



**RESPONSIBLE
SOURCING**
Report
2020

LBMA – The Independent Authority for Precious Metals

Our mission is to ensure the highest levels of leadership, integrity and transparency for the global precious metals industry by advancing standards and developing market solutions.

The purpose of the Responsible Sourcing Programme is to ensure continuous improvement of Responsible Sourcing business practices and reassure clients that all of the metal sourced from LBMA Good Delivery Refiners is free from threat financing.



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MESSAGE FROM THE CHAIRMAN

It is a great pleasure to introduce LBMA's first Responsible Sourcing Annual Report. Transparency and public disclosure are a vital part of driving a continuous improvement in standards. LBMA looks to lead by example by committing not only to enhanced annual reporting on our Responsible Sourcing Programme, but also working to provide greater transparency on incidents as they occur during the year. While we have produced an Annual Review of LBMA's overall work programme since 2017, this is the first year we are providing a dedicated report on Responsible Sourcing. This is also the first occasion on which we are publishing Country of Origin numbers for all the gold and silver being refined by our Good Delivery List refiners. This enhanced reporting is intended to give all stakeholders, particularly those outside the industry, further clarity on and confidence in the Responsible Sourcing Programme. It should also enhance the ability to ask questions, understand the challenges we face and contribute to the ongoing improvements in standards.

A strategic expansion in the Responsible Sourcing Programme took place in 2019, when we included Environmental, Social and Governance (ESG) issues. As well as my role as Non-Executive Chairman for LBMA, I am also a Fellow at the Cambridge Institute for Sustainability Leadership. As an economist and a former regulator, I continue to work personally to

raise awareness of the economic risks and opportunities that climate change poses to the world's financial system. I was therefore delighted to see LBMA's Responsible Sourcing Programme expanding ESG issues. A priority for the future is how we can better articulate what Responsible ESG looks like for the precious metals industry and how LBMA can best use its unique leverage to drive change. Other priorities include enhanced refiner reporting, further auditor training and support for the artisanal mining sector so that, as much as possible, it might become part of the 'formal' sector.

There are several refineries around the world, but only those that are accredited by LBMA are within scope of the Programme. Whilst the industry has made substantial progress on Responsible Sourcing since the LBMA Programme was introduced in 2012, there is still a lot of work to be done as a global community. I welcome all readers to review and give feedback on the work described in this report as well as on our strategic priorities for the future.

Paul Fisher
LBMA Chairman



CEO'S REPORT:

CREATING RESPONSIBLE Global Demand



Over the next three years, our mission is to drive continuous improvement of Responsible Sourcing standards and business practices to ensure a sustainable precious metals market. To achieve this, we have developed a three-year action plan focused on improving transparency and the integrity of the industry as a whole. Our strategic plan for Responsible Sourcing builds on the successes of the past and looks to create open, constructive dialogue about the outstanding challenges facing the precious metals industry.

Our Three-Year Strategic Action Plan focuses on LBMA's Refiner Audit Programme itself as well as global industry challenges. Work on our Audit Programme has three main sections: Environmental & Sustainability, Public Reporting & Communication and Enhanced Auditor Training. We are also investing in technology to see how it can help us deliver on our transparency and integrity objectives through our Gold Bar Integrity initiative.

As a champion for further industry change, there are two main priorities. The first is creating global Responsible Sourcing standards by working with precious metals exchanges and major markets around the world. A specific focus of this global engagement is enhancing controls and due diligence for recycled material. The second priority is creating real demand for responsibly sourced precious metals from Artisanal and Small-Scale Miners. Sourcing gold responsibly from high-risk and conflict-affected regions should be something that adds to a company's reputation. The cost of due diligence in these challenging environments, unfortunately, is often too high to sustain. The real cost, however, is borne by the 40.5 million people around the world who depend on Artisanal and Small-Scale Mining for their livelihood. If we are going to create demand for responsibly sourced material from high-risk and conflict-affected areas, we need to educate consumers on the right questions to ask to make a positive difference in the lives of these vulnerable people. And we need stakeholder support to communicate what responsible buying looks like and to celebrate companies that do the right thing.

Today, more and more downstream companies outside of the precious metals industry are relying on LBMA's Responsible Sourcing Programme. They find it a credible and efficient way to demonstrate they are meeting legal requirements and customer expectations around the world. The challenge for all of us is finding ways to work collectively and strategically to meet the growing demands of customers around the world.

In 2019, we launched Version 8 of the Responsible Gold Guidance. As Paul mentions, this was a major strategic expansion to include Environmental, Social and Governance (ESG) issues. This was only the beginning, as over the next year, we will be focusing on how we can work with mining companies to define high, credible standards for ESG.

Beyond ESG, 2019 saw the first round of Responsible Silver Audit Reports. As expected, some companies had a steeper learning curve than others, in particular, those refiners that do not also refine gold. But the overwhelming majority of refiners embraced this work as an important part of being an internationally accredited refiner. And for those that are already undergoing the process for gold and already have the systems in place, it was more a matter of there now being recognition for their systems. Creating more demand for Responsible Silver is harder due to media attention on gold, but it is part of our strategic plan.

Members of the LBMA, Newmont and World Gold Council team at the Cripple Creek & Victor Gold Mine in Colorado, United States.



ARTISANAL AND SMALL-SCALE MINING (ASM) and COVID-19 CALL TO ACTION

In our role of reviewing Good Delivery List (GDL) refiners' annual and ongoing compliance with the Responsible Sourcing Programme, there are two main tools. The first is the annual independent audit process. The second is the Incident Review Process. Together, these tools ensure that we are able to identify non-conformances as part of the audit process, but also ensure that we are monitoring allegations and issues that occur throughout the year. An example in the past year was the new US sanctions on the gold industry in Venezuela.

This report, gives you an overview of the work by LBMA as well as more detail on the findings of the annual audit process and the Incident Review Process. It also includes for the first time the Country of Origin of all gold and silver refined by each GDL refiner during the past year, broken down by type of metal: Large-Scale Mining, Recycled, and Artisanal Small-Scale Mining. This data is currently part of the annual audit report and is sense-checked by the LBMA Executive against available, reliable country production and country import data. Transparency is vital to creating credible standards. I welcome you to review LBMA's work over the last year and give feedback on the strategic priorities we have identified for the future.

Ruth Crowell
Chief Executive

Over the years, there has been a growing focus on ASM, with LBMA at its 2019 annual conference in Shenzhen, announcing its 'Call to Action' supporting the refining of gold from responsibly mined Artisanal and Small-Scale sources.

The refining industry is highly competitive, and the amount of available, non-captive feedstock means that ASM can provide a much-needed source of refining material. It is therefore clear that support for legitimate ASM initiatives is even more critical during the Covid-19 crisis and resulting higher gold prices. LBMA published a report entitled: *Emergency Support Needed for Artisanal/Small Scale Miners* in June 2020, which called on "...industry, government and civil society to urgently work together to support and protect these vulnerable communities".

LBMA is a project partner in the Responsible Artisanal Gold Solutions Forum (RAGS), which is a multi-stakeholder coalition seeking to address critical barriers to the production and trade of artisanal gold from the DRC. LBMA was actively engaged in developing the CRAFT (Code of Risk-mitigation for ASM engaging in Formal Trade) standard and fully supports initiatives enabling refiners to establish responsible, sustainable supply chains across all forms of mining.

LBMA has also developed an ASM Self-Assessment Questionnaire to aid refiners in their endeavours to source ASM gold.

1. RESPONSIBLE Sourcing

WHAT IS RESPONSIBLE SOURCING?

Responsible Sourcing is a commitment to ethical considerations by a company in all aspects of its procurement. By ensuring their suppliers adhere to comprehensive international standards, companies can positively improve their supply chains. Responsible Sourcing requires that firms go beyond financial, logistical and even reputational considerations, to take into account the wider impact of their own actions and those of their suppliers.

The OECD Due Diligence Guidance (OECD Guidance)* provides detailed recommendations to help companies define Responsible Sourcing: by respecting human rights and avoiding contributing to conflicts through their mineral purchasing decisions and practices. This does not mean avoiding all risk: companies can contribute to community growth by sourcing responsibly from conflict-affected and high-risk areas, by creating the enabling conditions for constructive engagement with suppliers. In doing so, companies successfully contribute to sustainable, equitable and effective development. Simply put, Responsible Sourcing means being a Responsible Global Citizen.

For LBMA, this means that the requirement of what goes into all bars produced by its Good Delivery List (GDL) refiners is as important as the standard of the final product. It was for this reason that LBMA established the [Responsible Sourcing Programme](#). By setting standards for refiners' mineral purchasing decisions and practices, the scope of the [Good Delivery List](#) has grown beyond the physical aspects of Good Delivery bars.

*OECD Due Diligence Guidance for *Responsible Supply Chains of Minerals from Conflict-Affected and High Risk Areas* (2010).

IN THIS SECTION

[What is Responsible Sourcing?](#)

[LBMA and The Good Delivery List](#)

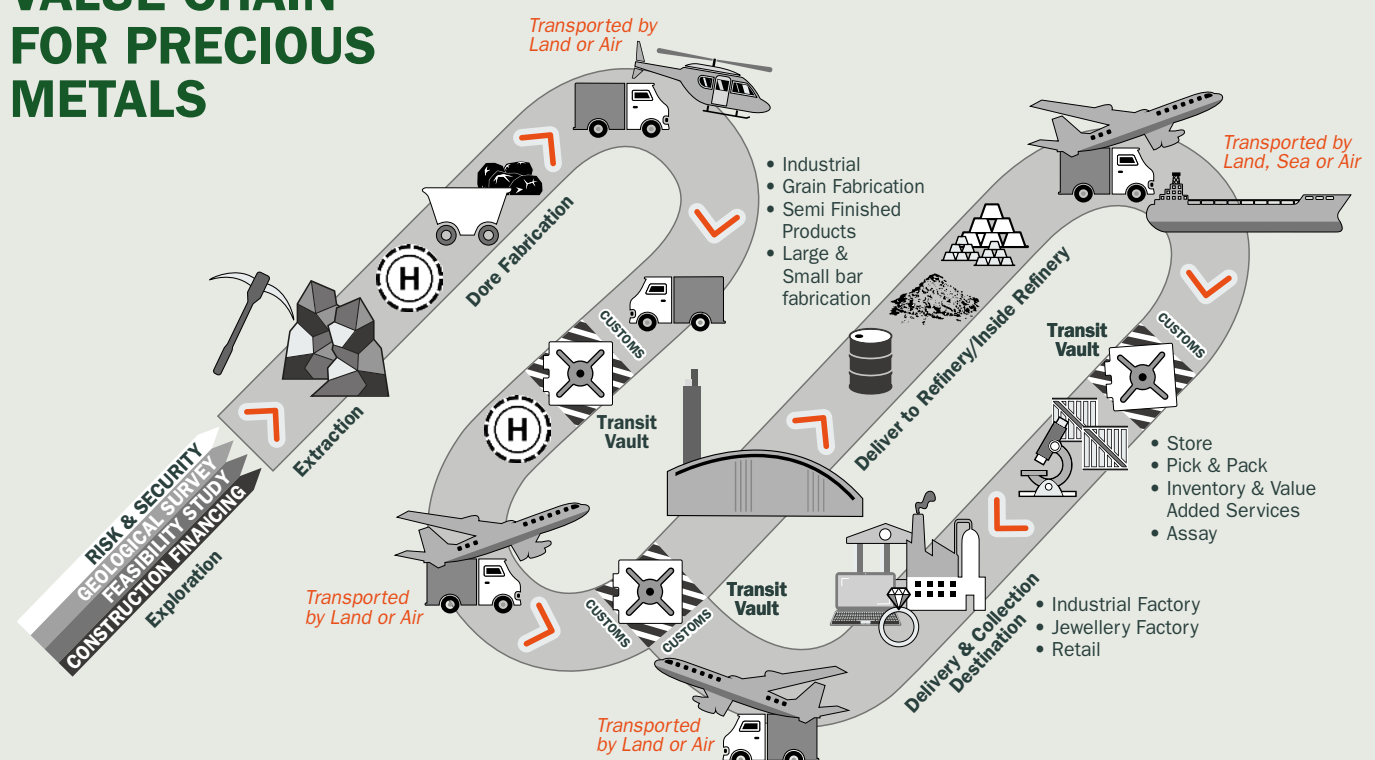
[LBMA's Responsible Sourcing Programme](#)

