

LBMA-GLOBAL AUTHORITY FOR PRECIOUS METALS MAINTAINS THE HIGHEST STANDARDS FOR RESPONSIBLE SOURCING.

VITAL TO THE CREDIBILITY OF THE STANDARDS IS THEIR BROAD SCOPE COMBATING MONEY LAUNDERING, TERRORIST FINANCING AND HUMAN RIGHTS ABUSES. INCLUDING CHILD LABOUR.

THE SCOPE OF BOTH THE GOLD AND SILVER GUIDANCE NOT ONLY MEETS, BUT EXCEEDS, CONFLICT MINERALS REGULATIONS.

THE STANDARDS SET OUT MANAGEMENT SYSTEM REQUIREMENTS FOR LBMA ACCREDITED PRECIOUS METAL REFINERS. THEY ARE AUDITED ANNUALLY AND ARE REQUIRED TO PUBLICLY REPORT.

LOOKING FORWARD, LBMA IS EXPANDING THIS SCOPE TO INCLUDE THE ENVIRONMENT AS WELL AS BOTH PLATINUM AND PALLADIUM.

Introduction to the Global OTC Market

In the global Over-The-Counter (OTC) market a dealer will provide a tailor-made service to its clients – offering quotes for varying quantities of precious metals as well as for various value dates and delivery locations. Thus the OTC market offers far greater flexibility than the futures markets.

Apart from being able to meet a customer's precise needs, compared to a futures exchange which operates with standardised contract sizes, delivery dates, purity and location, the OTC market also differs in that members trade with clients, and each other, on a principal to principal basis, which means that all risks, including those of credit, are between two parties to a transaction.

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.

London is the most significant global centre for this important asset class and is pivotal to the world market whether the institutions trading OTC metal with each other are based in the UK or in Australia, India, China, Dubai, the USA and so on. London's key role in this globally important asset class is due to its history at the centre of this international market and the consequential expertise that has grown up around this as well as the physical settlement of metal across accounts in London. Finally, the fortunate nature of the City of London's central time zone brings together miners, investors, fabricators and consumers from around the world.

\$300 BILLION

The gold held in London vaults that underpins the global OTC market is worth in excess of \$300 billion (as of end of November 2017). This is considerably more than the reported value of metal held in Fort Knox, Kentucky, and is second only to the entire holdings of the US Government.





Good Delivery System

The global OTC market for precious metals is dependent on the fungibility of the bars that underpin the system. Only gold and silver bars that meet Good Delivery Standards are acceptable in the settlement of a Loco London contract. LBMA sets the global standard for these bars through maintenance of the London Good Delivery Lists.

Refiners seeking acceptance to the list of accredited refiners must undergo stringent checks regarding their history in the market, their financial standing and their ability to produce bars that meet the exacting standards of London Good Delivery (LGD) bars. Additionally they must implement LBMA's Responsible Gold and/or Silver Guidance prior to accreditation.

These requirements for the bars cover fine ounce weight, purity and physical appearance (including markings and surface quality). The most up-to-date rules can be found on LBMA's website – www.lbma.org.uk.

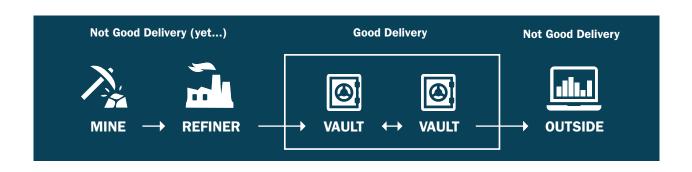
Refiners that are accepted onto the Good Delivery Lists will responsibly source metal, refine it into Good Delivery bars (of approximately 400 troy ounces for gold and 1,000 troy ounces for silver) and ship to approved vaults in London. Bars are then freely traded between institutions within the

market. Bars that leave the London vaults must be re-accepted to become Good Delivery.

Vault managers are precious metal experts who manage the vaults approved by the individual members of London Precious Metals Clearing Limited (LPMCL) and who have achieved LBMA Approved Weigher status. Vault managers are thus gatekeepers of the OTC market and a Good Delivery bar only becomes and remains London Good Delivery to the extent that a vault manager is willing to accept such a bar. If any bar fails to meet the stringent LGD requirements then it will be rejected and returned to the refiner that originally produced it. Obviously this includes bars that fail to meet the exacting standards of responsible sourcing.

90%

LBMA accredited refineries account for approximately 90% of global annual gold production.



