

LBMA Responsible Gold Guidance

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Introduction

LBMA has setup a Responsible Gold Guidance for good delivery refiners in order to combat serious abuses of human rights, to avoid contributing to conflict, to comply with high standards of anti-money laundering and combating terrorist financing practice. This guidance formalises and consolidates existing high standards of due diligence amongst all LBMA Good Delivery Refiners.

This guidance follows the five steps framework for risk based due diligence of the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High Risk Areas adopted on 15 December 2010.

Scope

All refiners producing LBMA good delivery gold bars (“Refiners”) must comply with this LBMA Responsible Gold Guidance in order to remain on the LBMA Good Delivery List.

Definition

AML-CFT: Anti-money laundering – combating the financing of terrorism.

Contribution to conflict: Contribution to armed aggression between two or more parties which leads to human rights abuses. The parties in the conflict may include government, militia, organised criminals or terrorist groups.

Grandfathered Stocks: Gold investment products (ingots, bars, coins, and grain in sealed containers) held in bullion bank vaults, central bank vaults, exchanges and refineries with a verifiable date prior to 1 January 2012, which will not require a determination of origin. This includes stocks held by a third party on behalf of the listed entities.

Human right abuse: Genocide, ethnic cleansing or widespread instances of (a) sexual abuse of men, women and children (b) torture, (c) enslavement, (d) trafficking of persons, (e) multiple unlawful killings or (f) the worst forms of child labour.

Mined gold: Gold that originates from mines (large-scale, medium-scale or artisanal/small scales 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 refinery product (e.g., bar, grain), and sold.

Money laundering: Money laundering is the practice of disguising the origins of illegally-obtained money. Ultimately, it is the process by which the proceeds of crime are made to appear legitimate. The money involved can be generated by any number of criminal acts, including drug dealing, corruption and other types of fraud. The methods by which money may be laundered are varied and can range in sophistication from simple to complex.

Politically exposed person: Individual who is or has been entrusted with prominent public functions, for example Head of State or of government, senior politician, senior government, judicial or military official, senior executive of state owned corporations, important political party official, or individual who is closely related to such person.

Recycled Gold: Gold that has been previously refined. This term traditionally encompasses anything that is gold-bearing and has not come directly from a mine in its first 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 refinery to a manufacturer, bank or consumer market, and that may thereafter need to be returned to a refinery to reclaim their financial value.

Terrorist financing: terrorist financing includes the financing of terrorist acts, and of terrorists and terrorist organizations.

Verifiable Date: A date which can be verified through inspection of physical date stamps on products and/or inventory lists. Requirements applicable to Refiner's Grandfathered stocks with a subsequent date, or without a verifiable date, are the same as for other gold-bearing material; a refiner must provide the same level of source/mine documentation.

STEP 1 - Establish strong company management systems

1. Adopt a company policy regarding due diligence for supply chains of gold.

Refiners should adopt a gold supply chain policy which is consistent with the Model Policy set forth in Annex II of the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.

The policy should cover at least the following topics:

- Scope
- Organisation and responsibilities
- Criteria for high risk gold supply chain
- Supply chain due diligence, inclusive of the Know Your Customer process
- Monitoring of transactions
- Maintaining records
- Training

2. Set up an internal management structure to support supply chain due diligence

Refiners' internal management system should collect and maintain documentation regarding the sources of Mined Gold, Recycled Gold, Existing Gold Stocks or any other feedstock, in order to ensure that they have not financed conflict, have not participated in abuse of human rights or money laundering nor financed terrorism at any point in the supply chain. The general outline of a best practice for such a structure is as follows:

- Assign authority and responsibility to Senior Management with the necessary competence, knowledge and experience to oversee the supply chain due diligence process;
- Ensure availability of resources necessary to support the operation and monitoring of these processes;
- Put in place an organizational structure and communication processes that will ensure critical information, including the company policy, reaches relevant employees and suppliers
- Ensure internal accountability with respect to the implementation of the supply chain due diligence process

3. Establish a strong internal system of due diligence, controls and transparency over gold supply chains, including traceability and identification of other supply chain actors

Supply chain traceability system

Refiners should introduce a supply chain traceability system that collects and maintains supply chain information for each lot refined.

