of Division. As they walked slowly towards us, it was the perfect opportunity for the waiting photographers. As their flashes fired, the aisle glistened in a spectacle of aureate brilliance - a suitably magnificent scene for the guests whose arrival it marked.

Several weeks earlier, a small group of staff had been told of the planned royal visit and had set about making the arrangements for our 'special guests'. It was at our first meeting with the Governor's Private Secretary that we had discussed ideas for the itinerary. Having never been involved in an event of such prestige, the thought of the meticulous planning ahead seemed quite a daunting task.

With an outline plan ready, the next step was a 'walk through' with representatives from the Palace. They provided a valuable insight into how to structure the 'meet and greet' sessions; they told us that a "horseshoe" of eight to 10 staff works best. With our timing, route and high-level plan agreed, we now had to work up our detailed plan. The Royal Party were to spend around 15 minutes in the vault. There was much work to do but, the details of our 'special guests' were to remain confidential for the time being. That was tough!

The Royal Visit took place in our display vault. This is the vault used in the Bank's official photographs and is the image the general public are familiar with from archive footage. It is distinctive. In a nod to its history, historic posters from cruise ships line the walls, leaving the vault with the charm of a bygone era. These posters appear in a 1942 photograph of the vault and were professionally preserved and framed to preserve them for posterity around 10 years ago.

With the setting decided the next task was to choose the lucky staff who would be introduced to the Queen and Duke. We decided upon on a mix of staff from our physical vault operations and back office settlements team. They were delighted that we had chosen them and fully appreciated that this would be a day to remember.

> *"As the Royal Party approach the vault, our two 'key-holders' step forward. They open the grille in a sweeping movement of such majesty befitting of only such guests and the occasion."*

Back to the big day and the moment has arrived. Our staff wait patiently in the vault as the Royal Party arrives in the Bank and the visit gets underway. The anticipation is building. As the Royal Party approach the vault, our two 'key-holders' step forward. They open the grille in a sweeping movement of such majesty befitting of only such guests and the occasion. They stand either side of the door in a ceremonial stance as the Royal Couple enter with their escorting party including the Governor.

The Bank's display vault. It holds approximately 63,000 bars currently worth nearly £26 billion.
Image used with permission from The Governor and Company of the Bank of England.

The Queen and the Duke of Edinburgh closely examine a selection of gold bars.
Image used with permission from The Governor and Company of the Bank of England.

As our Head of Division escorts the Queen down the aisle, he explains that there are around 63,000 bars of gold in this vault alone. Of interest, he notes how each stack of gold they pass holds four tonnes, which, coincidently, is the same weight as the Gold State Coach! This catches the Queen's interest and she pauses briefly to clarify the point.

> *"Each stack of gold they pass holds four tonnes, which, coincidently, is the same weight as the Gold State Coach!"*

They walk towards us and I greet the Queen and Duke and introduce the team. Our Vault Operations Supervisor explains how he and his team of staff are responsible for checking and weighing each gold bar delivered into the Bank and for storing them within the vaults. I then introduce members of our settlements team who explain their role of maintaining the records of who owns each bar and settling daily transfers between our customers when they buy and sell gold with each other.

We guide the Royal Couple to our first display table and begin to tell our guests about the gold bars laid out before them. Everyone appears captivated by the presentation and quiet descends around the vault. Our Royal Guests are genuinely interested and ask many questions. Perhaps not surprisingly the Duke is eager to hold a bar, remarking upon its considerable weight.

The Queen examines gold bars of historical interest.
Image used with permission from The Governor and Company of the Bank of England.

> *"Our Royal Guests are genuinely interested and ask many questions. Perhaps not surprisingly the Duke is eager to hold a bar, remarking upon its considerable weight."*

The Royal Couple move towards our display of historical interest bars and I recount the story behind each. First is our most historically significant bar. In April 1942, HMS Edinburgh left Murmansk carrying gold, which formed part of Stalin's payment for the supplies that the Allies were shipping to Russia. Tragically, a German torpedo hit and she sank in the Barents Sea shortly after departing Murmansk. This bar was recovered in 1981 and while other bars were also recovered, it is not known how many of these still exist in their original form.

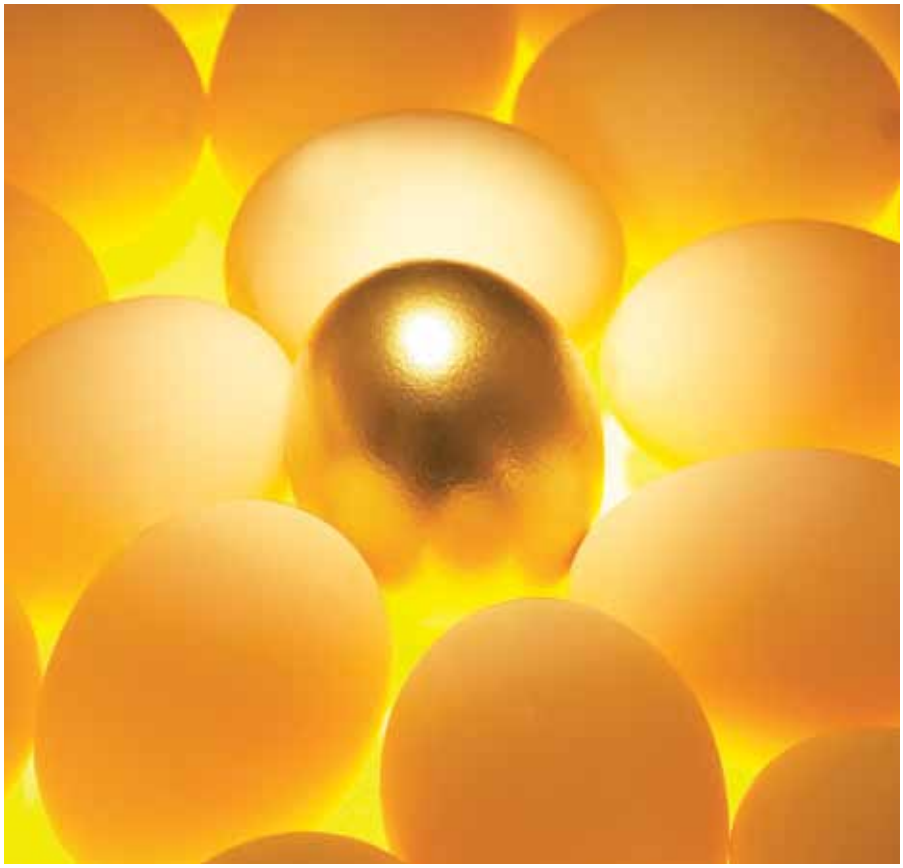
Our second bar of historical interest is the 'Bombay Harbour bar'. In 1944, Steam Ship Fort Stikine sailed from Birkenhead en route to Bombay carrying what transpired to be a volatile cargo of explosives, raw cotton, timber, scrap metal, oil and gold bars. Whilst docked in Bombay Harbour, a fire took hold and the ship exploded. This bar was recovered in 1974 and blast damage from the explosion is evident on the bar.

And so our time with our Royal Guests has come to an end. We watch as they are ushered out of the vault and onto the next part of the Bank. For us, this has been a career highlight and an experience we will never forget.

Louise Lee, Manager of Gold and Foreign Exchange Settlement Operations, Bank of England.
Louise has worked for the Bank for 25 years and has held a number of roles throughout her career. She currently manages the Bank's Gold and Foreign Exchange Settlement operations and sits on the LBMA Physical Committee as an observer for the Bank.

Fear, Delusion and the Gold Investor Index

by Adrian Ash, Head of Research and Ben Traynor, Economist, BullionVault



In this article, Adrian Ash and Ben Traynor explain how they have devised an Index to measure Western household sentiment towards physical gold. People buy gold for many reasons. But in the Western imagination, buying gold spells 'fear' like little else.

"Fear, Mr. Bond, takes gold out of circulation and hoards it against the evil day," a Bank of England officer briefs 007 in Ian Fleming's *Goldfinger* of 1959. Two decades later, "We're in World War Eight if you believe the market," the press quoted one Comex trader as gold hit its 1980 high. With the next upturn in prices, "Popular delusion [still] says gold remains the best hedge against Armageddon," smirked the *New Yorker* magazine in 2004. But Armageddon began three years later, and come the US downgrade, euro crisis and English riots of mid-2011, "Gold is a mirror," wrote a Californian finance professor. "Its price gauges fear of uncertainty, fear of losses and fear of poverty."

The figure of the private investor – the dreaded *goldbug* – looms large in this popular conception. Yes, this character is also greedy (even with his nuclear bomb and S.M.E.R.S.H. connections, Auric Goldfinger attacks the US gold reserves at Fort Knox to become "the richest man in the world, the richest man in history!"). But lacking panicked queues outside bank branches during the virtual run of 2008, the media found anxious queues outside coin shops to be a useful replacement. When *The Economist* magazine first addressed gold's bull market in 2009, it pointed to the fictional Harry 'Rabbit' Angstrom, anxiously hoarding gold Krugerrands in John Updike's *Rabbit Is Rich*. And in mid-2011, one British reporter declared to us that the decade-long rally in gold prices was in fact entirely due to Tea Party supporters, glued to Fox News and fearing the imminent collapse of society.

Given such cultural touchstones, retail gold investors would seem central to the zeitgeist of the West's continuing financial crisis. Anecdote, however, has had to suffice to date. Because while private individuals are perhaps overrepresented in the popular view of gold investing (not to say misrepresented), they are little examined in the data.

> *"Given such cultural touchstones, retail gold investors would seem central to the zeitgeist of the West's continuing financial crisis."*

Gold analysts can monitor a number of indicators to give them a feel for prevailing sentiment in the market. The weekly Commitment of Traders report from the Commodity Futures Trading Commission (CFTC), for example, gives a snapshot of gold futures' positioning among money managers, as well as the 'non-reportable' positions of private speculators. The CFTC data only refer to leveraged trading, however, and the net long position of the 'doctors and dentists' (who risk getting filled and drilled) clearly reflects the availability of brokers' credit more than sentiment towards physical gold bullion. Flows into and out of exchange-traded gold trust funds (ETFs) also give clues as to how bullish or bearish the market as a whole may be. But whilst not the proxy, perhaps, for the wholesale over-the-counter positioning that some analysts have claimed, a feature of ETF tonnages is that they give little weight to grassroots investors, whose size and activity is swamped by much bigger players.

As a result, financial journalists will often cite sales of American Eagle bullion coins as a guide to retail investment demand. This brings other drawbacks, however, as US Mint sales data are very lumpy, measuring sales to retail distributors rather than end consumers, and also displaying a high degree of seasonality when the new date is issued each January. Moreover, such sales figures can only measure retail activity on the buy side; they do not capture any reselling of coins by the public. A similar problem affects the World Gold Council's authoritative *Gold Demand Trends*. This quarterly report, based on industry data gathered by Thomson Reuters GFMS, necessarily suffers a time delay. Western household investment is elusive again, both at the country level (offshore holdings can't be clearly identified) and because much of the reported flow is mediated through retail distributors. Nor can retailers measure the true

depth of coin and small-bar reselling on the secondary market. Tracking sales on eBay may be helpful, but volumes remain small and the pattern unclear. Yet gauging two-way activity is surely vital if we are to approach a clearer picture of household behaviour – and thus sentiment – towards physical gold investment.

> *"We have some fund and charity clients, we are a consumer-facing business online, so the index is entirely separate from institutional or central bank flows."*

To augment the existing data sources, BullionVault launched its Gold Investor Index last October. First, we wished to provide, via a monthly data point, a window onto Western household sentiment towards gold, specifically across the US, UK and Eurozone, the currency areas where the vast majority of BullionVault users – some 89% – reside. Although we have some fund and charity clients, we are a consumer-facing business online, so the index is entirely separate from institutional or central bank flows. Entering and managing their own trades as they choose, our users are also self-directed, heightening our data's sensitivity to customer sentiment. Indeed, the creation of our index was prompted by our colleagues and contacts in the professional wholesale market asking what action we were seeing on our peer-to-peer retail trading exchange online. A further motivator was the fact that the proverbial 'hard-working saver' – as well as non-specialist journalists and other observers using consumer behaviour to illustrate their opinions – tends to have little interest in gold absent moments of extreme economic tension. So the Gold Investor Index, by seeking to reflect retail investor attitudes towards physical bullion, might also be viewed as an indicator of wider economic and financial sentiment.

What does the Gold Investor Index show?

