

Russian Bullion Seminar

Moscow, 24 of November 2011

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Москва, 24 ноября 2011

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Conflict Gold – The Threat to the Market and the LBMA Response

Stewart Murray
Chief Executive
The London Bullion Market Association

Russian Bullion Seminar,
Moscow, 24th November, 2011

Conflict Gold Regulation – Does it matter?



London Vaulting – The heart of the London Gold Market



- Nine recognised Custodians
- Five vaults provide
 - Security
 - Experience (weighing, inspection, storing, packing, shipping)
 - Quality monitoring – Gatekeeper role
- = Fungibility (all bars are treated as being the same)
- Currently ~9,000 tonnes in London with a value of ~\$500 billion



Democratic Republic of the Congo





U.S. Congress - Dodd-Frank Act (July, 2010)

- Section 1502 – Conflict Minerals from the DRC
the three Ts (Tin, Tantalum and Tungsten) and Gold
- SEC must develop the detailed rules
- Listed US companies must disclose Use of Gold, and Source:
 - Directly affects US Publicly Traded Companies
 - Identify Products Using Gold
 - Identify Sources in DRC Countries
- But through various chains, everyone in the gold market is affected.



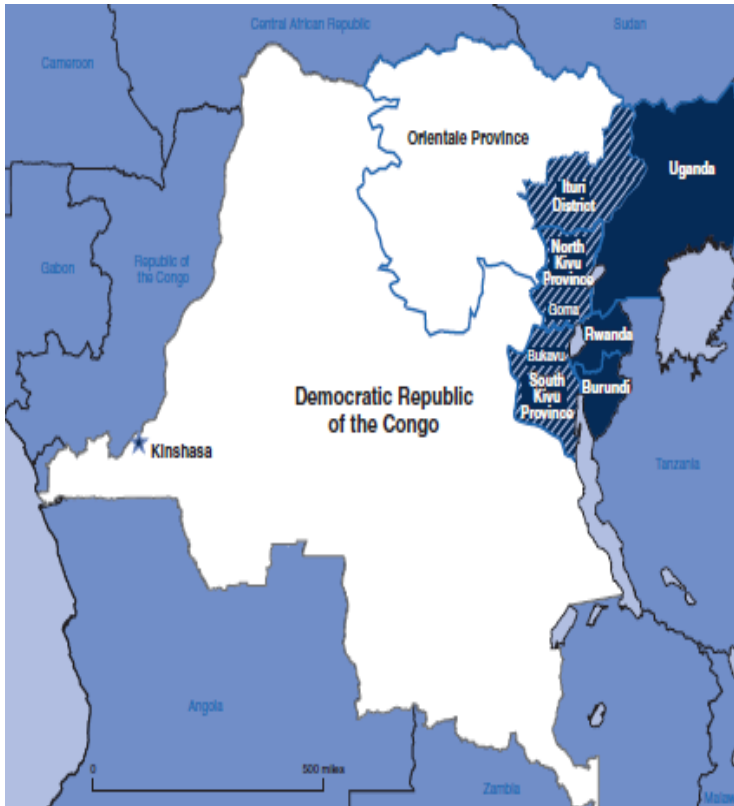
Problem 1 – Tail wagging the dog

- Normally dogs wag their tails
- Sometimes unfortunately, it is the other way round,
- The DRC is the tail. The world gold market is the dog



Problem 2 - De Facto Boycott (the unintended consequence)

- Area of DRC Conflict
- Area of Dodd-Frank Stigma





DRC Gold Production

- Total production ~ 16 tonnes / year (0.6% of world output)
- Formal Sector
- Informal Sector - Alluvial, Artisanal, Possibly Illegal
- Conflict Area Output: ~ 4 tonnes / year
Market Value: > US\$ 200,000,000



SEC Regulations

- Proposed regulations published in December, 2010
- What is the Country of Origin?
Need for reporting companies to
 - Make reasonable inquiries
 - use reliable supplier representations and
 - arrange an independent third party audit
- What is the origin of recycled gold (eg bars and old jewellery)
- Need to exempt existing stocks
- Confidentiality versus public disclosure
- Publication of final regulations (originally due in April) still awaited



OECD Initiative

- OECD began work on conflict-free supply chains in Oct 2009
- Developed with the assistance of a multi-stakeholder working group:
 - OECD and African Countries
 - International Organisations
 - Industry and Trade Groups
 - Companies
 - Non-governmental Organisations



