



LBMA

LBMA RESPONSIBLE SOURCING REPORT

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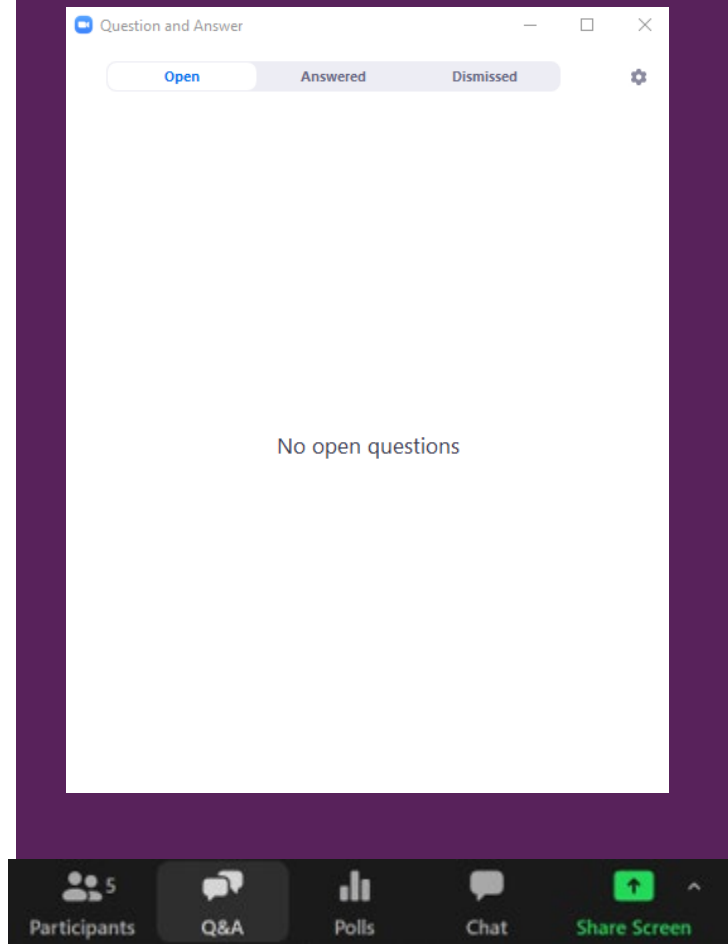
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SUBMIT YOUR QUESTIONS

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If you are having difficulty submitting a question, please email ask@lbma.org.uk



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The Responsible Sourcing
Ecosystem

RESPONSIBLE SOURCING REPORT: OVERVIEW



RESPONSIBLE SOURCING Report 2020

LBMA AND THE GOOD DELIVERY LIST

LBMA plays a key role on behalf of the global precious metals market to ensure business integrity by advancing standards, acting as a voice and champion for the market, and developing market solutions.

The Loco London Precious Metals Market (also known as "Loco London") is the largest and oldest financial market for gold in the world, dating back to 1671. In terms of liquidity and market size the average daily volume for the Loco London market is US\$60 billion a day, with \$x billion stored in London vaults. Key to the efficient functioning of this market is metal moving freely between market participants and London vaults within the clearing system. Systems, processes and controls have been, and continue to be, established to maintain an efficient market, built on integrity and transparency.

This includes the three main standards that LBMA maintains:

1. The Good Delivery system, which covers metal quality and provides market participants with the assurance that their gold and silver bars meet the international requirements. Only gold and silver bars that meet the Good Delivery standards are acceptable in the settlement of a loco London contract.
2. The Global Precious Metals Code, which covers the ethical trading of precious metals and applies to all participants actively trading in the Loco London precious metals market.
3. The Responsible Sourcing Programme, which covers the ethical sourcing of the metals and provides confidence in the market that all the gold sitting in the London vaults has been sourced responsibly.

Good Delivery List (GDL)

The GDL represents a list of refiners that are accepted in the international market. This is the global industry standard, licensed and recognised by exchanges, central banks and traders worldwide.

A refiner must comply and satisfy all of the following three requirements, not just at the point of application for the List, but on an ongoing basis.