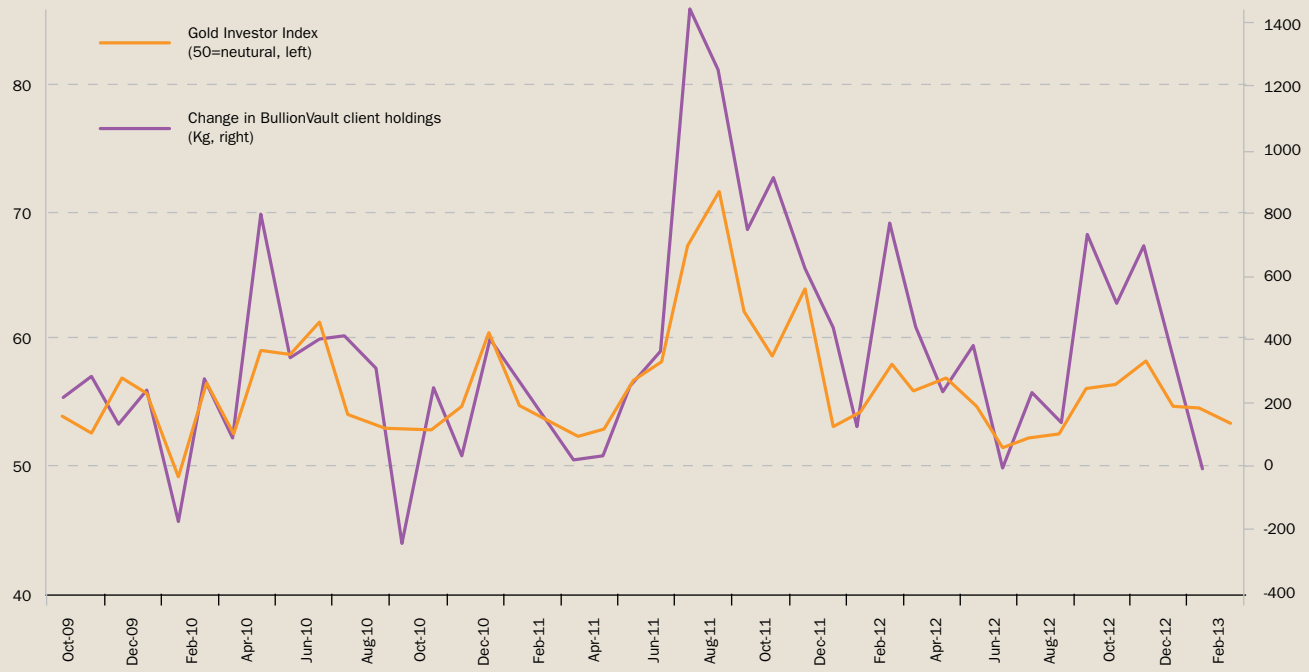
BullionVault users buy and sell gold held in Good Delivery bars, trading as little as 1 gram at a time in their choice of London, New York, Zurich and now Singapore storage. The index takes the number of net buyers, meaning those users who added to their gold holdings over the last month, and subtracts the number of net sellers. That figure – the balance of net buyers over net sellers – is then measured as a percentage of everyone who already owned gold at the start of the month. (First-time customers therefore push the index higher, as they only show in the numerator.) Finally, this number is added to 50.0, which is the index level signaling no change – a perfect balance of buyers and sellers, with sentiment amongst self-directed private investors neutral overall.

Note that, whilst closely aligned historically, the index does not track the weight of net client demand (see Figure 1). The Gold Investor Index gauges the number of people whose gold position rose or fell during the month, rather than the quantities of metal traded. Each individual actor is given an equal weighting – one user, one vote – so that the sentiment of larger customers does not distort the picture. Nor would a reading of 50.0 mean that users bought the same amount of gold on aggregate as they sold. BullionVault itself enables the quantity of client property to 'breathe' in line with net demand, carrying and restocking its own trading float directly from wholesale market counterparties, and then acting as a market maker on its exchange by quoting firm prices. But even though our account is excluded from the index's calculation, it would only carry one vote if it weren't.

> *"The Gold Investor Index gauges the number of people whose gold position rose or fell during the month, rather than the quantities of metal traded."*

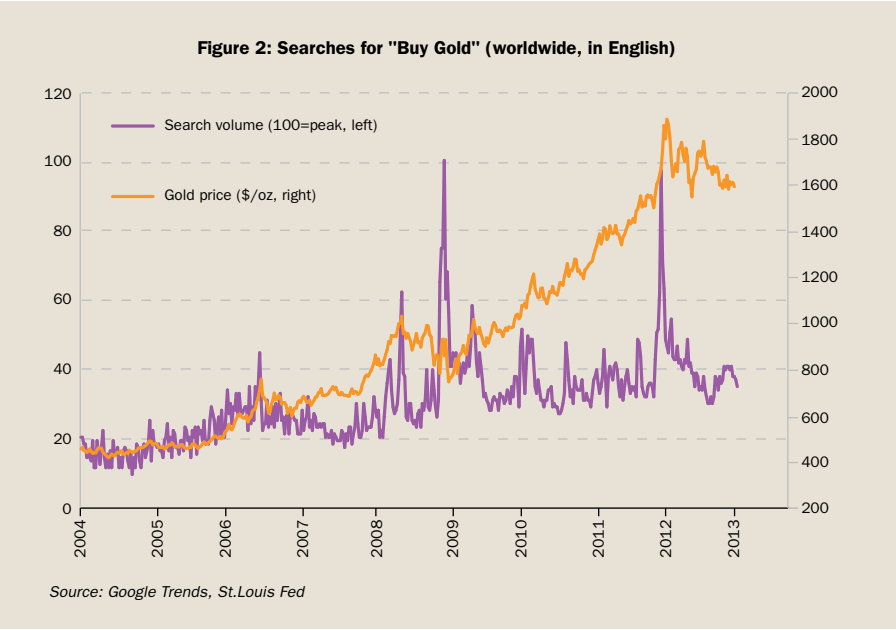
Using the methodology outlined above, BullionVault has calculated the Gold Investor Index going back to October 2009. Although we have trading data from much earlier, we disregard these because: a) BullionVault was not then the largest provider of vaulted gold ownership online; b) the pool of investors using BullionVault was much smaller, again making it less representative of broader retail sentiment; and c) index values were much less stable but consistently high, as even small net additions to the user base added rapidly to the number of net buyers. Today, in contrast, BullionVault has been used by more than 46,000 people worldwide, and their privately owned gold property totals 33 tonnes. That weight represents some 0.4% of global net retail demand since the business was launched

Figure 1: Decisions vs Weight



Source: BullionVault

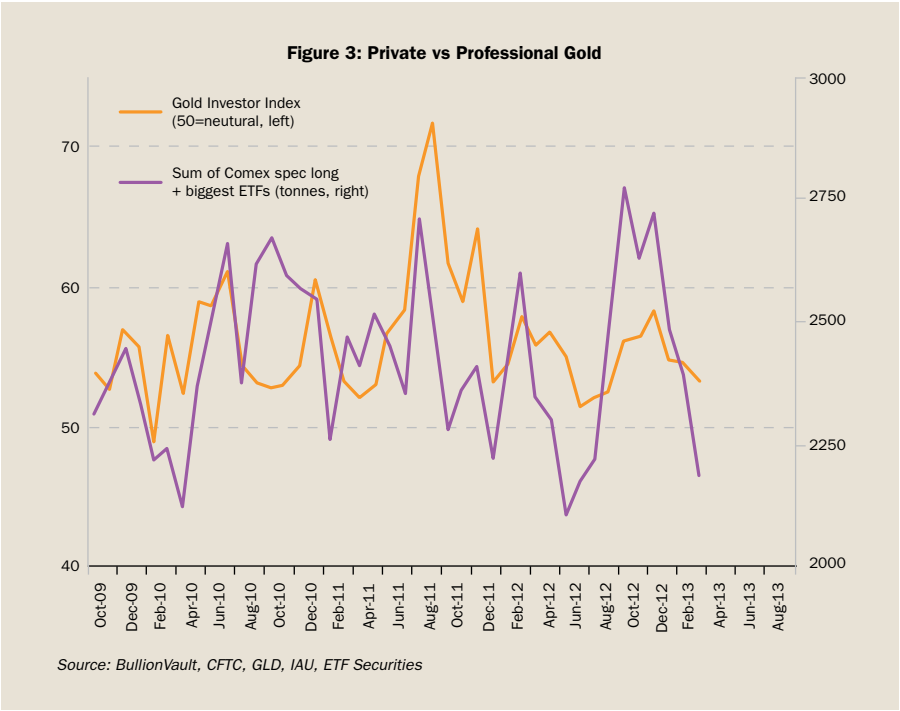
a decade ago and gives a greater sample size than most other consumer surveys achieve. It is also critical to remember that the index is based on actual decisions to buy or sell. It shows revealed preference, rather than would-be intentions – something that isn't provided by, say, tracking Google searches for 'buy gold' *(Figure 2)*.



So what does the Gold Investor Index say about grassroots sentiment towards physical gold in the West?

The index isn't meant to supersede the existing data, but to complement these, focusing solely on private individuals and their actions. To date, commentators using our data have noted the preponderance of buyers over sellers every month since early 2010, but at levels far below the peak of late summer 2011. Referring to other data points in the market – which, again, the index is not meant to supersede but to complement – others have noted how private sentiment continued to rise even as exchange-traded funds and especially speculative longs in futures contracts were reduced. The reverse has also been true. Because as ETF gold holdings jumped to record highs in late 2012 (see Figure 3), and speculative positions in Comex futures neared 2011 levels, self-directed private households were not participating at anything like the same pace as the weight accruing in those vehicles might have suggested.

More recently, however, the distinctly bearish turn in speculative short positions on Comex, as well as the slashing of bank analysts' price forecasts, has been reflected only moderately by private investor sentiment. With the speculative net long in Comex gold futures and options cut in half between November and March, the Gold Investor Index has yet to slip below 50. It turned lower in January, but sentiment has remained positive if subdued. The largest gold ETFs in contrast have shed more than 120 tonnes of gold between them, some 7% from their recent all-time records. Analysts may now look for the index to fall further perhaps if retail behaviour plays catch up with the retreat in so-called 'safe haven' demand amongst professional players. But it is no delusion that buying gold has continued to gain in popularity since the peak of the financial crisis to date. And whatever the fearful and greedy goldbug of popular imagination chooses to do from here, the Gold Investor Index gives voice to the real-world decisions of private individuals.



Adrian Ash, Head of Research, BullionVault.
Adrian Ash has been Head of Research at BullionVault since 2006. Formerly Editorial Chief at the UK's largest publisher of private-investor advice, and also City Correspondent for the popular Daily Reckoning email, Adrian is now frequently quoted by leading news outlets worldwide.

Ben Traynor, Economist, Bullion, Vault.
Ben Traynor is Economist at BullionVault and also Editor of its Gold News website. Ben read Economics at St Catharine's College, Cambridge and is currently studying for an MSc in Financial Economics at Birkbeck College, London.

The Indian Gold Jewellery Market

Aelred Connelly, Public Relations Officer, LBMA, interviews Shekhar Bhandari, Head of Precious Metals, Kotak Mahindra Bank

With the Indian wedding season now underway, Aelred Connelly interviews Shekhar Bhandari and asks him about the significance of gold jewellery to Indian culture.

An Indian bride wearing traditional gold jewellery.

Has the 50% increase [from 4% to 6%] in the customs duty on gold imports, which was introduced on 21 January this year, had a detrimental effect on demand for gold jewellery in India? As a result of significant increases in the price of gold, customs duty as a percentage of the value of the gold has fallen considerably in recent years. It was 9.4% in 1998-99, but was as low as 1.3% by December 2011. The government increased the customs duty to 6% earlier this year in order to increase revenue without encouraging parallel trade. I don't think the rate of customs duty at 6% affects jewellery demand. Demand for jewellery constitutes 65% of India's gold imports, and demand for jewellery is inelastic as it is mainly determined by the number of marriages and births, as well as the monsoon season.

Interestingly, the increase in duty resulted in increased landing costs, but there was a correction in the price, which resulted in the purchase price of gold being 4% cheaper.

Could you provide an explanation of the importance of the wedding season in India? Gold usage started in early Indian civilisation. Indian gold values have been built over 4,000 years and it takes a minimum of 20 to 30 years for a marginal (or small) shift in behaviour. In India, women are the biggest owners of gold, not because they love it, but because the men in the family have given it to them as a form of social security. Gold is regarded as auspicious and as a connotation for wealth, prosperity, social security, safety and liquidity.

In the short term, there are three main factors that determine demand for gold in India: the monsoon season, the number of weddings and the number of births.

Could you explain the concept of stridhan (woman's wealth) and inheritance, and how this affects the giving of gold to daughters? As I mentioned earlier, women are the biggest owners of gold. With no formal social security system in India, gold is regarded as a valued and highly liquid form of wealth. Stridhan is a traditional practice that was primarily meant to provide women with some level of economic security in adverse situations such as divorce, widowhood, etc.

