

1. RESPONSIBLE Sourcing

WHAT IS RESPONSIBLE SOURCING?

Responsible Sourcing is a commitment to ethical considerations by a company in all aspects of its procurement. By ensuring their suppliers adhere to comprehensive international standards, companies can positively improve their supply chains. Responsible Sourcing requires that firms go beyond financial, logistical and even reputational considerations, to take into account the wider impact of their own actions and those of their suppliers.

The OECD Due Diligence Guidance (OECD Guidance)* provides detailed recommendations to help companies define Responsible Sourcing: by respecting human rights and avoiding contributing to conflicts through their mineral purchasing decisions and practices. This does not mean avoiding all risk: companies can contribute to community growth by sourcing responsibly from conflict-affected and high-risk areas, by creating the enabling conditions for constructive engagement with suppliers. In doing so, companies successfully contribute to sustainable, equitable and effective development. Simply put, Responsible Sourcing means being a Responsible Global Citizen.

For LBMA, this means that the requirement of what goes into all bars produced by its Good Delivery List (GDL) refiners is as important as the standard of the final product. It was for this reason that LBMA established the [Responsible Sourcing Programme](#). By setting standards for refiners' mineral purchasing decisions and practices, the scope of the [Good Delivery List](#) has grown beyond the physical aspects of Good Delivery bars.

*OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High Risk Areas (2010).

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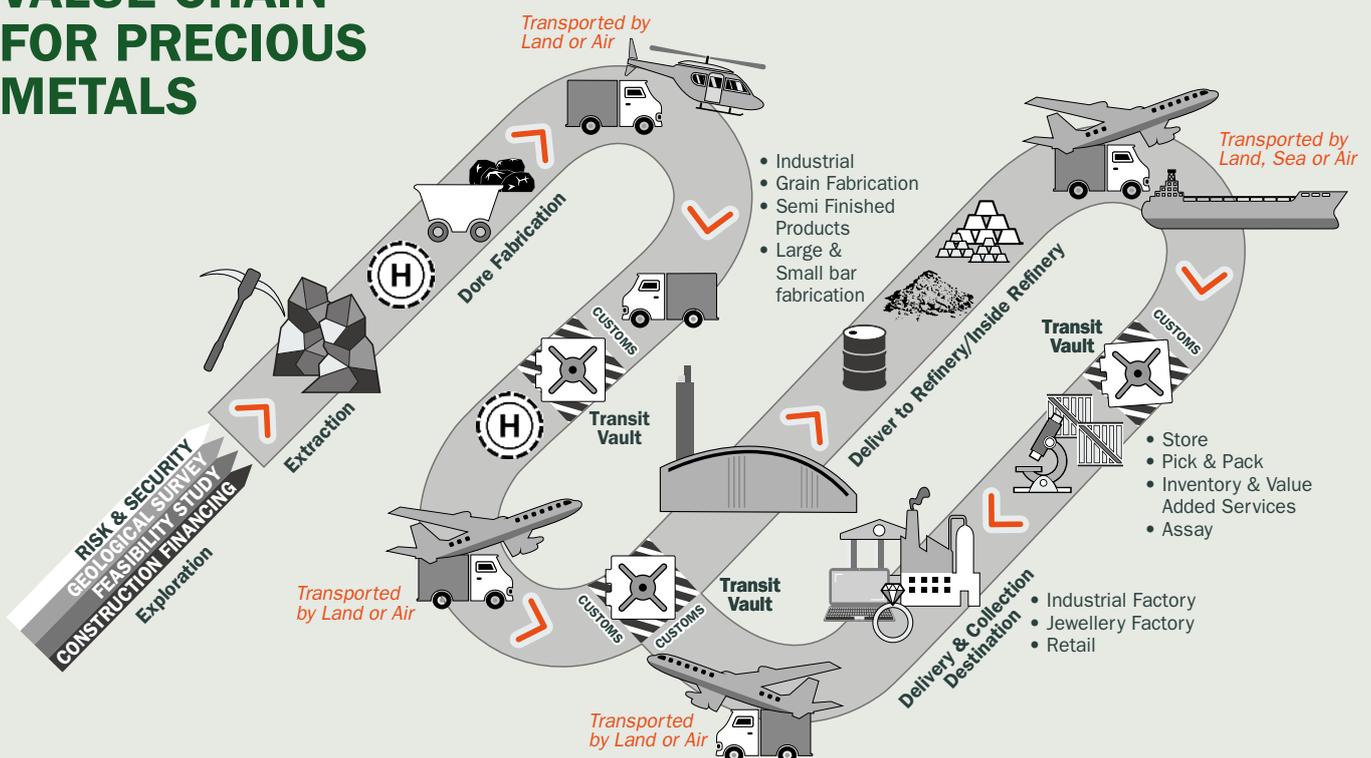
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VALUE CHAIN FOR PRECIOUS METALS



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 more than \$550 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 GDL, 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.

