

REGULATORY UPDATE

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WORLD OF REGULATION

Pro-active approach to Regulation



Conduct and Transparency

Global Precious Metals Code
Incident Management Process
Trade Reporting



Responsible Sourcing

Conflicts Minerals Regulation
OECD Alignment Assessment
Responsible Gold Guidance v.7
Responsible Silver Guidance
Bullion Bank Reporting



Financial Services

NSFR
Impact on LPMCL and financing
MIFID II
In scope and out of scope
Benchmarks Regulation
Four precious metals benchmarks

FAIR EFFECTIVE MARKETS REVIEW

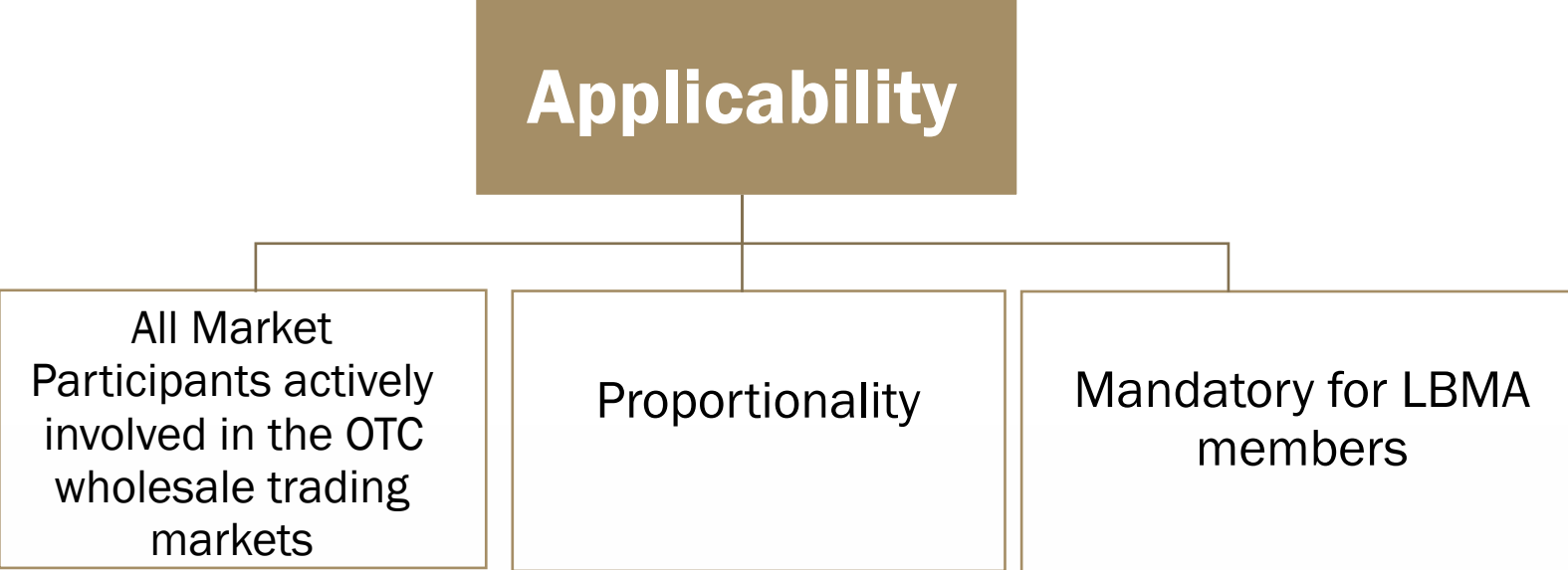
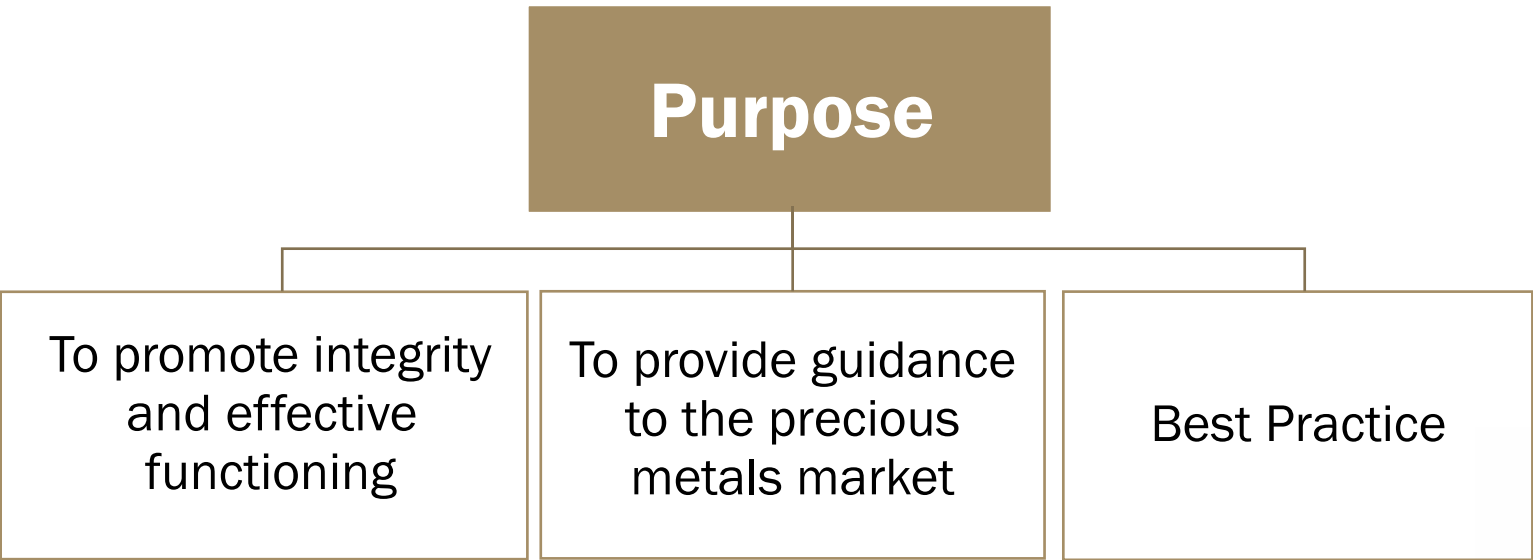
Two years on....check point....

