LBMA

Alchemist

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In this issue

On page 5 Adrian Ash explores the monetary and economic satire underlying the children's classic, The Wonderful Wizard of Oz, featuring the United States' 1896 political battle over following the Yellow Brick Road of a Gold Standard, plus the moral it now offers US voters and gold investors everywhere in 2016.

The Interplay Between US Interest Rates and Gold

By Kirill Kirilenko, Precious Metals Analyst, CRU International

The commencement of the monetary tightening phase by the US Federal Reserve in December did little to sooth debate about the implications of rising US rates on the future price of gold. On the one hand, many market commentators argue that gold – a zero-yield asset – will inevitably lose its shine when interest rates climb as this makes it less competitive versus cash and other interest-bearing assets. Against this, a wide group of market observers state that this economic cliché does not hold well for gold based on statistical analysis of historical data.

This paper analyses gold's behaviour during previous cycles when US interest rates increased and offers *Alchemist's* readers *CRU's* view on gold's future price trajectory. Our definition of the rate-hike cycle includes three or more consecutive increases in the federal funds rate with no intervening cuts.

There were seven episodes that meet our criteria in the period between January 1971 and December 2008 when the Fed last cut the rate from 2% to 0.25%. At first glance, these appear to favour the bulls, since gold rallied through five of these cycles and dropped through only two. Furthermore, average price gains through the periods when gold rallied significantly exceeded losses when it failed to do so – 133% versus 7% per each cycle. This does indeed suggest that gold is not only very resilient to rate hikes, but can often thrive in such environments.

However, gold is a very complex market and, although broad relationships are always useful pointers when performing market research, searching for one ultimate factor determining gold's price, akin to alchemy, will always result in failure. In most of our highlighted periods, other factors in addition to changes in the Fed's interest rate policy have played a significant role in price determination (see chart 1).

For example, between 1971 and mid-1974, and again between 1976 and 1980, the increase in interest rates was a response to rampant inflation. These are the two rate-hike cycles included in our analysis when gold rocketed the most. However, gold's performance then was almost entirely due to its perceived status as a hedge against inflation.

Admittedly, the same was not true during the last cycle, from mid-2004 to mid-2007, when, albeit not as dramatically as in the 1970s, gold also demonstrated solid growth. However, this was the period when the housing bubble in the USA began to pop, wreaking havoc on its economy and sparking demand for safe-haven assets such as gold. In addition, the start of liberalisation of China's gold market and the introduction of gold ETFs in 2003 played an important role in gold's advance during that period. The availability of ETFs encouraged a transfer of investment funds from proxy instruments (such as shares in gold mining companies) to the gold market itself, and direct investment in gold rose in both Asia and the OECD.

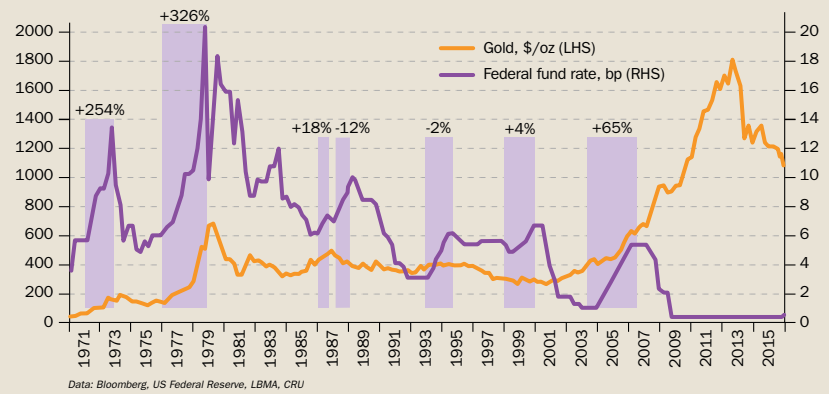
We can get some idea of where nominal rates might be heading by looking at market data. According to the latest 'dot plot', a part of the FOMC's Summary of Economic Projections released along with its policy decision statement, underlying interest rates are unlikely to exceed 3% by the end of 2018 (see chart 2). Although such a rate-hike cycle would be less extreme than the last one, when the rate was increased by 5% in three years, it is likely to be bearish for gold, in our view.

Instead of being largely reactive, as was the case during previous cycles, it looks like the Fed will try to act in a proactive manner this time and get ahead of the curve by raising interest rates before inflation gets out of control. Importantly, such a move will boost interest rates in real terms, making other financial assets potentially more attractive for investors than gold.

> *"The start of liberalisation of China's gold market and the introduction of gold ETFs in 2003 played an important role in gold's advance during that period."*

As investors' appetite for riskier and higher-yielding assets improves, CRU in fact expects demand for gold to wane, resulting in softer prices over the next few years. Having said this, the pace of annual declines is likely to be gradual, due to robust Asian demand for physical gold and an only gradual interest rate normalisation. Indeed, higher interest rates

Chart 1: If looked at in isolation, gold often thrives during the Fed's rate-hike cycles



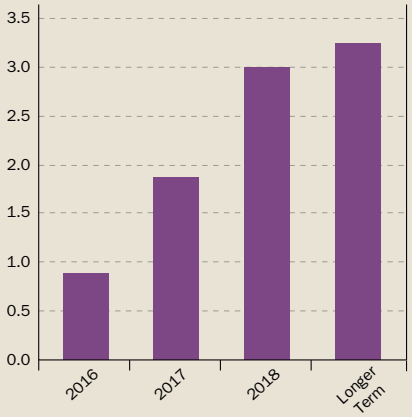
Data: Bloomberg, US Federal Reserve, LBMA, CRU

might generate considerable headwinds for the US economy in the form of tighter credit availability for businesses and consumers, and higher interest payments on government debt, which in turn may push the fiscal deficit higher and send the national debt spiralling out of control. As such, the Fed is likely to be very delicate and exercise a cautious approach in hiking interest rates (unless inflationary pressures intensify dramatically and force it to act more aggressively), mindful of the risk of damaging the economic recovery in the USA.

> *"The Fed is likely to be very delicate and exercise a cautious approach in hiking interest rates."*

So far, our comments have focused on US interest rates and largely ignored other countries. This is not entirely unreasonable given the impact the US rates have on emerging markets as well as other regions of the world. However, the USA is currently the only major economy where interest rates are expected to rise in the next year or so. In contrast, interest rates in major gold-consuming nations are still heading in the opposite direction.

Chart 2: FOMC's dot plot does not currently show expectations of rapid interest hikes (%)



Data: US Federal Reserve

These divergent paths of monetary policy could provide a degree of support to gold demand. Indeed, although increasing US rates could support the dollar and apply some downward pressure on the gold price denominated in US dollar terms, declining rates elsewhere are likely to make gold more attractive to both investors and consumers.

In addition, there is always a chance that some other factors will come into play down the road and trigger strong gold buying, thus reducing or perhaps fully offsetting the impact from higher rates and tighter monetary policy in the USA.

One such possibility is another emerging market crisis which could erupt if these countries struggle to service their debt denominated in US dollars as the Fed continues to raise its rates.

On balance, however, CRU does not expect gold to retain its shine and become markedly more popular as an investment during 2016 and beyond. The fact that US Fed officials now expect rates to rise only twice this year compared with the four hikes projected back in December does not change our mildly bearish stance on gold over the medium to long term. After all, the Fed is still committed to incrementally tightening its monetary policy, and each new step in this direction will likely spark a sell-off in gold, limiting its upside.

Meanwhile, gold's anti-inflation credentials have largely remained underutilised. With inflation in China remaining soft and European markets more concerned about deflation than price increases, it may be that concerns about global inflation were either exaggerated or premature. The impact of weak oil prices is lowering inflationary expectations too, and so this is another negative factor for gold. Indeed, unlike in the past, accelerating inflation in the USA may now actually be bearish for gold, since higher gains in this measure could force the Fed's hand into raising interest rates faster than the financial markets currently have priced in.

Of course, gold's safe-haven credentials should not be forgotten. It is well known that gold tends to benefit from all sorts of extreme negative market shocks. The start of 2016 has provided a good illustration as it was littered with events that burnished gold's safe-haven appeal, resulting in the price surge to multi-month highs. These included a pick-up in Middle East tensions, the sharp sell-off in China's equity markets, another nuclear test by North Korea and terrorist attacks in Europe.

However, as market volatility sparked by these events has begun to subside, it is becoming increasingly obvious that safe-haven demand was the key reason behind gold's surge earlier this year. And the effect on gold prices from these events is always fairly short and rarely exceeds several months. As such, motivation to seek out gold as a safe-haven whenever things are going pear-shaped should not alone be viewed as a solid foundation for any bull market, barring a conflict on a global scale. If taken out of the market equation, as was the case in early 2014 and 2015, gold will soon start losing its vigour.

> *"It is becoming increasingly obvious that safe-haven demand was the key reason behind gold's surge earlier this year."*

For the bull market in gold to return longer term, it is crucial to find a new major driver that would not only give price a bullish impetus, but then also help sustain upwards momentum not just for days or months, but for many years. However, we do not see any compelling candidate for this role at the moment. In fact, gold bears have more fundamental reasons for selling this metal. The risks of a global meltdown are now lower than they were a couple of years ago, the euro is surviving for now, macroeconomic indicators point to a steady, if slow, recovery in the US economy, and stock markets are repairing losses incurred during the jittery start to this year.

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Pay No Attention To That Man Behind the Curtain

By Adrian Ash, Head of Research, BullionVault

"If you were really great and powerful, you'd keep your promises!" cries Dorothy, stamping her foot in outrage in MGM's classic 1939 movie, *The Wizard of Oz*. But the man behind the curtain is just a man. There is no other wizard but him. And so there is, in fact, no wizard at all.

Frank Baum published his original novel for children, *The Wonderful Wizard of Oz*, in 1900. Adult readers heard a satirical note in some of its 16 sequels, and they couldn't miss the politics in many of Baum's other fantasy stories and plays (an octopus takes offence, for instance, at being likened to the Standard Oil Company's strangling monopoly). Yet it wasn't until the mid-1960s that Henry Littlefield, a New York high school teacher, writing in the *American Quarterly*, highlighted the Wonderful Wizard's "blatant satire" on turn-of-the-century monetary politics.