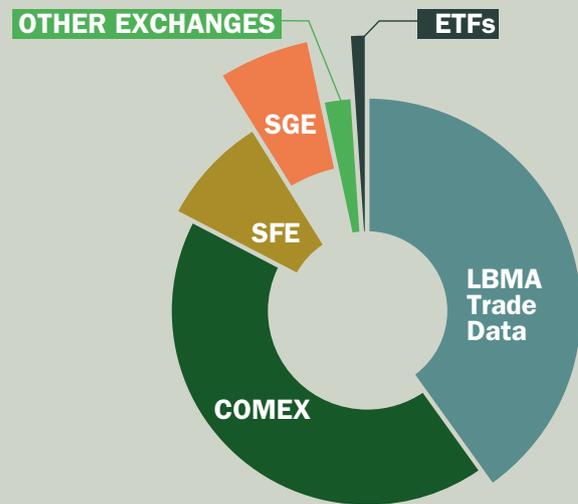
Bar Specification – the GDL refiners' bars must meet LBMA's exacting GDL Rules covering fine ounce weight, purity and physical appearance (including markings and surface quality).

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 refiners, 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.

GLOBAL GOLD MARKET 2020 YTD \$138.44 billion



LBMA'S RESPONSIBLE SOURCING PROGRAMME (THE PROGRAMME)

LBMA's Responsible Sourcing Programme (the Programme) is the leading independent audit programme for verifying the legitimacy of the gold and silver supply chain. The Programme follows the five-step framework for risk-based due diligence of the OECD Due Diligence Guidance¹.

At its core, the Programme comprises the *Responsible Gold Guidance (RGG)*, established in 2012, and the *Responsible Silver Guidance (RSG)*, established in 2017.

Its original purpose was to set due diligence standards to help combat human rights abuses, contributions to conflict, money laundering and terrorism financing. Since the start of 2018, the Programme has also included environmental factors. Unlike other industry programmes, LBMA's Responsible Sourcing standard is a commercial necessity for any major refiner, as it allows access to Loco London, the largest marketplace in the world for precious metals. Loss of LBMA accreditation would have serious commercial consequences for refiners. Since the programme's launch, three refiners have lost their accreditation due to failure to meet Responsible Sourcing requirements. This is the ultimate sanction. LBMA will impose this sanction if there have been failures that cannot be remediated or if attempts at remediation have been significantly poor. GDL refiners which are found to be applying the Programme in good faith, but have not met a satisfactory standard in some respects, will generally be given a reasonable opportunity to raise their standards to the required level. This level of enforcement ensures that all GDL refiners meet the Responsible Sourcing requirements given that GDL covers most of the market.

LBMA'S RESPONSIBLE SOURCING PROGRAMME

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LBMA recognises that this audit process is only as effective as the auditors themselves. This is why the [LBMA's Approved Service Providers List](#) records the individual audit entities accredited to perform Good Delivery audits.

To become accredited, auditors must complete an application, under which they provide LBMA with details of their relevant experience, skills, and the firms quality control and governance processes.

Auditors are also required to demonstrate fulfilment of the requirements detailed in LBMA's *Responsible Sourcing: Third-Party Audit Guidance*. This helps to ensure that only the most competent auditors familiar with the precious metals supply chain and the importance of Responsible Sourcing are mandated with performing an audit under the Programme. Their accreditation and performance are reviewed on an annual basis to ensure they continue to meet LBMA requirements.

The outcome of the audit is not the only resource with that LBMA measures a refiner's compliance with the Programme.

Market intelligence is a fundamental resource that LBMA is able to draw on. Whistleblowing reports, media coverage and NGO research have all provided LBMA with valuable intelligence on refiners or their suppliers. LBMA welcomes stakeholders bringing concerns to its attention in order to enhance this work. LBMA will assess such information/evidence and make further enquiries, as required, or if warranted, launch a formal Incident Review Process. The IRP involves 11 steps to ensure a fair, accurate and reliable outcome. LBMA may publicly confirm if an IRP has been launched, provided it is new information and outside the annual audit cycle. For some non-conformances, the IRP can end with a refiner's removal from the [Good Delivery List](#). That could be severely damaging to a refiner's business, through diminished market access, and is the most severe potential outcome.