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Among Hindus, it is interpreted in various ways. In general, stridhan is defined as that portion of a woman's wealth over which she alone has the power to sell, gift, mortgage, lease or exchange – as a whole or in part. Usually, stridhan is passed from mother to daughter, unless the woman decides otherwise. Any dues from her can also be recovered from her stridhan.

At the LBMA conference in Hong Kong last November, you mentioned in your very interesting speech that this would be a record year for auspicious days in India. Could you explain your reasons for saying this? India follows a lunar calendar and on those (auspicious) days, no weddings take place. Weddings in India are considered to be the 'longest' relationship – even beyond one's life – and are so valued that they can only be conducted on auspicious days. Hindu weddings do not take place for a four-month period known as *Chaturmas*. Throughout this period, Lord Vishnu, and his fellow Gods and Goddesses, are believed to be in Yogi Sleep, and Hindu weddings are not held during this period so that the Gods are not disturbed. Only 117 days will be lost in 2013 compared to the 148 days that were lost in 2012. The upshot of this is that there are expected to be 23% more wedding days in 2013 compared to 2012.

India is the world's largest consumer of gold. What is your outlook for demand for gold, particularly jewellery, in 2013? It is estimated that India 'invested' $166 billion in the 10 years between 2002 and 2012, buying a total of 6,300 tons of gold, which has now doubled in value to $335 billion. This estimate is arrived at by netting off India's gold imports and exports. A quarter of the gold demand in India is now accounted for by investment, which is a significant increase since liberalisation.

Jewellery demand accounts for 65% of total gold demand and is dependent on three main factors: the number of marriages, the monsoon

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and harvest season, and government policy. Since conditions during 2013 are favourable for the first two [factors], I would expect that demand is likely to be strong. I would estimate that demand for jewellery will be 25% higher this year (compared to 2012).

With an estimated 10 million marriages taking place in India during the wedding season this year, how much on average will be spent on a typical wedding? How much gold would typically be bought for an Indian wedding? It is estimated that anything between $2,000 and $2 million would be spent on a typical wedding in India. Gold jewellery forms an important part of a wedding, and the amount of jewellery purchased in a typical wedding would range between 20 to 2,000 grams.

Do you sense a shift away from the traditional buying of gold for weddings and other festivals or envisage a shift in the future? In the 10 years from 1990-91 to 2001-02, the Indian price of gold increased by around 3%, while the London price of gold dipped by 2.5%. However, in the next five years from 2002-03 to 2006-07, the domestic prices of gold rose by 15.5%, while the London price increased by 18%. Further, in the subsequent five years from 2007-08 to December 2012, domestic gold prices increased by 22%, while the London price increased by 19.2%. This reflects a gradual dollarisation of the commodity markets as global central banks pumped liquidity in the global financial markets. Thus, demand for gold has picked up internationally and nationally as a hedge against inflation and as a safe-haven asset. The buying of gold for weddings is considered jewellery, whereas the buying of gold during festivals is regarded as an investment. If gold gives negative returns over the next 10 years, Indian investors would definitely move to a better alternative investment, only buying token gold on auspicious days. However, inelastic gold consumption such as jewellery (not investment) will remain unaffected.

Although the majority of gold in India is imported, most of the jewellery is fabricated within the country. Do you envisage any change in that situation in the future? Indian artisans are highly skilled and are considered to be among the very best in the world. I foresee India investing in the industry and reaping the rewards of this knowledge and skill.

Should gold in India be classified as a part of the capital account? And do you think that this would solve India's current account deficit (CAD)? The system of National Accounts (SNA)9 3 requires trade in gold, other than official transactions between central banks, to be treated as imports and exports of goods. So, in India, for accounting purposes, gold is treated within the balance of payments.

For countries with an international market in gold (for example, the UK, Japan and Switzerland), there is little correspondence between the activities of traders on the bullion market, cross-border movements of gold and the concept of merchanting of a good. The reason that these countries do not classify gold as a trade account item is because they have large and vibrant international markets in gold, whereby gold may be brought to country A for safe custody without ever being owned by a resident of country A. In other words, this gold could remain in the vault/depository in country A despite a number of changes of ownership.

India would have to continue to classify gold under the current account, rather than in the capital account, as its gold imports are for use by residents. In this context, it could be pertinent to explore the potential of developing India as an international market for gold trading.

What does the future hold for demand for gold in India? India has a young population. By 2025, it is estimated that 88% of the population will be under 60 years old. This is an important demographic for the future, which is complemented by a good education system in India.

The average age of Indians is currently 29, and there are large number of the population aged between 30 and 59. India's nominal GDP is estimated to increase from $3 trillion currently to more than $10 trillion by 2025. Gold is an automatic choice for many people in India, for the reasons stated earlier, so as wealth increases so will demand for gold.

For the longer term, developing India as an international hub of gold trading and transacting could be considered. This could pave the way for classification of non-monetary gold as a capital account entry, thereby avoiding the distortions in the current account figures.

Shekhar Bhandari is the Business Head for Forex, Derivatives and Precious Metals in the Treasury division of Kotak Mahindra Bank.

Shekhar has been instrumental in increasing market share of Precious metals business by 3.5 times within 24 months.

He joined Kotak Mahindra group in 1996 after completing his Chartered Accountancy where he was ranked 25th in India. Since then he has held positions of increasing responsibility across various group companies – Kotak Mahindra Finance Ltd, Kotak Mahindra Asset Management Company and Kotak Mahindra Old Mutual Life Insurance. Amongst several achievements, He has led the entire formulation and turnaround project - "Turning Point" with McKinsey, and rolled out Change Management Process at branch, regional and national level in turn making Kotak Mahindra Old Mutual Life Insurance among the top three in Agent Productivity in the Industry. He also set up the entire Compliance and Secretarial function at Kotak Mahindra Old Mutual Life Insurance.

His areas of interests are Derivatives, Structuring, Precious Metals, Treasury, Economy, Risk Management, Distribution and Marketing of Financial Products and covers these subjects as a regular speaker at various forums.

He holds a Bachelor of Commerce with a further qualification of Associate member of the Institute of Chartered Accountants of India, Associate member of the Institute of Company Secretaries of India and Graduate member of the institute of Cost and Works Accountants of India.

Mangal Sutra (Indian married woman's necklace).

Timothy Green and His Book Collection – An Appreciation

By Stewart Murray, Chief Executive, LBMA

Tim Green recently kindly donated his collection of books on gold and silver to the LBMA. These are now on display in the LBMA's Boardroom. Stewart Murray reflects on Tim's association with both the books and the bullion market, which stretches back nearly half a century.

I first met Tim Green shortly after joining Consolidated Gold Fields in 1984. My previous experience, and indeed the basis for my new job in the Commodities Department of CGF, was in copper. I had spent the previous decade working for the International Wrought Copper Council. In fact, my knowledge of the gold market was rudimentary at best. But I soon realised that the awe in which Tim was held in the company was very well justified. While I was only just beginning to learn about gold, Timothy Green had already been writing about it for almost 20 years. Many people in the gold market know Tim for the books and other publications that he has written on gold, silver and diamonds, but very few will be aware of how all this started.

While studying at Cambridge, he had been a stringer for *Time Life* (where incidentally he met his wife, Maureen). Some years later, he was persuaded to take on the position of editor of the august *Illustrated London News*. I remember Tim telling me that he had not been totally satisfied with this job because he was frustrated at having to send journalists to places where he wanted to go. After 12 months, he resigned to become a self-employed journalist. This was in May 1966. Almost immediately, he was commissioned to write a piece on gold for the US magazine, *Fortune,* which focused on the changes that were happening in the gold market. Previously, central banks had bought nearly all the gold that had been produced by the world's mines, but the private sector (both through investment and jewellery consumption) was beginning to become important. Tim's researches inspired him to write his first book, *The World of Gold*, which appeared in l968 (and was to be revised, updated and expanded several times in the next decade).

Someone else had also realised that things were afoot in the gold market. This was David Lloyd- Jacob, a Director of Consolidated Gold Fields (then the world's second-largest gold mining group after Anglo-American), who had written in 1967 what was in effect the first CGF Gold Survey. David asked Tim to work as a consultant analysing the world's gold markets, initially with a brief to visit the important gold centres from London to Hong Kong and to produce a report, which soon became the annual Gold Survey. During the next 30 years, Tim's involvement in this work provided the continuity that allowed a whole series of editors and analysts to develop an understanding of the intricate mysteries of the market. His knowledge of the market, and above all the people in it, was encyclopaedic. This applied as much to US bankers and South African miners as it did to the traders and jewellery fabricators in the souks of the Middle East. My own involvement with the Gold Survey really started in 1989 when, as a result of the takeover of CGF by the Hanson group, I was asked by Gold Fields of South Africa (which had been 50% owned by CGF) to set up a unit – that became GFMS – in London to continue the research activity on gold. My first task was to ensure that Tim would continue as Chief Consultant to the Gold Survey.

On our first field trip, which included my first meeting with one of the legendary Swiss bankers, I began to learn the research techniques that Tim had developed over the previous two decades. These could be summed up, firstly, as total discretion in respecting the often highly confidential information that our contacts entrusted to us, but secondly, providing these contacts with useful information about general trends that we were learning as we moved around. The small team of analysts at GFMS all learned most of what they knew about gold thanks to Tim's knowledge and guidance.

Throughout this period, Tim has continued to write about gold and sometimes silver. His early journalistic training has ensured that all these books are extremely readable as well as being full of well-researched content. These publications include what are probably my favourites: *The Gold Companion: The A-Z of Mining, Marketing*, *Trading and Technology*, two slim volumes describing the main developments in gold and silver during the millennium from 1000 to 1999, which he wrote for MKS Finance in 1991; and more recently, *The Ages of Gold*, a compendious account of gold's 6,000 years of history, which was published in 2007 by GFMS.

The LBMA has also benefited from Tim's legendary status in and knowledge of the gold market. He was the opening speaker at the LBMA's first conference in Dubai in February 2000. In 2010, he suggested to me that he should prepare a history of the Good Delivery gold list from its origins in the Bank of England in 1750 to the present day. This was published by the LBMA the following year as *Building a Global Brand*.

Late last year, Tim very generously offered to donate to the LBMA his complete and extensive collection of books on gold and silver. This collection now takes pride of place in our Boardroom and is much admired by visitors to the LBMA. Some of the books in the collection are extremely rare and many of the historical gems in it are described in the selected bibliography that Tim produced for the LBMA in 2011 (and that can be downloaded from our website).

Tim will soon be approaching the 50th anniversary of his first involvement with the gold market. It is a great pleasure for me on behalf of the LBMA to salute him for all that he has contributed to the world's understanding of how that market works and, in particular on this occasion, to thank him for choosing the LBMA as the recipient of his wonderful collection of books.

LBMA Annual Party - 2013

The Association's Annual Party was held at the Pacific Oriental on Thursday 28 February. Another record attendance of more than 350 Members and Associates were entertained throughout the evening by an array of amazing singing talent from Hannah May, the Segue Sisters and Charlotte Bradford. The same cannot be said for the gentleman who was singing in the toilets towards the end of the evening, but he certainly helped to ensure that the venue was vacated on time.

The Party provides an opportunity for staff of Members and Associates to network and socialise in a relaxed and informal atmosphere. From all accounts a thoroughly enjoyable evening was had by all.

10 Years On. The Gold ETF that Spawned a $200 Billion Industry

By Nik Bienkowski, Co-Founder of Boost ETP

In this article Nik Bienkowski considers the way that the gold ETP has changed the way investors think about gold and commodities. With $130 billion (80+ Moz) accumulated in ten years, the gold ETP (as a proportion of the global ETP industry) has taken on greater significance than one might have ever imagined.

The 28 March marked the 10th anniversary of the gold Exchange Traded Product (ETP) industry. The gold ETP changed gold investing as we knew it, allowing investors to 'own' physical gold bullion and to trade this through their mobile phone and brokerage account. Gold could now be traded like an equity. What now seems simple and hugely successful was initially complex in design. Now, there are some 54 physical gold ETPs with $130 billion in assets and daily trading of more than $2 billion. It would not be surprising for there to be between 100 to 150 gold ETPs by March 2023.

We can't ignore the fact that the gold ETP came about during a time that was extremely supportive for gold, especially relative to equities. Whatever one's reasons for investing in gold, there has been a reason for everyone to invest in gold since the gold ETP was launched. Gold ETPs and Exchange Traded Commodities (ETCs) make up 7% and 10% of the global ETP market respectively, which is high relative to average portfolio allocations – this statistic may indicate the importance of the gold ETP to investors as a way to access the gold price. The gold ETP made investing in gold secure, simple, cost-efficient and extremely simple. The gold ETP certainly was the right product at the right time. It will be interesting to see what happens over the next 10 years.