Baum himself claimed that *Oz* was "written solely for children". His flight of whimsy certainly isn't *Animal Farm or Pilgrim's Progress* in trying to change opinion or morality. But like Littlefield five decades ago, literary professors and economic historians have since found relationships and analogies with events and characters from when Baum was writing that seem far too consistent to be coincidental. Put simply, the story pokes fun at the presidential election campaigns of 1896 and 1900, and the United States' political battle over joining Great Britain and the rest of Europe in adopting a gold standard, rather than including more plentiful silver in its monetary system.

The Yellow Brick Road, Dorothy's magic slippers (silver in the book, not ruby), the green glasses with golden bands everyone must wear in Emerald City, even the name of the fake wizard's kingdom itself ('oz' is an abbreviation of Troy ounce, then as now the standard weight for bullion prices) together create what Littlefield called "a gentle and friendly Midwestern critique" of the late 19th century Populist movement. It campaigned for a return to silver against the "sound money" ticket of Republican William McKinley. His "gold bug" supporters often wore gold-coloured metal lapel badges in the shape of insects. The Populists backed William Jennings Bryan, some wearing "silver bug" badges to show their allegiance. Bryan secured the Democrat party's 1896 candidacy with a fiery speech attacking the deflation in prices and wages that had followed the US abandoning silver coinage two decades earlier:

"Having behind us the producing masses of this nation and the world, supported by the commercial interests, the laboring interests, and the toilers everywhere, we will answer [the] demand for a gold standard by saying to them: 'You shall not press down upon the brow of labor this crown of thorns; you shall not crucify mankind upon a cross of gold.'"Says the Cowardly Lion: "I learned that if I roared very loudly, every living thing was frightened and got out of my way" – a trick that opponents now accuse both Democrat hopeful Bernie Sanders and likely Republican candidate Donald Trump of using in this year's US presidential election campaign. The gold standard has also made an appearance on the 2016 hustings, but with the odd twist that tight money and higher interest rates now seem a populist promise, rather than an appeal to evil New York bankers (the Wicked Witch of the East keeps the little Munchkin people "in bondage...making them slave for her", and her spells turn a hard-working woodcutter into the machine-like Tin Woodman).

> *"The more desperate that central bankers become, the more they succeed in making gold bugs of us all."*

There is something very nice about the gold standard," Donald Trump said in March 2015, adding that "we used to have a very solid country because it was based on a gold standard". Ted Cruz, Trump's remaining competitor (at the time of writing) for the Republican nomination, has also said that the Federal Reserve "should get out of the business of trying to juice our economy, and simply be focused on sound money and monetary stability, ideally tied to gold". Neither mentions returning to a gold standard anywhere on their campaign websites, but Cruz says that "a rules-based monetary system would restore stability to the dollar", and his campaign has run a TV ad using footage of 1980-1988 US president Ronald Reagan speaking on gold-backed money, with the 2016 candidate vowing to "finish the Reagan Revolution".

Cruz's advert doesn't mention however that Reagan's pro-gold commercial of 1979 – which blamed America's then "crippling inflation" on the decision to "stop tying the value of the dollar to gold" taken by his (unnamed) fellow Republican Richard Nixon in 1971 – was never actually shown to voters. Reagan's first manifesto didn't mention the word 'gold', stressing instead how "the independence of the Federal Reserve System must be preserved". Yes, the Gipper called in 1981 for the appointment of the Gold Commission already signed into law by his Democrat predecessor Jimmy Carter. But the final report published in 1982 found against returning to gold, and it was only in 1984 – after nearly four years of power and two deep recessions – that Reagan's re-election platform said that "the gold standard may be a useful mechanism...to sustain price stability", and only then because the record-high interest rates imposed by Fed chairman Paul Volcker were at that time "destabilizing actions [which] must stop".

> *"Negative interest-rate policy now makes gold more attractive than many near-cash investments on cost alone."*

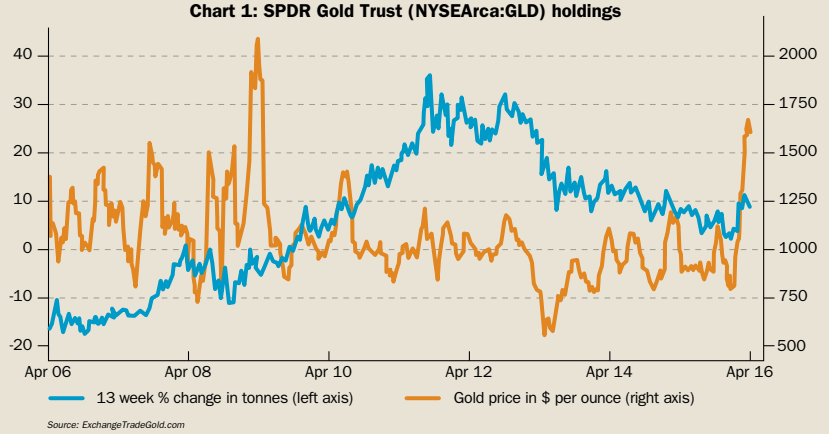
Where would such double-dealing and opportunism in monetary politics leave gold (or silver) advocates today? Whatever Frank Baum's intended joke in writing *The Wonderful Wizard of Oz*, the simplest monetary parable it offers in 2016 is that, if you follow the Yellow Brick Road, you will find there isn't a great, powerful wizard at the end. Only an ordinary man, or woman, with no magical powers to put everything right. This insight is normally reserved for gold bugs, that dreaded figure of fun for financial columnists who can't understand why anyone would buy a little gold (or increasingly silver) as a store of value and a hedge against financial risk or political incompetence. Indeed, the then new 20-year price lows of May 1999 saw the New York Times ask: "Who needs gold when we have Alan Greenspan?" The fact was we all did, but with European central banks selling (and the Jubilee 2000 campaign urging the IMF to do likewise), the logic of rejecting gold was plain.

"If the demonetization of gold continues," concluded *Times* columnist Floyd Norris, "the price is likely to keep falling as central bank sales more than offset any increase in demand from jewelers or industrial users. That could change if it turns out that central bankers are not the geniuses they are now deemed to be. But for now, the world believes in Mr. Greenspan and sees little need for gold."

That nadir for gold marked the zenith of central banking's reputation, and the harsh reality that no one is in charge (or at least, no one competent or trustworthy) has since dawned on people beyond the bug-o-sphere, albeit in fits and starts. It's hard to think of a stronger advert for buying gold than Jim Cramer's famous "They know nothing! NOTHING!" rant on CNBC about the US Fed in late 2008, when the celebrity fund manager banged his fists in sudden disillusionment with central bankers amid the failure of Lehman Brothers and the fast-worsening financial crisis. World investment demand for gold jumped by two-thirds that year from 2007, more than balancing the collapse in jewellery sales according to World Gold Council data. Central banks led by Washington then yanked the lever marked 'Quantitative Easing' and turned the dial marked 'Interest Rates' right down to zero. Including the surge in gold-backed exchange-traded trust funds (ETFs), those "extraordinary measures" saw net investment demand for gold total 175% of jewellery demand worldwide in Q1 2009, even as gold bar and jewellery holders in Asia and most notably India – traditionally solid buyers whatever the outlook – sold metal to take profits and raise cash amid the economic slump.

Professional wealth managers may not be wide-eyed innocents, but after confidence in central banking returned (and gold prices sank) from the peak panic of late-summer 2011, a few have suddenly found Janet Yellen, Mario Draghi and Haruhiko Kuroda as big a disappointment in 2016 as Judy Garland finds that clumsy old man behind the curtain in *The Wizard of Oz*.

Chart 1: SPDR Gold Trust (NYSEArca:GLD) holdings



Source: ExchangeTradeGold.com

You might wonder what took them so long, but since the US Federal Reserve finally acted in December to raise rates off zero as promised throughout 2015, all but 17 of 112 central bank meetings worldwide have voted to hold or cut rates so far this year, with the European Central Bank cutting its refinancing rate – the key interest rate in the world's single largest currency zone by GDP – to that zero level only just vacated by Janet Yellen's team. The ECB has also boosted its monthly QE money creation to €80 billion, more than the US Fed conjured each month at its peak, while the world's fourth-largest economy, Japan, has followed the ECB, Switzerland and Sweden into what many people find the frankly insane policy of paying negative deposit rates, charging commercial banks for holding excess reserves. More than two dozen countries now have key policy rates below zero, helping drive the yield offered by $8 trillion of government bonds below zero according to Bank of America-Merrill Lynch data.

The more desperate that central bankers become, the more they succeed in making gold bugs of us all. The brave new magic of sub-zero rates breaks has yet to juice corporate investment, consumer price inflation or GDP growth. But it breaks what central bankers previously feared was the 'zero lower bound' of interest-rate policy, and that makes rare, indestructible gold more attractive than many near-cash investments on cost alone. Negative deposit rates in the Eurozone and Japan are now approaching commercial storage charges on physical gold (BullionVault users pay 0.12% per annum), while Swiss interbank Libor rates and the Swedish Riksbank's deposit rate already exceed even the higher fees of gold-backed ETFs. The cheapest, the iShares Gold Trust (NYSEArca:IAU), costs 0.25% per annum. The Fed's wizards in Emerald City have in the meantime downgraded their US growth, inflation and interest-rate forecasts, spooking even the most trusting investors. Because if the Fed actually does know what it's doing, rather than just making it up as it goes along, then it must be really scared about the economic outlook.

Gold's sudden revival comes off a low base after four years of price falls. But sliding to seven-year lows at the end of 2015, the number of shares in issue from the giant SPDR Gold Trust (NYSEArca:GLD) jumped 25% in the first three months of this year, the fastest quarterly growth in the gold-backed fund since US quantitative easing and zero rates began at the start of 2009 (see Chart 1). This surge also erased the last two years of outflows from the GLD's gold bullion backing, and while institutional ownership of the trust's shares had fallen to just 22% by end-2015 from the 40% level reached at its peak size of 2012, it is a fair bet that money managers led the charge.