To review the fairness and effectiveness of the Fixed Income, Currency and Commodities (FICC) markets and provide recommendations on ways in which, where necessary fairness and effectiveness might be improved

LBMA’s Role	Market Regulation	FEMR Recommendations
Quality assurance through accreditation	Until May 2017, the NIPs code was mandatory for LBMA members	Market Code of Conduct Enhance Transparency trade reporting
Quality control over market participation & metal entering the market	Responsible Gold - only mandatory for gold refiners and associates	Extend scope i.e. Silver Alignment Assessment
Market Representative	Benchmarks – IP ownership	Gold and Silver Price are regulated benchmarks

GLOBAL PRECIOUS METALS CODE – MAY 2017

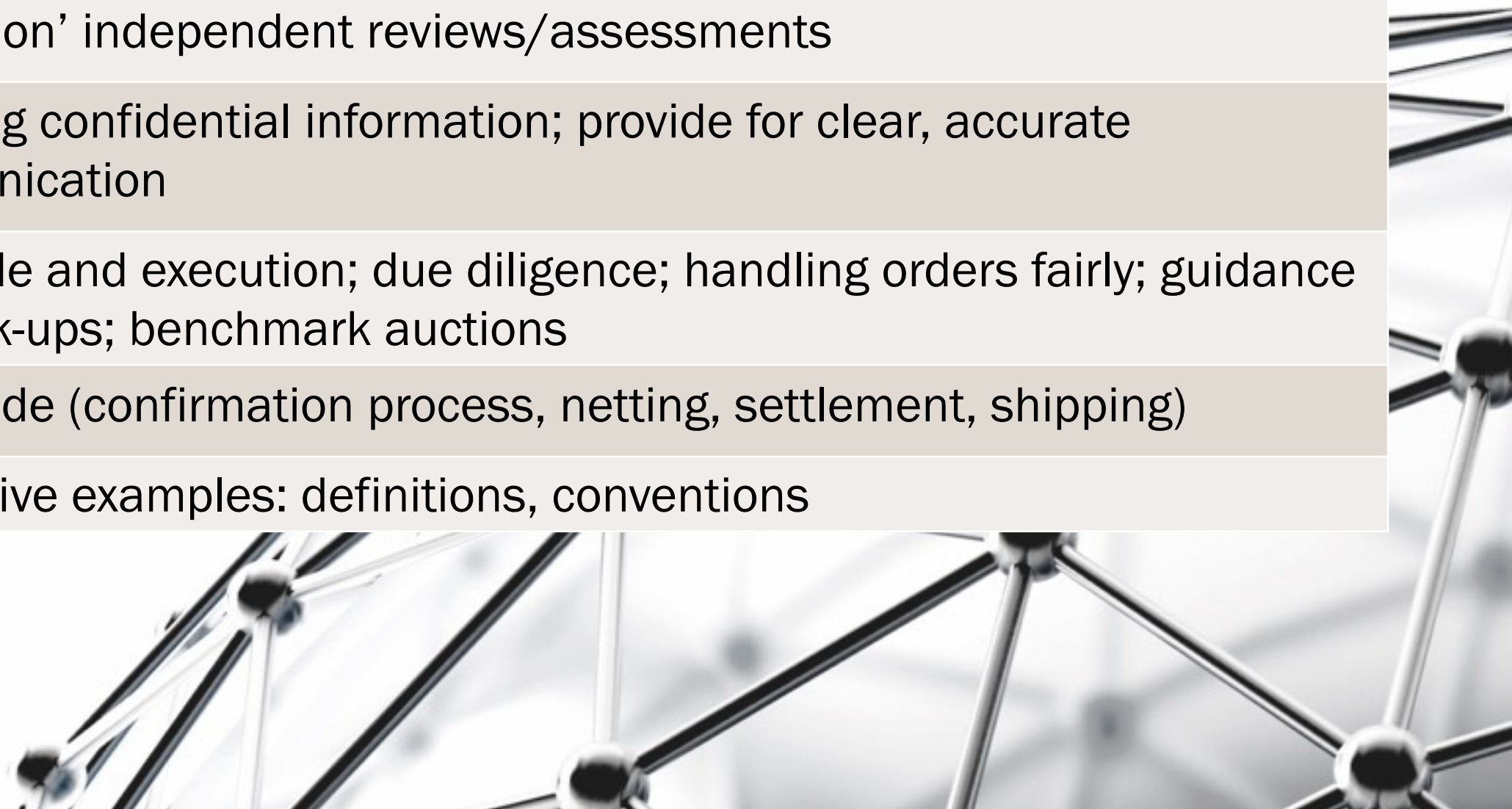
Market Conduct



APPLICATION

Proportionality is key

	Chapter	Principles
1	Ethics	High ethical and professional standards; manage conflicts of interest
2	Governance, Compliance, Risk Management:	Appropriate oversight; compliance and risk management frameworks; escalation' independent reviews/assessments
3	Information sharing	Handling confidential information; provide for clear, accurate communication
4	Business conduct	Pre-trade and execution; due diligence; handling orders fairly; guidance on Mark-ups; benchmark auctions
5	Business conduct	Post-trade (confirmation process, netting, settlement, shipping)
	Annex	Illustrative examples: definitions, conventions



IMPLEMENTATION

Proportionality

Applicability