Geographic Breakdown of Refinery Numbers

Area	Gold and Silver	Gold Only	Silver Only	Total
Africa	1	0	0	1
Americas	8	2	2	12
Asia	30	11	21	62
Europe	12	3	6	21
Oceania	1	1	0	2
Refineries	52	17	29	98

Total Gold 69	Total Silver 81
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Total Annual Refined Production

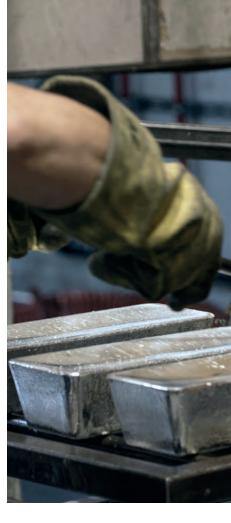
GDL Refinery Throughput (tonnes) - Annual LBMA Conference to Conference

	Rome '13	Lima '14	Vienna '15	Singapore '16	Barcelona '17
Gold (t)	4,619	4,937	4,962	4,969	5,121
Silver (t)	31,052	30,996	31,787	33,301	32,742

Note: Refined production includes only the refinery's output that has gone through a refining process. This excludes conversion of bars from one form to another (i.e. 400 oz bars to kilobars).

REFINERIES

Are accredited by LBMA and are required to attest and report their adherence to responsible sourcing.





Bars that leave the custody of the vaults automatically become non-Good Delivery unless reassessed and accepted back by a vault manager.

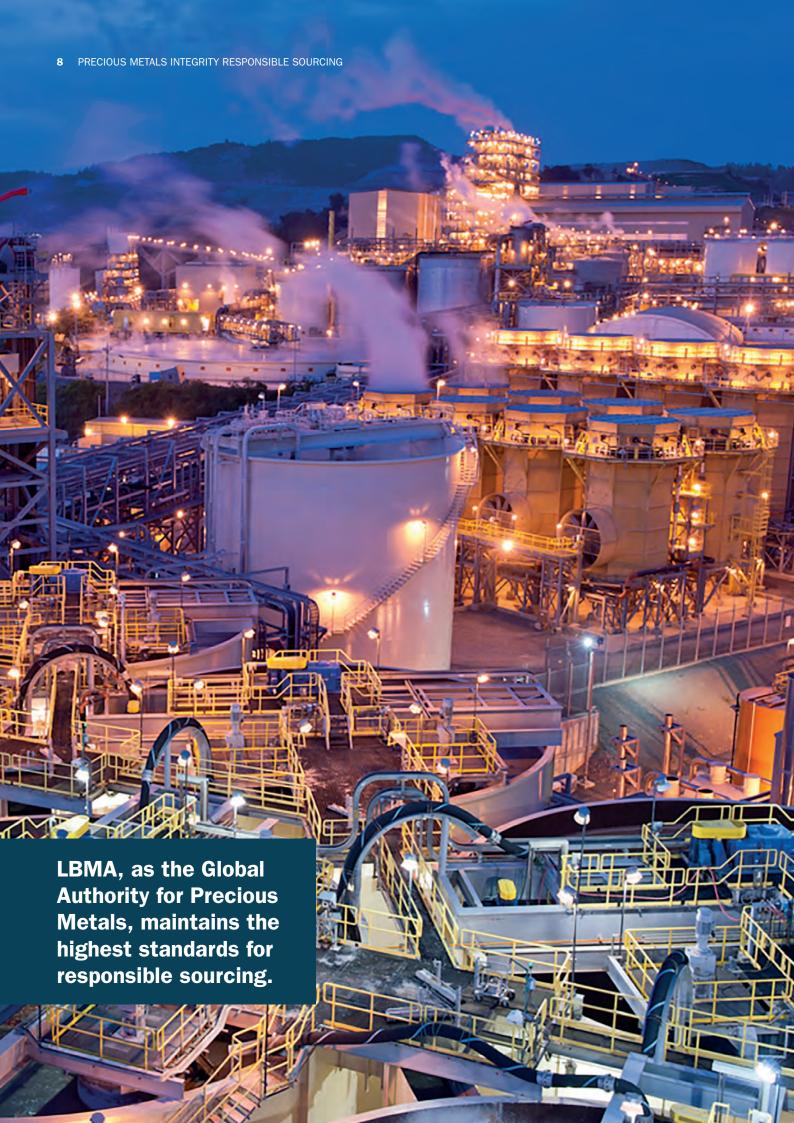
Refiners that are accepted onto the Good Delivery List are subjected to Proactive Monitoring (PAM) to ensure that they maintain these high standards. The PAM Programme reviews the assaying competence of refiners on a three-yearly basis, with two rounds per year. In addition, it checks that they continue to meet the minimum requirements for refined production and tangible net worth on an annual basis. Three years after the date of original listing, refiners receive a letter from LBMA instructing them to participate in the programme.

Should a refiner no longer meet the required conditions then its bars would move to the Former List.

However, while it is only gold and silver that are within the confines of the clearing system that can be properly defined as "Good Delivery", it is clearly vital for investors taking delivery of bars that the provenance and integrity is of a known quality. Hence LBMA is currently investigating additional steps that can be taken to enable simple identification of the history and source of gold investment bars.

It should be recognised that bars do not simply enter the clearing system and languish in vaults. Instead it is a dynamic process with gold and silver constantly entering and exiting. Sometimes there are flows of large bars into London vaults and these large bars may be flown out of London and into Switzerland (for example) to be converted into small bars. These "conversion" flows will result in melting processes which provide a long-term assessment of assay quality. A refiner will always remain responsible for assay discrepancies ("under-title"). If evidence suggests that a particular brand has assay issues, LBMA can act and effectively force a refiner to re-establish its assaying credentials.