Due Diligence Requirement – GDL refiners are subject to stringent checks regarding their history in the market and their financial standing.

Bar Specification – the GDL refiners' bars must meet LBMA's exacting GDL Rules covering fine ounce weight, purity and physical appearance (including markings and surface quality).

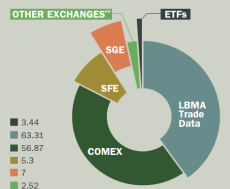
Responsible Sourcing Programme – all GDL refiners must implement and adhere to LBMA's Responsible Sourcing Programme, through an independent annual audit.

Refiners that are accepted onto the GDL commit to responsibly sourcing all feedstock for their metal, refining it into Good Delivery bars (of approximately 400 troy ounces for gold and 1,000 troy ounces for silver) and shipping the bars to approved vaults in London. Bars are then freely traded between institutions within the market. All gold processed by the GDL refiner and not just the GDL bars, meet the responsible sourcing requirements.

These refiners process the overwhelming majority of the world's annual mined gold production and LBMA Good Delivery accreditation allows them to deliver into the world's major financial markets for precious metals. The commercial benefit from being an accredited refiner helps to raise standards and trust across the global precious metals industry.

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GLOBAL GOLD MARKET 2020 YTD \$138.44 billion



4. 2019 AUDITOR REVIEW and Updates

OVERVIEW

LBMA's Responsible Sourcing Programme is only as good as the audit process and the auditors themselves. Ongoing review and enforcement of LBMA's Approved Auditor requirements are important elements for the credibility of the Programme. LBMA engages with auditors through training sessions, webinars and robust quality control.

QUALITY CONTROL

LBMA's ongoing scrutiny helps ensure that Approved Auditors meet the stringent standards expected of them as set out in the *Responsible Sourcing: Third-Party Audit Guidance (Audit Guidance)*.

The OECD Due Diligence Guidance mandates the auditor as the party responsible for checking that the GDL refiner is applying the right level of due diligence required for a counterparty, rather than the industry programme provider such as LBMA.

The auditor's procedures are based on the output of their planning and risk assessment of the business model and the risk profile of the GDL refiner, which is unique for each engagement. LBMA puts significant efforts into reviewing the audit reports received, and will often challenge an auditor and ask for more information based on this scrutiny. In certain circumstances, LBMA will engage with the auditor to draw their attention to information learned about potential risks associated with a refiner's supply chain.

The Audit Guidance notes, under Auditor Qualification, that the auditor (also referred to as the Approved Service Provider) must be able to fulfil include the following requirements:

Independence: The service provider must have complete financial and other independence from the GDL refiner. In particular, the auditing body shall not provide services for the GDL refiner related to the design, establishment or implementation of the GDL refiner's precious metals supply chain practices for a period of at least 24 months prior to the engagement.

Institutional capacity: The service provider must have adequate organisational capacities including:

- A robust system of quality control, including at least the minimum requirements for independence, conflicts of interest, ethics and audit quality control reviews to be followed;
- The capacity to process appeals and/or handle complaints.

In addition, auditors are required to detail in the Auditor Application Form their quality assurance and conflicts of interest policies, and explain how they comply with the various core principles, which include ethical conduct, due professional care, independence and integrity. Where any of these aspects come under dispute, the auditor is removed from the Approved Service Providers List. In such circumstances another audit can also be requested.

IN 2019, LBMA TOOK STRINGENT MEASURES TO ENSURE THE ONGOING CREDIBILITY OF THE AUDIT PROGRAMME:

- Removal of one audit entity from the Approved Service Provider List due to a lack of confidence in their assessment of risk.
- Removal of four audit entities from the Approved Service Provider List for not meeting the eligibility criteria. This also included auditors who were unable to successfully transition to the ISAE 3000 standard. This requirement became mandatory for all audits of financial years starting on or after 1 January 2019.
- Removal of one lead auditor from a firm on the Approved Service Provider List due to poor performance.

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RESPONSIBLE SOURCING REPORT

01

Scope

Background to the Programme
Refiners performance for 2019
including case studies.

