



LBMA GOLD PRICE – CONSULTATION

Introduction

ICE Benchmark Administration Limited (“IBA”) was established in 2013 for the purpose of administering systemically important benchmarks. It has been the administrator of ICE LIBOR since February 2014 and ICE Swap Rate (formerly known as ISDAFIX) since August 2014. IBA became the administrator of the LBMA Gold Price on 20 March 2015.

The LBMA Gold Price replaced the Gold Fixing Price which had existed since September 1919 and provides a published benchmark price that is widely used by producers, consumers, investors and central banks.

A long-standing market convention for Gold and other precious metals is the addition of a premium to the benchmark price for settlement purposes (the “Seller’s Premium”). The role of the Seller’s Premium has changed over the years and IBA is publishing this consultation to invite feedback on whether the convention remains appropriate for the LBMA Gold Price.

A brief Glossary and overview of IBA and the Gold auction are attached for information.

About the LBMA Gold Price

Until IBA became the administrator for the LBMA Gold Price, the benchmark price of gold was determined through an auction in the form of a conference call between the participants that comprised the London Gold Fixing Company. IBA has replaced that conference call with an electronic, tradeable auction process with aggregated bids and offers published in real-time. There continue to be two auctions each day, at 10:30 and 15:00 in London.

IBA’s auction process is a facility for trading physical spot gold at a price at which balance can be found between buying and selling interests. This final price is used as the LBMA Gold Price benchmark and published to the market.

In this consultation, IBA invites views on three aspects of the auction process:

- the approach for handling an auction should the minimum number of participants not be present;
- the market convention to include a Seller’s Premium; and
- the usage of the prices in currencies other than USD (i.e. in EUR and GBP).

Auction without minimum number of participants

IBA's Rule Book for the Gold auction provides at Rule 5.3 for minimum participation in a particular auction, as follows:

- “(a) IBA shall, from time to time and after consultation with Participants, set a minimum number of Direct Participants for the Auction. Such minimum number shall be made public by IBA in the IBA Gold Auction Specification Document.
- (b) If the minimum number of Direct Participants for an Auction is not satisfied, IBA will not conduct that Auction but will declare the Auction closed at the Opening Price.
- (c) If there is no buying and selling interest for an Auction in the first Round, IBA will declare the Auction closed at the Opening Price.”

With reference to (b) above, IBA will declare the auction closed at the Opening Price if the minimum number of Direct Participants for an auction is not present. The alternative approach could be a No Publication (NP). Arguments in favour of publishing the Opening Price would be that, even when there is no interest in a particular auction, a Price would always be published. It may be worth noting that the Gold Fixing Price was always published, even in times of war. However, it may be argued that a representative price discovery process would not be achieved if a minimum number of participants had not logged in to the electronic auction to have the opportunity to participate or trade at the proposed price.

With reference to (c) above, the argument in favour of publishing the Opening Price would be that, even when there is no interest in a particular auction, a Price would always be published and participants will have had the opportunity to trade at that price. However, there would have been no activity traded at that level and the Price may not be fully representative of the market and, in some instances, NP could be preferable.

Seller's Premium

The origin of the Seller's Premium can be traced back to the start of the London Gold Fix in 1919.

When auction participants settle trades arising from the auction, the market convention is that a USD 15 cents premium per ounce is added to the benchmark price so that all trades settle at a higher price than the published benchmark.

Direct Participants settle amongst themselves at the auction price plus the Seller's Premium without any additional spread. Direct Participants and their clients then settle at a spread around this new value (i.e. benchmark price plus Seller's Premium.) Direct Participants each set a spread at which they will buy from clients and sell to clients. That spread is bilaterally agreed. The spreads depend on the client and are agreed bilaterally.

The standard spread for spot, loco (London delivery) Gold is that a selling client receives USD 10 cents per ounce above the benchmark while a buying client pays USD 20 cents per ounce above the benchmark. We understand that clients are aware of the spread and, like the Direct Participants, take it into account when they are placing orders into the auction.

The supply chain for physical gold is linked together by a series of principal-to-principal transactions starting from miner to refiner before moving onto the banks that intermediate between producers and

consumers. The actual USD per ounce value of many of the transactions between these market segments is linked to the London Gold Price. Firms in the market will typically buy and sell using this same reference price and will therefore tend to add a commission when selling in order to account for their value added.