[Sourcing Gold and Silver](#)

[The Responsible Sourcing Ecosystem](#)

[Residual Risk](#)

VALUE CHAIN FOR PRECIOUS METALS



LBMA AND THE GOOD DELIVERY LIST

LBMA plays a key role on behalf of the global precious metals market to ensure business integrity by advancing standards, acting as a voice and champion for the market, and developing market solutions.

The Loco London Precious Metals Market (also known as 'Loco London') is the largest and oldest financial market for gold in the world, dating back to 1671. In terms of liquidity and market size, the average daily volume for the Loco London market is US\$60 billion a day, with more than \$550 billion stored in London vaults. 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, built on integrity and transparency.

This includes the three main standards that LBMA maintains:

1. The Good Delivery system, which covers metal quality and provides market participants with the assurance that their gold and silver bars meet the international requirements. Only gold and silver bars that meet the Good Delivery standards are acceptable in the settlement of a Loco London contract.
2. The Global Precious Metals Code, which covers the ethical trading of precious metals and applies to all participants actively trading in the Loco London precious metals market.
3. The Responsible Sourcing Programme, which covers the ethical sourcing of the metals and provides confidence in the market that all the gold sitting in the London vaults has been sourced responsibly.

Good Delivery List (GDL)

The GDL represents a list of refiners that are accepted in the international market. This is the global industry standard, licensed and recognised by exchanges, central banks and traders worldwide.

A refiner must comply and satisfy all of the following three requirements, not just at the point of application for the GDL, but on an ongoing basis.

Due Diligence Requirement – GDL refiners are subject to stringent checks regarding their history in the market and their financial standing.

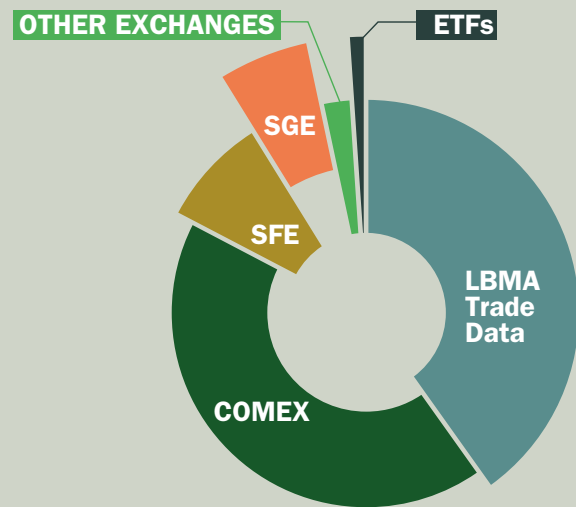
Bar Specification – the GDL refiners' bars must meet LBMA's exacting GDL Rules covering fine ounce weight, purity and physical appearance (including markings and surface quality).

Responsible Sourcing Programme – all GDL refiners must implement and adhere to LBMA's Responsible Sourcing Programme, through an independent annual audit.

Refiners that are accepted onto the GDL commit to responsibly sourcing all feedstock for their metal, refining it into Good Delivery bars (of approximately 400 troy ounces for gold and 1,000 troy ounces for silver) and shipping the bars to approved vaults in London. Bars are then freely traded between institutions within the market. All gold processed by the GDL refiners, and not just the GDL bars, meet the Responsible Sourcing requirements.

These refiners process the overwhelming majority of the world's annual mined gold production and LBMA Good Delivery accreditation allows them to deliver into the world's major financial markets for precious metals. The commercial benefit from being an accredited refiner helps to raise standards and trust across the global precious metals industry.

GLOBAL GOLD MARKET 2020 YTD \$138.44 billion



LBMA'S RESPONSIBLE SOURCING PROGRAMME (THE PROGRAMME)

LBMA's Responsible Sourcing Programme (the Programme) is the leading independent audit programme for verifying the legitimacy of the gold and silver supply chain. The Programme follows the five-step framework for risk-based due diligence of the OECD Due Diligence Guidance¹.

At its core, the Programme comprises the *Responsible Gold Guidance (RGG)*, established in 2012, and the *Responsible Silver Guidance (RSG)*, established in 2017.

Its original purpose was to set due diligence standards to help combat human rights abuses, contributions to conflict, money laundering and terrorism financing. Since the start of 2018, the Programme has also included environmental factors. Unlike other industry programmes, LBMA's Responsible Sourcing standard is a commercial necessity for any major refiner, as it allows access to Loco London, the largest marketplace in the world for precious metals. Loss of LBMA accreditation would have serious commercial consequences for refiners. Since the programme's launch, three refiners have lost their accreditation due to failure to meet Responsible Sourcing requirements. This is the ultimate sanction. LBMA will impose this sanction if there have been failures that cannot be remediated or if attempts at remediation have been significantly poor. GDL refiners which are found to be applying the Programme in good faith, but have not met a satisfactory standard in some respects, will generally be given a reasonable opportunity to raise their standards to the required level. This level of enforcement ensures that all GDL refiners meet the Responsible Sourcing requirements given that GDL covers most of the market.

LBMA'S RESPONSIBLE SOURCING PROGRAMME

is a commercial necessity for any major refiner. Loss of LBMA accreditation would have serious commercial consequences for refiners.

LBMA recognises that this audit process is only as effective as the auditors themselves. This is why the [LBMA's Approved Service Providers List](#) records the individual audit entities accredited to perform Good Delivery audits.

To become accredited, auditors must complete an application, under which they provide LBMA with details of their relevant experience, skills, and the firms quality control and governance processes.

Auditors are also required to demonstrate fulfilment of the requirements detailed in LBMA's *Responsible Sourcing: Third-Party Audit Guidance*. This helps to ensure that only the most competent auditors familiar with the precious metals supply chain and the importance of Responsible Sourcing are mandated with performing an audit under the Programme. Their accreditation and performance are reviewed on an annual basis to ensure they continue to meet LBMA requirements.

The outcome of the audit is not the only resource with that LBMA measures a refiner's compliance with the Programme.

Market intelligence is a fundamental resource that LBMA is able to draw on. Whistleblowing reports, media coverage and NGO research have all provided LBMA with valuable intelligence on refiners or their suppliers. LBMA welcomes stakeholders bringing concerns to its attention in order to enhance this work. LBMA will assess such information/evidence and make further enquiries, as required, or if warranted, launch a formal Incident Review Process. The IRP involves 11 steps to ensure a fair, accurate and reliable outcome. LBMA may publicly confirm if an IRP has been launched, provided it is new information and outside the annual audit cycle. For some non-conformances, the IRP can end with a refiner's removal from the [Good Delivery List](#). That could be severely damaging to a refiner's business, through diminished market access, and is the most severe potential outcome.

\$555
BILLION
OF GOLD

sitting in the London vaults all complies with LBMA's Responsible Sourcing Programme

July 2020: This number includes all forms and all bars present in the vault.

1. OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (2010) and the requirements detailed in the OECD Gold Supplement (2012).

SOURCING GOLD AND SILVER

Where do refiners source gold and silver from? This is extremely important as refiners have an obligation to perform tailored due diligence for every source of gold and silver that they accept for recovery and refining.

Mined Gold

Mined gold is gold that originates from mines (Large-Scale, Medium-Scale or Artisanal and Small-Scale Mines) and has never been previously refined. This term means any gold or gold-bearing material produced by or at a mine, in any form, shape and concentration, until it is fully refined (995 or greater), fabricated into a gold refiner product (e.g. bar, grain) and sold.

Large-Scale Mining (LSM)

LBMA relies on the OECD for the definition of Large-Scale Mining. Annex II of the OECD Guidance describes LSM as "...gold mining operations that are not considered to be artisanal or small-scale..."

In reality, most LSM involves huge, long-term investment in infrastructure by experienced, multinational operations in multiple global locations. Operational responsibilities to all stakeholders is fundamental to ethical operators. These companies tend to be listed entities with legal reporting obligations and rigorous governance frameworks. For the purpose of due-diligence, mined material emanating from LSM has well established logistics and supply chains. Some Large-Scale Mines can produce more than a million ounces of gold in a single year.

LBMA has developed toolkits to enable refiners to deal efficiently with Large-Scale Mines. It works closely with organisations such as the World Gold Council (WGC), the International Council on Mining and Metals (ICMM), and the Initiative for Responsible Mining Assurance (IRMA) to ensure that the various industry initiatives are aligned. In recent times, there has been an increasing focus on the Economic, Social and Governance (ESG) agenda, highlighting how the mining companies can work together with the refiners to address these issues.

Artisanal and Small-Scale Mining (ASM)

LBMA recognises the importance of engaging and maintaining relationships with Artisanal and Small-Scale Miners. This sector provides a livelihood for over 40.5 million people across the world.

LBMA supports all initiatives that endeavour to bring responsibly produced Artisanal and Small-Scale Mined gold into legitimate supply chains. Where and when possible, LBMA will actively become involved to benefit the industry.

Recycled gold and silver

Recycled gold and silver refers to metal that has been previously refined. This term traditionally encompasses anything that is gold-bearing and has not come directly from a mine (the first stage of the gold life cycle). In practical terms, recyclable material includes end-user, post-consumer products, scrap and waste metals, and materials arising during refining and product manufacturing, and investment gold and gold-bearing products.