Bars possibly not meeting quality requirements that are currently held in vaults could be treated by contracting a refiner to recast the material to remove the doubt. This process was particularly effective when the Bank of England dealt with poorer quality "Fed Melt" bars being brought out of long-term, deep storage.





Responsible Sourcing

Those refiners not adhering to these strict rules will be moved to the Former Lists with consequences for both their reputation and financial standing. To date three refiners and one auditor have been moved to the Former Lists for not adhering to Responsible Gold Guidance.

LBMA regularly reviews the content of its responsible sourcing guidelines to take into account emerging trends and new or amended regulation, ensuring that they remain relevant, accurate and provide the correct level of protection to the Good Delivery System.

Overview

LBMA's Responsible Sourcing Programme was set up to consolidate, strengthen and formalise existing standards of refiners' due diligence. The Responsible Gold Guidance has been mandatory for all gold Good Delivery Refiners since 2012, and LBMA has recently expanded the scope of its responsible sourcing framework to include silver, which became a mandatory requirement for all silver GDL refiners from 1 January 2018.

Refiners are audited annually and are required to publicly report.

Responsible Silver

LBMA Responsible Silver Guidance (RSG) consolidates and formalises pre-existing high standards of refiners' due diligence. To minimise the additional resources required by refiners who produce both gold and silver GDL bars, the Silver Guidance is aligned with the existing LBMA Responsible Gold Guidance, facilitating the concept of multi-metal audits.

The introduction of the new RSG aligns the requirements for both gold and silver GDL refiners adding a further layer of credibility to the GDL system.

Responsible Gold

This framework is mandatory for all refiners wishing to sell into the London Bullion Market. This is intended to assure investors and consumers that all London gold stocks are conflict-free due to compliance with an audited, conflict-free process.

LBMA Responsible Gold Guidance (v7) consolidates and formalises pre-existing high standards of refiners' due diligence. The Guidance is based on the OECD Due Diligence Guidance as well as Swiss and US KYC (Know Your Customer), Anti-Money Laundering and Combatting Terrorist Financing regulations.

Further Development

LBMA believes in continuous improvement of the Responsible Sourcing Programme to ensure that it remains fit for purpose. The next iteration of the Guidance will include aspects relating to the Environment and issues relating to Sustainability.

LBMA is working with the London Platinum and Palladium Market (LPPM) to develop Responsible Platinum and Palladium Guidance.

Governance

The Responsible Sourcing Programme is overseen by LBMA's Executive Committee (ExCom). The Compliance Officer is responsible for the day to day running of the programme; when non-conformances arise, these are escalated to the Audit Review Panel (ARP) for review and action. The ARP reports to ExCom on all matters relating to the management, governance and development of the Responsible Sourcing Programme.

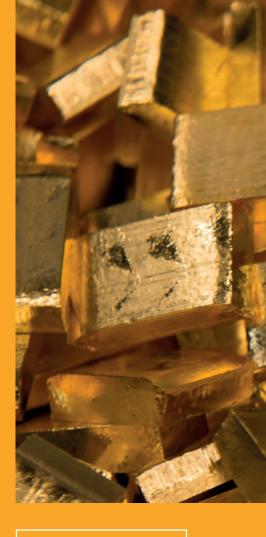
The Physical Committee of the LBMA will be notified of the ARP action.

The Regulatory Affairs Committee oversees the policy development and

oversees the policy development and implementation of the Responsible Sourcing Programme, for example the complaints mechanism and incident handling procedure.

In 2017, LBMA took a stronger stance with refiners and auditors alike to reflect the maturity of the programme and the need to demonstrate the strict governance and control framework that LBMA and the industry have worked hard to implement. The Incident Review Process is invoked in response to a particular stimulus of a reputational nature. Information can come from a variety of sources (trade associations, law enforcement agencies, market intelligence, etc.) and LBMA will seek corroboration wherever possible as part of the process. Due to the sensitivity involved, LBMA may keep the process confidential until the issue has been resolved.

Unsubstantiated allegations can have a serious detrimental effect on the ability to do business. LBMA must be sensitive to this fact and ensure that there is no speculation during the resolution of the Incident Management Process.



The ultimate sanction that LBMA can impose at the resolution of this process is to move the refiner to the Former Lists.

To date three refiners and one auditor have been moved to the Former Lists for not adhering to the Responsible Gold Guidance.

The formal process involves 11 steps:





Public Reporting

LBMA is committed to public reporting to promote transparency in the global OTC market. Its Annual Review contains a report on its Responsible Sourcing Programme.

It is mandatory for refiners to report on their Responsible Sourcing policy and audit reports. LBMA also encourages refineries and banks to provide transparency.

LBMA also provides access through www.lbma.org.uk

A Confidential Whistleblowing procedure further promotes the desire for the Precious Metals market to occupy a position of trust.

LBMA

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