

INTERNATIONAL BULLION CENTRES RECOMMENDATIONS

Joanne Lebert, Executive Director, IMPACT

Philip Olden, Independent Consultant

Sakhila Mirza, Executive Board Director & General Counsel, LBMA

Sasha Lezhnev, Deputy Director of Policy, The Sentry

Tyler Gillard, Head of Due Diligence, OECD

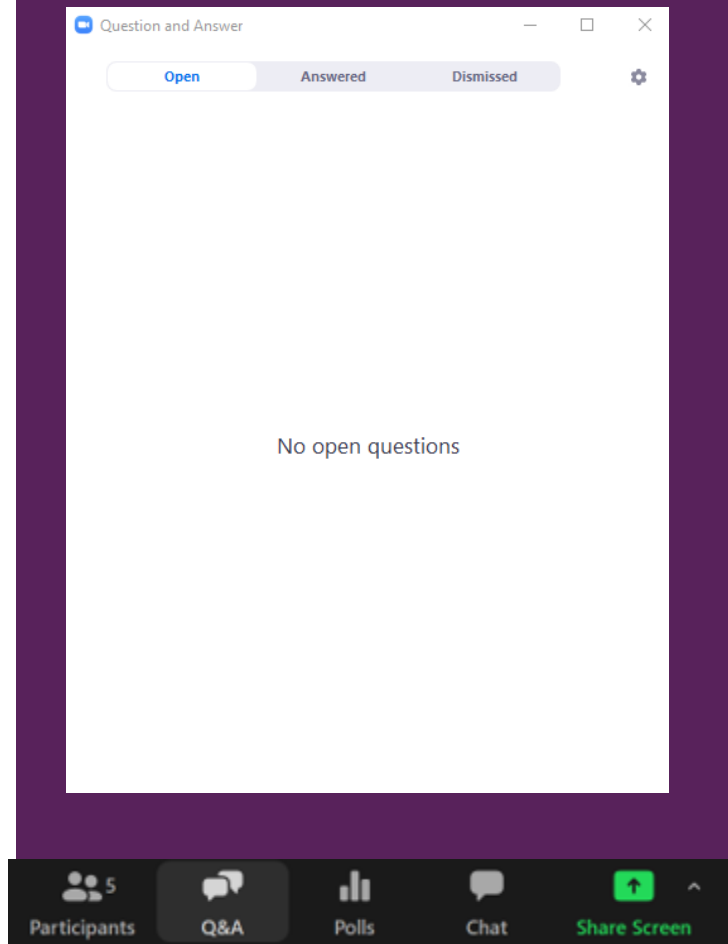
24 November, 2020

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WHO ARE WE AND WHY THE LBMA

Enforced by LBMA



LBMA sets the stringent Good Delivery List (GDL) criteria that enables the global trade in gold and silver bars



Good Delivery accreditation is the de facto international standard trusted around the world



Good Delivery gold represents ~92% of all annual mined production



Vice Chair of the OECD MSG and helped lead the development of the Gold Supplement



Support the FATF recommendations

ADVANCING GLOBAL STANDARDS



Consistent Standards

OECD Requirements

FATF Recommendations

Lessons learnt to improve practices



Global Efforts

Collaboration and engagement



Eco-system

Audit Programmes

National Authorities

Downstream

Other stakeholders

Collaboration and intelligence-sharing are important to **ensure the highest standards of due diligence**

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 regarding fine ounce weight, purity and physical appearance (including markings and surface quality).

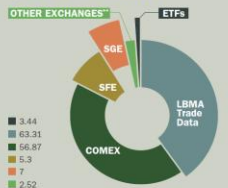
Responsible Sourcing Programme – all GDL refiners must implement and adhere to LBMA's Responsible Sourcing Programme, through an independent annual audit.

Refiners that are accepted onto the GDL commit to responsibly sourcing all feedback 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.

RESPONSIBLE SOURCING REPORT 2020 | 7

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 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:

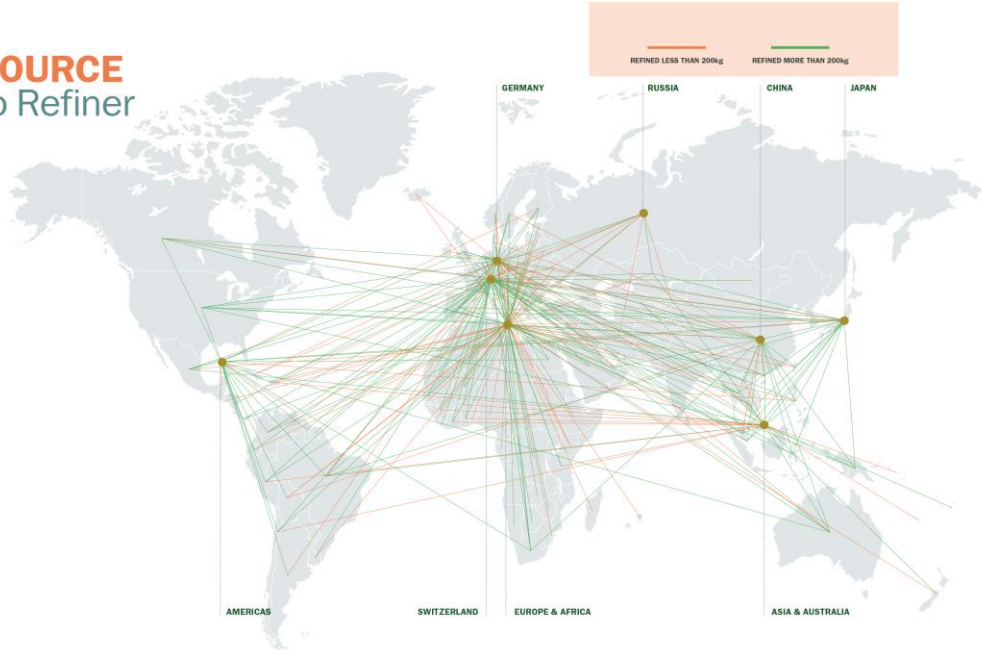
- Removal of one audit entity from the Approved Service Provider List due to a lack of confidence in their assessment of risk.
- Removal of four audit entities from the Approved Service Provider List for not meeting the eligibility criteria. This also included auditors who were unable to successfully 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.

Responsible Sourcing REPORT 2020 | 22

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:

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

INTERNATIONAL BULLION CENTRE OBJECTIVES

Strategic Priorities



**The responsible
sourcing of recycled
gold**



**The elimination of
cash transactions**



**Provision of support
for responsible
artisanal and small-
scale mining (ASM)**

INTERNATIONAL BULLION CENTRES

IBCs operate important market infrastructure such as:

- trading exchanges;
- storage facilities;
- processing, recycling and refining facilities;
- international and domestic logistics facilities;
- domestic consumption; and
- regulatory oversight.

Cornerstones of the recycled gold market:

- | | |
|-----------------|----------------|
| • China | • South Africa |
| • Hong Kong SAR | • Switzerland |
| • India | • Turkey |
| • Japan | • UAE |
| • Russia | • UK |
| • Singapore | • USA |

Not all Centres operate to the same responsible sourcing standards – better alignment needed

RECOMMENDATIONS - OVERVIEW

Five key recommendations for IBCs to adopt to implement OECD standards

01

Effective scrutiny and verification of local and regional supply chains

02

Effective regulation of local and regional supply chains

03

Effective enforcement powers

04

Effective co-operation with local, regional and international organisations

05

Develop ASM specific guidance to support and further legitimate ASM supply

RECOMMENDATIONS

- Recommendations are focused on looking ahead and coming together to provide consistent standards, aligned to the OECD requirements
- Centres – **Support** to meet the overarching objectives and **Action Plan** that addresses any identified shortcomings and ensure its implementation.
- The goal is engagement, collaboration with IBCs and the establishment of consistent standards.
- Removal is the final straw, but only interim and until there is more done to align to an internationally acceptable standard.



**Instil trust
and
strengthen
the gold
supply chain**



THANK YOU

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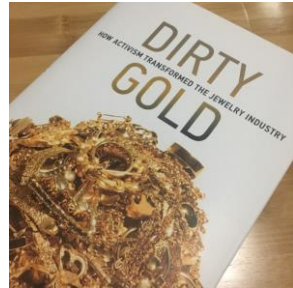
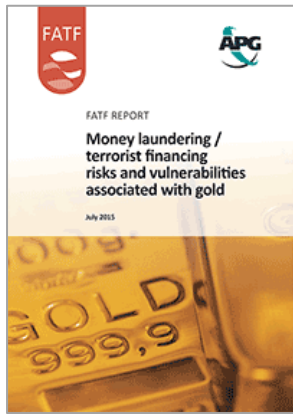


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INTERNATIONAL BULLION CENTRES RECOMMENDATIONS

Philip Olden, Independent Consultant

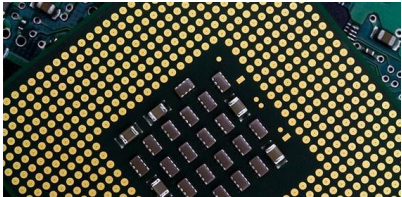
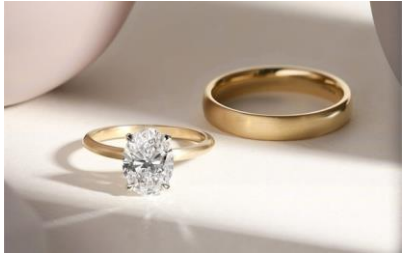
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PROBLEMS AND RISKS FOR DOWNSTREAM COMPANIES