Maintaining records

Refiners should maintain adequate records of the supply chain documentation, as requested on step 2, section 2 (assess risks in light of the standards of their supply chain due diligence system) in order to

demonstrate that appropriate and on-going due diligence has been followed. These records are required to be maintained for at least 5 years following the end of the Refiner's fiscal year. .

Training

Refiners should develop an on-going gold supply chain training program for all staff involved in the gold supply chain.

Gold Supply Chain Officer

Refiners should nominate a Compliance Officer who reports to Senior Management.

The Compliance Officer is responsible for all matters regarding the gold supply chain. In particular, he reviews the gold supply chain due diligence and assesses if the due diligence is adequate and requests additional documentation or information if necessary. He ensures that appropriate measures are executed in case of high risk supply chains or transactions. He is also responsible for the training of the employees with respect to the responsible supply chain, to prepare and update the gold supply chain policy and to give proper information to the Senior Management in order for them to perform their duties.

4. Strengthen company engagement with suppliers, and where possible, assist suppliers in building due diligence capacities

Refiners should ensure that their gold suppliers commit to, and acknowledge in writing the compliance with, a supply chain policy consistent with Annex II of the OECD Due Diligence Guidance Model Policy for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.

5. Establish a company-wide communication mechanism to promote broad employee participation and risk identification to management

Refiners should develop a mechanism allowing any employee to voice concerns over the gold supply chain or any newly identified risk.

STEP 2 - Identify and assess risk in the supply chain

1. Identify risks in the gold supply chain

For both Mined Gold and Recycled Gold, Refiners should identify in accordance with Annex II of the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas, the following risks associated with the supply chain from the point of origin to the Refinery regarding:

- Serious abuses associated with the extraction, transport or trade of gold
- Direct or indirect support to non-state armed groups
- Public or private security forces
- Bribery and fraudulent misrepresentation of the origin of gold
- Money laundering
- Payment of taxes, fees and royalties due to governments.
- Money laundering risk and terrorist financing risk
- Contribution to conflict risk
- Human right abuse risk

2. Assess risks in light of the standards of their supply chain due diligence system

Supply chain due diligence

In order to map the supply chain and assess the risks effectively, Refiners should perform supply chain due diligence following a risk based approach before entering into business relationship with any gold supplier.

For Mined Gold, the supply chain due diligence should be done on each Company involved in the chain from the mine to the Refinery, including gold traders, exporters and transporters.

For Recycled Gold the supply chain due diligence should be performed for the Company from whom the Recycled Gold is purchased and from the transporters.

The supply chain due diligence measures should comprise the following:

- Identifying each company of the chain and verifying their identity using reliable, independent source documents, data or information;
- Identifying the beneficial owner of each company in the chain;
- Checking that each company in the chain and their beneficial owners are not named on any government lists for wanted money launderers, known fraudsters or terrorists;
- Obtaining business and financial details with regard to the company and information on the purpose and intended nature of the business relationship;
- For Mined Gold:
 - Identifying the origin of the gold and verifying such origin with reliable documents, data or information;
 - Obtaining mining license, if applicable;
 - Obtaining import/export gold license, if applicable;
 - Collecting and assessing mining practice;
 - Obtaining data on mining capacity;
- For Recycled Gold, collecting and assessing the Recycled Gold supplier's AML-CFT policy and practices,
- On-site investigation/visit for high risk supply chain aimed at substantiating the documentary supply chain due diligence findings;
- Conducting on-going due diligence on the gold supply chain.