Auditors Review of 2019.

Country of Origin data collected
in 2019 for 2018 production

Future development

02

Public Disclosure

To improve public disclosure
and provide more detail on the
outcomes of the programme

Separate work stream focusing
on enhancing Refiners
disclosure

03

Responsible Sourcing Programme

Annual audit covering 12
months production

Applies to all LBMA GDL
Refiners

Covers all feedstock: mined
gold (LSM, ASM) and recycled

All gold sitting in the London
Vaults is responsibly sourced:
\$555 billion

GOVERNANCE AND ENFORCEMENT

Incident Review Process



The Incident Review Process (IRP) supports LBMA's Responsible Sourcing Programme, adding credibility by ensuring that our GDL refiners strictly adhere to our stringent guidelines and requirements.



IRP – 11 steps to review an incident outside of the annual reporting cycle



LBMA Compliance Panel and Physical Committee



LBMA Independent NEDs and Executive Board members take final decision

2019 PROGRAMME UPDATE & AUDITOR REVIEW

The audit is only as good as the auditor

2019 Programme

Implementation of ESG

First year of reporting against ESG standards

Mandatory Silver Audits

First year of reporting

Auditor Review 2019

Quality Control

Independence

Institutional Capacity

Review

Geographical scope

5 entities removed

Auditor Training

Collaboration with
OECD, RMI and RJC

REFINER PERFORMANCE



No zero risk tolerances reported



All high and medium risk non-conformances addressed



1 re-audit (full re-audit);
3 special audit (focused scope);
2 Incident Review Process

Non-conformances raised

		Low Risk	Medium Risk	High Risk
GOLD	2018	29	8	2
	2017	37	2	0
	2016	33	5	0
	2015	46	4	1
SILVER	2018	64	44	24

CASE STUDIES



Istanbul Gold Refinery and Nadir Metal Rafineri

Special Audit re:
Venezuelan Gold
Allegations



Valcambi

Special Audit re:
Country of Origin



MMTC-PAMP

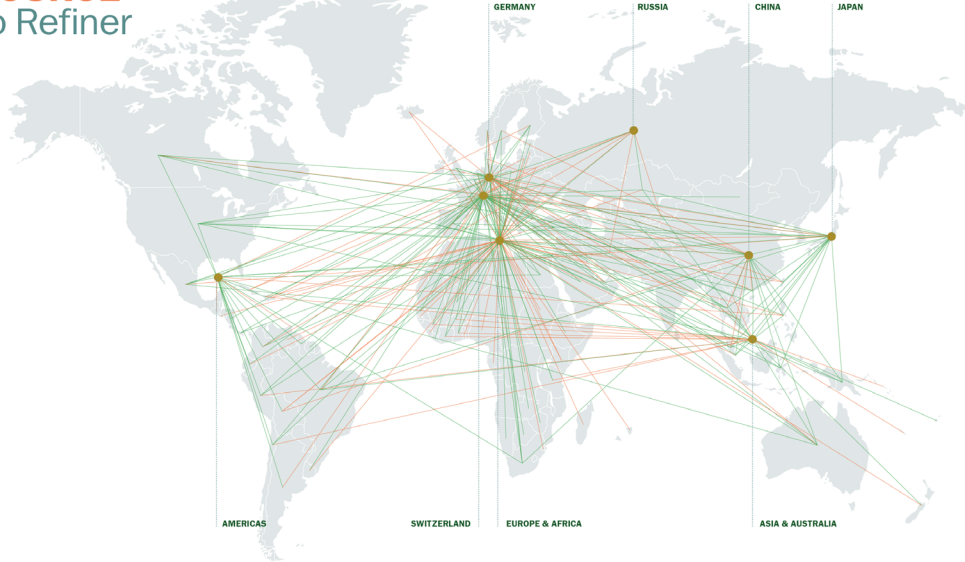
Incident Review
Process re: North Mara



COUNTRY OF ORIGIN DATA

Increased Transparency

SOURCE
to Refiner



Responsible Sourcing Audits performed in 2019 for 2018 production must contain a confidential annex that **details where every kilogram of gold was sourced from and the type of process used to produce it.**

This information has enabled LBMA to produce a matrix showing where gold is produced against where gold is refined.