This category may also include fully refined gold that has been fabricated into grain, Good Delivery bars, medallions and coins that have previously been sold by a refiner to a manufacturer, bank or consumer market, and that may thereafter need to be returned to a refiner to reclaim their financial value, or for transformation into other products (e.g. 1 kilo bars).

Recycled material can be strategically important for the industry. This is due to the increasing trend of downstream companies announcing decisions to accept recycled-only material in an effort to address their environmental commitments.

Recycled gold due diligence may vary significantly over the wide range of suppliers and materials that are commonly received and processed. This is because the risk of illegality or wrongdoing will be very different, supplier by supplier, material by material, by type and form, by value and by area of origin. For example, the risk of possible wrongdoing associated with scrap electronic circuit boards is less than the risk associated with scrap bullion jewellery, because the circuit boards have much greater bulk, have more traceability, require much more extensive processing and have a significantly limited market. Also the purity of electronic scrap is very much lower than jewellery. Therefore an attempt to mix contraband or conflict gold into the process would not only be detected but it would also greatly disrupt the processing of this material. Geography also plays a part: the risk of conflict bullion being mixed with scrap bullion jewellery collected in Kansas City is different than the risk if that scrap bullion jewellery has been collected in Kinshasa. Each source of material must be assessed for its local risk characteristics.

[See gold and silver flows to understand how much mined and recycled gold GDL refiners sourced in 2018.](#)

THE RESPONSIBLE SOURCING ECOSYSTEM

Although LBMA administers the Good Delivery system, ultimately the responsibility to ensure gold/silver is ethically sourced is shared across the entire industry and with the authorities in relevant jurisdictions. This means LBMA's Responsible Sourcing Programme is part of a wider ecosystem which has four key components.

1

Industry due diligence programmes seek to raise standards throughout the supply chain, whether at the mining, refining or retailing level. Their administrators, including LBMA, can enforce those standards should non-conformances be identified. The commercial and reputational power of the Programme helps to ensure their development and influence. Any GDL refiner that loses its accreditation by LBMA cannot sell its gold into major international markets, including Loco London, the largest financial market in the world for precious metals.

Industry programmes have limitations, however, in their legal authority, scope, applicability and in terms of supporting resources for enforcement. Hence, additional components are key to the functioning of the wider ecosystem. National authorities, downstream representation and stakeholder engagement are important for ensuring coverage in parts of the supply chain that industry programmes simply cannot reach.

2

National authorities, through regulatory change and law enforcement, provide the ultimate sanctions across the supply chain. Industry programmes can complement and expand these regulations by defining industry best practice and enforcing requirements globally by reaching refiners and supply chain actors outside of the reach of authorities' jurisdictions. LBMA collaborates with willing authorities to implement important recommendations in international bullion to help raise global standards. [See section 8: Future Development of the Programme.](#)

3

Downstream actors, including banks, electronics and jewellery companies, continue to collaborate with their suppliers to ensure that material is sourced and processed responsibly from beginning to end. Some can exercise significant influence and work with their supply chains to bring about change.

4

Other stakeholders are key to providing support and feedback to all parties in the industry. By identifying and escalating unique issues through investigative research, important support and feedback is gained by all parties in the supply chain.

“*Maintaining cross-border standards requires international co-operation between all industry participants and stakeholders, including national authorities.*”

Paul Fisher, LBMA Chairman

EACH OF THESE FOUR COMPONENTS OF THE ECOSYSTEM HAS ITS EXPERTISE AND ITS LIMITATIONS

Collaboration, intelligence-sharing and consultation are important to ensure the highest standards of due diligence for Good Delivery List refiners and for the wider precious metals industry.

RESIDUAL RISKS

LBMA's Responsible Sourcing Programme plays a fundamental role in providing trust and confidence in the global precious metals market. LBMA can effectively remove a refiner from the Good Delivery List (GDL) for Responsible Sourcing failures. Yet unauthorised material may still potentially find its way into the Good Delivery system. This is the residual risk arising from illegitimate activity.

This residual risk can arise under many circumstances, and mainly through the secondary/ recycled material market. Examples include:

- The inability to identify the ultimate origin of recycled material;
- Recycled material – potentially illegitimate – being re-refined by a non-GDL refiner, which is then sent to a GDL refiner;
- Fraudulent trading.

In summary, it's clear that there is potential for the origin of some material to be doubtful. The risks are heightened where recycled gold is coming from or through regions where the authorities are not appropriately supervising and enforcing due diligence requirements. For example, the risk of fraud can only effectively be addressed with support from national authorities and crime prevention units that have the powers to investigate and impose appropriate criminal sanctions to deter such practices.

Furthermore, the industry has seen a number of challenges with regards to Artisanal and Small-Scale Mining (ASM). Over the years, some refiners have disengaged given the high due diligence risks. Proactive engagement undoubtedly does involve risk. At the same time, disengagement with Artisanal and Small-Scale Miners, or aggregators, can have a devastating impact on local communities and economies, far outweighing the reputational or commercial concerns at stake. And gold from such communities may simply be re-routed to support the illegitimate market. There is no shortage of ASM material being produced, yet, as [section 5](#) details, very little is being processed through the GDL refiners. Where does that material end up?

There isn't a perfect solution. A global effort, amongst all the value chain actors, as well as national authorities, and law and enforcement agencies, is required to continue addressing the outstanding challenges and risks. LBMA is committed to working with all legitimate stakeholders but needs full engagement and co-operation as its own standards can only reach so far.

CREATING DEMAND FOR RESPONSIBLE ASM

There needs to be real downstream demand for responsibly sourced gold from Artisanal and Small-Scale Mining (ASM). If not, it is likely that such gold will support the illegitimate market. Sourcing gold responsibly from artisanal miners should be something that adds to a company's reputation. Currently, the opposite is true and these miners bear the highest costs as a result. While LBMA can help create and grow the supply of responsibly sourced ASM gold, downstream actors and other global stakeholders need to work collectively and urgently to create and sustain demand.

DEALING WITH RECYCLED MATERIAL

Given the challenges in due diligence, LBMA recognises that more needs to be done in order to address such risks, particularly for recycled metal.

This supports LBMA's focus on working with its GDL refiners and the relevant national authorities in the major 'recycled hubs' to call for higher and better standards that can be enforced.

This has resulted in LBMA developing recommendations for International Bullion Centres. [See section 8 on Future Development.](#)

2. PROGRAMME DELIVERABLES and Review

OVERVIEW

LBMA receives an audit report from a Good Delivery List (GDL) refiner for its previous 12 months' production. For example, during 2019, LBMA reviewed audit reports for 2018 production. Audit reports for each year's production are due within three months of the GDL refiners' financial year end.

Mandatory audit deliverables submitted to LBMA:

- Refiner's Compliance Report (Public)
- Independent Assurance Report (Public)
- Management Report
- Country of Origin Annex²
- Corrective Action Plan (if required)

In compliance with the OECD Due Diligence Guidance, Step 5 (reporting on independent third-party audits), refiners are required to submit to LBMA, and make publicly available, the Refiner's Compliance Report and related Independent Assurance Report in accordance with the ISAE 3000 standard.

LBMA is working on enhancing refiner reporting (Disclosure Guidance) for next year, so as to increase the quality and level of information publicly disclosed. See Section 8: Future Development Of The Programme.

The Disclosure Guidance aims to improve GDL refiner disclosure and reporting practices, seeking greater alignment with the OECD Step 5 requirements on public annual reporting, and more open and robust communication by the industry in general.

Refiner's Compliance Report

Refiners are required to publicly report on their compliance for activities over a 12-month reporting period in the Refiner's Compliance Report, with appropriate regard for security, proprietary information and the legal rights of the other supply chain actors. The Compliance Report should include a conclusion statement on overall compliance and state any non-compliance (other than low-risk deviations from conformance) that may have been identified during the audit process. The descriptions of the activities and conclusions contained within the Compliance Report are the subject of independent assurance.

Independent Assurance Report

The Independent Assurance Report is prepared by the third-party auditor and discloses details of the assurance engagement and the assurance conclusion.

The auditor may include an Emphasis of Matter paragraph to draw attention to the item(s) already disclosed in the Refiner's Compliance Report.

Management Report

The Management Report issued by the auditor is the formal mechanism for communicating observations to the refiner. The Management Report should include details on assurance findings and may also include specific observations with respect to the refiner's Corrective Action Plan and implementation progress.

Country of Origin Annex

The Country of Origin Annex lists the countries of origin and amounts of mined and recycled material received during the audit period, and is independently verified by the third-party auditor. The Annex is confidential and whilst available to LBMA, is not disclosed publicly. The data is collated and aggregated, and then published. See section 5: Country of Origin Data.

Corrective Action Plan

A Corrective Action Plan must be submitted if medium-risk or high-risk non-compliances are identified during the audit process. Refiners may also include low-risk non-compliances in the Corrective Action Plan to demonstrate a commitment to continuous improvement. The Corrective Action Plan should be reviewed by the auditor as part of their assurance testing.

“*Transparency is vital to the integrity of Responsible Sourcing, and LBMA is focused on improving disclosure standards. Refiners disclosure should provide insight on the success and challenges of its Management Systems. This demonstrates accountability and forms a basis for informed dialogue with stakeholders.*”

Sakhila Mirza, LBMA Executive Board Director

2. Since 2018 production.

RISK CATEGORISATION

The risk categorisation supports the LBMA review of all amend audit reports.

The Risk Categories are either objective, subjective or a combination of both. LBMA will use the risk matrix to help with the review of each refiner and the audit reports. It should be noted that various categories will be reviewed together to determine the overall risk profile of the refiner and should not be read in isolation. For example a refiner’s throughput might be low, but the material might be sourced from high-risk jurisdictions, and therefore LBMA will determine the refiner to have a high-risk business model.

REFINER RISK CATEGORISATION

LBMA has developed an internal tool to determine the appropriate level of scrutiny.

	RISK LEVEL		
	Low	Medium	High
Throughput (t)	10-50	50-100	> 100
Material Type	Industrial by-product; Conversion of London Good Delivery Bar	Scrap; LSM*	ASM**
Geographical Risk	Local	Regional	International
Market Intelligence	No Issues	Minor Issues	Known Issues
Location	As per country risk assessment		
Business model	As per business model assessment***		

*Large-Scale Mining. **Artisanal and Small-Scale Mining.
***This takes into account how a refiner is funded, controlled, owned, etc.

The rationale behind the Risk Categories and their rating (low, medium or high) is described below. A high-risk rating or a combination of medium risk ratings will require enhanced scrutiny.

Throughput

Risk increases in line with the amount processed. For example, a large throughput from multiple sources would be riskier than relatively small amounts from a single source.

Material type

Risk increases in line with the amount of due diligence required to determine the origin of the feedstock material. For example, grandfathered stocks from a financial institution would probably require less due diligence than material originating from multiple ASM sites.

Geographical Risk

Risk increases when a refiner sources material from regions that have different characteristics from the region that the refiner is based in, such as legislation, customs (import/export as well as traditions) and even language.