Given this structure, the Seller's Premium is thought to have been introduced in order to allow some scope for profitability for producers who bring their product to market via the London auction. As the supply chain has grown in complexity, this aspect of the Seller's Premium has diminished in relevance. However, the Seller's Premium has remained an integral part of the process and is now reflected across the industry.

IBA considers it appropriate to review whether the Seller's Premium should remain as a market convention for Gold since its role has changed over the years.

Non-USD Prices (i.e. EUR and GBP)

The price discovery in the Gold auction is USD. At the end of the auction, the price for Gold in USD is converted into EUR and GBP and these non-USD prices are also published.

The non-USD prices are not available to trade during the auction, so their uses are as indicative settlement prices at the end of the auction, or as benchmarks for reference in derivative contracts. If participants wish to settle an order in the auction in a non-USD currency then that is settled at a bilaterally agreed price between the client and their Direct Participant.

Given that these prices are now also regulated benchmarks (as part of the LBMA Gold Price), IBA considers it appropriate to review the level and type of use in the market for the non-USD prices.

Consultation

Please provide your feedback by completing the attached consultation questionnaire and returning it to us on or before **Friday 1 May 2015**.

When stakeholders' summary comments have been analysed by IBA, and considered by IBA's Gold Oversight Committee, IBA will publish a feedback statement.

Attachments:

- Glossary
- Short overview of IBA and the Gold auction
- Consultation questionnaire

GLOSSARY

Word or Expression	Definition
Direct Participant	Entity, taking part in the IBA Gold Auction, having accepted the Rule Book. A Direct Participant is the only type of Participant that may share in the imbalance. A Direct Participant may also offer WebICE screens to Sponsored Participants in order to participate in the auction.
IBA	ICE Benchmark Administration Ltd, is an FCA authorised benchmark administrator responsible for operating the IBA Gold Auction and is the administrator for the LBMA Gold Price.
IBA Gold Auction	The auction operated by IBA for the sale or purchase of Loco London Gold on bullion business days at 10:30am and 3:00pm London time.
LBMA Gold Price	A price expressed as a number of USD per ounce of Loco London Gold, being the price determined during the final round of the auction process.
Loco London Gold	Internationally accepted standard for Gold trading and settlement. Settlement and delivery is 2 business days after trade date, in London.
Opening Price	Value in USD/oz at the first Round of the IBA Gold Auction.
Price	The Chairperson's entered value of one troy Ounce of gold expressed in USD.
Rule	One of a set governing the IBA Gold Auction imposing obligations on Participants as well as IBA.
Seller's Premium	A long-standing market convention for Gold and other precious metals whereby a premium is added to the benchmark price for settlement purposes.
WebICE	The proprietary electronic trading front-end used for the IBA Gold Auction. See www.theice.com/webice .



OVERVIEW OF IBA AND THE GOLD AUCTION

Introduction

ICE Benchmark Administration (IBA) is an independent subsidiary of Intercontinental Exchange, responsible for the end-to-end administration of benchmarks.

As the world's most experienced administrator for regulated and IOSCO-compliant benchmarks, IBA administers the following three systemically important benchmarks:

- ICE LIBOR — the world's most widely used benchmark for short term bank borrowing rates
- LBMA Gold Price — the principal global benchmark for daily gold prices
- ICE Swap Rate (formerly known as ISDAFIX) — the global interest rate swap benchmark for swap rates and spreads

IBA combines robust regulatory and governance frameworks with enhanced technology to bring credibility and trust to globally important benchmarks. This includes being separately capitalized from the parent company, a board of directors comprised of independent non-executive directors, an oversight committee, sophisticated surveillance techniques and purpose-built technology.

Fully authorised and regulated by the Financial Conduct Authority (FCA), IBA is independently capitalized and required to comply with the FCA's rules for benchmark administrators, as set out in MAR 8.3 Regulation. IBA has been formally assessed against the IOSCO Principles for Financial Benchmarks.

IBA Benchmarks

In July 2013, the Hogg Tendering Advisory Committee, an independent committee set up by the UK government, selected IBA as the new administrator for the London Interbank Offered Rate (LIBOR). The transfer of the administration of LIBOR from BBA LIBOR to IBA was completed on 1 February 2014, following authorisation of IBA by the Financial Conduct Authority ("FCA"). LIBOR is the world's most widely used benchmark, representing short term bank borrowing rates.

In April 2014, following an extensive selection process managed by the International Swaps and Derivatives Association (ISDA), IBA was appointed as the new administrator for ISDAFIX, with effect from 1 August 2014. ISDAFIX, now known as ICE Swap Rate, is the principal global benchmark for swap rates and spreads for interest rate swap transactions.