- Gold perceived as a “conflict mineral”.
- Reports of gold used to finance conflict and money-laundering.
- Legislation against the trade in gold (e.g. USA, EU).
- “Responsible sourcing” is a growing issue.
- A global, fragmented and fungible supply chain.
- Reputational risk to company stakeholders;
 - Customers
 - Employees
 - Investors
 - Media
 - Government
 - Civil Society
 - Consumers
- Potential loss of business and market share for gold.

DOWNSTREAM COMPANIES MUST BE ABLE TO SOURCE “RESPONSIBLE GOLD” EASILY AND WITH CONFIDENCE



- OECD Due Diligence Guidance as the benchmark.
- Consistency of refinery standards, implementation and rectification.
- International scale (e.g. LBMA “Good Delivery”).
- Collaboration (standards organisations, auditors, IBCs).
- “Responsible Gold” is a basic requirement, not a competitive advantage.
- Common refinery standards reduce the need for full traceability.
- Acknowledgement of continuous improvement.
- Integration of ASM into mainstream gold supply chain.

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Sasha Lezhnev, Deputy Director of Policy, The Sentry

24 November, 2020

CONFLICT GOLD TRADE

- Armed groups, criminal networks, army units:
 - sell gold for arms & ammunition
 - have massacred civilians,
 - displaced millions of people,
 - recruited child soldiers.



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CONFLICT GOLD MINES

- UN Group of Experts: “gold provides the most significant financial benefit to armed groups”... “is the most lucrative and easily smuggled of the natural resources.”
- DRC, Darfur (Sudan), Venezuela, Central African Republic, South Sudan

SUPPLY CHAIN TO IBCS

Understanding Money Laundering Risks
in the Conflict Gold Trade From East and
Central Africa to Dubai and Onward

By Sasha Lezhnev and Megha Swamy

November 2020



- Over \$3 billion (100 tons) produced in East & Central Africa annually
- 95% flows to Dubai, UAE
- Then to other IBCs – Switzerland, India, elsewhere
- Policy and enforcement loopholes

FATF RED FLAGS



Non-reporting to the FIU by the gold industry organizations (where there is an obligation to report).

Production and commercialization of gold by a person or business without a license;

The development of mining activities in prohibited areas;

The development of mining activities without compliance with the administrative, technical, social and environmental regulation.

Significant number of companies registered to one natural person.

Use of a corporate structure of shell companies located across the jurisdiction;

The transaction involves the use of front or shell companies.

Gold is shipped to or from a jurisdiction designated as 'high risk' for money laundering activities.

Registration of a trading company in a tax haven even though its business relates to another jurisdiction.

RECOMMENDATIONS

- **Banning cash transactions:** Authorities in IBCs should ban all cash and barter transactions for gold above small amounts, such as 5 kg. This is a reasonable step, as gold traders of any significance who travel abroad have bank accounts, as do gold dealers.

RECOMMENDATIONS

- **Customs documentation requirements:** Customs in IBCs should require proof of payment for imported gold. Customs should also require all persons importing gold to declare the party to whom they plan to sell the gold and to provide evidence of how they paid for the gold and to whom the payments were made. All payments should be made to the owners of the gold, not to third parties.



RECOMMENDATIONS

- **Audit requirements:** Authorities in IBCs should require all gold refiners with a presence in the IBC to undergo a third-party audit that includes due diligence on high-risk and conflict-affected gold in line with the OECD Guidance.





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TRADING HUBS: KNOWN DEFICIENCIES & KNOWN TRADERS

India

- 1,000 tons of gold/yr imported (1/4 more than official figures; bullion & doré)
- For every 5 kg of gold that comes in, almost 1 kg goes out as jewellery