Market Intelligence

If a refiner is acting atypically, market intelligence can reveal riskier behaviour. For example, a refiner that has traditionally only sourced industrial by-products is now attempting to source mined material.

Location

For example, some refiners may be operating in higher-risk jurisdictions such as those with political instability, high crime rates or environmental sensitivities.

Business Model

This is a more subjective Risk Category, but a refiner may have a higher risk appetite if it relies on a certain input level to maintain viability. There is a finite amount of uncaptured/available material and the global refining industry is very competitive.

COUNTRY RISK CATEGORISATION

LBMA has also developed an internal Country Risk Categorisation based on publicly available sources combined with market intelligence.

	Description	Source
Category 1	Extreme Risk (US, UK, EU and UN sanctions)	Relevant List
Category 2	Dodd-Frank	Section 1502
Category 3	Conflict	Heidelberg Conflict Barometer
Category 4	Known Issues	Market Intelligence
Category 5	No Issues	

It should be noted that the above categorisations are used as guidance and are not definitive or exhaustive.

In the past year, LBMA took additional measures to leave no doubt with Good Delivery List (GDL) refiners on the rules around economic trade sanctions. These included issuing communications on the issue and bolstering the relevant sections in the latest version of the [GDL Rule Book](#).

LBMA expects all Members, Associates and GDL refiners to comply with relevant sanctions lists, as set out in Category 1 of LBMA's Country Risk Categorisation.



Boddington Gold Mine, courtesy of Newmont Corporation.

OUTCOMES

Once an audit review has been completed, the following outcomes are possible:

Pass

After the review, if no issues have been identified and/or all questions have been resolved, then a certificate is issued for next 12 months.

Zero tolerances

Any zero tolerances may lead to a GDL refiner losing its accreditation. This would mean that the refiner can no longer sell its material into London and/or the global market. A refiner would not be able to reapply for a minimum of five years.

Non-conformances: Corrective Action Plan

It is accepted under the [Programme](#) that the annual audit may identify a series of low, medium or high-risk non-conformances, provided the GDL refiner is acting in good faith. This encourages the requirement for continuous improvement, but also recognises changes in the GDL refiner's business model and risk profile. The GDL refiner should address any low-risk deviations from conformance as part of normal business practice and as part of its continuous improvement activities. Low-risk non-conformances should be addressed by the following year's audit.

When there are medium-risk or high-risk non-conformances, the GDL refiner is required to prepare a Corrective Action Plan (CAP). In cases where high risk non-conformances are identified, relevant follow-up audits are performed within 90 days of a CAP being issued, to confirm to a reasonable assurance level that the GDL refiner has taken adequate corrective actions to address these.

A certificate is only issued after the Corrective Action Plan has been implemented and a satisfactory follow-up audit has been completed.

Zero Tolerance: Non-compliances that put the credibility and integrity of LBMA's GDL system at risk are not tolerated. Any instances of zero-tolerance non-compliance will be reported by the auditor to those charged with governance at the refiner within 24 hours and communicated to the LBMA Chief Executive. The LBMA Executive will review each case in a timely and objective manner, and may remove the refiner concerned from the List of accredited Good Delivery precious metal refiners. Any of the following non-compliances are considered zero tolerances (the following list is non-exhaustive):

- Access is partially or fully denied to the auditor by the refiner;
- Precious metal-bearing material is identified that is associated with armed conflict, serious human rights abuses, financing of terrorism or money laundering;
- The refiner attempts to influence the outcome of the assessment through unethical means;
- Evidence is found that documentation has been falsified by the refiner, or with the knowledge and acceptance of the refiner, by any actor in the refiner's precious metals supply chain;
- The refiner fails to comply with local laws and regulations, or Environmental, Social and Governance (ESG) responsibilities.
- The refiner deliberately misrepresents facts through deception, coercion or interference; or
- Any other action or absence thereof by the refiner putting at risk the credibility or integrity of LBMA's system.

Special Audit

A Special Audit has a very specific focus and helps to provide a second opinion to confirm the GDL refiner's compliance with LBMA's Responsible Sourcing Programme during the reporting period. It can arise out of:

- queries resulting from Country of Origin data reported confidentially to LBMA;
- media allegations;
- whistleblowing;
- part of an Incident Review Process.

Under a Special Audit, LBMA selects the auditor, who is independent of the original auditor. LBMA required three GDL refiners to undergo Special Audits after their 2018 audits: one GDL refiner in Switzerland (see case study two) and two GDL refiners in Turkey (see case study three).

Mutual Recognition

LBMA recognises the importance of harmonising supply chain standards, and interoperability is key for supply chain due diligence schemes.

For this reason, LBMA considers GDL refiners' accreditation by certain industry schemes as evidence of their compliance with the Programme. While compliance with these external schemes does not provide automatic compliance with the Programme, the interoperable elements of the schemes ensure that refiners' efforts are not duplicated unnecessarily.

These industry schemes and standards include:

- OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, including the Supplement on Precious Metal;
- Responsible Minerals Initiative formerly the Conflict-Free Sourcing Initiative, in particular the Precious Metal Supply Chain Transparency – Refinery Audit Protocol;
- Responsible Jewellery Council, in particular the Chain of Custody Standard;
- World Gold Council Conflict-Free Gold Standard, in particular the Management Statement of Conformance Documentation that precious metal-mining companies provide to refiners;
- Fairtrade and Fairmined Standard for Precious Metal from Artisanal and Small-Scale Mining, including Associated Precious Metals;

In addition to recognising GDL refiners' efforts to comply with alternative due diligence schemes, LBMA works with these industry bodies to exchange market intelligence, Programme development suggestions and best practice considerations.

LBMA also works closely with the World Gold Council (WGC) on ensuring a smooth interface between the Programme and the WGC Responsible Gold Mining Principles (RGMPs), which provide a comprehensive framework of the key Environmental, Social and Governance (ESG) issues across the mine life cycle.

3. 2019 PROGRAMME UPDATE & Refiners' Responsible Sourcing Performance

IMPLEMENTATION OF ESG REQUIREMENTS

2019 was the first year for all [Good Delivery List \(GDL\)](#) refiners to implement the changes that were introduced in version 8 of the [Responsible Gold Guidance \(RGG\)](#).

To summarise, version 8 of the RGG expanded the definition of due diligence by requiring refiners to not only assess risks identified in the OECD Due Diligence Annex II, regarding money laundering, but also to include an assessment of the Environment, Social and Governance (ESG) responsibilities.

Under step one, of the RGG, the refiner's due diligence for its supply chain must include a policy that extends to ESG requirements. Under this step, refiners are asked to strengthen ESG engagement with gold-supplying counterparties and, where possible, assist gold-supply counterparties build due diligence capacities. This would also capture the use of mercury in Artisanal and Small-Scale Mining (ASM), with the expectation that GDL refiners assist in establishing processes to eliminate its use.

Under step two, refiners must assess the risk in the supply chain, which includes assessing the environmental policies and practices of the producers, both in relation to Artisanal and Small-Scale Mining (ASM) and Large-Scale Mining (LSM). The guidance also gives more detail on this assessment, depending on the nature of the material being sourced (ASM/LSM).

Under step three, once the risks have been identified, the refiner is required to make sure it has a management strategy to respond to identified ESG risks. GDL refiners are also required to provide evidence of their sustainability policy and its effect on any associated initiatives throughout their supply chain.

Audit reports reflecting implementation of these changes will be submitted in 2020 and discussed in more detail in the next Annual Report.

GDL REFINERS' 2019 PERFORMANCE

In 2019, no GDL refiner was moved to the Former List for failure to comply with the Responsible Sourcing Programme.

Whilst there were several escalations during the year, each one was addressed appropriately, with full co-operation from the GDL refiner in question. As highlighted earlier, LBMA relies on two important processes to help identify Responsible Sourcing issues. Firstly, the annual reports, and the information provided in these reports, will flag non-conformances. Also, market intelligence, media reports and credible NGO reports may provide information that will then instigate an Incident Review Process (IRP).

Gold – non-conformances

2019 saw an overall increase in medium-risk and high-risk non-conformances for responsible gold audits. The two high-risk non-conformances for gold related to one GDL refinery based in the Europe & Africa Country of Origin category (see case study one). All medium-risk non-conformances for gold related to two different GDL refineries based in the Americas and were escalated to the Compliance Panel. LBMA engaged with the auditors and both GDL refiners throughout the development of Corrective Action Plans to ensure appropriate timescales

were agreed before issuing 2018 RGG certificates. No zero-tolerances were reported in 2019.

Silver – non-conformances

As 2018 was the implementation year for silver GDL refiners, the 2019 reports highlighted a high number of non-conformances for silver. This was expected, as several silver-only GDL refiners were implementing new controls and going through the audit for the first time. We expect to see these numbers trend down as silver GDL refiners fully embed systems in their operations and work towards continuous improvement. However, no zero-tolerance non-conformances were identified, which confirms the commitment that each GDL refiner has in trying to achieve full compliance with the international standards.

As is expected for gold, all silver high-risk non-conformances were addressed within 90 days.

Non-conformances raised		Low Risk	Medium Risk	High Risk	Total
GOLD	2018	29	8	2	39
	2017	37	2	0	39
	2016	33	5	0	38
	2015	46	4	1	51
SILVER	2018	64	44	24	134

COMMON THEMES OF MEDIUM AND LOW-RISK NON-COMPLIANCES

GOLD TOTAL NON-COMPLIANCES = 39



Below is a breakdown of the most common types of non-conformances raised against the five steps of the RGG and RSG.

SILVER TOTAL NON-COMPLIANCE = 132



COMMON THEMES

Communication and acknowledgement of supply chain policy. For example, a silver refiner had issued formal communication to only some suppliers. All new counterparties were subsequently made aware of the refiner's supply chain policy, and the requirement was included in the onboarding procedure. It is important to note that all new counterparties must be updated on the refiner's supply chain policy as part of the onboarding process.

Communication of confidential grievance mechanisms. For example, a silver refiner had not established a robust internal communication mechanism to allow employees to voice concerns related to the silver supply chain. An anonymous hotline was subsequently introduced so that employees could escalate concerns in a safe environment. This is essential so that employees are able to escalate concerns in a safe environment.

Staff supply chain training programmes. For example, a refiner had not put a comprehensive programme on due diligence practices in place. An annual precious metals supply chain training programme was implemented for all staff involved in this activity.

Maintaining adequate records. For example, a gold/silver refiner, in occasional instances, had not requested all the due diligence documentation required. All files were subsequently updated to include the required documentation.

Limited formalisation of criteria for risk assessment procedures. For example, the risk matrix did not include evaluation of systematic or widespread human rights abuses associated with the extraction, transport or trade of gold and silver. The risk matrix was updated immediately to reflect these risks.