Background to the development of the gold ETF

28 March 2013 marked the 10th anniversary of the world's first gold ETP[1] and hence the gold ETP industry. It was on the same day in 2003 that Gold Bullion Securities began trading on the Australian Stock Exchange (ASX) under the ASX code of 'GOLD'. GOLD was developed by Gold Bullion Limited (a predecessor to ETF Securities), a special purpose vehicle created by Graham Tuckwell in association with the World Gold Council, over a nine-month process. However, many other events occurred to make the gold ETP what it is today, including: a Wine Exchange in Australia, which used listed securities backed by physical wine in storage to allow investors to trade actual cases of specified wine (similar to an Exchange Traded Fund (ETF) 'creation basket') and which GOLD was modelled after; an Australian entrepreneur whose idea of a gold ETP coincided with the World Gold Council's plans to do the same in the US; and the growth and success of the global ETP and ETF industry generally.

GOLD's announcement after the first day of trading read:

Investors bought more than 700 ounces of gold on the ASX today – the first time it has been possible for funds and individual traders to buy gold bars on the stock exchange. 7,386 GOLD securities were traded for prices ranging from $55.50 to $56.00 today. The average trade was 172 securities – or 17.2 ounces of gold per investor at $9,540 per trade, indicating individual investors were the main traders on the opening day.

> *"Before the gold ETP came along, there were a number of ways to invest in gold, which included buying direct bullion, gold certificates, gold coins, gold savings plans and purchasing shares of gold mining companies."*

Launching with less than A$5 million in assets (supported by Tuckwell himself), GOLD was a mere drop in the ocean but one that has helped to create an industry with at least 54 physically backed gold ETPs with around 81 million oz, worth $130 billion, in assets and daily trading volumes of over $2 billion, including one of the world's largest ETFs, the GLD.

The gold ETP – gold investment made simple

Before the gold ETP came along, there were a number of ways to invest in gold, which included buying direct bullion, gold certificates, gold coins, gold savings plans and purchasing shares of gold mining companies. Each of these ways to gain exposure to gold came with its own advantages and disadvantages; however, there was no way of owning physical gold simply and cost-effectively. The gold ETP combined the advantages of Exchange Traded Funds (which

1 In this article, ETP is short for Exchange Traded Product. GOLD in Australia was the first gold ETF; however, in other jurisdictions (e.g. Europe), it is not possible for a fund to own gold and, hence, many gold ETPs are structured using a gold-backed security. These are also often referred to as ETCs (Exchange Traded Commodities). Whereas an ETF is a fund under the local laws, an ETP (which can track any asset class) or an ETC (which tracks a commodity) is a generic term used to refer to any ETF-like product, which may be a fund, note or certificate, but otherwise extremely similar in purpose.

were first created more than 10 years before GOLD) and that of owning physical gold bullion:

- Exchange traded: easy to buy and sell as little as one share (approximately 0.10oz), in an ordinary brokerage account
- Simple and convenient: can be traded in small or large amounts, and without the need to open special accounts or sign special documentation
- Open-ended: creation and redemption through delivery or receipt of physical gold bars means that gold ETPs will track gold bullion prices
- Allocated bullion: backed by globally accepted London Good Delivery bars, allocated bullion is free of credit risk
- Cost-effective: charges of around 0.40% p.a. with no entry or exit fees (other than equity brokerage charges)
- Tracks the gold price: a gold ETP is 100% correlated with the gold price
- Robust, secure and transparent: most gold ETPs have excellent websites and information, including gold bullion bar lists
- Eligible: certain types of investors, including many types of funds, are not allowed to own physical commodities. These rules probably stem from when gold bullion was less mainstream and thought to be relatively 'illiquid' since it was not listed. With the advent of a fund or security backed by gold, restricted investors were able to purchase gold ETPs, thus physical gold could be indirectly be held by investors previously barred from such investment. This opened up gold investing to the masses.

Now that the gold ETP exists, the idea and product seem so simple. However, its simplicity is contained in its complexity. The gold ETP often brought equity trading and commodity trading together like never before. These departments at large investment banks are well separated, and often located in different offices and even countries. Their standard contracts use different terminology (e.g. ounces versus shares); they are often regulated by different entities, e.g. the Commodity Futures Trading Commission (CFTC) versus the Securities and Exchange Commission (SEC); and the staff of these very different departments often didn't know the other existed, or at least they had never met before.

Why invest in gold – the growth of alternative assets

A number of events occurred to make the gold ETP possible, which in turn made gold investing simple and easy. However, many investments are simple and easy to access yet don't last long enough to turn a profit before they are shut down. But luckily for the gold ETP, the perfect storm was brewing! People invest in gold for many different reasons and gold behaves differently at different times. Many of the reasons as to why one would invest in gold have really come to the fore since the turn of this century.

Gold is uncorrelated to the major asset classes. However, during times of stress (e.g. when equities have fallen by more than a certain threshold, e.g. 2%), gold tends to outperform other assets and be negatively correlated, making gold a useful tail risk or event hedge, especially when trust is low and/or credit risk appears to be high.

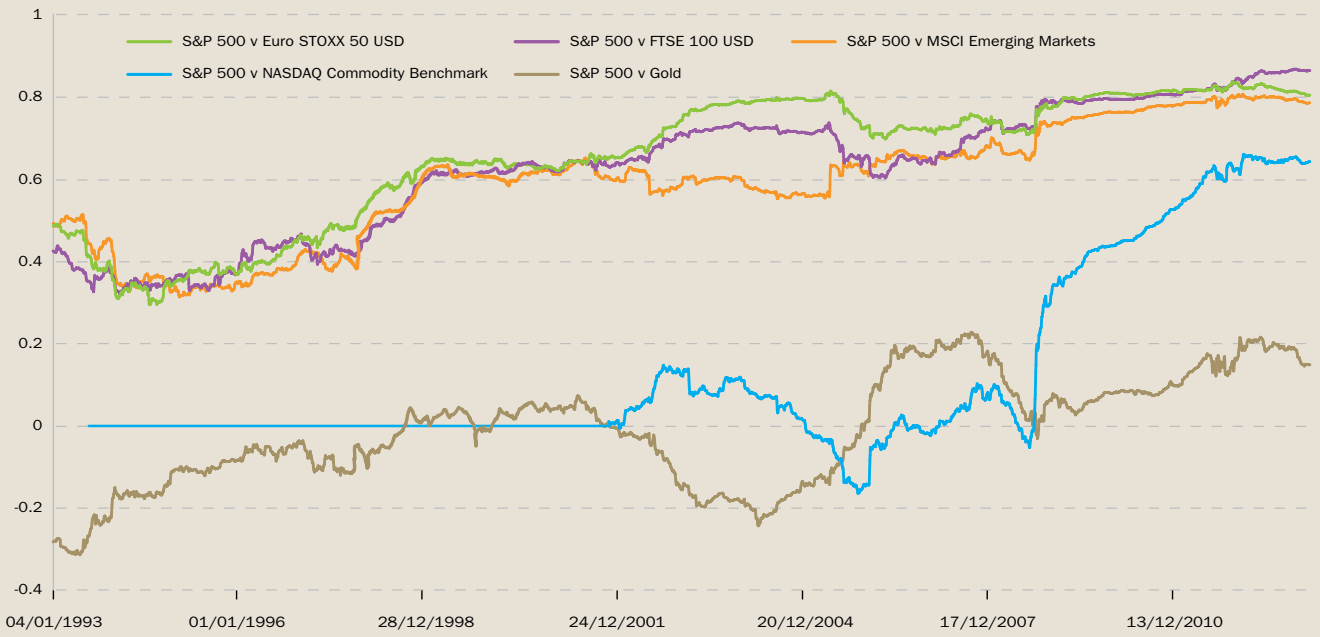
With equities having performed poorly over the past 11 or so years and having become more highly correlated with each other due to the globalisation of financial markets, alternative assets came to the fore as investors sought out alternative assets that would help to diversify their portfolios and reduce downside risk. Hedge funds, gold and commodities suddenly became popular.

"Now that the gold ETP exists, the idea and product seem so simple. However, its simplicity is contained in its complexity. The gold ETP often brought equity trading and commodity trading together like never before. These departments at large investment banks are well separated, and often located in different offices and even countries."

Fundamentals have also played an important part. On the supply side, central banks started to limit gold sales and then became net buyers; gold-mining companies stopped selling forward their production at low prices ($250 to $300/oz back in the late 1990s and early 2000s); and production in the main gold-producing regions (US, South Africa, Australia and Canada) began to slide and production costs started to rise. On the demand side, gold started to play a part in portfolios, the gold ETP started to add to demand, low interest rates lowered the opportunity cost of holding gold versus other risk-free yielding assets such as sovereigns, and emerging markets such as China started to become major buyers and investors in gold.

Whatever your reason, there have been many great reasons to own some gold over the past 10 years.

Figure 1: Rolling 3-Year Correlations (of Weekly Returns)

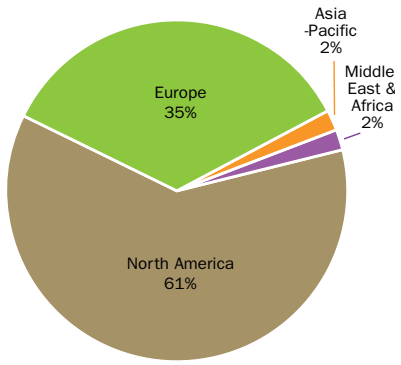


Data Source: Bloomberg and Boost ETP, at 22 March 2013

Growth of the gold ETP market

Since the launch of GOLD in March 2013, the gold ETP industry has expanded exponentially. Most of the world's top ETP issuers now have at least one physically backed gold ETP, and there are around 54 physical gold ETPs traded on 35 stock exchanges, trading around $2 billion per day. 97% of these products are exposed to the US dollar gold price, with 3% being hedged into a range of major currencies but primarily the Swiss franc and the euro. 61% of gold ETP assets are due to products listed in the US, with 19% in Europe (excluding Switzerland) and 16% listed in Switzerland.

Figure 2: % Gold ETPs Assets by Region



Data Source: Bloomberg and Boost ETP,at 22 March 2013

In addition, there are now around an additional 70 Exchange Traded Products (often referred to as ETCs) tracking spot gold or indices based on gold futures, which make up around $2.5 billion of assets under management. The main gold futures indices include the NASDAQ Commodity Gold Index and the S&P GSCI Gold Index, and these index providers are the world's leading mainstream providers of financial indices. These ETCs provide a range of gold investment exposures, including currency hedged, short and leverage.

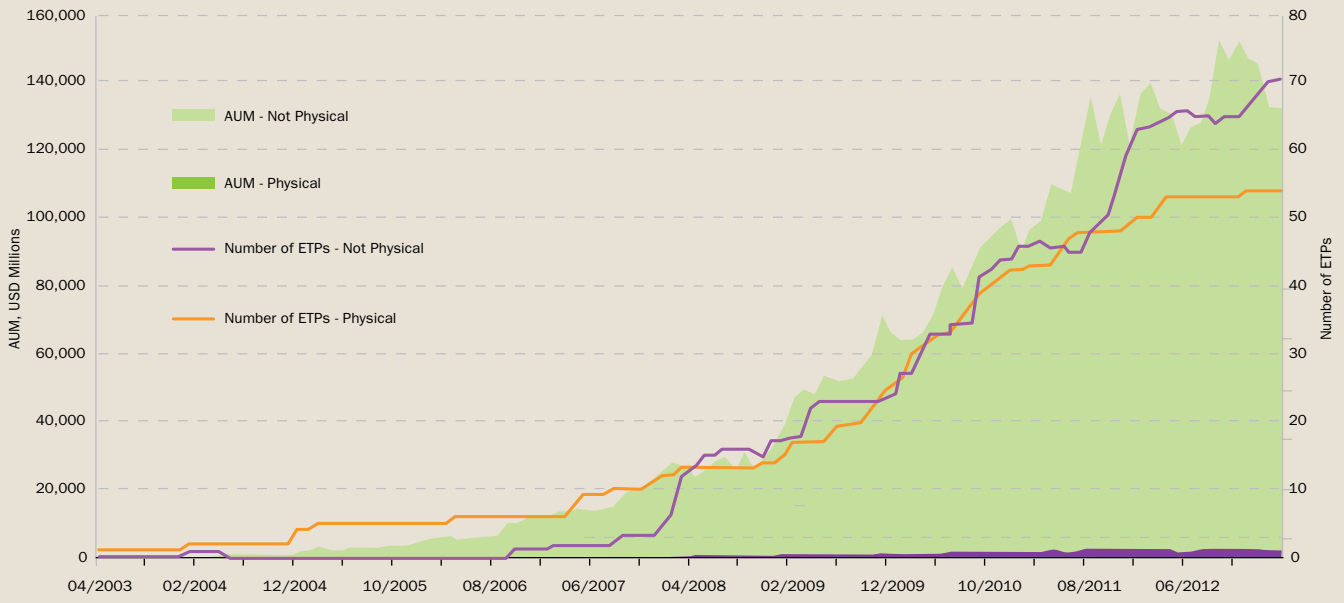
The gold ETPs and the development of the global ETC market

When the world's second gold ETP – Gold Bullion Securities (GBS) – was launched in London by a company that would later be known as ETF Securities, it was not listed as a fund but as a collateralised note backed 100% by allocated gold bullion. These products are now commonly referred to as Exchange Traded Commodities (or ETCs). GBS in London was not able to be listed as a fund (or ETF) since European fund rules did not allow investment in commodities, while a fund also has to meet certain diversification requirements – of which an investment in gold only obviously does not conform. Thus, the ETC or ETP market was born where ETF-like products could be created, providing access to products not eligible as a fund. The global ETC market thus grew from a single gold ETP to a market that now includes products tracking more than 30 different types of commodities and sectors with around $200 billion of assets (including gold). At $130 billion, gold dwarfs all other commodities.