COUNTRY OF ORIGIN DATA: BACKGROUND

01

Data Provided

LSM – 2,127t (44%)

ASM – 26t (1%)

Recycled – 2,683t (55%)

02

Aggregated

Countries with four or more
refiners i.e.
China and Switzerland

Regions: i.e. Asia and
Australia

03

Data Analysis

Existing Customs Data

Market Reports



LSM



ASM



RECYCLED

The smaller icons represent countries that refined less than 200kg.

REFINERY LOCATION

PLACE OF ORIGIN

	CHINA	GERMANY	JAPAN	RUSSIA	SWITZERLAND	ASIA & AUSTRALIA	EUROPE & AFRICA	AMERICAS
AFRICA	 7208	257 2				62	2514 230345 8830	2780
EAST ASIA	224187 428628	72	708 147182		8183 9575 75971	75896	449	11279
EURASIA			22034 307	317 11	4670 1412	45601 15408	6 25	
MIDDLE EAST	3835	12		47	34770 221208		27553 161731	15158
SOUTH & SOUTH EAST ASIA	20670 18007	2026	2635		9063 64553	39 11194 33934	1836	149
EUROPE	8909	98683	329 477000	275638 84298	6624 341800		2194 124803	52 725
AMERICAS	10841 329	95 1333	482 11	159 1	7129 112241 19757	2924 1	5518 23798	8008 484682 124750
OCEANIA	81090 155	113	417		15681 152	22 319611 10993	919 1515	409



LSM



ASM



RECYCLED

The smaller icons represent countries that refined less than 200kg.

REFINERY LOCATION ▶

PLACE OF ORIGIN

CANADA

CHINA

GERMANY

JAPAN

RUSSIA

SWITZERLAND

ASIA & AUSTRALIA

EUROPE & AFRICA

AMERICAS

AFRICA



EAST ASIA



EURASIA



MIDDLE EAST



SOUTH & SOUTH EAST ASIA



EUROPE



AMERICAS



OCEANIA



GRANULAR DATA

Appendix 1

GOLD COUNTRY OF ORIGIN AND COUNTRY OF DESTINATION MATRIX

	CHINA	GERMANY	JAPAN	RUSSIA	SWITZERLAND	ASIA & AUSTRALIA	EUROPE & AFRICA	AMERICAS	TOTAL	OF TOTAL
AFRICA TOTAL	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
Algeria										
Angola										
Argentina										
Armenia										
Australia										
Austria										
Azerbaijan										
Bahrain										
Bangladesh										
Barbados										
Belarus										
Belgium										
Belize										
Benin										
Bhutan										
Bolivia										
Bosnia and Herzegovina										
Brazil										
Bulgaria										
Burkina Faso										
Burundi										
Cambodia										
Cameroon										
Canada										
Cape Verde										
Central African Republic										
Chad										
Chile										
China										
Colombia										
Costa Rica										
Cote d'Ivoire										
Croatia										
Cuba										
Cyprus										
Czechia										
Dominica										
Dominican Republic										
DRC										
Ecuador										
Egypt										
El Salvador										
Equatorial Guinea										
Eritrea										
Estonia										
Ethiopia										
Finland										
France										
Gabon										
Gambia										
Georgia										
Germany										
Ghana										
Greece										
Guatemala										
Guinea										
Guinea-Bissau										
Haiti										
Honduras										
Hungary										
India										
Indonesia										
Iran										
Ireland										
Israel										
Italy										
Jamaica										
Japan										
Jordan										
Kazakhstan										
Kenya										
Korea										
Kosovo										
Kuwait										
Kyrgyzstan										
Laos										
Latvia										
Lebanon										
Lesotho										
Lithuania										
Luxembourg										
Macao										
Madagascar										
Mali										
Maldives										
Malta										
Mexico										
Moldova										
Mongolia										
Montenegro										
Morocco										
Mozambique										
Nicaragua										
Niger										
Nigeria										
North Macedonia										
North Korea										
Oman										
Pakistan										
Panama										
Papua New Guinea										
Paraguay										
Peru										
Philippines										
Poland										
Portugal										
Romania										
Russia										
Rwanda										
Saudi Arabia										
Senegal										
Serbia										
Seychelles										
Slovakia										
Slovenia										
South Africa										
South Korea										
Spain										
Sri Lanka										
Sweden										
Switzerland										
Taiwan										
Tanzania										
Togo										
Tonga										
Tunisia										
Turkey										
Turkmenistan										
Uganda										
Ukraine										
United Arab Emirates										
United Kingdom										
United States										
Uruguay										
Uzbekistan										
Venezuela										
Vietnam										
Yemen										
Zambia										
Zimbabwe										