- Financial Institutions v Industrials (i.e. refiners)
- Some sections will apply to all i.e. ethics
- Market Participant determines what sections apply
- Comply or explain
- Applicable Laws should always prevail
- Those not in the OTC wholesale Precious Metals Market, can still use this as guidance

Explanatory Note

- To help understand what is meant by proportionality
- Provides some examples
- Evolving document – issue new versions to reflect any FAQ

Implementation

Gap Analysis

- Review PMC and current internal policies and procedures
- Adopt a proportional approach
- Fill the gaps
- Submit statement of commitment

Ongoing Review

- Review business model time to time and determine if the application of the Code has changed

Development of PMC

- Enhancements considered on an annual basis
- Substantial changes: 3-5 Year (but still subject to further feedback)
- Precious Metals Code Working Group will continue to advise

TRANSPARENCY: TRADE REPORTING

Mandatory for LBMA Trading Members

WHAT

- ▶ All loco London and loco Zurich trades for **Gold, Silver, Platinum & Palladium** aggregated and anonymised for LBMA Market Share Analysis
- ▶ **Go-live** 2017 with a **minimum of 3 months** to analyse data and agree parameters for public deferral
- ▶ Aggregate data available to **LBMA & trading member firms** for their own flow on LBMA-i
- ▶ Decision to publicise **anonymous, aggregate** data sits with LBMA and Member firms
- ▶ LBMA reporting solution is **future-proof** through Boat's TRADEcho APA for MiFID II