It is important to note, a certificate for compliance with the Programme would only be issued where satisfactory assurance was provided that the non-conformances were addressed within appropriate timescales.

CASE STUDIES

Over the next few pages, five gold related case studies are highlighted. These provide summaries of the review and follow-up actions taken.



ITALPREZIOSI – Case Study One: Re-Audit of 2018 Production

LBMA's Compliance Panel rejected the first 2018 RGG audit submitted by the GDL refinery due to a lack of confidence in the findings. LBMA consequently appointed a different Approved Auditor for a re-audit, who identified two high-risk non-conformances relating to steps 1 and 2 of the RGG. This broadly required formalisation of the due diligence processes and clarity on roles and responsibilities as well as escalations. This also triggered the requirement for a Corrective Action Plan to then be followed up with another audit within 90 days. LBMA also visited the GDL refinery to discuss how the non-conformances were being addressed as a high priority.

The GDL refiner was fully engaged throughout the process and was transparent in its disclosure. After the final re-audit, and through review by the Compliance Panel, LBMA issued a RGG certificate to confirm compliance. The 2018 re-audit and follow-up audit, together with the 2019 certification, were positively achieved and are available on LBMA's website.



VALCAMBI – Case Study Two: Special Audit re UAE Country of Origin

The 2018 data included a significant increase in recycled gold sourced from the United Arab Emirates (UAE). Given that LBMA classes the UAE as a high-risk jurisdiction, the report was escalated to the Compliance Panel. LBMA required a Special Audit focused on the GDL refiner's transactions of materials received from the UAE in 2018. The Special Audit did not detect any non-conformances. The auditor concluded that the GDL refiner's 2018 Compliance Report, in all material respects, described fairly the activities undertaken during the year to demonstrate compliance. LBMA issued the 2018 RGG certificate in December 2019. The 2018 Special Audit report is published on LBMA's website.



ISTANBUL GOLD REFINERY AND NADIR METAL RAFINERI – Case Study Three: Special Audit re Venezuelan Gold Allegations

In May 2018, the USA imposed trade and economic sanctions on Venezuela. Subsequently, LBMA received an anonymous grievance from a whistle-blower and a number of third-parties, following prominent news stories alleging that Venezuelan gold was exported to Turkey for refining/conversion to help bypass the sanctions. In order to be able to refute any link to the Turkish refiners on the GDL, an independent auditor was engaged to undertake a limited scope engagement of the Turkish GDL refiners, based on the ISAE standards.

The scope of the audit was limited to the matter of confirming that there had not been any trade or business of gold between those GDL refiners and Venezuela. The audit sought to confirm the completeness and accuracy of the public statements and the Country of Origin data provided by the GDL refiners as part of their original 2018 audits. This review also included an assessment of the management systems and controls to confirm whether the GDL refiners were able to comply with the requirements on an ongoing basis.

The independent audits confirmed that those GDL refiners had not sourced from or traded with any entities dealing with Venezuelan gold.

MMTC PAMP – Case Study Four: IRP re media allegations on personal injuries

LBMA invoked an IRP in June 2019 in response to the human rights and environmental allegations relating to the North Mara mine in Tanzania (formerly owned by Acacia Mining).

As part of the review, LBMA spoke to a number of relevant stakeholders and obtained verification where possible. LBMA was satisfied that the due diligence undertaken by the GDL refiner was reasonable and that appropriate measures were put in place by the refiner to prevent and mitigate potential and actual adverse impacts. In particular, LBMA welcomed the refiner's joint appointment of expert consultants to undertake an independent assessment of the North Mara mine to help further ascertain remediation steps. There was positive co-operation from the refiner throughout, which kept LBMA informed of the scope of assessment and any relevant additional information. It was noted this was a high-risk mine and all parties involved were working towards improving the conditions, notwithstanding the challenges.

**LBMA'S STARTING POINT FOR GDL REFINERS IS THAT
DISENGAGEMENT FROM SUPPLIERS SHOULD BE CONSIDERED
AS A LAST RESORT, AND ONLY WHERE THE ADVERSE IMPACT
IS IRREMIEDIABLE AND THERE IS NO PROSPECT OF CHANGE.**



GOLD – Case Study Five: IRP re Cuba Country of Origin

The name of the refinery cannot be disclosed, as Country of Origin data is confidential and sensitive.

This IRP concluded that no zero-tolerance or non-conformances had occurred and that appropriate measures had been put in place to prevent and mitigate potential and actual adverse impacts. It was confirmed, with a separate legal opinion that no relevant economic and trade sanctions had been violated. However, LBMA took the opportunity to further clarify the requirements on economic and trade sanctions. The refiner in question was also asked to undergo a follow-up audit. This follow-up audit helped to confirm that the refiner had taken steps to terminate its relationship with the Cuban entity. Whilst there was not a breach, it was important for this relationship to be terminated in order to remove any potential for Cuban gold to end up in the international supply chain.

4. 2019 AUDITOR REVIEW and Updates

OVERVIEW

LBMA's Responsible Sourcing Programme is only as good as the audit process and the auditors themselves. Ongoing review and enforcement of LBMA's Approved Auditor requirements are important elements for the credibility of the Programme. LBMA engages with auditors through training sessions, webinars and robust quality control.

QUALITY CONTROL

LBMA's ongoing scrutiny helps ensure that Approved Auditors meet the stringent standards expected of them as set out in the [Responsible Sourcing: Third-Party Audit Guidance \(Audit Guidance\)](#).

The OECD Due Diligence Guidance mandates the auditor as the party responsible for checking that the GDL refiner is applying the right level of due diligence required for a counterparty, rather than the industry programme provider such as LBMA.

The auditor's procedures are based on the output of their planning and risk assessment of the business model and the risk profile of the GDL refiner, which is unique for each engagement. LBMA puts significant efforts into reviewing the audit reports received, and will often challenge an auditor and ask for more information based on this scrutiny. In certain circumstances, LBMA will engage with the auditor to draw their attention to information learned about potential risks associated with a refiner's supply chain.

The *Audit Guidance* notes, under Auditor Qualification, that the auditor (also referred to as the Approved Service Provider) must be able to fulfil include the following requirements:

Independence: The service provider must have complete financial and other independence from the GDL refiner. In particular, the auditing body shall not provide services for the GDL refiner related to the design, establishment or implementation of the GDL refiner's precious metals supply chain practice for a period of at least 24 months prior to the engagement.

Institutional capacity: The service provider must have adequate organisational capacities including:

- A robust system of quality control, including at least the minimum requirements for independence, conflicts of interest, ethics and audit quality control reviews to be followed;
- The capacity to process appeals and/or handle complaints.

In addition, auditors are required to detail in the Auditor Application Form their quality assurance and conflicts of interest policies, and explain how they comply with the various core principles, which include ethical conduct, due professional care, independence and integrity. Where any of these aspects come under disrepute, the auditor is removed from the Approved Service Providers List. In such circumstances another audit can also be requested.

IN 2019, LBMA TOOK STRINGENT MEASURES TO ENSURE THE ONGOING CREDIBILITY OF THE AUDIT PROGRAMME:

- Removal of one audit entity from the Approved Service Provider List due to a lack of confidence in their assessment of risk.
- Removal of four audit entities from the [Approved Service Provider List](#) for not meeting the eligibility criteria. This also included auditors who were unable to successfully transition to the ISAE 3000 standard. This requirement became mandatory for all audits of financial years starting on or after 1 January 2019.
- Removal of one lead auditor from a firm on the Approved Service Provider List due to poor performance.

AUDITOR TRAINING

LBMA collaborates closely with the Responsible Minerals Initiative (RMI) and Responsible Jewellery Counsel (RJC) to identify opportunities for joint training of auditors.

In June 2019, a full-day advanced auditor training course was held in London in conjunction with the OECD, RMI and RJC to provide enhanced focus on the OECD Due Diligence Guidance and an opportunity for auditors to ask questions. The requirement for this training came from the OECD Alignment Assessment and the European Commission wanting further assurances on the quality of the audit reports.

In August 2019, LBMA launched a free interactive training module on the OECD Due Diligence Guidance. The module was developed by ELEVATE in collaboration with the RMI and RJC, and is available on LBMA's website. To date, the module has been accessed from LBMA's website 300 times. Further joint online auditor training opportunities are being discussed for roll out in 2020/21.

“ I welcome the opportunity to make the processes employed by the Physical Committee and the LBMA Executive more transparent, and available to all of the market participants that rely on this effort. This is fundamental in providing confidence over the sourcing of the products that we are all buying and selling. ”

Ian Warman,
Chairman of LBMA Physical Committee

FUTURE DEVELOPMENT

In 2020, LBMA teamed up with an independent auditor as well as external training provider Synergy Global to co-develop an Auditor Competency Framework to support the ongoing management of competencies and professional development of LBMA auditors.

This will further equip auditors with the knowledge and skills to continue to push for better standards and exercise appropriate challenge by better understanding precious metals supply chain risks.

The monthly *Responsible Sourcing Newsletter* introduced in January 2020 and the *Responsible Sourcing & Technology Virtual Summit 2020* also provide auditors with additional ways to stay abreast of the latest developments in the precious metals market.

LBMA REVIEW 2019

LBMA reviews these criteria to make sure auditors remain independent and have appropriate capacity, as well as robust quality assurance policies and procedures.

Where there have been issues identified against auditors, LBMA will revisit these criteria and check to ensure the auditor remains compliant.

An updated Approved Service Provider List for 2020 was published in late 2019. This followed LBMA's extensive review of each auditor by the Compliance Panel which is undertaken annually. As a result, two additional new criteria were introduced. Each auditor's mandate is now restricted to:

- geographic remit (global, regional, national), i.e. where in the world they can perform an audit; and
- scope of engagement. For example, some auditors can only audit if the GDL refiner only sources domestically.

Guidance from the Physical Committee, which collaborates closely with the LBMA Executive on Responsible Sourcing matters, was sought during the auditor review process. The Committee provides a crucial role in ensuring that the Approved Auditors List can continue to be relied upon to provide confidence to the market.

The measures provide an additional control to ensure that the most appropriate auditor is appointed to suit a GDL refiner's business model. However, the restrictions can be changed and/or removed, if the auditing firm can demonstrate that it has implemented a development plan that addresses the restrictions.

5. COUNTRY OF ORIGIN

Data for 2018*

WHERE DOES THE METAL COME FROM AND WHERE IS IT BEING REFINED?

*The data represents submissions from 2018/2019, depending upon the financial year end of the refiner.



LSM



ASM

Mined Gold

- Large-Scale Mining (LSM)
- Artisanal and Small-Scale Mining (ASM)



RECYCLED

Recycled Gold and Silver

- Scrap
- Grandfathered Stock

Gold Flow Transparency

Responsible Sourcing Audits performed in 2019 for 2018 production must contain a confidential annex that details where every kilogram of gold was sourced from and the type of process used to produce it.