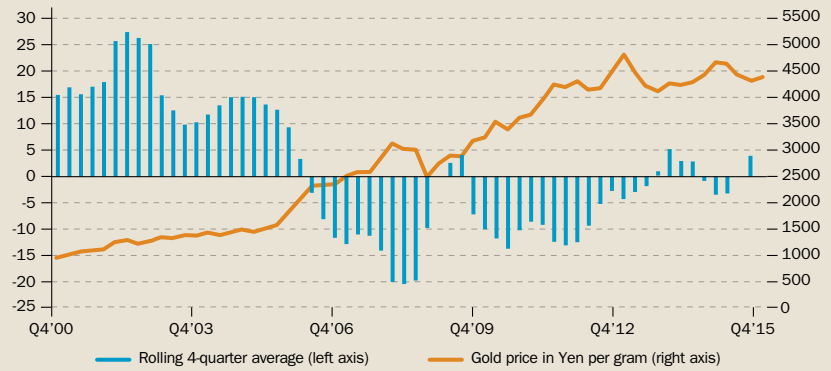
The bullish gold position amongst hedge funds and other money managers speculating in Comex futures and options has also turned sharply higher, growing at the fastest pace since the UK government and Bank of England flirted with turning the failure of Northern Rock into a full-blown banking run in late 2007. Retail

demand for physical bar and coin products has leapt as well in New Year 2016, but from a stronger level, because as prices fell ever lower over the last five years, the more that private investors built their holdings. Last year's fresh turmoil in the euro, plus the currency zone's move to QE and ever-more negative interest rates, saw the Austrian Mint's gold sales rise 45% from 2014. Between January and March this year, the US Mint sold 12% more gold Eagle coins than the last half-decade's Q1 average, and 18% more silver Eagles.

Mint figures don't say whether retail distributors have yet sold all this stock to consumers. Like the raw ETF data, they also don't say how much demand is coming from new buyers rather than from existing gold bugs already wise to the fact that central banking is really a "confidence game" (to quote the title of one detailed history of Western policy-making in the 1970s and 1980s). But our data at BullionVault do confirm a sharp jump in the number of private Western investors peeping behind the curtain (almost nine in ten of our 60,000 users live in North America or Western Europe), with new account openings rising 60% between January and March compared with last year's quarterly average to reach a level not seen since spring 2013. Back then, gold prices suffered their worst-ever fall, dropping 25% against the US dollar and drawing a wave of 'bargain hunting' from investors buying gold at what were then the lowest prices in almost three years. Gold in contrast ended March this year 17% higher versus the dollar from the end of December, its strongest quarterly rise since Q3 1986.

A straw in the wind perhaps, but this year's fresh demand suggests that a new wave of private investors is seeking shelter in physical gold. On the other side, however, existing investors held off making new purchases at gold's sudden multi-month highs (priced in sterling, gold in February touched levels not seen in two-and-a-half years). Indeed, the number of BullionVault users choosing to sell gold leapt by two-thirds in Q1 from 2015's four-quarter average. As these previous buyers cut losses or took profits, that capped our sentiment measure – the Gold Investor Index – at the highs of last autumn, when new price falls drove more bargain-hunting again (see Chart 2). Each month, this index tracks the number of net gold buyers over net sellers as a proportion of all existing holders, rebased so that a reading of 50.0 would signal a perfect balance.

Chart 3: Japan gold bar and coin demand



Source: Thomson Reuters GFMS, courtesy of the World Gold Council

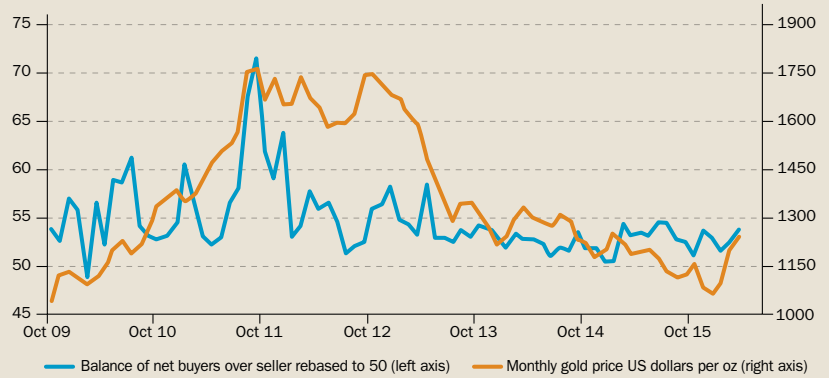
More traditional retailers dealing in small bars and coin (both more difficult and costly for investors to resell than vaulted bullion traded online) don't as yet report a rise in customers selling back. But based on revealed preference amongst the largest single pool of private bullion investors online, the Gold Investor Index offers an early indication of broader behaviour. After the bonanza of bargain-hunting gold bug demand since 2013, the wider retail gold investing industry – like central bankers – might want to note the example of Japan.

The developed world's first joint real-estate and stockmarket bubble to burst, Japan was first to slip into deflation, and turned to QE and zero interest rates before Western central bankers did. Its private households also turned to gold ahead of North American and European savers, building large holdings before world prices bottomed and the bull market began in 2001. Higher prices then invited those owners to sell, especially from 2005, when gold broke above levels last seen when Tokyo's property and financial crash began in 1989. Japanese savers have been net sellers of gold ever since (see Chart 3), with data published by major provider Tanaka Precious Metals suggesting that its clients bought 525 tonnes of gold over the last 15 years but sold 664 tonnes, running down the investment holdings built during the country's first "lost decade".

> *"Whether or not the retail gold investment business is over the rainbow yet, the fact is we're not in Kansas anymore."*

Western households, in contrast, couldn't reduce their investment holdings during the bull market of 2001-2011, because they hadn't previously built any to sell, choosing instead to buy real estate, equities and bonds under the magic spell of central bank stability epitomised by 'the Maestro' himself, Alan Greenspan. Should this early 2016 rebound continue, Western households cannot repeat the rediscovery of gold they began a decade ago, and retail dealers expecting a repeat of the one-way flows of the last bull market could face a rude awakening. Because whether or not the retail gold investing business is over the rainbow yet, the fact is we're not in Kansas anymore. At least some of the bargain-hunting stockpiles amassed on lower prices since the peak is very likely to come back to market, even as new investors and savers discover that there isn't a wizard behind the curtain.

Chart 2: BullionVault's Gold Investor Index



Source: BullionVault

Adrian Ash is Head of Research at BullionVault, the physical gold and silver online exchange. Launched in 2005 and winner of two Queen's Awards for Enterprise, it now cares for $2 billion of client property, all held in Good Delivery bars in the user's choice of London, New York, Singapore, Toronto or Zurich. Adrian was formerly Editorial Chief at the UK's largest publisher of regulated advice for private investors.

Community Gold Mining for Development

By Wayne Lau, Visiting Researcher at the Centre for Sustainable Development at Cambridge University, Chairman of the Board of Cameroon, Inc

Village miners in Cameroon. Source: CMINC

Gold mining can help rural villages in developing countries. A social enterprise, Cameroon Inc. (CMINC; www.cameroninc.com), collects tiny amounts of alluvial gold from family miners in Cameroon, Africa. Villagers earn income directly and, in doing so, clear their own path in development

Cameroon officially exports little gold and has no major gold mines. But for generations, family miners have foraged for gold flecks with shovel and pan. Such *community mining* differs from the co-operatives and small-scale industrial mines usually described as artisanal mining. As the Responsible Jewellery Council (RJC) notes: "Cameroon Inc. is the first RJC member who has stated to us that their primary business is to collect gold directly from family and community miners."

CMINC evolved from an innovative non-profit co-founded by its CEO, Armand Biko'o. Born and raised in a rural Cameroon village, Biko'o won scholarships to study in South Africa and was a lecturer in nature conservation at South Africa's largest university. The non-profit sought the dual goal of helping rural villages by conserving the wildlife around them. "We focused on working with traditional village social structures because we came from the villages," explains Biko'o. CMINC's success with communities was soon noticed and the government offered the team the right to collect gold in three rural areas.

Collections soon exceeded the capacity of the local markets, which led CMINC to explore international gold markets for help (see box). Gold has always held a special place in human society, arguably even more unique than the concept of money itself. This has led to the creation of a strict universe of formal and informal rules in the international gold trade. Credible buyers demand integrity through substantial anti-money laundering measures, child labour restrictions and environmental standards, among many others. How could a tiny group with an unfamiliar business model enter this complex universe?

CMINC quickly saw that both the formal and informal global standards were not fundamentally obstacles, but rather constructive ideas toward a common goal – improving the lives of rural mining families while supporting their ability to defend themselves against exploitation. The major challenge was applying the business and regulatory structures to a new sourcing model which operates in very difficult environments.

Anti-Money Laundering

Consider anti-money laundering for example: how does one build know-your-customer and chain-of-custody structures when dealing with tiny gold quantities collected from hundreds to thousands of mining families? CMINC used modern database concepts and information technology to create a possible solution – a Database Identification system (DBID).

The concept is simple. CMINC collects data on each mining family, including names, birthdates, children, location, school, village, tribe, etc. Every gold transaction with each family is also recorded by date, quantity and price. Gathering and updating data with pen and paper over vast territories in the African bush is not an easy task, but straightforward commitment, intensive management, good training and organisation, and discipline have made this possible.

Recording data is only part of the process however. Such information is most useful when it can be accessed easily by CMINC or an outside party for audit. This is why CMINC is developing a computerised system to organise the data. In theory, this will mean that anyone can find out where any particular shipment of CMINC gold came from. A first level search will show the villages and the amount of gold contributed by each; a second level search will show the amount of gold coming from each mining family in a village, and so on.

Map of Cameroon with the locations of CMINC's community mines in Bandjoukri, Woumbou and Pater.
Source: CAPAM, Ministry of Mines

From left to right: Catherine Lam, European representative, Armand Biko'o, CEO, and Boubakari, COO. Source: CMINC

The DBID will also issue photo identity cards to each family. This proposal was greeted with enthusiasm by both villagers and the government, because outsiders often attempt to mine illegally near a village. Villagers can be intimidated by these intruders, which hampers the ability of the authorities in enforcement. The ID cards will allow the mining police to identify outsiders and enforce the rules on their own. Interest has been so great that Cameroon's Ministry of Mines has joined the project, setting up an MOU with CMINC to work together.