**\$555
BILLION
OF GOLD**

sitting in the London vaults all complies with LBMA's Responsible Sourcing Programme

July 2020: This number includes all forms and all bars present in the vault.

1. OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (2010) and the requirements detailed in the *OECD Gold Supplement (2012)*.

SOURCING GOLD AND SILVER

Where do refiners source gold and silver from? This is extremely important as refiners have an obligation to perform tailored due diligence for every source of gold and silver that they accept for recovery and refining.

Mined Gold

Mined gold is gold that originates from mines (Large-Scale, Medium-Scale or Artisanal and Small-Scale Mines) and has never been previously refined. This term means any gold or gold-bearing material produced by or at a mine, in any form, shape and concentration, until it is fully refined (995 or greater), fabricated into a gold refiner product (e.g. bar, grain) and sold.

Large-Scale Mining (LSM)

LBMA relies on the OECD for the definition of Large-Scale Mining. Annex II of the OECD Guidance describes LSM as "...gold mining operations that are not considered to be artisanal or small-scale..."

In reality, most LSM involves huge, long-term investment in infrastructure by experienced, multinational operations in multiple global locations. Operational responsibilities to all stakeholders is fundamental to ethical operators. These companies tend to be listed entities with legal reporting obligations and rigorous governance frameworks. For the purpose of due-diligence, mined material emanating from LSM has well established logistics and supply chains. Some Large-Scale Mines can produce more than a million ounces of gold in a single year.

LBMA has developed toolkits to enable refiners to deal efficiently with Large-Scale Mines. It works closely with organisations such as the World Gold Council (WGC), the International Council on Mining and Metals (ICMM), and the Initiative for Responsible Mining Assurance (IRMA) to ensure that the various industry initiatives are aligned. In recent times, there has been an increasing focus on the Economic, Social and Governance (ESG) agenda, highlighting how the mining companies can work together with the refiners to address these issues.

Artisanal and Small-Scale Mining (ASM)

LBMA recognises the importance of engaging and maintaining relationships with Artisanal and Small-Scale Miners. This sector provides a livelihood for over 40.5 million people across the world.

LBMA supports all initiatives that endeavour to bring responsibly produced Artisanal and Small-Scale Mined gold into legitimate supply chains. Where and when possible, LBMA will actively become involved to benefit the industry.

Recycled gold and silver

Recycled gold and silver refers to metal that has been previously refined. This term traditionally encompasses anything that is gold-bearing and has not come directly from a mine (the first stage of the gold life cycle). In practical terms, recyclable material includes end-user, post-consumer products, scrap and waste metals, and materials arising during refining and product manufacturing, and investment gold and gold-bearing products.

This category may also include fully refined gold that has been fabricated into grain, Good Delivery bars, medallions and coins that have previously been sold by a refiner to a manufacturer, bank or consumer market, and that may thereafter need to be returned to a refiner to reclaim their financial value, or for transformation into other products (e.g. 1 kilo bars).

Recycled material can be strategically important for the industry. This is due to the increasing trend of downstream companies announcing decisions to accept recycled-only material in an effort to address their environmental commitments.

Recycled gold due diligence may vary significantly over the wide range of suppliers and materials that are commonly received and processed. This is because the risk of illegality or wrongdoing will be very different, supplier by supplier, material by material, by type and form, by value and by area of origin. For example, the risk of possible wrongdoing associated with scrap electronic circuit boards is less than the risk associated with scrap bullion jewellery, because the circuit boards have much greater bulk, have more traceability, require much more extensive processing and have a significantly limited market. Also the purity of electronic scrap is very much lower than jewellery. Therefore an attempt to mix contraband or conflict gold into the process would not only be detected but it would also greatly disrupt the processing of this material. Geography also plays a part: the risk of conflict bullion being mixed with scrap bullion jewellery collected in Kansas City is different than the risk if that scrap bullion jewellery has been collected in Kinshasa. Each source of material must be assessed for its local risk characteristics.

[See gold and silver flows to understand how much mined and recycled gold GDL refiners sourced in 2018.](#)

THE RESPONSIBLE SOURCING ECOSYSTEM

Although LBMA administers the Good Delivery system, ultimately the responsibility to ensure gold/silver is ethically sourced is shared across the entire industry and with the authorities in relevant jurisdictions. This means LBMA's Responsible Sourcing Programme is part of a wider ecosystem which has four key components.