Ticker	Name	Domicile	AUM, USD Mil	% of AUM in Category, Cumulative
GLD US	SPDR Gold Shares	United States	63,107	48%
IAU US	iShares Gold Trust	United States	10,910	57%
PHAU LN	ETFS Physical Gold	Jersey	7,637	63%
GBS LN	Gold Bullion Securities Ltd	Jersey	7,042	68%
JBGOUA SW	JB Physical Gold Fund	Switzerland	5,371	72%
ZGLD SW	ZKB Gold ETF	Switzerland	5,064	76%
SGLD LN	Source Physical Markets Gold P-ETC	Ireland	3,461	79%
4GLD GR	Xetra-Gold	Germany	2,778	81%
ZGLDUS SW	ZKB Gold ETF-A USD	Switzerland	2,670	83%
PHYS US	Sprott Physical Gold Trust	Canada	2,624	85%
GLD SJ	NewGold Issuer Ltd	South Africa	2,331	87%
SGOL US	ETFS Swiss Physical Gold	United States	1,855	88%
ZGLDHC SW	ZKB Gold ETF-H CHF	Switzerland	1,804	89%
CSGOLD SW	CS ETF II CH on Gold	Switzerland	1,606	91%
XAD1 GR	db Physical Gold Euro Hedged ETC	Jersey	1,402	92%
ZGLDEU SW	ZKB Gold ETF-A EUR	Switzerland	1,341	93%
GTU US	Central GoldTrust	Canada	1,116	94%
AUCHAH SW	UBS Index Solutions - Gold CHF hedged	Switzerland	933	94%
CSGLDC SW	CS ETF II CH on Gold - hedged CHF	Switzerland	745	95%
GOLD AU	ETFS Physical Gold	Australia	628	95%

Top 20 physical gold ETPs globally
Data Source: Bloomberg and Boost ETP, at 22 March 2013

Figure 3: Growth of Physical and Non-Physical Gold ETPs



Data Source: Bloomberg and Boost ETP, at 22 March 2013

What is surprising is that the original GBS in London was restructured and relaunched four months after the initial listing. In normal circumstances, this would have spelt the death knell for a new company and new product coming to market, but such was the demand for gold and the GBS, that it was only a wrinkle, and from which spurned a $30billion asset manager.

The benefits of gold ETPs have outweighed the benefit of equity ETPs

ETCs have brought new asset classes into the reach of every investor, increasing the size of the investors' tool box. Until the advent of ETCs almost 10 years ago, individual investors had lacked low-cost, convenient tools for participating directly in commodities without dealing in complex derivatives markets or purchasing the shares of commodity mining companies. In terms of the global ETP market, there are approximately $2 trillion in assets, and with $130 billion in gold ETPs and $70 billion in commodity ETPs (excluding gold), gold makes up some 7% and commodities (excluding gold) make up around 3% of all global ETP assets. Some would say that this allocation to gold and commodities is too high; however, two main points to consider are: (i) the environment has been favourable to commodities and gold; and (ii) ETCs make investing in commodities extremely simple. Since the allocation to gold (at 7%) is so high, this seems to suggest that the benefits of the gold ETP to the ETP market outweighs the benefits of other ETPs. We would guess that it is more the latter since the gold ETP made investing in gold secure, simple, cost-efficient and extremely simple. In fact, since Swiss-domiciled gold ETP assets contribute nearly half of all European gold ETP assets, it is quite possible that the other European countries have some making up to do.

Gold and the next 10 years

The creation of the gold ETP and ETC industries has provided access to commodities for a wide range of investors who previously could not easily access commodity prices/indices in a robust and transparent structure. It has brought gold into the hands of ordinary investors and portfolios, and is now more than just the price per ounce quoted on the daily news.

The next 10 years will be interesting. More gold ETPs will be developed as the remaining ETP providers look to add gold ETPs to their product offering. Gold ETPs still haven't reached their potential, especially in Asia, and China is yet to launch a range of gold ETPs that are supposedly in development. Currently, there are around 54 physically backed gold ETPs and it would not be surprising for this to grow to between 100 to 150 gold ETPs by March 2023.

It will also be interesting to watch financial market developments. Will the 'perfect storm' and other factors supporting gold remain in place or will equities take over? Will gold break that $2,000 mark or will gold slowly retreat like it did between 1980 and 2000 when *Time* magazine and many investors called for the "Death of Gold"? Perhaps investors will reduce their allocation to gold and commodities relative to equities. Whatever happens, we can be sure that the last time the masses proclaimed the death of gold, we experienced the birth of the gold ETF.

Nik Bienkowski, Co-Founder of Boost ETP.
Nik is a leading specialist in Exchange Traded Products (ETPs) with over 10 years' experience in the sector. Nik joined a boutique firm in 2002 headed by Graham Tuckwell, where he became the third member of the team which created the world's first gold ETP on 28 March 2003, Gold Bullion Securities. Nik then helped Graham found ETF Securities Limited where he helped to manage the business from incorporation to over 70 people and $22billion in AUM by October 2010. Since leaving ETF Securities, Nik co-founded Boost ETP, a specialist provider of short and leverage ETPs.

Gold and Unlawful Armed Conflict

- Working Together Towards Responsible Gold Production

By Terry Heyman, Director, The World Gold Council and Ruth Crowell, Deputy Chief Executive, LBMA

Industry Cooperation

Responsibly undertaken gold mining and refining can play an important role in achieving sustainable development and alleviating poverty in developing countries. Indeed, disinvestment or withdrawal by responsible miners and refiners can make it more difficult to stabilise a conflict situation or to achieve post-conflict reconstruction.

This article outlines the factors that have led governments, business and civil society to work together to address the misuse of gold to fund armed conflict and the human rights abuses associated with such violence. It outlines the initiatives that the gold industry has put in place to provide confidence to investors, customers and communities.

The role of natural resources in funding conflicts has been a focus for policy makers, non-governmental organisations (NGOs) and business over the last 15 years. The role of diamonds in financing the civil wars in Liberia, Sierra Leone and Angola led to the creation of the Kimberley Process. A broad range of natural resources, including timber and oil, which represent mobile internationally tradable assets, have unfortunately been linked to unlawful armed conflict.

One of the countries of most concern is the Democratic Republic of Congo (DRC). Reports from the United Nations Group of Experts have highlighted the role of resources in partially funding rival militias as the conflict has dragged on in the volatile eastern provinces. Originally, attention focused upon tin, tantalum and tungsten (the '3Ts'), but recently, artisanally and small-scale mined gold (ASM) has increasingly come in to the picture.

Industry-led Initiatives

Given these concerns, the gold industry has been working over the last few years to ensure that investors, customers and communities can have confidence that gold is not contributing to unlawful, armed conflict. This is an important commitment from the gold industry and supports the increasing recognition that gold has an important role to play in contributing to sustainable development along the entire supply chain. These industry-led initiatives also complement and help 'operationalise' government-led initiatives, in particular, the OECD Due-Diligence Guidance on responsible supply chains from conflict-affected areas. A key theme of the Guidance developed by the Organisation for Economic Cooperation and Development (OECD) – and the conversations that have been undertaken through the multi-stakeholder group convened by the OECD – has been the recognition that a responsible minerals trade should be supported as a means to broader social and economic development. Indeed, a blanket disinvestment or withdrawal, a so-called 'de facto embargo', would have a severely negative impact on the livelihoods of potentially millions of people, and therefore would likely be a destabilising influence in conflict-affected areas and so exacerbate problems of poverty and instability.

The World Gold Council's Conflict-Free Gold Standard has been developed to support responsible gold production in conflict-affected areas. Where operators can demonstrate that they have the processes in place to operate in such locations, they should be encouraged to do so. Of course, external credibility is vital and companies that conform with the Conflict-Free Gold Standard will be required to publicly disclose their conformance and have this externally assured. In such a way, investors, customers and communities can have confidence that the gold has been produced in a way that is not contributing to the conflict and associated human rights abuses.

Work on the Conflict-Free Gold Standard started in December 2009 at the request of the Board of the World Gold Council, comprising CEOs and senior executives from member companies, the world's largest gold producers. The Standard was published in October 2012 and the nearly three-year development programme reflects the complexity of the issue and the extensive consultation and outreach that was undertaken. The LBMA Responsible Gold Guidance was also developed over a similar timeframe and applies to gold refiners. In particular, gold refiners that wish to be accredited by the LBMA on the 'London Good Delivery List', regarded by many as an essential requirement in order that their gold can be traded in London and other international financial markets, need to conform with the Guidance. Both the Conflict-Free Gold Standard and the Responsible Gold Guidance help to operationalise the OECD Guidance, providing specific, actionable criteria to help companies ensure that they have the appropriate systems in place to minimise the risk that they are contributing to conflict.

> *"This is an important commitment from the gold industry and supports the increasing recognition that gold has an important role to play in contributing to sustainable development along the entire supply chain."*

Government-led Initiatives

In May 2011, the OECD produced its Due Diligence Guidance for Responsible Supply Chains for Minerals from Conflict-Affected and High Risk Areas. This Guidance has global applicability and covers gold and the 3Ts. A specific Gold Supplement to the Guidance, which involved substantial industry input, was adopted in July 2012. Both the guidance and the gold supplement focus on due diligence processes designed to achieve continuous improvement and to minimise the risks of sourcing conflict-tainted minerals – rather than labelling the mineral itself as 'contributing to conflict'.

In a simultaneous development, the United States has also regulated on this issue. In July 2010, President Obama signed the Wall Street Reform and Consumer Protection Act (Dodd-Frank) into law. While the vast majority of this legislation relates to financial reform in light of the economic crisis, section 1502 addresses 'conflict-minerals' originating in the DRC. To a degree, section 1502 reflects new policy instruments being used for US foreign policy. By using securities legislation, intended to protect investor interests, to regulate the minerals trade in central Africa, the law intends to cut funding to armed groups by forcing US-listed companies to identify whether the gold – or 3Ts – used in their products has fuelled conflict in the DRC or adjoining countries. Following the publication of the detailed SEC rules in August 2012, these companies are required to file this information with the SEC, putting senior executives at risk of committing fraud if they are not able to support the claims that they are making.

While well intentioned, this law risks leading to a de facto embargo from the DRC and indeed much of Africa. The DRC produces less that 1% of global annual gold supply, so there are plenty of alternative sources. However, the gold industry is a very significant supporter of jobs, foreign currency and, increasingly, government revenue in the DRC, so a de facto embargo would have severe economic and social consequences.

"However, the gold industry is a very significant supporter of jobs, foreign currency and, increasingly, government revenue in the DRC, so a de facto embargo would have severe economic and social consequences."

Moreover, the costs for US-listed companies in adhering to section 1502 are significant. There has been some debate as to just how much this would cost, with most estimates in a range from $5billion to $10billion. The costs are so high, principally because of two reasons. Firstly, many companies may have hundreds, thousands or even tens of thousands of suppliers, which in turn may have many suppliers. Secondly, for all metals, and in particular for gold, the metal is homogeneous and is mixed from different sources. Indeed, the high percentage of gold that is recycled each year (approaching 40% of annual supply) means that it is impossible to tell from which country or countries an ounce of gold has originated.

The OECD approach is more nuanced and avoids stigmatising minerals from any specific area. Nonetheless, attention is still required to ensure that it does not lead to the stigmatisation of responsibly produced minerals. In particular, there have been increasing concerns that artisanal miners, unable to conform to the standards expected of them, may find their

Cleaning of dore bars before labelling and transportation to refinery.