> *"Collections soon exceeded the capacity of the local markets, which led CMINC to explore international gold markets for help."*

CMINC's widespread collections also are a natural deterrent to abuse. If someone wanted to sell a large amount of illegally obtained gold, they would need to conspire with a large number of families who must be entrusted with the gold – a daunting obstacle in itself. In addition, the DBID can flag for investigation any untypically large gold quantity offered by a family.

Child Labour

A more difficult area is child labour. Applying existing international child labour standards word for word in rural areas is often not useful. That is because these standards were mainly developed when manufacturing moved to low-wage centres in Asia. They thus apply well in controlled factory settings where employees are monitored. But in both rich and poor countries, rural children participating in family work is considered a treasured part of a family's culture. A child's help is viewed as a sign of responsibility and maturity.
CMINC addresses this complex issue with a straightforward concept that appeals to a family's interests. When school is in session, no school-age child should be at the mines; when there is no school, parents have discretion over a child's activities. Exploitative labour by outsiders is strongly discouraged through an awareness programme. Fortunately, every stable family has a strong incentive to support the schooling of their children. Cameroon is unusually diverse, with more than 250 tribes. French (or, in some areas, English) as a second language taught in schools is a necessary lingua franca.

CMINC reinforces its child labour policy by helping local village schools with donations for classroom buildings, teachers' salaries, school supplies and furniture. This builds a strong relationship between school principles, teachers and CMINC. If children from a mining family are missing school or have other problems, CMINC will investigate. Since village schools typically educate children from both mining and non-mining families, the effort also helps support community unity and reduces inter-family jealousy.

For example, last year, CMINC was visiting a potential mining village partner and a young girl was spotted in a washing pit. Biko'o and visiting European representative, Catherine Lam, launched an investigation on the spot. The girl's father was found and he explained that the village's school had been closed by the authorities due to a licensing error by an overseas charity. Parents had unfortunately already paid school fees for that year and could not afford more to send their children to the school in the next village. So the child was not working but was being supervised by her mother while her mother worked. CMINC verified the information and left an unconditional donation as a gesture of goodwill and trust. This was used to help restart the school. The village is now a CMINC partner (further details are available on CMINC's website).

Village School built by CAMNARES. Source: CAMNARES

The Environment

Mercury use in gold mining is a major issue. Fortunately, Cameroon law already prohibits the use of chemicals. CMINC fully supports the Cameroon government through monitoring miners, spot gold testing and mercury awareness campaigns. The campaigns use accurate but gruesome pictures of the effect of chemical poisoning on people, including children. Out of self-interest, families quickly realise that they want nothing to do with these chemicals in their areas, especially given the small extra quantity of gold which mercury renders.

Another environmental concern are the often very deep holes left in the local landscape. These holes are ugly. But they present more of a safety issue than an environmental problem, given their focused locations. In certain areas where arrangements can be agreed with village miners to bring in motorised equipment, CMINC will jointly agree with the miners to fill abandoned holes with old tailings and restore surface plants.

Ethics Through Transparency

While brainstorming solutions, CMINC saw the need for a holistic policy on ethics beyond complying with international standards. The current standards are successful, providing fine examples of applied ethical policy (see next section), but they are generally based on ethical consensus from the relatively wealthy countries which demand most of the world's gold. The standards work when gold is supplied from mines operated by a single entity (whether private company or artisanal co-operative), where the entity has a strong incentive to secure the gold from extraction to delivery. The entity can thus claim full responsibility for complying with the standards.

Community mined gold is different, because: a) each family is responsible for sourcing its own gold (albeit a microscopic quantity by industry standards); b) the families are dispersed across vast remote areas where transport and communications are difficult; and c) new ethical rules take considerable time to teach, let alone understand. These challenges mean misunderstandings and errors will happen. As a result, as community mining projects grow and mature, they are likely to attract criticism and allegations of ethical violations, whether substantiated or not.

Thus, there is a gap between current industry ethical standards and the difficult operating conditions in poor rural areas. CMINC is addressing this gap by adopting an ethical policy based on transparency:

> Ethical Policy Statement: "Given its difficult operating environment, CMINC understands that ethical misunderstandings and errors will occur. CMINC is committed to addressing such misunderstandings and errors as opportunities to learn and improve operations, and therefore welcomes any information regarding possible ethical breaches."

In practice, CMINC has organised a system to document ethical incidents involving third parties, village miners and/or CMINC staff. The incidents are classified into categories: Sourcing (money laundering), Labor, Mercury, Bribery and Intimidation. For transparency, a brief synopsis of each incident is shown on CMINC's website.

The website also has a section where third parties can report suspected ethical incidents to CMINC. Of course, the more information that can be provided, including the reporter's contact details, the more likely an investigation is to be fruitful. If a reporter's contact information is disclosed, CMINC will commit to responding back to the reporter when the investigation is completed.

> *"These challenges mean misunderstandings and errors will happen. As a result, as community mining projects grow and mature, they are likely to attract criticism and allegations of ethical violations, whether substantiated or not."*

What happens when a reporter does not have enough information about an incident for CMINC to investigate properly or is unsatisfied by CMINC's investigation? CMINC will arrange a third-party auditor with international credibility and the resources to do the investigations in Cameroon. The auditor will have full access to CMINC's records as well as physical access for visits and interviews at mining villages. The auditor can be contacted by a reporter for an estimate of the cost of an investigation. If the incident is serious enough, the reporter can raise the necessary funds with CMINC's co-operation and interest in any results that may help it.

Development Gold: A New Market?

CMINC's project raises an intriguing possibility for world gold markets. Ethical gold standards are already being developed and recommended by highly credible organisations such as Fairmined (www.fairmined.org), the Responsible Jewellery Council (www.responsiblejewellery.com) and FairGold (www.fairgold.org). Such gold is certified to satisfy anti-money laundering standards, often including best practices for labour and the environment. Some standards also seek a positive impact on the quality of life of miners and their families. But the main message to the consumer currently is that Ethical Gold does no harm.

> *"Thus, there is a gap between current industry ethical standards and the difficult operating conditions in poor rural areas. CMINC is addressing this gap by adopting an ethical policy based on transparency."*

What if consumers could be offered development gold, which not only does no harm, but also helps those who collect it? This message could be reinforced by systems like DBID which can link a retail gold piece to one of the families who contributed gold to it. When buying jewellery, the consumer could thus see information and pictures about the family, the children's school and the village. Through CMINC, an owner could even send letters and presents to the family (although CMINC would require that presents be allocated to the community in a fair way to avoid jealousy toward the family itself). When a consumer has the time and resources, a visit by the consumer to the family and its village can be arranged.

Thus, gold could offer more than harmless adornment – it could offer a consumer a charitable relationship, giving them the satisfaction of doing something good for someone less fortunate which could last a lifetime.

Let us gaze at blue skies a bit more. It might be possible for individuals, groups of individuals and corporations to adopt entire mining villages and use their gold exclusively in innovative ways. Of course, marketing channels and brands are justifiably sensitive to ethical claims. That is where CMINC's unusual transparency based ethical policy can help. Imagine a brand or marketing channel's CEO being interrupted during a speech by an ethical accusation over development gold. Rather than be flustered, the CEO could simply give the accuser details of the CMINC website for reporting ethical incidents. In a generous gesture of interest, he could even ask to be kept updated by the accuser regarding CMINC's follow-up. Development gold? An intriguing possibility indeed.

Catherine Lam at the LBMA Precious Metals Conference 2014 held in Lima, Peru. Source: LBMA

How does a social enterprise knowing nothing about international business approach world gold markets? "We sent emails and letters asking if anyone wanted to buy our gold. In the rare case where someone replied, we were told they do not buy artisanal gold. It was very frustrating," explains Geneva-based Catherine Lam, European representative for CMINC.

Out of desperation, Catherine took a last-minute flight to the LBMA's 2014 conference in Lima, Peru. As she relates: "It seemed everyone we tried to contact was going to be there, so we took the decision to just go and see what we could learn."

It was an epiphany. The industry is renowned for discretion, and CMINC's amounts are considered tiny. Nevertheless, attendees went out of their way to help educate a novice in the complexities of the international market. Anti-money laundering, child labour, chain of custody – no matter how complex, people were willing to spend their valuable time to explain. CMINC soon saw that it did not fit the industry's model for artisanal gold mines. But it was enthused by industry standards meant to help rural mining families while avoiding the funding of illegal groups that oppress them. CMINC is now honoured to be exporting gold to an LBMA-certified refinery.

"We are excited that Cameroon Inc. is exploring the possibility of getting Fairmined certified. This kind of an innovative 'social entrepreneur' community mining set-up might prove to be an interesting model for improving the access of artisanal miners to Fairmined certification, especially in the African context. They would be the first in Cameroon to reach certification and could lead the way for others to follow," says Marcin Piersiak, Standards Coordinator in the Alliance for Responsible Mining.

Wayne Lau is a Visiting Researcher at the Centre for Sustainable Development at Cambridge University. Lau is also the Chairman of the Board of Cameroon, Inc.
He can be contacted at: WcwL2@cam.ac.uk

LBMA Annual Party Review

The LBMA's Annual Party was held this year at the Museum of London on Thursday 3 March. Over 250 people attended the event, with more than three quarters participating in the highlight of the evening, the Quiz, which was run appropriately by a company called Quiz Quiz Quiz (no obvious hints there then!)

The evening began with drinks and canapes in the reception area of the Museum, before guests were invited down to the Sackler Hall for even more food and drinks (there's a theme evolving here). The Hall proved an excellent venue for the quiz, with its suspended elliptical LED screen running around the circumference of the ceiling proving an ideal backdrop for displaying questions and photos (which came in particularly handy for the picture round). Teams of up to 6 competed for champagne and the coveted gold trophy (well actually plastic, we do after all live in austere times). In total more than 180 people comprising 33 teams took up the challenge to become the winners of the coveted LBMA Quiz trophy.

Prior to the end of the quiz, proceedings were interrupted with a true or false round where guests were invited to enter an individual competition, to answer a simple statement by putting their hands on their head if they thought it was true and crossing their arms if they believed it was false. Those who were unsure of the answer stood on their heads. In a two way play off for first prize James Truesdale of HSBC narrowly edged out the LBMA Chief Executive, Ruth Crowell. It was fortunate that Ruth did not win as she would have had to donate her prize to a noble charitable cause, for example the Benevolent Fund for those poor unfortunates with money invested in overseas tax havens.