This information has enabled LBMA to produce a matrix showing where gold is produced against where gold is refined.

The data is provided on a confidential basis and therefore a method has been developed. In order to respect the source data, destination countries and regions were grouped according to the following:

1. Countries that have four or more refiners can be listed as the individual country
2. Regions with only one refiner will be grouped with the nearest geographical region
3. Countries have been excluded from the region that would fall under the first criteria to avoid double accounting
4. Known or expected Good Delivery List (GDL) changes have been considered to enable trends to be studied (Applications, new listings and removals).

Whilst the numbers for LSM are comparable to the official numbers (approximately 92% of LSM production is refined through a GDL refiner), the amount of known ASM production being refined through these refineries is negligible.

The origin numbers can be compared to the official, known output of a Country and the destination numbers can be compared to the import data of a Country where the material is to be refined, although this may be harder to determine for Regions.

It is mandatory for refiners to supply refined output on an annual basis to LBMA. This has also enabled a ‘sense-check’ to be performed. As this is the first year that the sourcing data has become available, it was necessary, in some cases, to clarify numbers with the refiner.

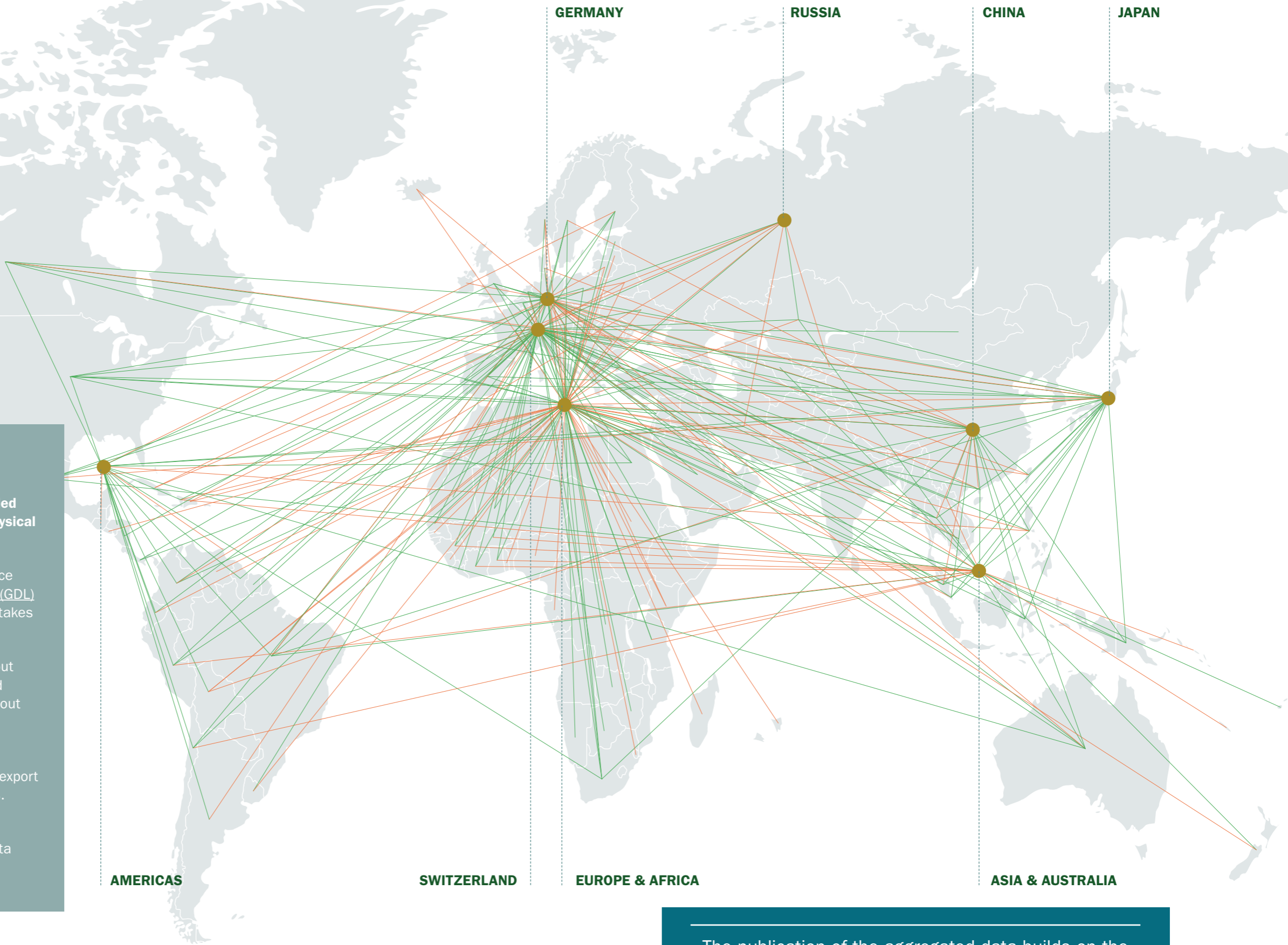
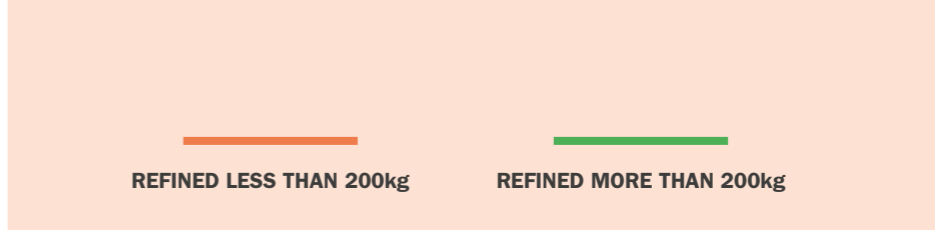
This has resulted in the following groupings:

Country/Region	Gold Refiners	Silver Refiners
China	13	26
Germany	5	5
Japan	11	13
Russia	6	6
Switzerland	5	4
Asia & Australia	13	10
Europe & Africa	9	11
Americas	9	8
Total	71	83

Silver Flow Transparency

The same process as that used for gold was used to produce the silver matrix. In the case of silver, however, ASM sourcing is less significant.

SOURCE to Refiner



Country of Origin Data (CoO) data adds credibility to LBMA's Responsible Sourcing Programme in many ways and the data provided gives a fascinating insight into the global, physical flow of gold and silver.

The data enables LBMA to state with confidence that it knows exactly where Good Delivery List (GDL) refiners get their feedstock from, what form it takes and how much they receive.

CoO data can be compared to the refined output of a refinery to ensure that no 'alchemical' bad practices are taking place (you can't get more out than you put in!).

The numbers can be compared to known data sources such as mine production data, import/export numbers and Country-specific economic figures.

The data can be shared/discussed/analysed with well-respected data sources and other data vendors.

The publication of the aggregated data builds on the transparency and disclosure initiatives of the LBMA.



LSM



ASM



RECYCLED

The smaller icons represent countries that refined less than 200kg.

REFINERY LOCATION

PLACE OF ORIGIN





LSM



ASM



RECYCLED

The smaller icons represent countries that refined less than 200kg.

REFINERY LOCATION



CANADA



CHINA



GERMANY



JAPAN



RUSSIA



SWITZERLAND



ASIA & AUSTRALIA



EUROPE & AFRICA



AMERICAS

PLACE OF ORIGIN

	CANADA	CHINA	GERMANY	JAPAN	RUSSIA	SWITZERLAND	ASIA & AUSTRALIA	EUROPE & AFRICA	AMERICAS												
AFRICA	 21078	 281	 1			 4	 26255	 11161	 11	 1838	 63824	 17471	 413								
EAST ASIA	 99	 2340882	 1378105	 3381	 3649	 1770736	 910	 1583	 31030	 60	 289264	 2266	 15810								
EURASIA					 7239	 2	 4178	 2706	 833	 791	 2713										
MIDDLE EAST	 20905	 12703	 3684	 806	 1957	 2	 4322	 20537	 23	 14255	 145404										
SOUTH & SOUTH EAST ASIA	 1703	 19139	 103244	 9924			 8710	 389	 87375	 87590	 20190										
EUROPE	 960	 103447	 1	 1622300	 71171	 6174	 644305	 331400	 676	 518486	 92918	 31015	 1323046	 1416825							
AMERICAS	 1524030	 163859	 2504453	 3084	 336	 74366	 120785	 11186	 4973	 46	 42	 701954	 1345	 856	 2322885	 50	 238258	 460444	 19458	 3698039	 543826
OCEANIA	 4013	 52485	 192	 30	 26		 10652	 40	 79526	 989	 33820	 8878									

6. PROGRAMME

Governance

PROGRAMME MANAGEMENT

The Responsible Sourcing Manager (RSM) is responsible for the day-to-day running of LBMA’s Responsible Sourcing Programme, supporting the development of the Programme and reporting into the General Counsel. The General Counsel has ultimate responsibility for the Programme strategy, leading the Incident Review Process and chairing the Compliance Panel.

The RSM is the first point of contact for all Responsible Sourcing queries, dealing directly with stakeholders and also refiners and auditors to ensure a consistent application of the Programme.

The RSM works with the GDL team, headed by the Chief Technical Officer (CTO), to review the annual audits, address issues and, where appropriate, escalate issues to the Compliance Panel. The RSM is also responsible for reviewing and managing the [Approved Service Provider List](#), by ensuring that the auditors are adhering to the [Audit Guidance](#) and maintaining regular contact with them. Any issues with the Approved Service Provider List are escalated to the Compliance Panel.

COMPLIANCE PANEL

As part of the Programme management, a Compliance Panel has been established. The Panel convenes every 4-6 weeks, depending on the agenda, to discuss any escalations arising from the first level review by the RSM and CTO.

Its purpose is to monitor adherence to the Programme, review zero-tolerance non-compliance immediately and risks and incidents emanating from the Responsible Sourcing Audits, as well as address any concerns and issues. In addition, the Compliance Panel also reviews the performance of the auditors and ensures they remain suitable as an Approved Service Provider. When an incident has been raised, the Compliance Panel may consult the Physical Committee, which will provide industry intelligence for guidance. The Compliance Panel will also determine when to raise an Incident Review Process, and a full comprehensive report will be submitted to the LBMA Board independent Non-Executive Directors and the Executive Directors, to review and make final determination. Redacted versions of the IRP report will also be issued to the Physical Committee and the Board.

LBMA PHYSICAL COMMITTEE

LBMA’s Physical Committee comprises representatives from the physical services delivered within the precious metals market, which include the Chair of the Vault Managers Group. The representatives from the Bank of England are appointed as independent observers of the Committee’s work.

The Committee is primarily responsible for monitoring, developing and enforcing the [Good Delivery List](#). With an emphasis on continuous improvement and transparency, the Committee works to improve disclosures, scrutiny and risk management of both LBMA and the wider market. The Committee aims to ensure that the integrity, quality and standards set by the Good Delivery List are maintained, which involves collaboration with the LBMA Executive on all matters relating to the Programme and refiners’ compliance.