GOLD COUNTRY OF ORIGIN AND COUNTRY OF DESTINATION MATRIX

CHINA	GERMANY	JAPAN	RUSSIA	SWITZERLAND	ASI
					
LSM	RECYCLED	LSM	RECYCLED	LSM	RECYCLED

Switzerland	3988	34069								
Ukraine									869	
United Kingdom	4910	2551							230076	
Other										

FUTURE DEVELOPMENT

Responsible Sourcing Strategy 2020-22



The purpose of the Programme is to ensure continuous improvement of Responsible Sourcing business practices and reassure clients that all of the metal coming into the Loco London Market is free from threat financing.

Priorities:



Transparency
improving disclosure



Audit programme
upholding trust



Advancing standards
defining best practice



ASM and high-risk areas
engaging responsibly



Value chain accountability
building leverage

RESPONSIBLE SOURCING ECOSYSTEM

“*Maintaining cross-border standards requires international co-operation between all industry participants and stakeholders, including national authorities.*”

Paul Fisher, LBMA Chairman

- Industry Due Diligence Programmes
- National Authorities
- Downstream Actors
- Other Stakeholders

Each of these four components of the ecosystem has its expertise and its limitations.

Collaboration, intelligence-sharing and consultation are important to ensure the highest standards of due diligence for Good Delivery List refiners and for the wider precious metals industry.

CALL FOR ENGAGEMENT

International Bullion Centres



IBC Recommendations:

- Responsible sourcing of recycled gold
- Eliminating cash transactions (except ASM)
- Support ASM



LBMA calls on:

- National Authorities
- Civil Society
- Other Industry Bodies

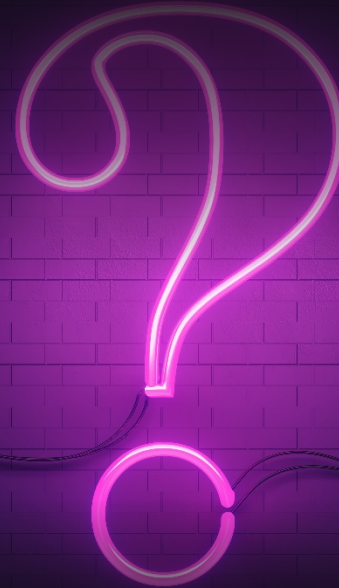


Feedback on:

- IBC recommendations
- Three-year strategic plan

WE WANT TO HEAR FROM YOU

If you had any questions during the webinar, and we were unable to answer these, please contact us by emailing ask@lbma.org.uk, and we will contact you.



UPCOMING WEBINARS

Join us every Thursday at 12:00 (BST) where we will be discussing a range of topical issues.

October

8th

Digital Gold – Part 01

15th

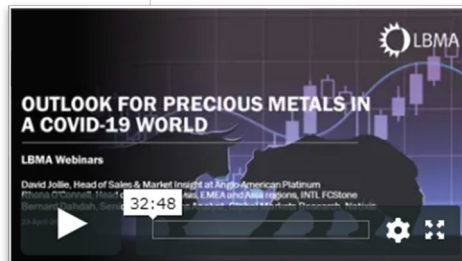
Dragon in The Room

22nd

TBC

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