During the interval mid-way through the quiz, guests were able to avail themselves of an exclusive tour of the Metropolitan Police's Crime Collection, which housed a large collection of items which had not previously been displayed in public. Items included those from some of from the UK's most notorious crimes, ranging from Dr Crippen to the Krays, Jack the Ripper, the Millennium Dome diamond heist, and the Great Train Robbery.

Back to the quiz. A number of question rounds tested the intellect of the assembled great and good of the bullion market. After a gruelling round of questioning the winners were finally announced as (INTL) FC Stone Cold, who top scored with an impressive 86%. The runners up were Norfolk in Clue with 77% (although they clearly did not live up to their name). Unfortunately, the winners celebrated a bit too enthusiastically and now feature as prime exhibits in the Metropolitan Police Crime exhibition. Photos from the event can be viewed on the Members only section of the LBMA website. We look forward to seeing as many of you as possible at the next party in 2017.

Future LBMA Events

LBMA General Meeting - 29 June 2016, Glaziers Hall, 9 Montague Close, London, SE1 9DD

This is an LBMA Member and Associates only event.

In recent editions of the *Alchemist* we have featured updates on the LBMA's Strategy Review, which includes the delivery of improved reporting and the introduction of new market services later this year. In order to support these changes the LBMA has to update its legal structure and governance and a General Meeting has been called on June 29 to facilitate this, with the AGM moving to later in the year (see below). Further details regarding all of these changes will be released to Members and Associates in advance of the meeting. The meeting will take place at Glazier's Hall, built in 1808 as a warehouse adjoining London Bridge, and for those who know their Dickens, the so-called 'Nancy Steps' made famous by Dickens' Oliver Twist.

2016 LBMA/LPPM Precious Metals Conference 16-18 October 2016, Shangri-La Hotel 22 Orange Grove Road, Singapore

LPPM & LBMA Members and Associates and non-members.

Following the highly successful 2015 LBMA/LPPM Conference in Vienna, this year's Conference is moving to the other side of the world to Singapore, maintaining the LBMA's intention to alternate between short and long haul Conference destinations. The Shangri-La Hotel, Singapore will be the venue for the Conference which will take place 16-18 October, 2016. Registration for the event will open in early May so be sure to book your place as we confidently expect a high turnout. The Conference dinner will take place in the jaw dropping beauty of the Gardens by the Bay which is a UNESCO world heritage site. Full details regarding the event will be made available soon on the LBMA's Conference microsite including the Programme which is currently in the process of being prepared. One of the Keynote Speakers is the distinguished economist William White, Chairman of the OECD Economic Development and Review Committee.

LBMA Webinars & Communications

2016 sees the LBMA embark on a programme of website and Member communication enhancements designed to keep members better informed regarding developments in the bullion market and what the LBMA is doing. Following on from the recent website mobile optimisation upgrade in March, future areas for development include an upgrade to the current Members' area of the website and the production of a Members' only newsletter. Among other initiatives include the production of a new suite of tailor made videos explaining the work of the LBMA including developments regarding Good Delivery, Regulation and the broader bullion market.

LBMA AGM - 27 September 2016, Glaziers Hall, 9 Montague Close, London, SE1 9DD

This is an LBMA Member and Associates only event.

To accommodate the General Meeting in June this year's AGM will take place later than usual, and as with the General Meeting, the AGM will take place at Glaziers Hall. As well as the normal proceedings this year's AGM will incorporate, into the constitution of the LBMA, the governance and legal structure changes agreed at the General Meeting in June. In addition, to approving the accounts and appointing the auditors, those attending will hear reviews from the LBMA Committees explaining what they have been doing over the last year. All in all, the AGM provides the ideal opportunity for staff of member and Associate companies to hear about what the LBMA has been doing and what it is planning for the future.

Biennial Dinner - 1 December 2016 Goldsmiths' Hall, Foster Lane, London, EC2V 6BN

The 2016 biennial dinner is a black tie event for members, associates and guests of the LBMA. This year the dinner will take place in the salubrious surroundings of Goldsmiths Hall in the heart of the City of London. The proceedings begin at 18:30 with a cocktail reception followed by the dinner at 19:30. The Keynote Speaker for the event has been confirmed as the Right Honourable Michael Portillo, former MP and Cabinet Minister, and now a renowned broadcaster and journalist. For those coming to the event by train don't forget to take your George Bradshaw Railway Guide!!. Mark the event in your diary. Full details for the event including registration will be published later in the year.

LBMA Assay & Refining Conference 19-21 March 2017, Royal Garden Hotel, 2-24 Kensington High Street, Kensington, London, W8 4PT

The biennial Assay & Refining (A&R) Conference is a technical forum designed for assayers and laboratory analysts, refinery managers and engineers but also of interest to anyone interested in hearing about the latest technical developments within the assay and refining industry. Bringing together experts from refineries located around the world it naturally provides the perfect opportunity for those attending to network with their peer group. An event to mark in your diary and look out for further details regarding the programme and registration later in the year.

Stewart Pixley, A Gentleman From a Bygone Era

By Michele Blagg, Research Consultant and Visiting Research Associate at the ICBH, King's College London

As part of the LBMA's Voices Project, Michele interviews Stewart Pixley, about his experiences of working in the family bullion brokerage business that was originally set up in 1852 by his great-grandfather in partnership with Henry Haggard.

During my time spent with the LBMA recording past and present members of the London bullion market for the Voices project, I visited many of the archives located around the City of London, unearthing papers connected to and revealing changes that have taken place in the market. You can imagine my delight, when on gaining special access to the surviving paper records of Sharps Pixley, which now form part of the Kleinwort Benson collection, I came across a 19-page transcription of an oral history interview with the late Stewart Pixley of Sharps Pixley, which took place sometime during the early 1980s, almost a decade after his retirement.

Sadly, I have still to locate the original taped recording, but luckily the transcription contains a wealth of information and is packed full of events and stories throughout Stewart's 34-year career in the London market. With the kind permission of Commerzbank, the custodians of the collection, I can share some of the highlights, offering a rare insight into Stewart's role within the company, the motivation and decision process leading to the sale of Sharps Pixley to Kleinwort Benson, and the subsequent transition and period of adjustment under the new banner.

Opening his interview with a potted family history, Stewart proudly tells of the firm's heritage. Begun in 1852 by his great-grandfather, Stewart Pixley, a senior partner in the Cashier's office of the Bank of England, in partnership with Henry Haggard, the son of the principal of the bullion office also of the Bank of England, traded as Haggard & Pixley, of 8 Copthall Court. According to Stewart's own father, his grandfather saw the opportunity for an "honest bullion broker in London". The firm of brokers put producers and consumers together and charged a small brokerage. Over the years, various partners came and went and the business trundled on before Stewart, following seven years serving in the Army, joined in 1947, at which time, the London gold market was closed and had been since the outbreak of war in 1939.

The accompanying timeline (see right) shows the names of family members and others associated with the firm. We are able to fill in some of the gaps not covered by the interview from documents held within the collection.

1852 Haggard & Pixley formed. Stewart Pixley, a senior partner in the Cashier's office of the Bank of England, formed a partnership with Henry Haggard, the son of the principal of the bullion office also of the Bank of England, and began trading.

1857 The firm moved to 27 Old Broad Street and the original partnership was dissolved shortly after this date. Stewart Pixley then took into partnership Henry Gilson Abell and Edward Langley, becoming Pixley, Able and Langley.

1869 Francis Barron Blake joined them, becoming Pixley, Abell, Langley & Blake.

1872 Langley & Blake retired, and the firm became Pixley & Abell.

1899 On the death of Stewart Pixley, the remaining partners were SA Pixley, AD Pixley and JA Pixley, a real family concern.

1901 AD Pixley retired and HL Baggallay joined.

1911 JA Pixley died and AF Daniel became a partner.

1929 SE Pixley became a partner in June.

1931 HL Baggallay retired, the partners then being Stewart Aikin Pixley, son of the founder, Arthur Freer Daniel and Stewart Edward Pixley, grandson of the founder.

1942 SA Pixley died.

1946 AF Daniel died, leaving SE Pixley the sole entity.

1947 SE Pixley was joined by Stewart Reginald Vyvyan Pixley.

1948 AW Hawkins (Percy), who joined the firm originally in 1900, became a partner.

1957 This partnership continued until the firm amalgamated with Sharps & Wilkins in July, under the style: Sharps, Pixley & Company.

1966 Sharps, Pixley & Company sold to Kleinwort Benson.

Mr I M L D Forde, Director of Kleinwort, Benson, Lonsdale Ltd. (seated left) and Mr S E Pixley, Director of Sharps, Pixley & Company, sign the agreement whereby Kleinwort, Benson, Lonsdale purchased the whole of the Issued Share Capital of Sharps, Pixley. Standing behind them are the three other present Directors of Sharps, Pixley, Mr H W Mermagen, Mr S R V Pixley and Mr V A Werner. Circa 1966. Photo reproduced here with the kind permission of Commerzbank.

When in 1954, the gold market reopened, the big four brokers were still in existence. Montagu, Mocatta, Pixley and Sharps, plus Johnson Matthey and Rothschild were either banks or very large firms in their own right. Gradually, some of the firms joined together. Stewart explained how the composition of the market changed and why Pixley & Abell and Sharps & Wilkins joined forces to form Sharps Pixley in 1957:

> *"To be a bullion broker, you had to be able to borrow a lot of money and if you didn't have a large friendly parent company with all the money in the world available, you were at a disadvantage. From our experience, we used to go around to all our friendly merchant banks and say 'lend us thirty thousand, or fifty thousand or something', and we used to do it against a certificate saying that we were holding allocated silver at their disposal – which was all honest, but living hand to mouth rather."*

Ahead of the merger of Pixley & Abell and Sharps & Wilkins, Johnson Matthey had already approached both firms with a view to a takeover and amalgamation to become the bullion broker side of the operation. Stewart shared that it was his father who turned the offer down:

> *"He wasn't keen on that, and it wasn't very long after that that Mocatta & Goldsmid were bought by Hambros Bank and my father's remark was, 'Huh, if I'd known that was going to happen, I might have thought again'. He thought it would be too much of an upset in the Market to be linked with Sharps and with Johnson Matthey, which I suspect the Bank of England would not have been too keen on because it would have reduced the number of firms in the Market from four in the silver down to three. Pixley & Abell wasn't in the silver market. It would reduce the number of firms in the gold market from six down to four."*

"Ahead of the merger of Pixley & Abell and Sharps & Wilkins, Johnson Matthey had already approached both firms with a view to a takeover and amalgamation to become the bullion broker side of the operation."