WHY

- ▶ Transparency and help to meet regulators agenda
- ▶ Self regulation, provides the market the flexibility to shape a fit-for-purpose solution
- ▶ Current market data poor compared to other OTC markets and enhancing this greatly assists lobbying efforts (NSFR)
- ▶ End of valuation curves – revitalise the forward market
- ▶ Data to support better understanding gross turnover in Loco London for investors and participants

NET STABLE FUNDING RATIO

EU Proposal

Background

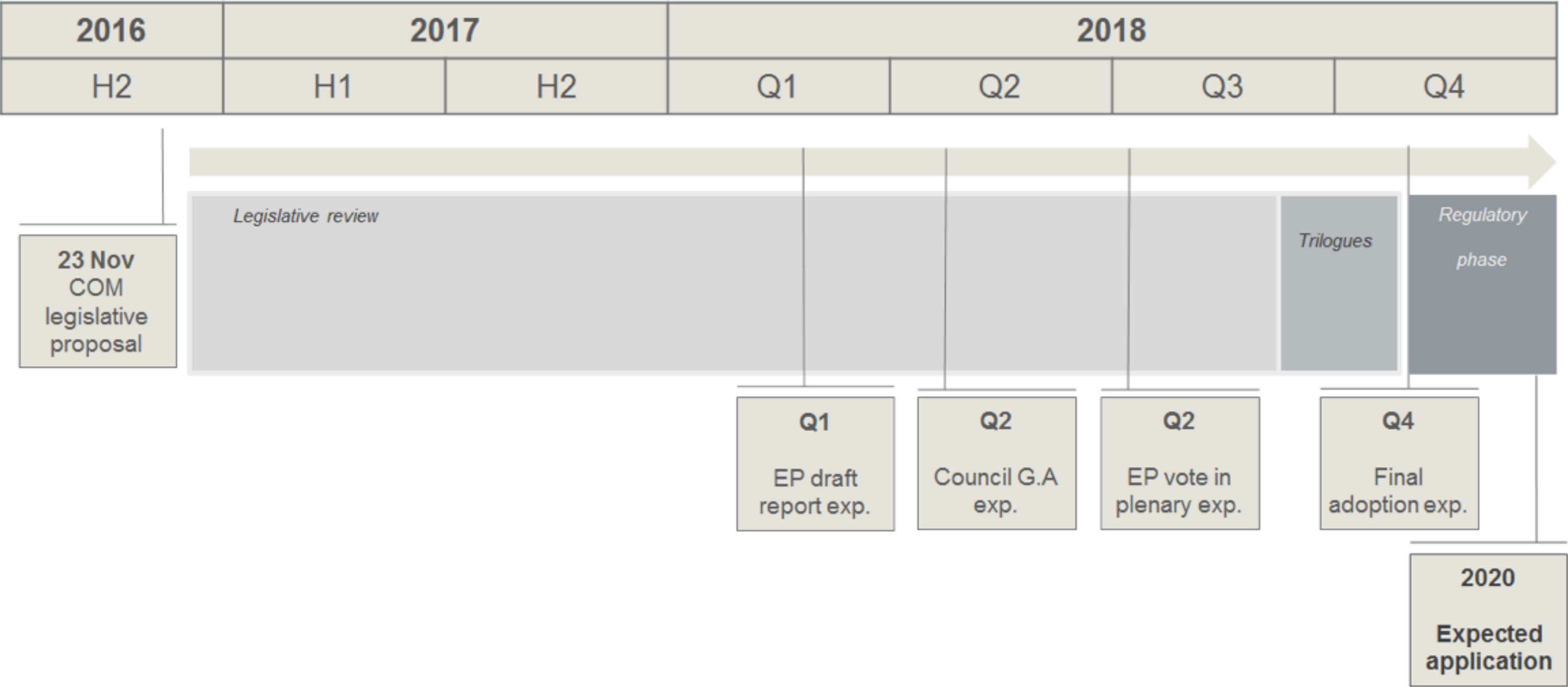
- October 2014 → Net Stable Funding Ratio (NSFR) standard adopted by the Basel Committee on Banking Supervision (BCBS)
 - Physical commodities (including gold) subject to 85% RSF
 - Requires jurisdictional implementation
- December 2015 → European Banking Authority (EBA) technical advice
 - No consideration of NSFR applicability to gold and other commodities
- November 2016 → European Commission legislative proposal (CRR 2)
 - Transposes BCBS NSFR standard in Union law with minor amendments
 - Legislative review by the European Parliament and by the Council
 - Both legislators can submit amendments to Commission proposal