The Conflict-Free Gold Standard

The Conflict-Free Gold Standard has been developed by the World Gold Council, working with member companies and leading refiners, after a global consultation exercise involving events across five continents and the participation of leading governments, NGOs and gold users. The resulting Standard has been recognised as workable and credible, and is widely supported. It has global application and is available for use by any gold miner, and implementation will be subject to independent assurance. The Standard has five parts:

- **First,** determining whether a mine is located in a conflict-affected or high-risk area or in a country targeted by international sanctions. The Standard's principal external reference point for determining conflict areas is the Conflict Barometer, published by the Heidelberg Institute for International Conflict Research. Companies will need to exercise their own due diligence, but the use of an objective benchmark is valuable in establishing consistency of approach between mine operators. If a mine is located in a conflict-affected area, then it will need to have strong systems to monitor and control its impacts so as to ensure that it is not causing or contributing to armed conflict. If it is in a conflict area, it needs to implement stages two and three. If it is not in a conflict area, then the mine moves to stage four.
- The **second** step is the Company Assessment, which draws upon authoritative texts, such as the UN Guiding Principles on Business and Human Rights, the Voluntary Principles on Security and Human Rights, and the OECD Guidance. The Standard tests the ability of the company to manage its human rights impacts; to regulate and disclose its payments and any benefits in kind to governments to monitor the background and activities of its security provider; and assesses whether the mine has systems in place to engage regularly with local communities to facilitate 'whistle-blowing' and to resolve grievances.
- The **third** step is the Commodity Assessment, which tests the systems to track gold-bearing materials around the mine and to minimise gold theft. It also requires due-diligence checks to be undertaken on the transport providers who move the doré to the refinery.
- The **fourth** step involves externally sourced gold – which does not happen often, but may include gold-bearing material for processing from other large-scale miners – the objective of which is to ensure that appropriate due-diligence is undertaken on this gold.
- The **final** step outlines the documentation, which should be passed from the miner to the refiner to demonstrate that the gold is considered to be in conformance with the Standard.

ability to participate in the formal markets increasingly marginalised. This is a particular concern because so many artisanal miners work illegally or in a legal grey area and lack scale, and therefore they are the most vulnerable to exploitation by armed groups. Appendix One of the OECD Gold Supplement tackles this issue by setting out a forward-looking agenda to promote the increased formalisation of ASM.

Way Forward

So, how has our industry responded? Is there a way forward that is both 'right' and makes good commercial sense? We believe so, partly because 'doing the right thing' is fundamental to protecting the integrity of gold. It is likely, for example, that consumers would react if we did nothing to inhibit the misuse of gold to fund illegal armed conflict. Moreover, the emergence of due diligence requirements has created the need for industry groups to work together to create robust assurance chains cost-effectively. Along with the initiatives developed by the World Gold Council and the LBMA, other sectors have also put initiatives in place, in particular, the Responsible Jewellery Council (RJC) and the Electronics Industry Citizenship Coalition/Global e-Sustainability Initiative (EICC-GeSI).

> *"So, how has our industry responded? Is there a way forward that is both 'right' and makes good commercial sense? We believe so, partly because 'doing the right thing' is fundamental to protecting the integrity of gold."*

Integration between the various approaches is essential if we are to deliver a credible, seamless and cost-effective framework. The LBMA has already agreed mutual recognition

Pouring of gold in the smelthouse

of audit standards with the refiner audits included in both the RJC and CFS (EICC-GeSI) approaches. The LBMA Guidance also recognises that gold produced in conformance with the Conflict-Free Gold Standard meets the criteria for refiners regarding conflict (although it is important to note that there are additional considerations regarding anti-money laundering).

The reality is that society increasingly expects transparent supply chains – albeit the gold supply chain is very different from groceries, so different approaches are required. The horrific civil war in the DRC has accounted for the loss of more than five million lives and the misuse of gold is, unfortunately, one factor in the conflict. The potential for such misuse of gold is present in other geographies too. We believe that through co-operation between the major industry actors, we are putting in place systems that will help to provide assurance that our metal is associated with progress and development rather than conflict and suffering. That is an ambitious but essential goal.

Terry Heyman, Director, The World Gold Council.

Terry is a Director at the World Gold Council and leads the Responsible Gold programme. A key pillar of this programme has been the development of the Conflict-Free Gold Standard. Prior to joining the World Gold Council, Terry was a Principal at Marakon Associates, a leading strategy consultancy, where he helped clients in a number of industries on strategic issues and new product development. Terry has a MBA from the Harvard Business School and a MEng and BA in manufacturing engineering from Cambridge University.

Ruth Crowell, Deputy Chief Executive, LBMA.

Ruth is the Deputy Chief Executive of the LBMA and is responsible for the strategic commercial development of the Association, including regulatory affairs, intellectual property, communications and events including the annual conference.

She acts as the LBMA's main contact for regulatory affairs. She is responsible for the Association's work on supply chain due diligence, especially with regard to the Responsible Gold Guidance. She also represents the Association at industry, governmental and multi-stakeholder regulatory forums. She is currently a co-facilitator of the OECD Interim Governance Group. In 2011/12 she also acted as the co-facilitator of the OECD Gold Supplement Drafting Committee.

She has an MSc in History of International Relations from the London School of Economics and a degree in English Literature from Kenyon College in Ohio.

The LBMA Responsible Gold Guidance

In the refining industry, the LBMA Good Delivery List includes the world's pre-eminent refiners of gold and silver, located in 31 countries. The 'List' is widely recognised as the de facto standard for the quality of gold and silver market bars, and is used by precious metal exchanges around the world to define in whole or in part the refiners whose gold and silver bars are accepted in their own markets. Collectively, the 63 LBMA Good Delivery Gold Refiners annually refine more than 4,000 tonnes of gold.

Implementation of the LBMA Responsible Gold Guidance is mandatory for all accredited Good Delivery List gold refiners. In January 2012, all 63 of the world's leading refiners listed by the LBMA accepted the Guidance in principle and began implementation. Since then, the LBMA has received voluntary audits of some refiners' 2011 production. Currently, the LBMA is receiving and reviewing audit reports for all 2012 production. An Audit Report certifying that a refiner is complying with the Guidance is mandatory for a refiner to remain on the London Good Delivery List. Maintaining Good Delivery status is vital for any refiner to operate in the professional markets in London and around the world.

The LBMA Responsible Gold Guidance is based on the OECD due diligence framework coupled with expanding existing Know Your Customer, Anti-Money Laundering, anti-terrorist funding and security policies, processes and audits to include risk-based conflict due diligence. It is a global framework and reflects the OECD's five-step framework and draws upon definitions used in the OECD Supplement on Gold and the Financial Action Task Force (FATF) on money laundering.

The Responsible Gold Guidance goes beyond the requirements of the OECD Guidance in both its audit requirements and its definition of conflict. Auditing is required for all refinery output, regardless of the source of the feedstock – formal mining, artisanal mining or recycled metal – so that all metal going through a refinery can be identified as 'conflict-free'.

The 2013 Proficiency Testing Scheme

By Aelred Connelly, Public Relations Officer, LBMA

Aelred Connelly reviews the LBMA's 2013 Proficiency Testing Scheme.

The LBMA recently completed the second Proficiency Gold Testing Scheme, following its introduction last year. The scheme is voluntary, open to all GDL gold refiners and designed to assist them in improving their assaying accuracy in relation to a large group of their peers. It is expected that labs will already be using well-established, validated methods of assaying, as well as adopting internal quality control procedures. Proficiency Testing (PT) adds an important layer of external quality control to these internal procedures.

Forty of the 63 LBMA accredited gold refiners participated in the scheme, with a healthy representation from every continent (with the exception of Antarctica), including 17 from the Far East. This provided an excellent consensus for the scheme; the more that participate, the more robust the results.

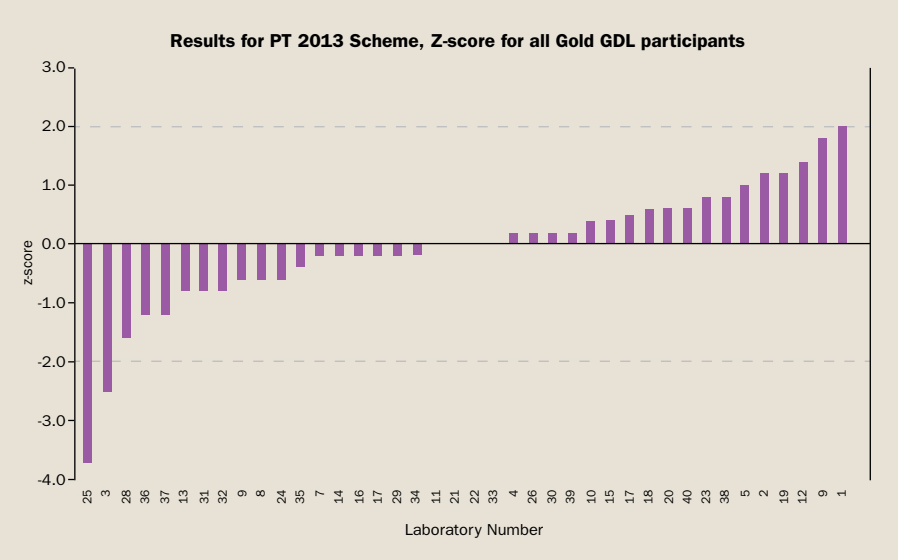
Participants were given one gold sample of approximately 3.3 grams, 2.5 cm in length, with a minimum purity of 995 parts per 1,000 and typical impurities being copper, silver, platinum and palladium. The sample was an existing LBMA reference material sample, and was produced and checked by the LBMA referees to ensure that all participants received and tested the same sample. Participants in the scheme are required to provide four to six results on the sample, either by Fire Assaying, where they would be required to do an absolute determination of the gold present in the material, or alternatively by dissolving the material and running it on ICP whether optical or mass-spec for impurities.

Participants then had to submit their results to the Food Analysis Performance Assessment Scheme, or FAPAS for short, which worked closely with the LBMA, in their capacity as facilitators of the scheme. Although FAPAS is more generally associated with food testing, it has a wealth of knowledge and expertise, running in the region of 500 PT schemes each year. An important element of PT is that the identity of the participants remains anonymous. Not even FAPAS or the LBMA know the identity of the labs participating.

The results of the scheme can be expressed in a number of ways. The average value for the whole set of assays was a fineness of 998.28. In proficiency testing, the best known measure of a participant's performance is the Z-score. The graph below shows these scores for all participants.

If a participant's results are evenly distributed then the Z-scores will be evenly distributed too. A Z-score of between 0 and 2, ie between two standard deviations from a participant's mean result, indicates that the lab may have an issue with the accuracy of its assaying. It is hoped that all labs can draw positively on their results and, in particular, that those labs on the edge of the distribution can incorporate the feedback in the report into their own quality control procedures so as to improve their assay testing procedures. But it is important not to interpret the results as a pass or fail. They are snapshots of how the labs performed on a particular day. The important thing to try and do is to build up a data set over time, which is one of the reasons why the LBMA will continue to operate the PT scheme next year. And as mentioned earlier, the greater the number of participants, the greater the consensus, so if there are any GDL gold refiners that didn't participate this year but that would be interested in doing so next year then please let us know.

FAPAS undertook a range of other statistical analyses of the results, which are described in full in its report and were made available to those labs that participated in the scheme. The LBMA, FAPAS and one of the GDL refiners that participated in the scheme, Umicore Precious Metals, delivered presentations on Proficiency Testing at the LBMA Assay & Refining Seminar (A&R) on 10-12 March. The presentations and transcripts are available on the LBMA's website. The possibility of extending the scheme in the future to include GDL silver refiners was also discussed and received positive feedback, so this will be something that will be seriously considered as a future extension to the current scheme.



The Fifth LBMA Assaying and Refining Seminar

By Aelred Connelly, Public Relations Officer, LBMA

The fifth LBMA Assaying and Refining Seminar (A&R) was held on 10-12 March 2013 at the Tower Guoman Hotel. Once again the Seminar proved a great success, attracting a record attendance of more than 150 delegates from 28 countries, with excellent representation from Good Delivery refiners and LBMA Members and Associates.

There was a wide range of interesting presentations with sessions covering new bar production initiatives, different assaying techniques, the LBMA's Proficiency Testing Scheme and the Due Diligence initiatives for gold. The LBMA received very positive feedback from delegates including some interesting suggestions for topics for inclusion in the next A&R Seminar in 2015.

The Welcome Reception on the Sunday evening attracted more than 100 people and 120 delegates attended the Monday night dinner at the Dickens Inn, St Katherine's Dock. Thanks go to all the speakers who delivered presentations at the seminar and who helped make it such a great success.

The presentations and transcripts are available on the LBMA's website.

Regulation Update

– Responsible Gold Programme

By Ruth Crowell, Deputy Chief Executive, LBMA

Third-Party Audit Implementation – First 2012 Responsible Gold Audit Reports Received

The LBMA is delighted to announce that it is in the process of reviewing its first batch of Responsible Gold Audit Reports. These include voluntary audits for 2011 production as well as mandatory audits for 2012 production.