When the Bank of England was approached ahead of the Pixley & Abell and Sharps & Wilkins merger, it was explained by Stewart senior, "Look, all our competitors in the market are so much more powerful than we are," and the Bank said, "We know, we would be delighted if you would join up." Sharps Wilkins had four partners and seven staff, including three bullion porters down in the vault and four office staff. When it joined Pixley & Abell, only Louis Balfour, the senior partner, Bertie Milner, the chief clerk, another clerk who died quite soon after and the resident bullion porter who lived over the vault came across. They joined the three partners at Pixley – Stewart, his father Stewart E Pixley and Percy Hawkins – and Sharps, Pixley & Company was formed.

The next major change for Sharps Pixley came in 1966 when it was acquired by the Kleinwort Benson Group. Stewart recalled that there had been "some reluctance to look for a parent company to ease the credit flow". Sharps Pixley received a number of approaches from banks, merchant banks and others, but it wasn't until the approach came from Kleinworts, which was a valued, well-established old customer, that the partners seriously deliberated a buyout. Stewart explained that the big problem for Sharps Pixley during the negotiations was that:

> *"When you had a firm, when we were entirely independent, that made £25,000 gross in a year, we thought we did well, and you can't persuade a merchant bank to pay you a large sum of money for a firm that can show them nothing. They want to see the last ten years' results and then they pitch a price at you. But in fact with Kleinworts, we invented a system that there was an agreed price. They paid us a modest part of it to start with and the balance was to come if our performance in the following three years was what they reckoned was sensible to allow them. Merchant banks were pretty hard-headed. This was the only way of getting the price we wanted."*

Back Row : A J Duncan, A Lambert, V Jeffers, G McMillan, J Clark, C Holes, W Lombard
Middle Row: P F G Barnes, Mrs F Horsburgh, Mrs I Young, Miss Patricia Haines, Miss I D Pampel, Mrs C Adkins, Mrs J Shoring, Mrs V Ducksbury
Front row: H W Mermagen, D N Saunders, R A Henderson, G F M P Thompson (Chairman) S R V Pixley, M J Hawkes, E S M Bennett. Photo reproduced here with the kind permission of Commerzbank.

During the negotiations, two directors of Kleinworts asked Stewart: "How can you justify this amount?" He responded: "Well I can't, except I am sure in my own mind that we, with your financial assistance, I think we should be able to take off and make some money."

A price was agreed and the deal was done, but unfortunately 1967 proved to be a "very sticky" year. All three members of the London silver market – Sharps Pixley, Mocatta & Goldsmid, and Samuel Montagu – were caught short when the American Treasury, without warning, turned round and stopped selling silver. It did it in such a deliberate way to try to catch out the speculator; instead, it caught out the London brokers. Coming on the heels of the recent takeover, it wasn't a good start for Sharps Pixley, which reported a £600,000 loss. Stewart described the events that followed:

> *When you had a firm, when we were entirely independent, that made £25,000 gross in a year, we thought we did well, and you can't persuade a merchant bank to pay you a large sum of money for a firm that can show them nothing. They want to see the last ten years' results and then they pitch a price at you.*

"There were a number of those sort of board meetings, Sharps Pixley board meetings with Kleinwort boys there, and all sort of breathing heavily and saying, 'What a loss', and I said, 'The only thing we can do now is to work like beavers and get it all back somehow', and there wasn't an awful lot else one could do, and I don't think I slept for weeks, until I got a written note from Cyril Kleinwort, the chairman, in his own handwriting saying, 'I know you are doing your very best, jolly good luck to you'. It was the nicest thing he could have done. It did us a power of good. Our morale was pretty low for quite a few months. Our bacon was saved by the Labour government who devalued the pound in September and we made such an enormous profit out of that that we covered our losses with a reasonable profit."

What actually happened was that the department was selling a lot of gold and had an enormous outstanding position in dollars that they were lending to Kleinworts and an equally valuable position with sterling, and of course when the pound was devalued by nearly 14%, they made a profit of 14%.

Stewart was asked into Cyril's office and had another difficult conversation with him. When Stewart reported that the bullion department had $11,500,000 on the books, Cherrill, the head of the Foreign Exchange department, almost fell off his chair on hearing the total amount. He said: "You can't do that, what's your limit with the Bank of England?" Stewart explained:

"We don't have one! Never having been a bank, we never had a limit, we had a limit on gold." From that moment onwards, it all went pretty well. There were ups and downs, but certainly since Sharps Pixley made some enormous amounts of money for Kleinwort Benson. The first year after the hiccup occurred, the next year we made them over a million pounds."

> *A price was agreed and the deal was done, but unfortunately 1967 proved to be a "very sticky" year.*

Following a period of illness in 1970, which Stewart put down to "too many big City lunches, too many cigarettes, not enough sleep and so on", he felt the time was right in 1972 to retire. One of the first things he did was go out and buy a motorboat, and motor down to the Mediterranean. He kept it for a few years before trading it in for a motor sail boat, which was much more economical. Stewart maintained his link to the market. He was a Liveryman of the Goldsmith's Company and Freeman of the City of London. When in 2011 he died aged 90, tributes to him appeared in *The Alchemist*. Ed Hoffstatter, who Stewart asked to establish Sharps Pixley Inc. in New York in 1970, recalled: "Stewart defined for me the meaning of being a true English gentleman." While John Coley believes "Stewart's legacy of the family firm atmosphere is why, to this day, Sharps Pixley people have such an unmistakable identity and camaraderie". Stewart was the last individual representing a line of family names associated with the market for over a century, his contemporary being Jock Mocatta. As noted in *The Alchemist*, the era he came from was "a gentler time in the market; of bowler-hatted attendees at the Gold Fixing, of silver pinned at $1.29 per ounce until 1967 and gold at $35.00 until 1968".

Sharps Pixley Vault, circa 1969 Photo reproduced here with the kind permission of Commerzbank.

Dr Michele Blagg (BA, MA, PhD) is a visiting Research Associate at the Institute of Contemporary British History (ICBH) at King's College London. Until recently Michele was Research Consultant for the LBMA, engaged on the oral history project 'Voices of the London Bullion Market'. As part of a collaborative doctoral award granted by the Arts and Humanities Research Council, she was based at the Rothschild Archive. Her doctoral research focused on the Royal Mint Refinery, operated by N M Rothschild & Sons between 1852 and 1968, and how it adapted to the changed London gold market.

Her areas of interest are in financial and business history with special regard for the actors and networks located in the London market.

She teaches on the MA in Contemporary British History and assists with the Witness Seminar Programme. She sits on the Business Archives Council Executive and is involved in the annual 'Meet the Archivists' workshop held in the City that aims to explore ways in which research students can identify and use business records in a variety of different research fields.

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LBMA News

By Ruth Crowell, LBMA Chief Executive

Membership

On 22 January 2016, Citibank NA was reclassified as a Market Maker in both Forwards and Options.

On 2 February 2016, Barclays was reclassified as a Spot Market Maker as was ICBC Standard on 4 April 2016.

On 16 February 2016, the National Australia Bank Limited was admitted as an Associate and on 24 February, Credit Suisse was reclassified as an Ordinary Member.

These changes brought the total membership to 147 companies, comprising 81 Members (of which 14 are Market Makers) and 66 are Associates.

Committees

Management Committee
The main focus of the Committee has been working with the Strategy User Group to progress the LBMA's strategic development. This includes discussion of the roll-out of new services. To support these new services, the Committee will update the LBMA's legal structure and governance. The Committee will be recruiting Non-Executive Directors to give further firepower as well as enhanced governance to the LBMA. Members will have the opportunity to vote on these matters at the General Meeting in June (see page 13 for further details).

Regulatory Affairs Committee
The Committee continues to focus on the developments with international regulations, including NSFR. Further Regulatory information can be found on page 20, which includes a summary of the work relating to NSFR.

Refiners whose financial years coincide with the calendar year have submitted their Responsible Gold audits and these are currently under review.

A new version of the Responsible Gold Third Party Audit Guidance has been released to bring it in line with the amendments in Version 6 of the LBMA Responsible Gold Guidance.

The Committee is also developing a series of Member webinars to help the market get up to speed on the volume of proposed regulations. These currently include NSFR, MiFID, MAD, EU Benchmark regulation and EU Conflict Minerals regulation.

Physical Committee
The LBMA welcomes Paul McKerrell of ICBC Standard Bank Plc and Ian Warman of Standard Chartered Bank, who have both been appointed members of the Committee. Together, they bring a wealth of experience of the physical market which will be of great benefit to the work of the Committee.

Proficiency Testing
A total of 62 laboratories (48 GDL refiners and 14 other facilities) participated in the latest annual LBMA gold Proficiency Testing Scheme. The scheme is anonymous and allows participating laboratories to see how their assay results compare in terms of accuracy and precision with those of other participants. In its fifth year, the scheme continues to be a critical component to assist laboratories achieve and maintain ISO 17025 accreditation.

New Certified Reference Materials – Tender Process
A tender document for the production of a new series of Certified Reference Materials (CRMs) has been circulated to all GDL refiners. AuRM1, AuRM2, AgRM1 and AgRM2 have now completely sold out. A limited number of AuRM3 is still available (please note no AgRM3 was produced). New CRMs will replicate the original high-purity materials and are available to any laboratories that would like to calibrate their analytical equipment using LBMA standards.

Enhanced GDL Monitoring
An enhanced monitoring process has been introduced to ensure that all Good Delivery gold and silver refiners continue to maintain the integrity of the lists. This includes a robust process for the annual review of throughput, tangible net worth and adherence to the LBMA's Responsible Gold Guidance. Proactive monitoring has been developed further to provide additional reassurance about a refiner's ability to supply LGD bars.