Relevant NSFR Provision

- Title IV (Articles 428a – 428ag) CRR 2 includes provisions on NSFR
- Article 428af(g) applies 85% RSF factor to “*physical traded commodities, including gold but excluding commodity derivatives*”
- Unallocated balances not excluded from the scope of CRR 2 NSFR proposal
- Implications for gold and other precious metals financing and clearing

NET STABLE FUNDING RATIO

Timeline for adoption of EU CRR proposal



Other jurisdictions have different timelines

NET STABLE FUNDING RATIO

NSFR impact on LBMA members

Financing costs	<ul style="list-style-type: none">● Application of RSF to unallocated balances would increase costs for banks providing financing
Real economy	<ul style="list-style-type: none">● RSF costs will be passed on the refiners and fabricators making use of metals loans
Clearing and settlement	<ul style="list-style-type: none">● Application to RSF for short-term assets would significantly raise costs of clearing and settlement
Liquidity	<ul style="list-style-type: none">● Increased costs of holding unallocated metal would drain liquidity in the LPMCL system
Central banks	<ul style="list-style-type: none">● Decreased liquidity would curtail central bank deposit, lending and swaps in precious metals

RSF: Required Stable Funding

NET STABLE FUNDING RATIO

LBMA Advocacy Plan

Status

- Position paper drafted and agreed
- Proposed amendments to Articles 428c, 428p and 428r CRR 2
- Key asks:
 - Exempt unallocated precious metal balances from the NSFR calculation; and
 - Exclude bank short-term assets resulting from short-term precious metal financing transactions from required stable funding

Activities

- Position paper circulated to 40+ policy makers
- Meetings with MEPs, Member States and Commission (July/Sept)
- Outreach to central banks
- Coordination with other industry associations
- Individual members’ advocacy efforts

MIFID II

Markets in Financial Instruments Directive

- MiFID II, an EU financial services law, sets out which investment services and activities should be licensed across the EU
- Provides for various organisational and conduct standards that those providing such services should comply with ie reporting obligations, position limits
- Comes into force Jan 2018
- Applies to Commodity Derivatives – but what is a Commodity Derivative?
- LBMA position: All physically settled forwards, whether unallocated or allocated, are outside of scope. Any that cash settle will fall into scope.
- All other derivatives in scope

New group;
Organised
Trading Facility
(OTF)

Reporting
Requirements

Position
management

Narrowing of
exemptions

Economically
Equivalent OTC

Position
Limits

LBMA PRECIOUS METALS PRICES

Continuous Improvement & Conduct Anxiety

2017 Developments

- Clearing Introduced for Gold Auction – May 2017
- Request For Proposal – LBMA Silver Price
- Consolidation: Gold and Silver Administrated by IBA | Platinum and Palladium by LME
- Clearing for Silver went live on 02 October 2017

Motivation for Change in 2014

- Electronic Auction Platform
- Independent Administrator with IOSCO & Regulatory compliance
- Increased transparency of live auction available to public
- Increased direct participation

Benchmark Regulation

- Critical | Significant | Non-significant
- Not clear



REACH

Registration, Evaluation, Authorisation and Restriction of Chemicals Regulation

- Purpose: to ensure all chemicals placed on the market do not adversely affect human health or the environment
- Final registration deadline is 31 May 2018
- ECHA website sets out all registered articles and substances, for example gold dore bars

Importers or producers of more than one tonne per annum of substances or articles must register

Exemption: articles not containing a substance that can be physically separated

Brexit update: BREACH?

- Industry associations calling for total regulatory equivalence
- Environmental Audit Committee have issued a paper

Gold position paper 2010

- Paper submitted on Good Delivery Gold Bars to the Health Safety Executive in the UK
- The Bars' value as an investment item derives from its distinguishing markings and appearance rather than its chemical composition
- HSE response: a good case made for GD Bars and unlikely to be challenged

Platinum and Palladium position paper

GD Platinum and Palladium Plates and Ingots - follows similar line of argument for Gold

EU CONFLICT MINERALS UPDATE

Enforced from 2021

Regulation on Responsible Sourcing from conflict-affected and high-risk areas

European Commission will produce a list of recognised refiners and assessing industry schemes

The Regulation introduces reporting for bullion banks

European Commission due to publish guidelines to help firms identify CAHR areas by Q4 2017