OECD Due Diligence Guidance

- A 5-step, risk-based, due diligence framework for all minerals from conflict and high-risk areas (not just the DRC)
- A model supply chain policy
- Principles for risk mitigation
- Supplements on Tin, Tantalum and Tungsten (already published)
- Supplement on Gold (soon with LBMA assistance)





OECD Due Diligence Principles

- Progressive improvement is acceptable
- Integration with existing standards, practices and management systems
- Involvement of industry or market initiatives to save costs and reduce audit fatigue





OECD Gold Supplement

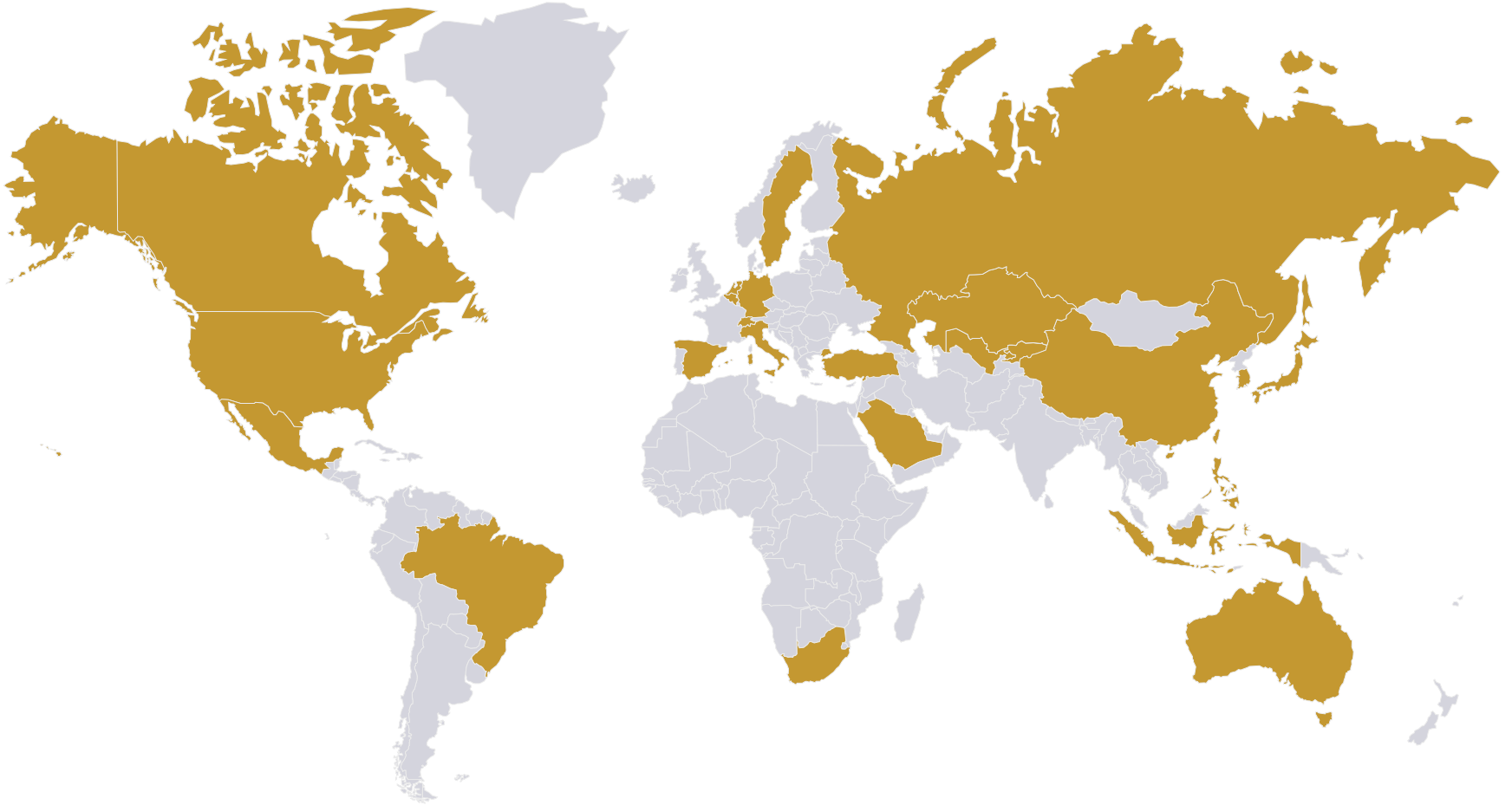
- Why deal with gold differently?
 - Complex, non-linear supply chain
 - Recycled and scrap gold
 - Artisanal mining
 - Easy to refine, smuggle, launder and conceal
 - Rudimentary refining capacities
 - Fungible nature (gold is similar to money)
 - Non-physical transactions
 - Investment (private and official sector)
 - Existing refining industry experience of Anti-Money Laundering