Membership Committee
The Committee continues to see growth in both the number of Membership applications and overall Membership levels, which demonstrates the relevancy and diversity of the Association. Any companies including refiners, producers or central banks that may be interested in applying for membership are invited to contact the LBMA Executive at mail@lbma.org.uk.

Public Affairs Committee
The Public Affairs Committee's attention is very much focused on preparations for the 2016 Conference, in particular the speaker programme. The keynote speaker will be William White, Chairman of the OECD's Economic and Development Review Committee. The Committee has also secured Michael Portillo to be the guest speaker at this year's Biennial Dinner on 1 December. The details of these and other LBMA events taking place later this year are summarised on page 13.

Charitable Donations
Each year, the LBMA identifies charitable causes to support on behalf of the Market. So far this year, the Committee has agreed to make a donation to Bowel Cancer Research and to PESTS, which is an Ealing-based charity that provides support to parents of children with special needs. The LBMA would welcome suggestions from Members for other suitable charities. The Executive can be contacted at mail@lbma.org.uk.

Finance Committee
The LBMA welcomes Brian Pereira, Finance Director at Brinks, who has been appointed the new Chairman of the Committee to replace Richard England. The LBMA would like to thank Richard for his great contribution throughout the 10 years that he served on the Committee. The Committee is focused on a range of issues, including reviewing end-year figures for 2015 as well as the budgets for LBMA events, most notably the annual conference in Singapore in October.

Executive Travel and Events
20 April 2016 – OECD Integrity Forum – Fighting The Hidden Tariff.

28 April 2016 – Aurubis 150 Anniversary.

09-14 May 2016 – OECD-ICGLR-UN GoE Forum on Responsible Mineral Supply Chains.

5 July 2016 – LBMA Seminar at the Gokhran, Moscow. The seminar will address a range of mutual issues of interest and include representatives from Russian refiners, the Russian State Assay Office, gold producers and the Central Bank.

The LBMA is Changing

Non-Executive Directors & Services for PGMs
As announced at the 2015 AGM, the LBMA is expanding its remit to provide new services and technology to the market. To support these new services, the LBMA must update its Memorandum & Articles of Association via a Members' Vote on 29 June.

Notice of General Meeting
(Members' Vote on Governance & Scope)
29 June, Glazier's Hall
All contacts from all Members, Affiliates and Associates are encouraged to attend all the LBMA's General Meetings. The focus of the June meeting will be a Members' Vote on the proposed changes to the Memorandum & Articles, to update the LBMA Governance to meet Best Practice and to formally include its support for the PGM markets.

The inclusion of the PGM markets will allow the LBMA to continue to hold the IP rights to the benchmarks on behalf of those markets. Formal papers and a draft of the proposed changes will be circulated closer to the date.

The normal proceedings for the Annual General Meeting will take place on 27 September also at Glazier's Hall.

2016 LBMA/LPPM Conference
Shangri-La Hotel, 22 Orange Grove Rd, Singapore
16-18 October, 2016
The 2016 LBMA/LPPM Conference will take place amidst the splendid gardens surrounding the Shangri-La Hotel in Singapore. This year's event will be held in association with the Singapore Bullion Market Association (SBMA).

The Conference takes place over two and a half days, with proceedings beginning with a welcome and networking reception on Sunday afternoon followed by a full two day programme featuring speakers who are the leading experts drawn from all aspects of the international precious metals market. Speakers will be focusing on the key issues and trends within the international precious metals industry to inform and enlighten delegates attending.

Widely recognised as the premier event in the industry calendar, registration opens in early May. Keep an eye on the LBMA's website for details relating to registration, the speaker programme and other aspects relating to the Conference.

Sponsorship and Exhibition
There are also a wide range of sponsorship and exhibitor packages available. The Conference provides a unique opportunity for companies which service and support the precious metals markets to promote themselves and their products, either through sponsorship of events or by displaying their products in the exclusive exhibitors' area.

For all enquiries concerning sponsorship opportunities and exhibition booths, please contact Jamie Maskall, LBMA Head of Marketing at Jamie.Maskall@lbma.org.uk.

Press attendees
The LBMA offers members of the Press complimentary registration for the Conference (up to a maximum of two people per company). Any members of the press interested in attending the Conference should contact Aelred Connelly, LBMA Public Relations Officer at aelred.connelly@lbma.org.uk.

LBMA Staff
The LBMA is delighted to announce the appointment of two new members of staff.

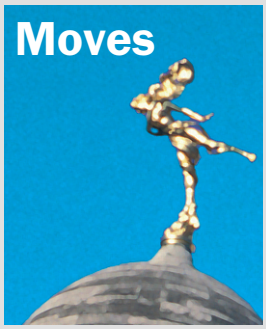
Manuela Burki has been appointed as the LBMA's Compliance Officer.

Manuela Burki.

Juan Modinger has been appointed as the Executive Assistant to the Chief Executive, Ruth Crowell, and the General Counsel, Sakhila Mirza.

Juan Modinger.

Market Moves



Ian Penney joins
Standard Chartered
Ian Penney joined Standard Chartered as Director in February 2016. Having worked at Mitsui Precious Metals and Natixis prior to that, Ian brings over 10 years experience in Commodities. He will report to Darren Botha the new UK Head Precious Metals Trading who has replaced Warren Holt after he retired in December 2015.

Nicholas Frappell joins
ABC Bullion
Nick Frappell has joined ABC Bullion in Sydney to become Global General Manager of the business. He worked previously at Mitsui & Co. Precious Metals Inc. in Hong Kong, responsible for growing business in ASEAN and Australia, and prior to that he worked for their London office. Nick was formerly manager of precious metals at Triland Metals, RBS Sempra Commodities, and Sumitomo Corporation, and has worked in London, Tokyo, Singapore and Hong Kong.

The Alchemist is published quarterly by the LBMA. If you would like to contribute an article, or if you like to place an advert in the *Alchemist*, please contact Aelred Connelly, London Bullion Market Association, 1-2 Royal Exchange Buildings, Royal Exchange, London EC3V 3LF
Telephone: 020 7796 3067
Fax: 020 7283 0030
Email: aelred.connelly@lbma.org.uk
www.lbma.org.uk

Regulation Update

By Sakhila Mirza, LBMA General Counsel

Responsible Gold Guidance

It has been four years since the LBMA launched its Responsible Gold Guidance (RGG). The LBMA RGG extends the OECD Gold Supplement for Refiners and builds on existing Anti-Money Laundering and Know Your Customer management systems and auditing practices. It also makes the voluntary OECD Guidance system mandatory for all LBMA Good Delivery gold refiners wishing to be accredited for the London Bullion Market. Reports under the first wave of the 2016 Responsible Gold audits are being reviewed.

This year saw the release of Version 3 of the LBMA's Third-Party Auditor Guidance to bring it in line with the amendments to Version 6 of the LBMA Responsible Gold Guidance, which was issued in 2015. These changes represent efforts toward a more transparent and more robust auditing process, and include stricter timeframes for corrective actions and the confidential review of more detailed information captured in the new documents now required under deliverables.

Both refiners and auditors have been working hard with the LBMA to ensure that the implementation of the RGG guidelines continues to be successful. Compliance with best practices is strongly encouraged. Refiners have made excellent progress to further improve their internal processes and procedures, and to be proactive in complying with the updated RGG provisions. Failure to comply with the RGG has led to refiners being moved to the Former List. In parallel, the LBMA has been working hard to further strengthen the Auditor Review Programme.

OECD Update

The LBMA attended the 2016 OECD Integrity Forum on Global Trade Without Corruption: Fighting the Hidden Tariff, which was held in Paris on 19-20 April. LBMA Chief Executive Ruth Crowell had the honour of participating in the panel discussing Emerging Practices in Corporate Due Diligence for Responsible Supply Chains – an insightful debate promulgating a culture of integrity developed from a senior level. The debate accentuated the need for practical on-the-ground solutions as opposed to 'box-ticking', but also highlighted the importance of market analysis when addressing corruption. Although the LBMA has a requirement for due diligence under the RGG, this approach may not be replicable in other supply chains. The debate also raised vital questions about the value of regulation in combatting corruption and how smart laws can help provide a level playing field and clarity for the industry.

The event was an invaluable opportunity for policymakers, industry representatives and forward thinkers to share and discuss their ideas and perspectives on corruption and bribery. The LBMA looks forward to representing the gold industry at future events for Responsible Minerals in Brussels and Paris.

Net Stable Funding Ratio Update

Introduction
On 31 October 2014, the Basel Committee on Banking Supervision (BCBS) published its final report on the Net Stable Funding Ratio (NSFR) under Basel III. The report revised the Required Stable Funding (RSF) factor for a number of assets, including gold, which saw its RSF increase from 50% in the 2010 proposal to 85%.

Though the rules have the crucial aim of mitigating a repeat of the 2008 liquidity crisis, the LBMA has argued that this rise is disproportionate and that gold should be treated differently from other commodities for a number of reasons, including:

- the market for gold is as liquid as most sovereign debt bonds, if not more liquid
- gold has a similar volatility to equity indices yet has been given a much higher RSF
- gold's flight to quality tendencies support liquidity during times of stress
- gold is fundamentally different to other commodities but has been given the same RSF
- global banking regulators and central bankers recognise gold's quality and define it as being a "zero-risk weighted asset".

The LBMA has been working hard with other industry bodies such as the World Gold Council (WGC) to demonstrate the detrimental effects such a haircut would have on the bullion market due to the increase in funding costs. As banks raise loan prices to mitigate the impact that higher costs would have on their already thin margins, producers and refiners could face a prohibitive impact on their lease and funding arrangements, which would in turn have a negative impact on potential market liquidity. The refining and producer sector has seen operating margins reduce over the years due to many factors. An additional cost in increased interest payments would therefore severely impede their business model and could result in the reduction or even closure of some production lines.

More recently, in December 2015, the European Banking Authority (EBA) published its final report on the NSFR, which included a separate section on gold highlighting concerns about the impact of a higher RSF. The EBA had been mandated to report to the European Commission (EC) on how the NSFR should be applied, including an assessment of the impact on the business and risk profile of institutions established in the Union, the financial markets, the economy and lending, with a particular focus on lending to Small Medium Enterprises on trade financing. The analysis did not find strong statistical evidence of significant negative impacts of the NSFR on bank lending, financial asset markets or trading book positions.