European Commission will also release a list of CAHR areas (to be continually updated) and practical information for companies looking to conduct due diligence expected 2019)



OECD ALIGNMENT ASSESSMENT - PILOT

Internationally recognised global framework



- Five programmes reviewed under the pilot
- How far is the LBMA RGG Aligned with the OECD Due Diligence Guidance
- Encourages further development of the LBMA programme
- Provides recommendations
- Next steps: recognition under the EU Conflict Minerals Regulation (requires mandatory 3rd party audit for all importers of gold into EU – to be implemented 2021)

OECD ALIGNMENT ASSESSMENT

LBMA Feedback

- ▶ The story so far...
 - ▶ closely follow the structure and content of the OECD Guidance.
 - ▶ responsibility and accountability clearly understood by refiners
 - ▶ strong internal governance and structured management processes
- ▶ Recommendations (v high level)
 - ▶ Strengthen requirements so that refiners ensure due diligence is undertaken throughout the supply chain (beyond Tier 1 suppliers where appropriate)
 - ▶ Enhance the vetting and oversight of auditors to strengthen audit consistency and rigour

LBMA next steps: emphasis on continuous improvement:

- ▶ RGG next version
- ▶ Enhanced Auditor Training
- ▶ Bullion Bank reporting
- ▶ Refiners Toolkit to be mandatory : Comply or Explain

RESPONSIBLE SOURCING PROGRAMME

Minimum Standards

Responsible Silver Guidance: New!

- ▶ RSG becomes mandatory for all GDL silver refiners from 1 January 2018
- ▶ Perform a gap analysis between existing management systems and the RSG requirements
- ▶ 2018 will be viewed as the implementation year as per the introduction of Responsible Gold Guidance

Responsible Gold Guidance: the next version (v.7)

- ▶ Clarification on sourcing from CAHR areas
- ▶ Expanded guidance on ASM
- ▶ Provide amount in Kgs from each origin (allows LBMA to map)
- ▶ Removal of cross recognition, but elements can be provided in support of parts of the LBMA Programme

DUE DILIGENCE SCOPE

Expectations

- ▶ Responsible Sourcing:
 - Conflict Minerals
 - Anti-Money Laundering
 - Terrorist Financing
- ▶ However, other legal issues:
 - Global Sanction Lists
 - Anti Bribery and Corruption
 - Human Slavery Act
 - Other: Tax, Fraud, Corruption
- ▶ All companies should:
 - Have policies and procedures to address the risks
 - Monitoring and surveillance to identify suspicions
 - Report on suspicions

Financial Crime Working Group

- ▶ Discuss and advise on industry Best Practice
- ▶ Addressing any known issues in the market
- ▶ Pro-active development
- ▶ Incident Management Process
- ▶ Technology developments – blockchain?



INCIDENT MANAGEMENT PROCESS

11 Steps | Iterative Process | Engagement | Continuous Review



LBMA COUNTRY PROFILING

Guidance Only

- ▶ The LBMA has compiled a risk rating for various countries, which can be shared with interested parties.
- ▶ The list does NOT represent the LBMA's recommendations about whether to deal or not to deal in particular locations
- ▶ List provides guidance on:
 - ▶ Countries that are impacted by various legal sanctions
 - ▶ Potential risks
 - ▶ where enhanced due diligence would be expected
- ▶ Participants shouldn't rely on the lists, but should always seek their own legal advice.

The List (guidance on jurisdictions)

- ▶ Cat 1: Sanctions (i.e. UN/UK/EU/US)
 - ▶ Very high sanctions risk
 - ▶ High Sanctions risk
 - ▶ Medium sanctions risk
 - ▶ Low sanctions risk
- ▶ Cat 2: Dodd Frank
- ▶ Cat 3: Conflict Areas
- ▶ Cat 4: Known industry risks
- ▶ Cat 5: Not any of the above

BREXIT

What does this mean for the UK?

For the next few years, NOTHING CHANGES. Thereafter ???

What does it mean for the UK?

- ▶ Re-negotiations – equivalence?
- ▶ Uncertainty.
- ▶ Swiss Model?
- ▶ What does this mean for the Precious Metals Markets?
 - ▶ Loco London will remain.
 - ▶ Implementation of regulations will continue.
 - ▶ LBMA will remain pro-active in lobbying efforts eg REACH/BREACH | Terminal Markets

REGULATION: A WORLD OF ACRONYMS

Key Points

