

The LBMA - Providing a Chain of Integrity in the International Gold Market

By Ruth Crowell, Chief Executive, LBMA

Introduction

This is a transcript of the Keynote address which Ruth Crowell delivered at the 2016 India International Gold Convention (IIGC) in Agra, India, on 11 August, 2016.

Good evening Ladies and Gentleman. It's great to be back in India. It's also a pleasure to be back amongst friends here the IIGC, speaking to you tonight. Sincere thanks to the organisers for the invitation to address you this evening.

Every time I come to India, I am reminded of how lucky we are. As Chief Executive of the LBMA, I get to travel the world and meet with so many gold market participants who are keen to do more, to innovate and develop, and to have a bigger seat at the global table. They look to the LBMA to provide solutions to their problems or to give integrity to their ideas. My job is to identify where we can help and explain clearly when we cannot – and also to spread the news that the LBMA is changing and there have never been more opportunities to engage.

It may surprise you, but a lot of the questions I get from these markets are actually the same, regardless of where I am. For Good Delivery, the question I always get is, 'Please can you create an LBMA B list, because the standards are too high, particularly on tonnage, financial net worth, etc.' 'No' is of course the short answer, but the longer answer gives the important reason why. It's important to everyone around the world who relies on the London Good Delivery List that it can be trusted. In order to have that integrity, we must safeguard the standards and be consistent with their application. We do not aim to be the accreditor for every refiner around the world. We look for global partners who can consistently deliver large quantities of quality metal into London and around the world on a long-term basis. The global aspect is important as we can all appreciate the ability to grow the precious metals market when we look to set an international, not a local standard. And long term is of course important as gold plays that fundamental role as a safe haven for families, investors and governments alike. We are looking for refiners who will be there for decades, not years.

Chain of integrity is vital in the gold market, and the LBMA Good Delivery List provides a crucial link in that chain. If we compromise our standards, the banks, central banks, refiners, investors, mints, and jewellery and electronic companies who rely on us would all suffer commercially. They would also have enormous difficulty and costs trying to individually manage the quality of the metal they use/produce. If there is to be confidence in the gold market, clients must fundamentally get what it says on the tin. And that's what the LBMA brand must provide.

And the label on the tin has changed, particularly if you want large multinational companies to buy or finance gold. Not only does it have to be gold, but it also has to be Responsible. And this brings me to the second main question I get. "Is Responsible Gold really necessary for me?" Many consider it a US or European problem and something they can ignore. I said at the beginning that it is nice to be amongst friends, and I mean that. But sometimes friends need to tell each other harsh truths. And this is one of those. You cannot escape Responsible Gold. or Responsible Silver for that matter. It is coming for you, so why not get ahead of your competitors. If India is to become the jeweller for the world under Make in India, you need to become leaders in Responsible Gold. You cannot simply sign a letter and expect large international jewellery companies to accept your word. Customers demand meaningful independent verification of responsibility and other markets are providing it. China is now taking this seriously and becoming a leader in this space. India needs to do the same to be competitive.

And that is where the LBMA can help. We can provide the tools, the training, our experience, the best practice examples and put you in touch with industry experts. But we cannot do the work for you. Integrity has to be earned. It cannot be given. The goal of our on-going engagement in India is so we can help grow capacity and help bring the Indian market voice to the table. We can give you all the tools and help you join the global discussion. We can even bring the world to India to

talk about physical issues or Responsible Gold. But India needs to do the heavy lifting. There is a need for stability and consistency in the Indian market that is transparent and gives confidence to the outside world. And industry leaders need to engage externally as well on a consistent and ongoing basis to demonstrate that stability and transparency. There are numerous ways to do this, for example, international bodies and events set up to help market players improve how they do business, whether it is regarding refining, assaying or trading. But there has been limited involvement to date from the Indian market. That needs to change in order for India to continue to grow. A few players cannot do it all on their own. You need to speak with one clear and consistent voice.

I know you are going through your own innovations and strategy sessions to see how you can achieve that stability, build the Indian market and have a larger seat at the global table. Again, this is happening worldwide, including at home in London. My advice to you would be not to try to reinvent the wheel. Instead, embrace the ideas and opportunities that are currently out there and look to see where you can add unique value. At the LBMA, we are currently focused on bringing real technology to the global market. This is initially for reporting and helping to demonstrate transparency to the regulators. But we are also looking at how we can use technology to grow the market on an international basis. And if we decide to do something, we want to do it well.

We were recently asked to develop a global Precious Metals Code, following the example set by the Forex markets. And we look forward to receiving your views once we open it for public consultation. But one of the reasons we have not released it yet is because, in the gold market, we do not just want to do things the same as other markets, we want to do things better. And that's where the integrity comes in. It is not just about doing the right thing. It is about doing the right thing when no one else is watching.

I alarmed a few people yesterday with the unintended consequences of the Basel III liquidity ratios. This is international, G20-level regulation intended to avoid another financial crisis – a good intention, with some worrying potential consequences. The LBMA is concerned about banks exiting and financing becoming not only scarce but exponentially more expensive. Gold has not been singled out as a market; instead, it has been swept in with all commodities, even though we all know it also acts as a global currency. We need to have a strong, global voice to champion the strength and liquidity of the gold market, and India should be part of that voice. We need the regulators to understand the integrity of the gold market and we need to provide more transparency to demonstrate that to them on a consistent and ongoing basis.

When trying to defend the integrity and the liquidity of the market, it helps if people have heard of you. The UK has the largest financial gold market in the world, but we have never had the Prime Minister championing the gold market like you have here in India. It continues to remind me of the work ahead when we speak to UK government officials who are not aware of the London Gold Market.

With the help of senior government, India could be a real voice for gold not just in the local market, but around the world. That recognition is also an opportunity for the industry to get real support in your plans for local innovation. For London, central bank and treasury support has always been crucial in the efficiency and attractiveness of the market to local and international players.

I do not have to tell you that there are real pressures and changes going on in the global gold market. Physical demand is down, regulation is high and all players –including refiners, traders, banks – have been affected, with some even forced to shut down or exit. But with those changes and challenges come opportunities. We are going to hear over the next few days from many industry experts about the innovative ideas that they have had. And as always, the LBMA will be here, to listen and to engage with you in the dialogue. I just hope that we can continue to see India present in the meetings, dialogues and innovations outside of India. As I said at the beginning, we have to keep the standards high, for the sake of all of gold as a brand. But the doors are open - get involved.