All LBMA Good Delivery gold refiners accepted the Responsible Gold Guidance in January 2012 and began implementation of Steps 1-3. Refiners are now in the process of undergoing or arranging Step 4 or Third Party Audits of 2012 production. The LBMA has communicated to all Good Delivery gold refiners that receipt of a 2012 Responsible Gold Audit Report is mandatory for maintaining their accreditation.

Basel III Implementation – European Developments

On 16 April, the Europe Parliament voted in favour of the final text of the Capital Requirements Regulation (CRR) and Directive (CRD IV). CRR & CRD IV implement Basel III (the international regulatory framework for banks) into EU law.

The European Parliament vote was originally scheduled for October 2012, but was delayed due to more than 30 rounds of negotiations. These negotiations did not focus on gold, but a number of controversial issues, including the compromise text on bankers' bonus caps. The final text includes specific recommendations in favour of gold. These recommendations legally require the European Banking Authority (EBA) to review the case for gold's inclusion in the 30-day short-term liquidity buffer (the "Liquidity Coverage Ratio"). The European Commission tasked the EBA with this decision in July 2011. A final report from the EBA to the European Commission is expected by 31 December, 2013.

The EBA has already started this review process by including specific mention of and questions on data sources for gold in its recent Discussion Paper (February 2013). In response to these questions, the LBMA has assisted the World Gold Council in preparing a dossier to further make the case for gold's inclusion in the Liquidity Coverage Ratio. This includes a letter from the LBMA focused on the clearing statistics, as well as a video and multi-media submission created by the World Gold Council. These videos will be available on the LBMA website in due course.

Implementation Timetable:

Jan 2012	LBMA Responsible Gold Guidance became a formal requirement of Good Delivery
Jan 2013	LBMA Audit Guidance was finalised
Q2 2013	LBMA encourages audits to take place for 2012 production
Q2-4 2013	LBMA encourages refiners to submit audit reports ASAP, latest 31 Dec 2013*

* For some Refiners this may be 30 April 2013, as an LBMA Audit Report will be due no later than one year after the closing of the refiner's financial books.

DIARY OF EVENTS 2013

MAY

2
GFMS Platinum Launch
Canary Wharf, London, UK
www.gfms.co.uk

13
Johnson Matthey Platinum 2013 Launch
London, UK

15
6th International Gold Summit
New Delhi, India
www.assocham.org/events

16
CPM Group Precious Metals Mining Seminar
New York, USA

JUNE

20-21
International Gold Mining Conference
Zhaoyuan, China
www.goldminingconference.com

22-25
IPMI 37th Annual Conference
J W Marriot, Pheonix, Arizona, USA
www.ipmi.org/seminars

AUGUST

5-7
Diggers & Dealers Forum 2013
Kalgoorlie, Australia
www.diggersndealers.com.au

SEPTEMBER

15-20
New York Platinum Week
New York, USA

18-20
Colorado Precious Metals Summit
Park Summit, Colorado, USA
www.precioussummit.com

22-25
Denver Gold Forum 2013
Hyatt Regency, Denver, CO, USA
www.denvergold.org/gold-forums

26-29
World Gold 2013
Hilton Brisbane, Queensland, Australia
www.ausimm.com.au

29/09 - 1/10
LBMA Precious Metals Conference 2013
Hilton Cavalieri, Rome, Italy
www.lbma.org.uk

OCTOBER

7-10
LME Week 2013
London, UK
www.lme.com/lmeweek.asp

16-17
The Gold Symposium 2013
Luna Park, Sydney, Australia
http://gold.symposium.net.au

24-25
The Silver Summit
Spokane WA, USA
www.cambridgehouse.com

27-31
Conference of Metallurgists 2013
Québec, Canada
www.metsoc.org

NOVEMBER

4-5
Europe Precious Metals Summit
Park Hyatt, Zurich, Switzerland
www.precioussummit.com

14
RBC Gold Conference
London
www.rbccm.com

26-27
NewGenGold 2013
Pan Pacific, Perth, Australia
www.newgengold.com

LBMA News

By Stewart Murray, Chief Executive, LBMA

MEMBERSHIP

Members

On 8 February, 2013, the LBMA admitted two new members:

- SCMI Ltd (and affiliate of Sumitomo Corporation Global Commodities, which is already a full member) and
- Bank of Montréal.

Associates

On 18 January, 2013 Oriental expressions DMCC resigned as an Associate.

On 8 February, two new Associates were admitted:

- Doduco GmbH of Pforzheim in Germany and
- Umicore SA/NV (which in effect took over the Associateship held previously by its affiliate company based in Germany which resigned at the end of 2012).

GOOD DELIVERY LIST

The past quarter has seen two companies (or looking at it differently, three refineries) being given LBMA Good Delivery accreditation.

On 8 March, 2013, the gold refinery of C. Hafner of Pforzheim, Germany was added to the Gold List.

On 26 March, 2013, both the gold and the silver refineries of Sichuan Tianze were added to the respective lists. Sichuan Tianze is located in Chengdu, which is also the home of the Great Wall gold and silver refinery, the first Chinese refinery to have been listed by the London gold and silver markets (in 1960 and 1971 respectively).

Both the above companies specialise in the treatment of secondary material including low-grade scrap and residues from manufacturing or other metallurgical process streams. During a visit to C Hafner's plant late last year, I remember being struck by the invaluable service which precious metal refiners perform by extracting valuable metals from material that would otherwise simply have to be dumped in landfills.

In March 2013, Johnson Matthey Inc (the Salt Lake City-based subsidiary of Johnson Matthey plc) changed its name to Johnson Matthey Gold and Silver Refining Inc.

COMMITTEES

Management Committee

The Management Committee has held three meeting since the beginning of the year.

The Committee agreed to join the supporters of the Futures and Options Association's EU Regulatory Handbook which will allow LBMA members to access the content of the Handbook.

During recent meetings, the Committee has discussed the question of establishing a regular collection of gold trading turnover statistics from member companies which trade gold. It recently decided that such a survey should be carried out on an annual basis starting with the calendar year 2012. The survey will be similar to that carried out for the first quarter of 2011 but with modified definitions and notes in order to ensure that the results are as reliable as possible. Members will receive the associated questionnaire form at the end of April. The Committee expects that all gold trading members will participate not only in the first survey but also those carried out in the future too.

Regulatory Affairs

The LBMA is grateful to Martin Ford of Standard Bank who has agreed to chair the RAC in succession to Ed Wells, of HSBC, who recently stepped down from the chairmanship. The RAC's main focus continues to be on the impact of impending legislation on the market (see the note about the Members Seminar on 24 April on page 25). But it has also been involved in advising the Executive on various issues related to the development of the LBMA's Responsible Gold Guidance.

Physical Committee

The Physical Committee is responsible for the LBMA's Good Delivery List, which involves the consideration of applications for accreditation by refiners, the proactive monitoring of existing refiners on the list and modifications as and when necessary to the Good Delivery Rules. The Committee also receives regular reports from other groups including the Referees (who consider a wide range of technical issues relating to bullion) and the Vault Managers (who meet primarily to ensure that the application of LBMA standards on Good Delivery bullion bars is consistent across the London market). Following the Assaying and Refining Seminar in March, the Referees and Vault Managers held a joint meeting at JPMorgan's London vault to consider the practical issues in differentiating between, on the one hand, trivial imperfections and at the other extreme serious physical defects on bars that justify their rejection.

At its most recent meeting, the Committee agreed a number of changes to the Good Delivery Rules, (which are now included in the version of the Rules on the LBMA website). The Committee is now examining a draft of a detailed specification for electronic scales suitable for weighing Good Delivery gold bars. The final version of this should be included in the Rules by mid-May.

The workload of the Committee has increased significantly this year due to the need for it to review the responsible gold audit reports submitted by Good Delivery refiners which have now started to arrive at the Executive office.

Memorandum of Understanding on Bullion Market VAT

The Physical Committee would like to record the thanks of the LBMA to the VAT Group under David Blaney of UBS for the preparation of a revised MOU on bullion market VAT. This document, which covers both the LBMA and the LPPM markets shows how VAT should be applied to various bullion market transactions. The MOU was circulated to all members of both associations in mid-April and can be downloaded from the members area of the LBMA website.

Public Affairs Committee

With the LBMA conference once again taking place in the (northern hemisphere) this is the busiest phase of the PAC's year. Recent meetings have therefore focused on program development for the conference in Rome starting on 29 September. The LBMA is pleased that once again the conference is being supported by the LPPM.

Another exciting development for the London market is that the LBMA has accepted an invitation from the LPPM to co-host a cocktail party on 19 September during the New York platinum week.

Following the great success of the LBMA's 25th anniversary dinner in London last December, the perennial question of whether the Association should have an annual dinner, perhaps alternating between London and New York has been widely discussed within LBMA Committees. Any members with views on this question are encouraged to provide feedback to the Chief Executive!

At its meeting in March, the Committee welcomed Tom Coghill of Standard Chartered Bank to fill the vacancy resulting from the departure of Philip Newman (see Market Moves on page 25). The LBMA would like to thank the other eight candidates who put their names forward to fill this vacancy. It is indeed gratifying that there is so much interest amongst the membership in serving the LBMA in this way.

Charitable Donations

The LBMA has, for a number of years now, set aside for charitable purposes, 50% of the money generated from fines levied on GOFO and SIFO contributors who fail to contribute rates more than three times in a calendar month. Last year the LBMA made donations to three charitable causes; the CHAD Relief Foundation, the Childhope and the Jennifer Trust. Other charities that have received donations in previous years include the Red Cross fund for the Japan tsunami, the St Mungo's organisation, Kids

Get Going and Cancer Research. The PAC will shortly be considering which charities should be supported this year by the LBMA and any suggestions from Members would be welcomed, particularly where staff members are personally involved with the charity.

Membership Committee
As well as vetting new applications for membership and Associateship, the Committee (together with the due diligence working party which reports to it) advises the Management Committee on compliance and due diligence questions. Recent discussions have focused on ways of streamlining the Associate review process. As a result, in future, the sponsors of current Associates will be asked annually to confirm their support for the Associates for whom they had previously supplied sponsorship letters.

Another decision, relating to applications for Associateship from refiners, was taken following discussion also by the Physical Committee. It has been agreed that only refiners which are Good Delivery accredited can apply to become Associates.

Finance Committee
The most important meeting of the year for the Finance Committee is the one held in April to review the draft accounts for the previous year. The Committee noted that the LBMA's finances continue to be in an extremely healthy position and recommended to the Management Committee that the financial statement for 2012 should be passed to the AGM in June for approval.

At the meeting of the Committee in April, David Holmes announced that after more than 30 years in the commodities markets, he would shortly be leaving Commerzbank and would in due course pursue other employment opportunities. As a result of David's departure, there is a vacancy on the Finance Committee. Anyone interested in applying should send a short statement of their relevant market experience to the Chief Executive. It is not essential for candidates to have accounting qualifications and it should be noted that applications may be accepted from representatives of Associates as well as full members.

ASSAYING AND REFINING SEMINAR

The LBMA's fifth Assaying and Refining Seminar was held in the Guoman Hotel in London from 10 to 12 March 2013. This was, without any doubt, the most successful event in the series to date, which have been held in London every two years since 2005. A brief report on the seminar is given on page 22.

MEMBERS SEMINAR

A seminar for members and friends of the market was held on the afternoon of 24 April in Merchant Taylors Hall in the city of London. The seminar focussed on two different issues. In the first-half, the topic covered was the impact on the bullion market of impending regulatory changes in both the USA and the EU. Presentations were given on these two areas by representatives of Stroock, Stroock & Lavan and Simmons and Simmons respectively . In the second half, the providers of cleared forwards (LCH/LME and the CME Group) gave updates on the use of these platforms in the London bullion market.

AGM

The Annual General Meeting of the LBMA will take place in Merchant Taylor's Hall, Threadneedle Street at 5:30pm on 19 June. This is an ideal opportunity for any interested staff in Member and Associate companies to hear about what the LBMA has been doing and to meet representatives of other member companies. This year, it will be the turn of the five market making member representatives to be elected (or re-elected). The documentation including nomination forms for the management committee election will be circulated to the LBMA contact in each member company in mid-May. The AGM will as usual be followed by an informal drinks reception.

Christian Pfeifer
Members of the bullion market in Germany, the UK and the USA were shocked and saddened to hear of the sudden and untimely death, at the age of 41, of Christian Pfeifer on 19 April during a business trip to New York, to which he had travelled to take part in the Comex Gold Week on behalf of Jefferies Bache. Christian will also be fondly remembered by his former colleagues in Heraeus, Rothschild, Mitsui and UBS. He leaves two young children, Finn and Lilly and their mother, Amanda.

