



ICE BENCHMARK ADMINISTRATION
LBMA GOLD PRICE – METHODOLOGY CONSULTATION

Introduction

ICE Benchmark Administration Limited (IBA) is the Benchmark Administrator of the LBMA Gold Price, which is the principal global benchmark for daily gold prices. The benchmark price is widely used by producers, consumers, investors, central banks and others.

IBA's methodology underpinning the LBMA Gold Price is an electronic auction run twice daily at 10:30am and 3:00pm London time. The auction process provides a market-based platform for buyers and sellers to trade unallocated, loco London spot gold and the final auction price is published to the market as the LBMA Gold Price benchmark.

Proposed changes

In this consultation, IBA invites comments on two aspects of the auction:

- the introduction of an algorithm to determine the price for each auction round, and
- a change to the information that is published on the number of active participants while the auction is running.

The proposed changes are described below.

Comments may be emailed to IBA@theice.com or posted to:

ICE Benchmark Administration Limited
Milton Gate
60 Chiswell Street
London
EC1Y 4SA

The deadline for comments is Friday 16th December 2016.

After that date, IBA will publish a summary of comments received during this consultation and IBA's response to those comments. If a commenter requests confidentiality, their comments will be taken into account by IBA but will not be included within IBA's published summary.

The above changes are proposed for implementation by IBA in Quarter 1, 2017.

Overview of IBA's auction process

The IBA auction process is operated in Rounds of 30 seconds duration. IBA publishes the auction's starting price and the price for each subsequent Round, if any, through WebICE (the proprietary trading system used for the auction) and through other data redistributors.

IBA's auction process is currently that the auction chair sets the price for each Round in line with current market conditions and the activity in the auction. The price discovery process is in USD.

Participants enter their buy / sell orders by volume (i.e. number of ounces).

If the difference between the buying and selling interest at the completion of a Round is more than the "Imbalance" threshold (currently set at 10,000 troy ounces), the auction moves to a further Round with a new price.

The auction concludes when the net volume of buying and selling interest at the end of a Round is within the Imbalance threshold.

Introducing an algorithm to determine the price for each auction round

IBA currently has a panel of auction chairs who are independent of any firm associated with the auction, including Direct Participants. The chairs are externally sourced but work with IBA to deliver a robust process for determination of the LBMA Gold Price.

The chairs use their extensive market experience to set the round prices based on a pricing framework agreed with IBA.

IBA chose to operate the auction using human chairs to make sure that the price could respond appropriately to market conditions from the outset. IBA's feedback from the market was that, at least in the early stages, the professional judgement of a human chairman was needed.

IBA envisaged that changes to the auction would be a gradual evolutionary process since the market mechanism had remained largely unchanged for nearly a century before IBA became the administrator. It was clear that automation of the auction price movements would only be appropriate after expanding the number of participants, introducing a blind auction process and in the light of experience of operating the auction with the human chairs.

IBA has continued to expand the participation in the auction, increasing the number of participants from 4 (before IBA took over) to 13. IBA also introduced the blind auction process in January 2016.

After operating the auction for more than a year, IBA started to develop an algorithm to set the auction's starting price and subsequent round prices. IBA has now been testing and refining the algorithm over a number of months. We are very grateful for the chairs' strong co-operation and engagement in working with us to ensure that the algorithm is robust across many situations, including data releases and reversals of the direction of the imbalance between prices.

Each auction will continue to be supervised by IBA's analysts, and, if for any reason an auction did not progress as expected, IBA's existing safeguards would be deployed to protect the integrity of the auction and the LBMA Gold Price benchmark.

These existing safeguards include the following:

- Pause the auction and restart, to give Participants an opportunity to contact clients or re-evaluate their positions
- Increase the imbalance threshold, if it appears that the auction will otherwise not finish
- Cancel an order, if it is compromising the integrity of the process and the relevant participant cannot be reached.

Information on the number of active participants published while the auction is running

IBA currently publishes the following information during each auction for redistribution:

- At the start of each Round: the price in USD for the current Round, and
- At the end of each Round: the aggregate bid and offer volumes used to calculate the Imbalance and also the number of Participants which entered Orders in the Round.

Following discussion by the Gold Oversight Committee, IBA proposes to cease publishing the number of Participants which entered orders in any Round, until the conclusion of that auction.

IBA proposes to retain full transparency at the end of each auction of the number of active Participants in each Round of the auction through the transparency reports that IBA publishes on its website and through redistributors.

Further information

Further information about IBA and the LBMA Gold Price can be found at:

<https://www.theice.com/iba/lbma-gold-price>.