1

Industry due diligence programmes seek to raise standards throughout the supply chain, whether at the mining, refining or retailing level. Their administrators, including LBMA, can enforce those standards should non-conformances be identified. The commercial and reputational power of the Programme helps to ensure their development and influence. Any GDL refiner that loses its accreditation by LBMA cannot sell its gold into major international markets, including Loco London, the largest financial market in the world for precious metals.

Industry programmes have limitations, however, in their legal authority, scope, applicability and in terms of supporting resources for enforcement. Hence, additional components are key to the functioning of the wider ecosystem. National authorities, downstream representation and stakeholder engagement are important for ensuring coverage in parts of the supply chain that industry programmes simply cannot reach.

2

National authorities, through regulatory change and law enforcement, provide the ultimate sanctions across the supply chain. Industry programmes can complement and expand these regulations by defining industry best practice and enforcing requirements globally by reaching refiners and supply chain actors outside of the reach of authorities' jurisdictions. LBMA collaborates with willing authorities to implement important recommendations in international bullion to help raise global standards. See section 8: Future Development of the Programme.

3

Downstream actors, including banks, electronics and jewellery companies, continue to collaborate with their suppliers to ensure that material is sourced and processed responsibly from beginning to end. Some can exercise significant influence and work with their supply chains to bring about change.

4

Other stakeholders are key to providing support and feedback to all parties in the industry. By identifying and escalating unique issues through investigative research, important support and feedback is gained by all parties in the supply chain.

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

Paul Fisher, LBMA Chairman

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.

RESIDUAL RISKS

LBMA's Responsible Sourcing Programme plays a fundamental role in providing trust and confidence in the global precious metals market. LBMA can effectively remove a refiner from the Good Delivery List (GDL) for Responsible Sourcing failures. Yet unauthorised material may still potentially find its way into the Good Delivery system. This is the residual risk arising from illegitimate activity.

This residual risk can arise under many circumstances, and mainly through the secondary/ recycled material market. Examples include:

- The inability to identify the ultimate origin of recycled material;
- Recycled material – potentially illegitimate – being re-refined by a non-GDL refiner, which is then sent to a GDL refiner;
- Fraudulent trading.

In summary, it's clear that there is potential for the origin of some material to be doubtful. The risks are heightened where recycled gold is coming from or through regions where the authorities are not appropriately supervising and enforcing due diligence requirements. For example, the risk of fraud can only effectively be addressed with support from national authorities and crime prevention units that have the powers to investigate and impose appropriate criminal sanctions to deter such practices.

Furthermore, the industry has seen a number of challenges with regards to Artisanal and Small-Scale Mining (ASM). Over the years, some refiners have disengaged given the high due diligence risks. Proactive engagement undoubtedly does involve risk. At the same time, disengagement with Artisanal and Small-Scale Miners, or aggregators, can have a devastating impact on local communities and economies, far outweighing the reputational or commercial concerns at stake. And gold from such communities may simply be re-routed to support the illegitimate market. There is no shortage of ASM material being produced, yet, as section 5 details, very little is being processed through the GDL refiners. Where does that material end up?

There isn't a perfect solution. A global effort, amongst all the value chain actors, as well as national authorities, and law and enforcement agencies, is required to continue addressing the outstanding challenges and risks. LBMA is committed to working with all legitimate stakeholders but needs full engagement and co-operation as its own standards can only reach so far.

CREATING DEMAND FOR RESPONSIBLE ASM

There needs to be real downstream demand for responsibly sourced gold from Artisanal and Small-Scale Mining (ASM). If not, it is likely that such gold will support the illegitimate market. Sourcing gold responsibly from artisanal miners should be something that adds to a company's reputation. Currently, the opposite is true and these miners bear the highest costs as a result. While LBMA can help create and grow the supply of responsibly sourced ASM gold, downstream actors and other global stakeholders need to work collectively and urgently to create and sustain demand.

DEALING WITH RECYCLED MATERIAL

Given the challenges in due diligence, LBMA recognises that more needs to be done in order to address such risks, particularly for recycled metal.

This supports LBMA's focus on working with its GDL refiners and the relevant national authorities in the major 'recycled hubs' to call for higher and better standards that can be enforced.

This has resulted in LBMA developing recommendations for International Bullion Centres. See section 8 on Future Development.