

INTERNATIONAL BULLION CENTRES RECOMMENDATIONS

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17 November, 2020

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).

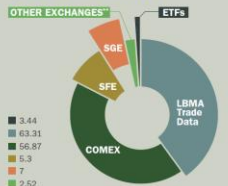
Responsible Sourcing Programme – all GDL refiners must implement and adhere to LBMA's Responsible Sourcing Programme, through an independent annual audit.

Refiners that are accepted onto the GDL commit to responsibility 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.

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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 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 practice 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.

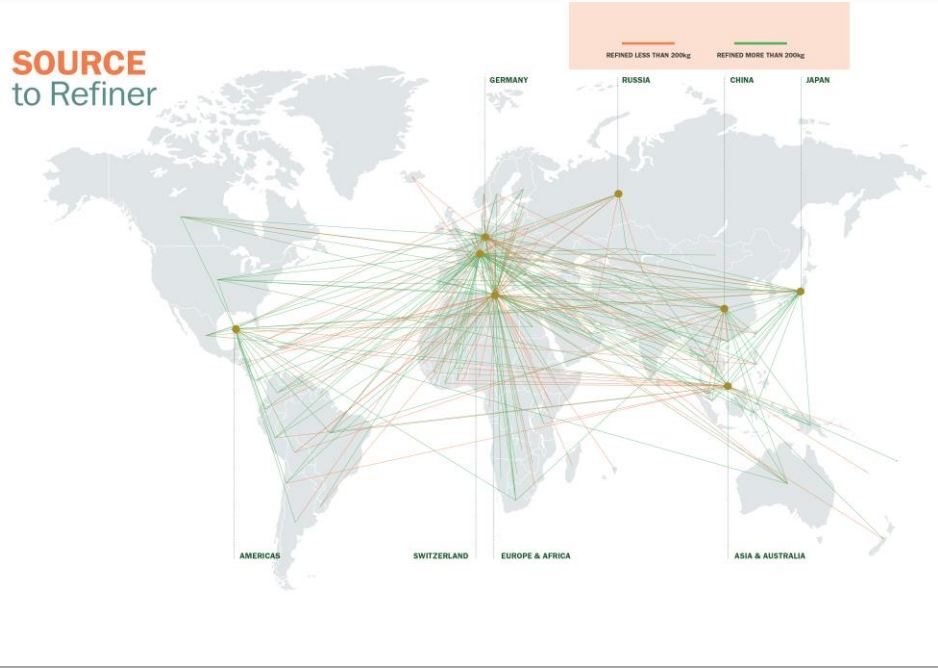
IN 2019, LBMA TOOK STRINGENT MEASURES TO ENSURE THE ONGOING CREDIBILITY OF THE AUDIT PROGRAMME:

- 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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COUNTRY OF ORIGIN DATA

Increased Transparency



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

RESPONSIBLE SOURCING STRATEGY

Developing a Three Year Strategic Plan



LBMA to act as a leader and advocate for the continuous improvement of Global Responsible Sourcing standards and business practices to ensure a sustainable precious metals industry

Priorities:



Transparency
improving disclosure



Audit programme
upholding trust



Advancing standards
defining best practice



Artisanal Mining (ASM)
creating responsible demand



Value chain accountability
building global leverage beyond LBMA's reach

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.

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.

INTERNATIONAL BULLION CENTRE RECOMMENDATIONS

Strategic Priorities



the responsible sourcing of
recycled gold



the elimination of cash
transactions



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

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

- LBMA will only permit its Good Delivery List (GDL) refiners to source material from IBC that meet OECD standards.
- To meet these standards, International Bullion Centres are strongly encouraged to implement the Recommendations.
- Centres must develop and adopt an Action Plan that addresses the any identified shortcomings and ensures its implementation.
 - what steps will be taken to meet the requirements;
 - who will be accountable for implementation;
 - by what date will action be taken.

While LBMA encourages responsible engagement, the failure of International Bullion Centres to adopt these recommendations may bring the legitimate global supply chain into disrepute.



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

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



THANK YOU

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