Industry Initiatives

- Responsible Jewellery Council
- World Gold Council
- London Bullion Market Association
- Electronic Industries Citizens Coalition (EICC)

Gold Good Delivery Refiners





Conflict Gold Background – an LBMA perspective

- September, 2010 - UN Experts Group speaks at LBMA's Berlin Conference.
- June, 2011 - The Regulatory Affairs Committee proposes that GD refiners must comply with the LBMA due diligence guidance.
- June, 2011 - Meetings of LBMA Regulatory Affairs Committee and referees to develop draft LBMA guidance
- 11th July 2011 – first draft of LBMA due diligence guidance circulated for comment to a group of GD refiners
- 26th August 2011 - second draft of LBMA due diligence circulated to all GDL refiners



LBMA Responsible Gold Guidance – The purpose

- To give assurance to purchasers of GD gold bars that the refiner who produced them used reasonable and effective due diligence to ensure that its feedstock was free from metal that had financed conflict or been used for money laundering or terrorist financing.
- To provide a framework for carrying out due diligence which is practicable for the refinery and credible for the outside world.
- But above all....
.... **to allow the market to continue functioning!**



LBMA Responsible Gold Guidance – An Overview

- Put together by LBMA GD refiners with experience of operating due diligence systems
- Based on the 5-step framework in the OECD guidance on conflict minerals plus existing Know Your Customer Anti-Money Laundering Regulations
- Risk-based: Higher risk = more due diligence is needed (and vice versa)
- Compliance required for maintenance of GD Accreditation
- Section on artisanal mining is still to be written



LBMA Responsible Gold Guidance – Structure

Structure Based on OECD Due Diligence Guidance - Annex I

5-Step Framework for Risk-Based Due Diligence in the Mineral Supply Chain

- **Step 1:** Set up strong management systems
- **Step 2:** Identify and assess risks in the supply chain
- **Step 3:** Design and implement a strategy to respond to identified risks
- **Step 4:** Arrange an independent audit of the due diligence
- **Step 5:** Publish report on policy and actions

The draft guidance was sent to GD refiners on 26 August, 2011



LBMA Responsible Gold Guidance

- **Proposed timetable for adoption:**
 - 30 Nov 2011 - OECD Gold Supplement to be published
 - 1 Dec 2011 - Final LBMA Responsible Gold Guidance to be issued
 - 1 Jan 2012 – LBMA Guidance becomes an official requirement of Good Delivery
 - 13 Jan 2012 - Deadline for LBMA GD Gold Refiners to indicate they accept and will follow the guidelines.



LBMA Responsible Gold Guidance Feedback Needed

- Too hard, too easy or just about right?
- Are any changes needed?
- Should compliance be mandatory for GD refiners?
- Is the timetable for implementation reasonable?





Contacts and further information

www.lbma.org.uk

Proficiency Testing Scheme for GD Gold Fire Assayers



- 43 GD gold refiners have agreed to participate
- 4 Russian refiners have agreed to participate.
We are awaiting to hear from 4 others.
- The exercise will go ahead with samples being distributed in January (each participant will be sent 3.3 g of gold in the fineness range 995-999)
- Should we send the samples via eg Gokhran rather than directly?



Tangible Net Worth

- Has been unchanged at £10 million since 1993
- Basel III regime is forcing banks to hold more capital
- Higher gold and silver prices means more metal value at risk
- Criterion raised to £15 million (immediately for new applicants)

Feedback Needed

- How much time is needed for those with a net worth below £15 million?



Proactive Monitoring

- From 2012 onwards, refiners must provide annual data for production and the most recent audited tangible net worth
- Technical monitoring will continue to be an a three-year cycle.
- Refiners opting for 6-sample assay test must confirm that they have not produced any gold with a fineness of less than 999.9 in the previous year.
- Annual GDL Maintenance Fee will be increased from £1,000 to £1,100 with effect from January, 2012



Visual Guide to Good Delivery Bars

- Based on views of London vault managers
- Physical quality (not assay accuracy)
- Illustrations of Rejected versus Borderline Acceptable bars
- Will be available to all refiners on the LBMA Website