DECISION MAKING

The ultimate decision to remove a GDL refiner for Responsible Sourcing failures lies with the Executive Board directors as well as the independent Non-Executive Directors (NEDs) of the Board. Elected members of the Board are not involved in any decision involving refiners on the Good Delivery List.

The LBMA Board is chaired by an independent NED and comprises two additional independent NEDs, six market representatives and two LBMA Executive Committee members (Chief Executive and General Counsel). The role of LBMA Board is to set the strategic and business vision for LBMA. The overall aim of the Board is to enhance the governance and achieve the performance of LBMA’s short and long-term objectives in full support of its membership’s needs.

LBMA’s Executive Committee ultimately oversees the development and implementation of the Responsible Sourcing Programme and Strategy. The Executive Committee ensures that the Programme management and governance remains appropriate.

7. WHISTLEBLOWING and Incident Review Process

It is vital that Good Delivery List (GDL) refiners develop and publicise a mechanism allowing any employee or external stakeholder to anonymously voice concerns about the precious metals supply chain. LBMA encourages stakeholders, including GDL refiners and their employees, third-party service providers, members of civil society, affected communities and other interested parties (GDL stakeholders), to anonymously report information against an organisation in the GDL supply chain.

WHISTLEBLOWING PROCEDURE

LBMA’s Whistleblowing Policy enables GDL stakeholders to report illegal activities, wrongdoing or malpractice occurring throughout the GDL supply chain.

However, where GDL stakeholders are directly affected by the matter in question, or where GDL stakeholders feel victimised for escalating the concern, the matter may be raised to LBMA confidentially under the whistleblowing process, anonymously. [Please visit LBMA website for more details.](#)

INCIDENT REVIEW PROCESS

The Incident Review Process (IRP) comprises 11 steps for LBMA to take in response to any incidents.

All GDL refiners are monitored continuously; therefore, the IRP is an effective tool to address issues that arise between the annual audits. This escalation may come from a variety of sources, such as industry press and civil society. LBMA will seek corroboration wherever possible; however, due to the sensitivities involved, LBMA may keep the information received under the process confidential.

Led by the General Counsel, the process is designed to ensure a thorough and fair review of refiners’ activities and involves follow-up communications with the auditor, refiner and any other relevant stakeholder related to the incident.



Each step within the IRP is a high priority for LBMA. Upon receipt of information indicating any incident that may impact the credibility of the [Good Delivery List](#) and the wider precious metals market, the Compliance Panel reviews whether to instigate the IRP. The refiner, as well as LBMA's Physical Committee and London Precious Metal Clearing Limited (LPMCL), will then be notified of the identified issue before LBMA publicly notifies the market via its website. LBMA may also contact pre-identified stakeholders, NGOs, press contacts and downstream market participants to help with the review.

LBMA will urge the refiner to demonstrate transparency on the allegations reported, publicly. LBMA requests the refiner to disclose the challenges and identified risks, and how those risks have been mitigated, as well as what further action the refiner is taking.

Following these initial communications, LBMA will undertake another thorough review of the refiner's audit report, contextualised by the alleged incident. LBMA will then communicate closely with the refiner and the auditor as part of an extensive information-gathering exercise to determine whether there is any evidence of the issues raised. Should it be required, LBMA will engage external counsel to advise on any legal implications raised by the incident.

Given that the process involves numerous stakeholders to verify the information, it is difficult to conclude an average lifespan of each incident reviewed under the IRP. However, it must be viewed as an iterative process, particularly in situations where new information is produced or a situation escalates. In this scenario, LBMA may revisit an IRP to ensure that the issues identified are reviewed prudently.

The outcome of an IRP can involve a refiner being removed from the Good Delivery List. Other outcomes include an independent auditor developing a Corrective Action Plan for the refiner's future activities, or a re-audit of the refiner's activities that were originally reviewed.

Once an outcome has been agreed, LBMA will mirror its earlier communications strategy to ensure all relevant parties are informed of the decision made.

IRP SUPPORTS the review of issues in between Audit Reports

ENFORCEMENT

The ultimate sanction that LBMA can impose is to move the refiner to the Former List.

The Former List includes GDL refiners whose bars are no longer accepted as Good Delivery by the London bullion market. For more information on the Former List, please visit the [LBMA website](#).

It is important to note that any bars produced by these refiners prior to their transfer to the Former List on the date given continue to be acceptable as London Good Delivery.

“The Incident Review Process supports LBMA's Responsible Sourcing Programme, adding credibility by ensuring that our GDL refiners strictly adhere to our stringent guidelines and requirements.”

Sakhila Mirza, LBMA Executive Board Director and General Counsel

LBMA welcomes stakeholders to bring concerns to its attention in order to enhance the work.

8. FUTURE DEVELOPMENT of the Programme

The Responsible Sourcing Strategy re-affirms the LBMA’s commitment to the implementation of the OECD Due Diligence Guidance with the intention to position LBMA as a leader for the continuous improvement of standards to ensure a sustainable precious metals market.

LBMA has identified five focus areas, which will underpin the priorities for the Responsible Sourcing Programme for the next three years. These are central to building long-term trust and credibility in the industry globally.

STAKEHOLDER ENGAGEMENT

LBMA has sought the views of our key stakeholders on priorities, objectives and actions through bilateral conversations, participation in constructive external events such as Swiss Gold Day and through ongoing engagement with collaborative initiatives and partnerships such as with the RMI, RJC, WGC, ICMM and the RAGS Forum.

The *Responsible Sourcing & Technology Virtual Summit 2020* presented a further opportunity, by way of webinars and blog posts, to actively invite stakeholder viewpoints around the challenges facing the precious metals market and to explore the role of LBMA in facilitating solutions.

LBMA intends to further consult with stakeholders, to understand how best to develop the three year strategy and ensure it supports the integrity of the Programme.

LBMA calls on National Authorities, Civil Society, Industry Bodies and any other stakeholders to provide feedback on the Priorities that have been identified over the next few pages, as well as on the recommendations that are being developed for International Bullion Centres to support and adopt (see page 32) and the strategic direction of the programme.

It is imperative that stakeholders engage with LBMA, to help with the development of the Programme. To find out more, please get in touch with Sakhila Mirza, LBMA Executive Board Director and General Counsel, who is responsible for the Programme strategy – mailto: affairs@lbma.org.uk.

“*The development of a three-year Responsible Sourcing Strategy has given us the perfect opportunity to take a step back and look holistically at our Programme and how we could better meet the needs of our stakeholders including our membership, refiners, investors, civil society, governments and of course the OECD.*”

Ruth Crowell, CEO

FOCUS AREA 1: Value chain accountability – building leverage

Objective:

Build the awareness, trust and mutual confidence of stakeholders in the precious metals value chain to increase accountability and enhance collaboration

Key actions:

- Host the Responsible Sourcing & Technology Summits to convene stakeholders in constructive dialogue
- Cooperate with other international organisations on issues of common interest (e.g. law enforcement)
- Collaborate with partners, national authorities and other markets around the world to continue to advance standards for the common good of the global industry
- Publish the Miner's Annex to support the upstream community's due diligence efforts
- Engage with key value chain actors to better understand their needs

Key deliverables:

- International Bullion Centre Recommendations
- Virtual Responsible Sourcing Summit
- Miner's Annex
- Bullion Bank Reporting
- Increase awareness and capacity of key value chain actors

FOCUS AREA 2: Advancing standards – defining best practice

Objective:

Advance Responsible Sourcing standards and business practices to strengthen refiners' risk assessment practices and provide more focus on progressive risk mitigation

Key actions:

- Provide regular updates to refiners and auditors on issues relating to the Responsible Sourcing Programme
- Publish updated versions of the gold and silver *Responsible Sourcing Guidance* documents (including a Refiner's Toolkit), in consultation with stakeholders, which build and improve upon previous versions
- Facilitate technology solutions to strengthen the integrity of gold bars in the market

Key deliverables:

- Updated versions of Responsible Gold Guidance and Responsible Silver Guidance
- Update the Refiner's Toolkit
- Refiner's Training Programme, reflecting the various OECD Annex II risks.

INTERNATIONAL BULLION CENTRES – RECOMMENDATIONS

As the global authority for precious metals, LBMA has developed recommendations for International Bullion Centres to adopt in order to support global responsible gold supply chains. The scope of the International Bullion Centres recommendations focuses on the following strategic priorities:

- responsible sourcing of recycled gold,
- controlling cash transactions and mitigating the risk of potential money laundering, and
- support for legitimate Artisanal and Small-Scale Mining (ASM).

LBMA will be calling on pre-identified International Bullion Centres to support five key recommendations, that will focus on effective scrutiny and verification of local and regional supply chains; effective regulation of local and regional supply chains; effective enforcement powers; effective co-operation with local, regional and international organisations; and the development of ASM specific guidance to support and further legitimate ASM supply. More detail will be provided later in Q4 of 2020.

FOCUS AREA 3: Transparency – improving disclosure and reporting

Objective:

Enhance disclosure against Step 5 of the Responsible Sourcing Programme to improve the transparency of the precious metals supply chain

Key actions:

- Implement a programme to improve disclosure by GDL refiners
- Implement an enhanced grievance mechanism
- Implement a programme to improve LBMA disclosure

Key deliverables:

- Refiner's Disclosure Guidance
- Management Guidance for refiners
- Improving Grievance Policy and tracking system
- LBMA Responsible Sourcing Annual Report

FOCUS AREA 4: Audit Programme – enhancing credibility

Objective:

Strengthen the robustness of Step 4 of the Responsible Sourcing Programme to improve confidence in the assurance process

Key actions:

- Review the accreditation process of the [Approved Auditors List](#)
- Implement a programme to enhance the technical competencies and subject matter knowledge of auditors

Key deliverables:

- Auditor Training and Competency Framework
- Update of *Responsible Sourcing: Third-Party Audit Guidance*

FOCUS AREA 5: Artisanal Small-Scale Mining (ASM) – engaging responsibly

Objective:

Encourage and facilitate responsible engagement by refiners in the precious metal supply chains of Artisanal and Small-Scale Mining