The EC is holding internal meetings to review the EBA report in full, and will also be conducting an impact assessment and a consultation on its legislative proposal. The consultation is expected to start in Q2/Q3 2016, although the EC highlighted that there could be potential slippage. The EC has recognised concerns about the impact of a higher RSF on jewellers and refiners as "helpful", and suggested that arguments by the gold industry need to be framed in terms of the real economic impact that changes will have on end-users. To this end, the EC advised the LBMA to submit more data in the next three months, particularly on OTC transactions, emphasising the lack of empirical data currently available.

If anyone would like to learn more about these discussions, or indeed assist the LBMA in supplying data to support our arguments, then please contact Sakhila Mirza, the LBMA's General Counsel at sakhila.mirza@lbma.org.uk.

A summary of past and future key milestones is summarised below:

12 January 2014
BCBS proposed revisions to NSFR and consultations

31 October 2014
BCBS issued final standard on NSFR

23 December 2015
EBA published final report with advice to EC on NSFR

31 December 2016
EC will publish legislative proposal on NSFR

January 2017 Early 2018
Co-decision procedure on legislative proposal on NSFR

1 January 2018
NSFR to apply from 1 January 2017 - Early 2018 in EU

The LBMA is arranging a webinar in May to explain the impact of regulations on non-financial institutions. It is open to non-financial institutions who are LBMA Members or Associates. Further details relating to the seminar will be announced shortly. If you have any queries please contact Sakhila Mirza.

DIARY OF EVENTS FOR 2016/17

MAY

16-20
LPPM Platinum Week
www.lppm.com

16
AMA/Sharps Pixley Precious Metals Debate
The Royal Institution, 21 Albemarle Street
London
www.ama.org.uk/event/precious-metals-debate-2016/

JUN

11-14
IPMI 40th Precious Metals Conference
JW Marriot Desert Ridge, Phoenix, Arizona
www.ipmi.org/seminars/

29
LBMA General Meeting
Glaziers Hall
9 Montague Close, London Bridge
London, WE1 9DD
www.lbma.org.uk

JUL

26-28
China Gold Congress & Expo 2016
Beijing International Convention Centre
Beijing, China
www.en.china-gold.org/

AUG

10-12
Minerals Metals, Metallurgy & Materials Conference 2016
Pragati Maidan, New Delhi, India
www.mmmm-expo.com/

11-14
India International Gold Convention
Jaypee Palace Hotel Agra, India
www.goldconvention.in/

SEP

14-16
Precious Metals Summit Colorado
Park Hyatt Beaver Creek
www.precioussummit.com/event/2016-colorado-summit/

18-21
Denver Gold Forum
The Broadmoor, Colorado Springs USA
www.denvergoldforum.org/dgf16/

27
LBMA AGM
Glaziers Hall
9 Montague Close, London Bridge
London, WE1 9DD
www.lbma.org.uk

OCT

10-11
2016 Precious Metals Investment Symposium
Four Points by Sheraton Hotel
Sydney, Australia
www.symposium.net.au/pmis-2016/

16-18
2016 LBMA/LPPM Precious Metals Conference
Shangri-La Hotel, Singapore
www.lbma.org.uk

31-04 (Nov)
LME Week
London, UK
www.lme.com/

NOV

02-03
2016 Precious Metals Summit
Park Hyatt Zurich, Zurich, Switzerland
www.precioussummit.com/event/2016-summit-zurich/

DEC

01
LBMA Biennial Dinner
Goldsmiths' Hall
Foster Lane, London, EC2V 6BN
www.lbma.org.uk

07-08
11th China Gold & Precious Metals Summit
The Regent Shanghai
1116 West Yan An Road
Shanghai, China
www.chinagoldsummit.com/index.html

2017

FEB

06-09
Investing in African Mining Indaba
Cape Town
South Africa
www.miningindaba.com/ehome/119660

MAR

19-21
2017 LBMA Assaying & Refining Conference
Royal Garden Hotel
2-24 Kensington High Street
Kensington
London
W8 4PT
www.lbma.org.uk

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Shangri-La Hotel
Singapore

Registration Opens Soon!

SBMA in association with the SBMA

facing facts

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

Following the recent publication of the 49th annual GFMS Gold Survey, we highlight the observed gold mining industry trends of 2015.

Global gold mine production showed another year of growth last year, albeit at the margin, to record a fresh all-time high totalling 3,158 tonnes in 2015, a rise of almost 1% (see Chart 1). Exploring this top-level number in a little more detail though reveals a handful of nuances: firstly, the rate of increase has slowed, representing roughly one-quarter of the compound annual growth rate posted over the past eight consecutive years of production gain. Secondly, the growth was entirely loaded to the first half of the year, with output in the second half decreasing modestly. This occurrence was materially influenced by lower production in China, the world's largest producer of gold, during the second half of the year.

GFMS reads into this outcome that production will record a year-on-year drop in 2016 and that this will mark the beginning of a sustained downtrend in gold mine output lasting several years, with the level recorded for 2015 therefore marking a multi-year high. This speaks to an inflection in production volume trend that GFMS has been forecasting to develop around this point in time for several years now, since the gold price dropped dramatically in 2013.

This assessment is governed by a deferral and thinning of the project pipeline that has developed not only as a consequence of lower prices, but also due to a broader suite of project development challenges. Through the commodities bull market of the past decade, countries with mineral endowment have understandably pursued tactics to assume a larger 'slice of the pie'. It is also the case that drives by mining companies to act as responsible corporate citizens are prioritised now more than ever before. Such initiatives are far-reaching but include environmental compliance, mine site rehabilitation requirements and greater benefits to local communities, in terms of training and employment. Such moves clearly represent progress but must be acknowledged as factors that will continue to add to the cost and extend the lead times associated with future project developments. This will make it increasingly difficult for developments to meet investment hurdles, assuming other factors remain equal.

Looking at regional production trends, the stand-out change was the 1% drop year-on-year in mine supply in Africa. This was brought about as a result of three of the five largest country-level losses globally – South Africa, Ghana and Sudan. At the other end of the spectrum, North American output rose most strongly, by 4%, with all three countries in the region posting solid gains last year. Asia's growth was marginal, with strong gains in Indonesia and lesser rises in the Philippines and Uzbekistan, largely offset by a material loss recorded for Chinese output.

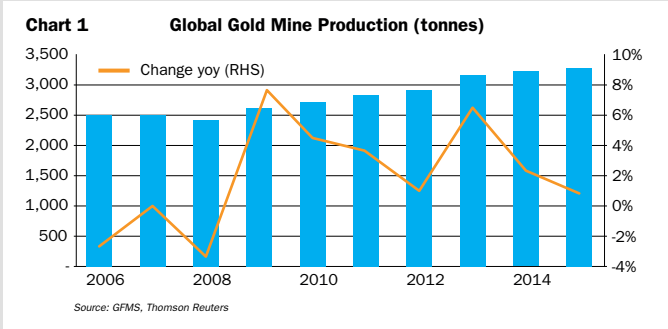
Gold mining costs fell last year on a Total Cash Cost basis by 5% to an average of $707/oz, while on an All-in Costs basis, the number was reduced by 4% to $1,310/oz. Although there have been business improvement factors behind a small portion of this, producers have benefited hugely, in the main, from the dual tailwinds of the foreign exchange depreciation of almost every producer currency against the dollar (see Chart 2) and the cost input benefits associated with the dramatically lower oil price.

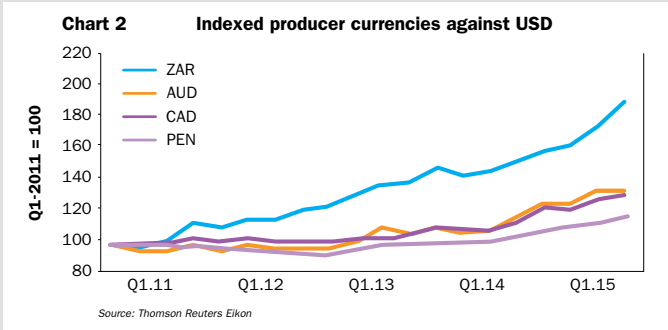
Hedging by the gold mining community was a relatively minor component of activity last year, although there were signs of a pick-up in gold hedging in the early months of 2016. Last year, producers collectively reduced hedge cover by 24 tonnes to leave the aggregate producer hedge book at 171 tonnes at year end. Following the addition to the hedge book of 104 tonnes in 2014, the total supply of gold from the mining industry (mining plus/minus hedging) actually fell last year.

Merger and acquisition (M&A) activity showed a distinct pick-up, having almost doubled year-on-year in 2015, albeit led by the delisting transaction of Polyus Gold, Russia's largest gold producer, valued at $5.4 billion, when the majority shareholders took on the London-listed free float.

With the exception of this deal, the theme remained that of larger companies deleveraging by divesting non-core operations, at a similar rate to 2014, while on the flip side of these deals, smaller companies took advantage of opportunities to acquire leveraged assets at low valuations. The aggregated value of deals completed during 2015 was $13.9 billion, approximately 90% higher than in 2014, based on data from Thomson One Investment Banking. However, from recent conversations with mining companies and banks, it seems to us that there is still some reluctance on the part of mining companies en masse to pursue growth from M&A.

Much of which can be attributed to one of two factors: firstly, that would-be sellers maintain unrealistic valuations of their assets, particularly following the bounce in the commodities complex during the first quarter; and secondly, that there is the understandable reticence by would-be acquirers to avoid buying too early in the cycle, before there is more convincing evidence that a recovery in the markets will be sustained. Famous last words, but it could be some time before the appetite for gold M&A returns in earnest.





William Tankard, Research Director, Precious Metals Mining, Thomson Reuters GFMS
Having joined GFMS Ltd as a Metals Analyst in 2005 to cover the mining sector, William was brought across to Thomson Reuters in GFMS' 2011 acquisition and holds the role of Research Director – Precious Metals Mining, within Thomson Reuters' Commodity Research & Forecasts division. He has accountability for the mining team's research output of global production, mining costs and producer hedging research across the precious metals.

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