Dubai

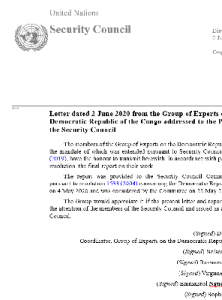
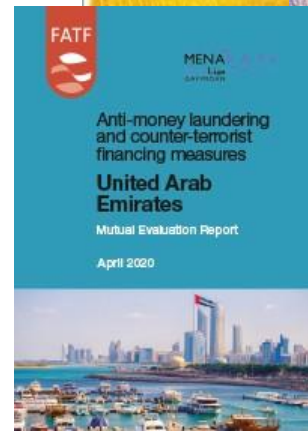
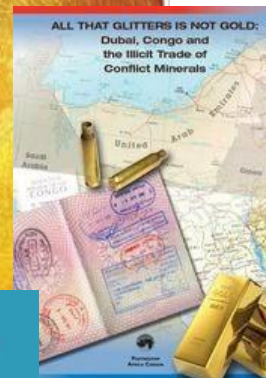
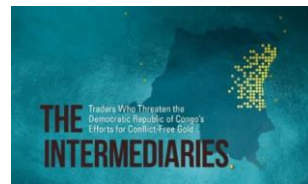
- UN & OECD est. \$835million in ASM gold smuggled out of DRC & into Dubai each yr & yet no seizures or confiscations;
- UAE-based refiner Kaloti has repeatedly acquired large amounts of gold from the Central Bank of Sudan, which has bought gold from violent militias (Global Witness)
- FATF (2020) report on UAE's alarming "strategic deficiencies"

Switzerland

- +200,000 kgs of recycled gold from Dubai into Switzerland
- 3rd largest gold importer from Colombia, where est. 80% of production is illegal
- Swiss refiner Valcambi acquired around 20t of gold directly from Kaloti (2018-19)

Large Traders are Known (repeatedly named in reports over yrs)

- Constantly reinvent themselves; operate with near total impunity



THE POTENTIAL OF ASM

A woman with short dark hair, wearing a patterned apron over a light-colored top, is shown in profile, sorting through a large white bag filled with dark, granular material, likely minerals. She is in a mine site, with other similar bags and wooden structures visible in the background. The lighting is natural, highlighting the texture of the minerals and the woman's focused expression.

Women consistently earn more in mine sites than outside mine sites in DRC, Uganda and Rwanda (3TG) (Buss et al. Extractive Industries & Society, Nov 2019:5)

In Rwanda, 30% M vs. **223%** F more lucrative

In Uganda, 64% M vs. **335%** F more lucrative

ENABLING ENVIRONMENT FOR ASM

What can LBMA refiners do?

- Buy ASM (5-step OECD DD Guidance)
- Do not expect perfection; work with context/reality
- Adequate and consistent inventory financing: individually, as part of a larger group or underwritten by a (development) bank

What can LBMA do? : Leverage its power to help address a key barrier to responsible ASM

Reputation: Special ASM program (e.g. Alternative Good Delivery List for ASM; Multi-stakeholder award... recognize 'engagement excellence' in support of transformative change)

Financing: Collaboration to:

- Unlock capital flows to ASM via existing initiatives (e.g. [Planet Gold](#))
- Investment in upstream financial infrastructure:
 - national banks & development banks that may underwrite loans
 - national agencies that support SMEs



ENABLING ENVIRONMENT FOR RESPONSIBLE TRADE/ASM

What can International Gold Centres do?

1. Enforcement & Prosecution

- UN & OECD est. \$835million in ASM gold smuggled out of DRC & into Dubai each yr & yet no seizures or confiscations (FATF 2020)

2. Carry out due diligence on ALL SOURCES EQUALLY

- Burden of proof should be the same irrespective of the source (ASM, LSM, recycling...)
- Penalizing one region means gold is simply rerouted or repackaged as something other (recycled)
e.g. US Customs Withhold Release Order

3. PROVE IT.

- OECD Step 5 – public reporting; Systems for full supply chain due diligence exist / no excuse

What can States and Donors do? Invest in producer country/regional systems to combat money laundering and corruption including ability to research, investigate, and prosecute money laundering (ML), terrorist financing (TF) and financial crimes

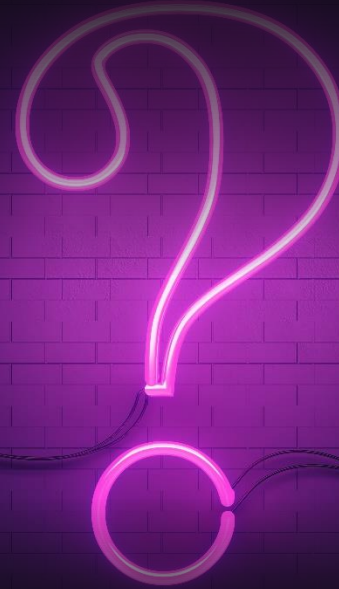


A wide-angle photograph of a dirt road in a tropical village. The road is reddish-brown and stretches from the foreground into the distance, flanked by lush greenery and numerous palm trees. Several people are walking along the road, and some small, simple houses are visible on the sides. In the background, there are rolling hills or mountains under a cloudy sky. The overall scene is vibrant and captures a sense of daily life in a rural tropical setting.

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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.

November

26th

Evolution of Central Bank Gold Operations

30th

GDL Refiners Disclosure Guidance

December

3rd

LBMA Asia Update

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