On 7 November 2014, following market-wide consultation, IBA was announced as the new administrator of the LBMA Gold Price which is the principal global benchmark of daily gold prices.

Some of the key improvements IBA has made to these benchmarks are:

- Developing new benchmark surveillance technology and techniques. These sophisticated analytical tools and techniques bring enhanced transparency and confidence in operating the benchmark price setting process;
- Establishing Oversight Committees for each benchmark;
- Building a new technology platform for the collection of ICE LIBOR submissions which includes real-time validation checks and reduces operational risk;
- Transitioning the calculation methodology for ICE Swap Rate from a polled submission model where contributing banks submit price estimates, to a methodology based on tradeable quotes from regulated trading venues – with no subjective or expert judgement involved; and
- Introducing a new electronic auction process for the LBMA Gold Price with increased participation. Using ICE's trading technology – WebICE – all participants can see the same information, on a level playing field, in real-time. Direct participants and sponsored clients can also manage their orders in the auction directly from their desktops in real-time.

The IBA Gold Auction

The IBA Gold Auction is a physically settled, electronic, tradeable auction process with aggregated bids and offers published in real-time. The purpose of the auction process is to get bilateral trades agreed at a price that is driven by market forces and, in contrast to a submission-based benchmark, the benchmark is a by-product of the process, not a driver for it.

The auction process is run on the WebICE platform which provides real-time order management, including direct order management for clients via their own screen (if desired), separation of house and client orders, live credit limit controls, a full audit history, advanced Excel integration and automated notification of filled trades.

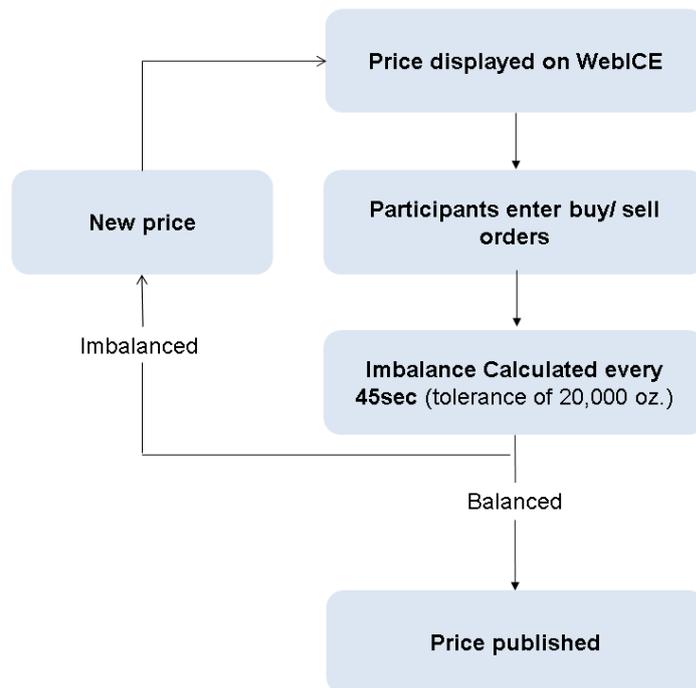
The auction is run twice daily, at 10:30 and 15:00 London time. It is conducted in 'rounds' after which the imbalance of buying and selling interest is calculated. If a balance of buying and selling interest is not achieved within a 'round' a new price is proposed and a further round is conducted. Initially, each 'round' will last for 45 seconds.

Both the initial and subsequent round prices are selected by the Chairperson using their extensive market experience and applied based on an agreed pricing framework.

An auction can conclude with a difference between the entered buying and selling interest of up to 20,000 troy ounces. This difference is referred to as the 'imbalance'. To ensure fairness, the imbalance is shared out equally among the direct participants (subject to a review by IBA in early summer 2015).

The final price from the auction is used as the LBMA Gold Price benchmark and published to the market.

The key steps in IBA's Gold auction process are:



IBA publishes details of the auction live on WebICE and via re-distributors, showing the starting price of each round as well as the final aggregate bid and offer volumes entered in that round.

At the end of the auction, IBA publishes the final benchmark prices as well as a Transparency Report with aggregated details of each auction round. This is available immediately after the auction on IBA's website at <https://www.theice.com/iba/historical-data>

Further information

Further information can be found at [theice.com/iba](https://www.theice.com/iba)