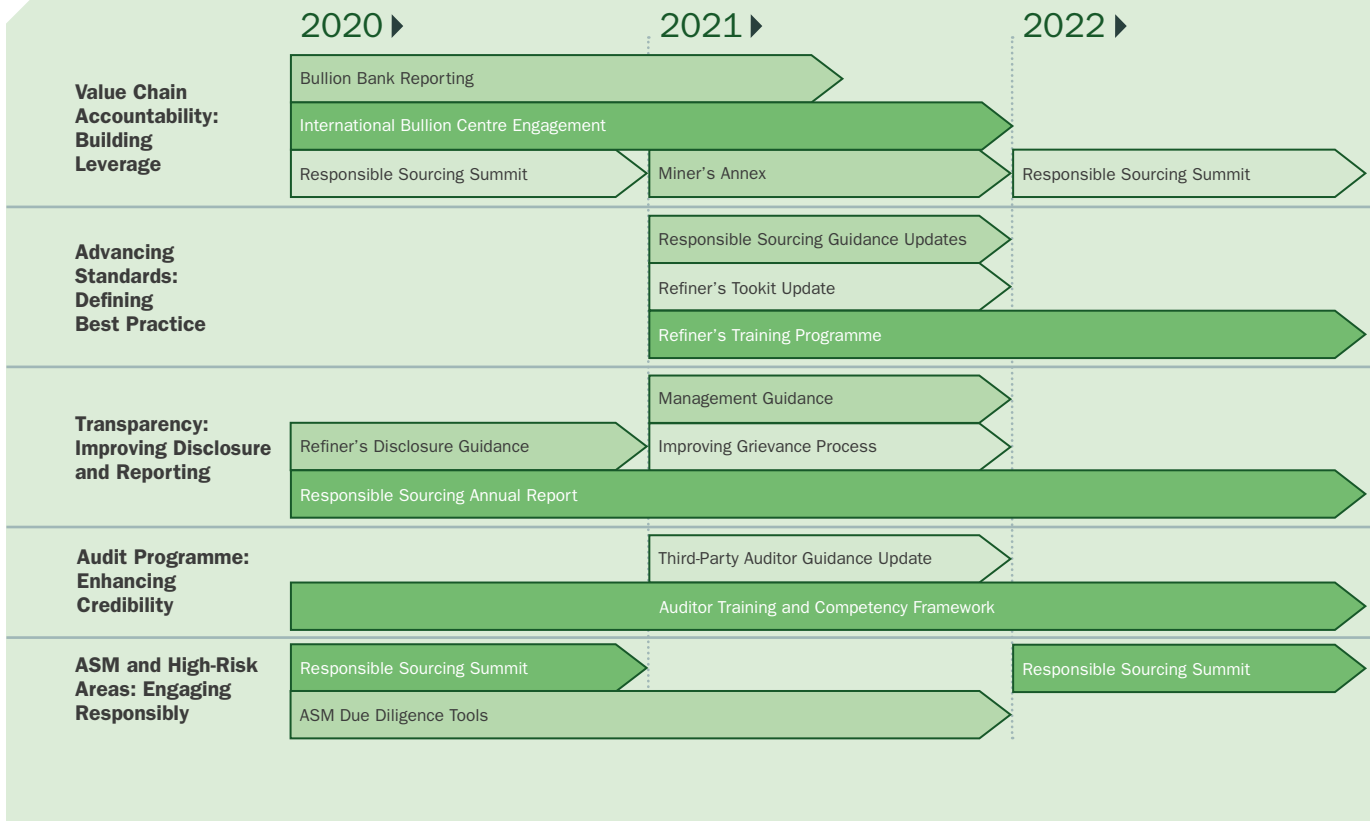
Key actions:

- Convene ASM Working Group to identify practical ways to address challenges of sourcing from ASM and high-risk areas
- Educate refiners on the risk mitigation aspects of the OECD Due Diligence Guidance
- Collaborate with national authorities, NGOs and other industry initiatives to promote the legalisation and formalisation of ASM

Key deliverables:

- ASM Due Diligence Tools – COVID-19

TIMELINE FOR DELIVERABLES



9. LBMA Outreach in 2019

Throughout 2019, the LBMA Executive undertook extensive outreach across the world to inform, educate and engage key stakeholders on the [Responsible Sourcing Programme](#).

By attending events hosted and attended by stakeholders from across the supply chain, LBMA can not only raise the profile of the Programme but also gather valuable feedback.

Participation in roundtables, panels and workshops allows LBMA to meet stakeholders from whom it can learn how to best develop the Programme. It is important to raise awareness, to share lessons learnt and to discuss improvements. These events are useful to allow for collaboration, but also to then provide updates on how the feedback has been reflected.



DATE	EVENT	HOST	LOCATION	REPRESENTATIVE
February 2019	Responsible Sourcing Summit	Responsible Business Alliance	Berlin, Germany	CEO
	Blockchain: Regulation and the Law	GLG Events	London, UK	Executive Board Director
	Investing in African Mining	Indaba	Cape Town, South Africa	CEO and Chief Technical Officer
April 2019	From Past to Present in the Gold Markets	European Gold Forum	Zurich, Switzerland	Executive Board Director
	Forum on Responsible Mineral Supply Chains	OECD	Paris, France	CEO, Executive Board Director, Chief Technical Officer
	Responsible Minerals Dialogue	Tech UK	London, UK	Executive Board Director
	Global Summit	Shanghai Gold Exchange	Xi'an, China	CEO
June 2019	Asia Pacific Precious Metals Conference	Singapore Bullion Market Association	Singapore	Executive Board Director
	IPMI Conference	International Precious Metals Institute	Nevada, USA	Chief Technical Officer
	OECD-Borsa Istanbul Joint Training Workshop	Borsa Istanbul	Istanbul, Turkey	Executive Board Director
August 2019	India International Gold Convention	Foretell Business Solutions	Amritsar, India	Executive Board Director
September 2019	Mining Investment Forum	Spire Events	London, UK	Executive Board Director
	Conflict Minerals Round Table	Department for Business, Energy & Industrial Strategy	London, UK	Executive Board Director
October 2019	Responsible Sourcing Workshop	LBMA	Shenzhen, China	Executive Board Director, Chief Technical Officer, Responsible Sourcing Manager
	Conflict Minerals Regulation Update	Austrian Mint	Vienna, Austria	CEO
	Trust in Business Forum	OECD	Paris, France	CEO
November 2019	Precious Metals: Integrity, Transparency, Clearing, FX Week	FX Markets Europe	London, UK	CEO
	IPMI Europe Seminar	International Precious Metals Institute	Lisbon, Portugal	Chief Technical Officer
December 2019	Economic Survey of India	OECD	New Delhi, India	Executive Board Director
	Swiss Gold Day	SECO	Bern, Switzerland	Chief Technical Officer, Responsible Sourcing Manager

Appendices

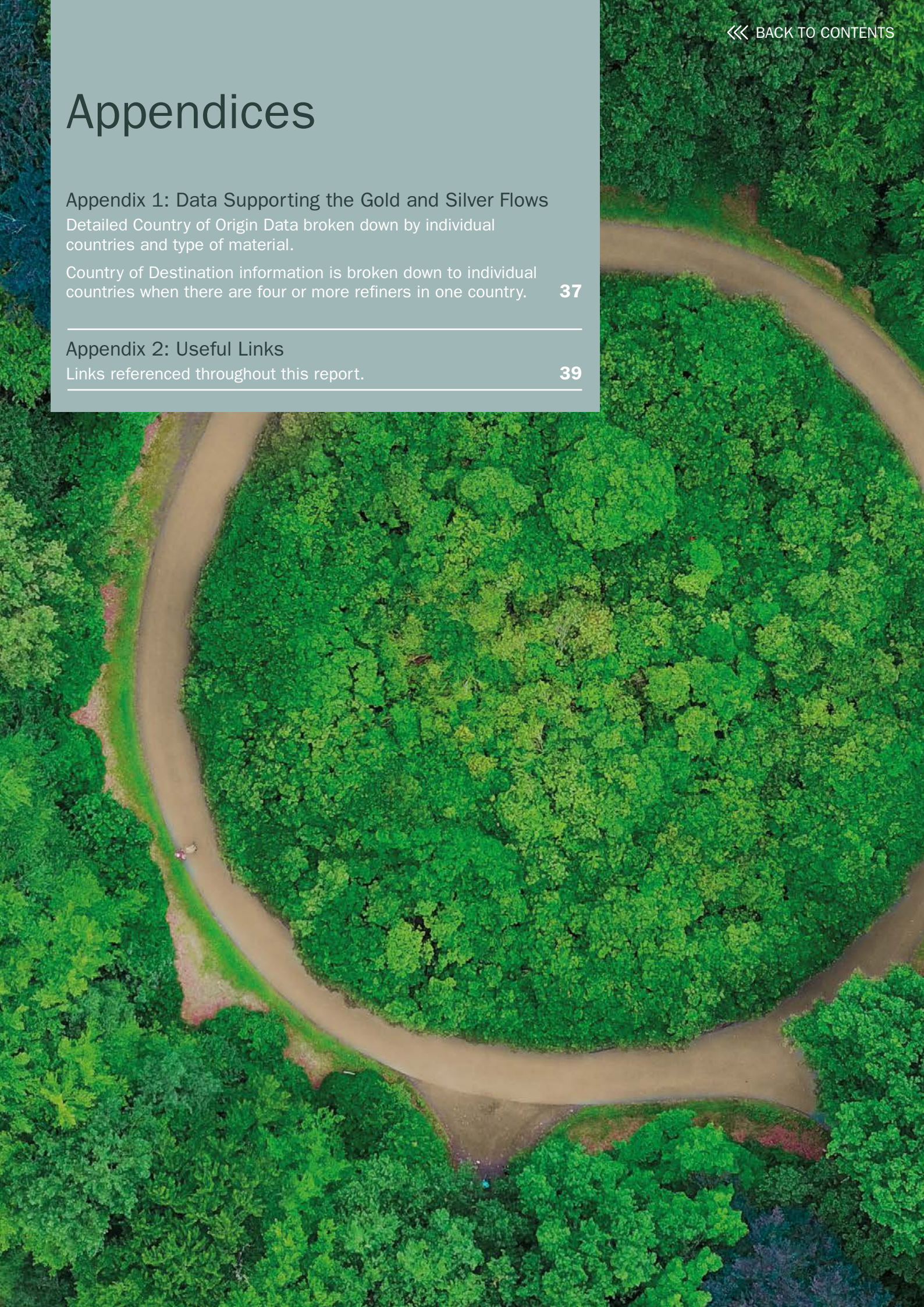
Appendix 1: Data Supporting the Gold and Silver Flows

Detailed Country of Origin Data broken down by individual countries and type of material.

Country of Destination information is broken down to individual countries when there are four or more refiners in one country. **37**

Appendix 2: Useful Links

Links referenced throughout this report. **39**



Appendix 2

Useful Links

Auditor Documentation and Approved List of Auditors

<http://www.lbma.org.uk/auditors>

Global Precious Metals Code

<http://www.lbma.org.uk/global-precious-metals-code>

Good Delivery Lists

<http://www.lbma.org.uk/good-delivery-list>

Good Delivery Rules

<http://www.lbma.org.uk/good-delivery-rules>

LBMA report in Calling on Support for Artisanal/Small Scale Miners

<http://www.lbma.org.uk/emergency-support-needed-for-artisanal-small-scale-miners>

Responsible Sourcing Programme and Guidance Documents

<http://www.lbma.org.uk/guidance-documents>