LPPM/LBMA Cocktail Reception

New York
19 September 2013

The LPPM, together with the LBMA, are holding a Cocktail Reception for their members and invited guests on Thursday 19 September 2013 from 18.00 - 20.00 at the New York Palace Hotel.

Any members wishing to receive an invitation please contact admin@lppm.com

Market Moves

Andrey Skripko joins Commerzbank

Andrey Skripko recently joined the Luxembourg based Precious Metals team of Commerzbank. In his new role, he will focus on expanding the business in Eastern Europe and CIS countries. He graduated with a distinction diploma from Said Business School University of Oxford in 2012 with MSc in Financial Economics. He also holds a 1st class BSc diploma in Banking and Finance from University of London and a 1st class ("Red") BS diploma in Economics from Russian State University Higher School of Economics.

Mark Augustynak joins UBS Precious Metals

Mark Augustynak recently joined UBS Precious Metals spot desk and is based in Zurich. He moved from RBS London, where he was responsible for the spot and forward books in all metals. Until June 2012 he worked for five years for Natixis in London.

Philip Newman, Nikos Kavalis and Charles de Meester form Metals Focus

Philip Newman, Nikos Kavalis and Charles de Meester have established, as co-owners, the newly formed Metals Focus, an independent research consultancy which will produce forward looking reports on the precious metals markets as well as delivering bespoke consultancy. Philip brings 19 years of experience at Thomson Reuters GFMS (formerly at GFMS). Nikos worked at GFMS for eight years before becoming a metals strategist at RBS, while Charles has 14 years experience in metals and mining, most recently at Thomson Reuters GFMS.

Remaining Calm Under Pressure

Editorial comment by David Gornall, Global Head of Metals Trading, Natixis London Branch and LBMA Chairman

Towards the end of March, the LBMA Executive informed me that it was my turn to write the next *Alchemist* editorial. The last time I had this privilege, I wrote about regulation and during the first-half of April I prepared some comments on the impact of regulation on the precious metals market.

We are after all having an important seminar for Members on this topic and there is no doubt that all participants in the London bullion market have to focus, as never before, on what is emanating from Brussels, Washington, Basel, Helsinki and even London. The member's event which took place on 24 April will be followed on 2-3 May by a meeting at the OECD in Paris where we will back this up with the second LBMA forum focusing on the implementation of the LBMA Responsible Gold Guidance. In this event we will bring together the World Gold Council, the EICC-GeSI in the US, the Responsible Jewellery Council as well as several NGOs and government representatives not to mention our all-important refiners.

Following the first signs of the dramatic fall in prices that began to appear on the afternoon of Friday 12 April (incidentally just as we were having a meeting of the LBMA's forward Market Makers) it became increasingly clear that the topic for this editorial was going to change. It is not the job of the LBMA Chairman, or the LBMA Executive to comment on the future direction of precious metal prices. But the historical record will show that over a two-day period, the price decline was the most dramatic in nominal if not in percentage terms, since the aftermath of the 1980 price spike. Having seen this twice in my career it struck me that not all market participants are as old as me.

> *"It became increasingly clear that the topic for this editorial was going to change."*

Although this sharp fall in the gold price took almost everyone by surprise and must have been particularly shocking to younger market participants who have only seen a steady rise in price during their careers, there is no doubt that there are many people in the bullion market with long memories and great experience. So while the chattering classes suddenly started talking about gold, and the media put it on the front pages, the market did precisely what it is meant to do: it continued to service its customers' needs, regardless of whether they wanted to buy or sell.

Refiners who are recycling anything from low-grade precious metal containing waste to high-value jewellery will not be going out of business because of this price fall. This is because they have wisely hedged their exposure to price movements using the facilities provided by the London market. Investors who wanted to sell their holdings have been able to do so while producers wanting to find a market for their gold or silver have continued to do this using pricing mechanisms in London. This implies finding buyers who wish to buy an equivalent amount or more realistically, just buyers. This is essentially what has been happening over the recent days due to physical demand seen here in London trading rooms.

In the 1980s there was a certain amount of drama as we didn't have the depth of liquidity that we have today, there were no hedge funds trading Gold to the extent there are today and the concept of an exchange traded product was 20 years away. I don't remember any of us having multiple tiered stress test limits or financial ratios imposed by prudential regulators. In the 1980s it was the collective of market-making bullion banks that provided liquidity on their own.

Today of course the market is manifestly different. One of the senior members of the market was attending a wedding out of the country on that Friday afternoon and when asked whether he spent the whole time looking at his BlackBerry the answer was of course not: he had a professional team in London who were able to ensure that their customers receive the service which they needed.

The kind of price movements described above provides a good test for the robustness of the London bullion market. Members of the LBMA who between them provide a comprehensive range of bullion related services including finance, trading, market making, vaulting and security transport have responded to the recent price shocks by simply continuing to provide the usual service to the bullion market's customers. Keeping calm and carrying on may not be much of a headline but we can all take comfort from knowing that this is what the market does in these circumstances.

David Gornall, Global Head of Metals Trading, Natixis London Branch and LBMA Chairman

David Gornall started his career in 1979, trading silver at Lonconex Limited, part of the Primary Industries/Golodetz commodity trading group. After a spell at Morgan Guaranty Trust of New York, he moved to Sogemin, trading in the LME ring and heading the bullion and FX desk. In 1992 he joined NM Rothschild to start their LME base metals operation, before returning to Sogemin's successor, Natixis Commodity Markets – where he was a main board director until 2009.

David is currently the Global Head of Metals Trading at the French Investment Bank, Natixis.

David is Chairman of the LBMA and has been a member of the Management Committee since August 2005.

facing facts

William Tankard, Research Director, Precious Metals Mining, Thomson Reuters GFMS.

Following a subdued year for transactions in 2012, are there signs that things are picking up?

Whether gauging activity by the quantum of large deals or the underlying aggregate value of transactional activity, 2012 was a quiet year. Indeed, based on data from Thomson ONE, the dollar value of deals in the gold space last year reached a three-year low, below the level in 2009 when the market was still treading cautiously in the wake of the global financial crisis.

After a swathe of multibillion dollar transactions undertaken in the gold industry over the past couple of years, the largest deal last year was Eldorado Gold Corp's acquisition of European Goldfields Ltd for around $2.4billion, which was completed in early 2012. Other major deals have included Pan American Silver's acquisition of silver and gold focused Minefinders, for around $1.3billion. To put these transactions into perspective, 2011 was the year that saw Barrick Gold Corp's $7.7billion acquisition of Equinox Minerals (a copper play) and, in 2010, the takeover of Lihir Gold (for $8.6billion) and Red Back Mining Inc. (for $7.4billion), by Newcrest Mining and Kinross Gold Corp respectively.

This apparent slow-down in 'blockbuster deals' over the past year or so has arguably been influenced by a number of factors, including decreasing confidence around the sustainability of a commodities 'super cycle' as well as a widespread (and growing) list of earlier acquisitions that, with

hindsight, appear regrettable from the perspective of the strategic value added through synergies or reserve upside; many of these have led to disappointment when it has come to project execution. Furthermore, there are a growing number of case studies where capital development costs of the next generation of organic growth have escalated sharply, serving as a sobering benchmark for companies eyeing growth through the acquisition of large, undeveloped deposits.

These factors have played a key role in the downgraded carrying values of many acquired assets. In turn, this has been a major influence that has precipitated the wave of senior management changes that has been a clear theme in the resources industry over the past year, spreading far beyond just the gold miners and furthermore motivating a stronger call by shareholders for reduced spending and enhanced returns.

Nevertheless, 2012 was a much busier year at the small to mid-cap level, with a flurry of deals valued in the order of half a billion dollars, many of which were motivated by regional expansion plans or local consolidation. At the upper end of this scale was the announcement of AuRico Gold Inc's sale of much of its Mexican portfolio to Minera Frisco, S.A.B. de C.V. for $750million in cash, which included the operating Ocampo mine and adjacent Venus and Los Jarros exploration projects, all proximal to Frisco's El Concheño project, which will be commissioned this year. In September, Australian-focused St Barbara Ltd closed its $650million cash & share acquisition of Allied Gold Mining Plc, expanding St Barbara's footprint into the South Pacific with the Gold Ridge (Solomon Islands) and Simberi (PNG) mines.

A theme of regional consolidation was present in several mid-sized deals, which included in Latin America, Yamana Gold Inc's acquisition of Extorre Gold Mines Ltd, to gain control of the Cerro Moro gold-silver project in Argentina, while Endeavour Mining Corp. continued to expand its West African footprint through the takeover of Mali-focused Avion Gold Corp; both deals were valued at over $400million.

One big deal that 'was not to be' involved China National Gold Group's discussions to acquire African Barrick Gold, which extended through the second half of the year but petered out in January. Notwithstanding, are there signs of the market picking up and, if so, how does this reconcile with the earlier comments of a more cautious approach?

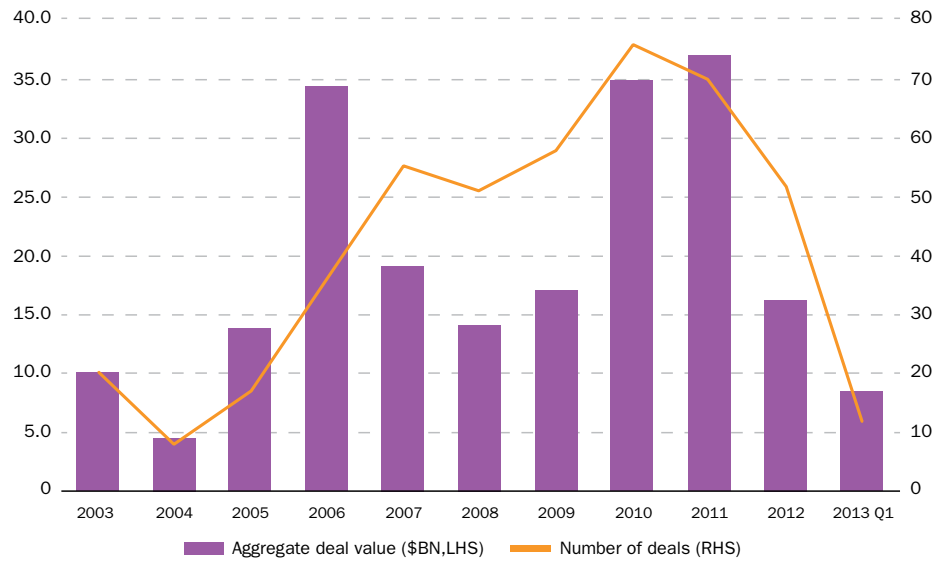
2013 has enjoyed a robust first quarter overall, with a handful of billion-plus dollar deals chalked up already. The combination of B2Gold Corp and CGA Mining was completed in February, in an all shares deal that valued CGA at around $1.1billion. More recently, and not yet featured in the numbers, a hostile bid for Aurizon Mines Ltd. by Alamos Gold Inc was followed by a bid by Hecla Mining Co, favoured by Aurizon's board, valuing the company at around CA$800million.

However, and putting a somewhat different slant on the deal flow, the two largest transactions to date have been divestments. These have included Gold Fields Ltd's plan to create a new company, Sibanye Gold, from its KDC and Beatrix assets in South Africa. The announcement rekindled a round of the periodic speculation that other South African majors might undertake similar moves. Gold Fields' plan was realised when Sibanye's shares commenced trading on 11 February, and the company has a current market cap of just over $1billion. A larger transaction followed, in the form of the $3.6billion disposal by Onexim Group of its holding in Polyus Gold International, representing almost 38% of the latter's share capital.

So after a couple of large transactions, it would appear as though 2013 could be a 'better year' of sorts, but one shouldn't lose sight of the motivation of some of the larger transactions that differ to the broader trend of consolidation that has prevailed over recent years, part of which has doubtless been motivated by pressure to return cash to shareholders, in our view.

William Tankard, Research Director, Precious Metals Mining, Thomson Reuters GFMS.
Having joined GFMS Limited as a Metals Analyst in 2005, William has eight years' experience researching the metals markets, principally covering mine production and associated producer activities. He was brought across to Thomson Reuters in a 2011 acquisition and now holds the role of Research Director – Precious Metals Mining, within Thomson Reuters' Commodity Research & Forecasts division. William has accountability for the mining team's research output of global production, mining costs and producer hedging issues across the precious metals sector. In addition to undertaking research for annual Surveys, forecast reports and bespoke consulting assignments, he played a lead role in the development and delivery of GFMS' market-leading PGM Mine Economics Service. He holds a BSc. (hons.) degree in Natural Sciences from the University of Durham, where he specialised in Geology.

Figure 1: Gold M&A plus IPOs



NB: Screened for deals of $50m+ and including IPOs;
Source: ThomsonOne.com Investment Banking

The Alchemist is published quarterly by the LBMA.
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