Refiners should apply each of the supply chain due diligence measures described above but may determine the extent of such measures on a risk sensitivity basis depending on the type of company, business relationship, transaction type, location of the company or transit zone. For higher risk categories, an enhanced due diligence should be performed.

Refiners should determine their own criteria for high risk supply chain. However, the following minimum criteria should be considered for high risk categories:

- The Mined Gold or Recycled Gold originates from, has transited or has been transported via a conflict-affected or human right abuse high risk area;
- The Mined Gold is claimed to be originated from a country that has limited known reserves, likely resources or expected production levels of gold;
- The Recycled Gold comes from a country where gold from conflict-affected and human right abuse high-risk areas are known, or reasonably suspected to transit;

- A company in the gold supply chain is located in a country representing high risk for money laundering, crime or corruption;
- A company in the gold supply chain or its beneficial owner is a politically exposed person;
- A company in the gold supply chain is active in a higher risk business activity such as arms, gaming and casino industry, antique and art, diamond merchants, sects and their leaders.

Monitoring of transactions

The Refinery should conduct appropriate scrutiny and monitoring of transactions undertaken through the course of the relationship so as to ensure that the transactions are consistent with the refiner's knowledge of the supply chain and risk profile. Monitoring of transactions should be undertaken by applying a risk based approach.

In this context, the Refinery should receive and document the following information for each lot received:

- For Mined Gold:
 - Identification of each company in the supply chain
 - Bar list with weights and assay results
 - Export form
 - Import form
 - Shipping/transportation documents (Waybill, airway bill, pro-forma invoice)
- For Recycled Gold:
 - Description of the merchandise
 - Packing list with weights and assay results
 - Export form
 - Import form
 - Shipping/transportation documents (Waybill, airway bill, pro-forma invoice)

Refiners should verify that the documents are consistent with each other and with its knowledge of the supply chain. The background of transactions which are not consistent should be examined and the findings established in writing.

3. Report risk assessment to designated Senior Management

Senior Management retains the ultimate control and responsibility for the gold supply chain. Senior Management will carefully select and supervise the Compliance Officer and gives him the necessary means to perform his duty.

Senior Management should approve each new supply chain assessed as high risk and should revisit each year the decision to whether to continue with these business relationships or not.

STEP 3 - Design and implement a management strategy to respond to identified risks

1. Devise a strategy for risk management of an identified risk by either (i) mitigation of the risk while continuing trade; (ii) mitigation of the risk while suspending trade or (iii) disengagement from the risk

If the result of the gold supply chain due diligence concludes that there is money laundering, terrorist financing, contribution to conflict, human right abuses, or if the possibility of the same is deemed too high, the Refinery should stop immediately to refine gold from this provenance.

If the result of the gold supply chain due diligence concludes that it is possible that there is money laundering, terrorist financing, contribution to conflict or human rights abuse, the Refinery should suspend refining gold from this provenance until it can obtain additional information/data confirming or refuting the preliminary assessment.

Where the result of the due diligence is not fully satisfactory but the assessed company in the supply chain is using reasonable and good faith effort, refiners can continue to refine gold coming from this source provided that it adopts an improvement strategy stating clear performance objectives within a reasonable timeframe.

2. Where a management strategy of risk mitigation is undertaken, it should include measurable steps to be taken and achieved, monitoring of performance, periodic reassessment of risk, and regular reporting to designated senior management

The improvement strategy described in section 1 above should state clear performance objectives, including qualitative and/or quantitative indicators in order to measure improvement. A reasonable deadline should be communicated.

The advancement of the plan should be reviewed regularly and the results communicated to Senior Management.

On the deadline, an assessment should be performed in order to determine if the measures have been properly taken. Senior Management should be informed of the results and decide whether to continue dealing with this supply chain.

STEP 4 - Arrange for an independent third-party audit of the supply chain due diligence

Auditor Requirements

Refiners should have their gold supply chain management systems and practices audited by independent and competent third parties, who may include governments.

Audit Procedures

The audit process will be conducted in accordance with the requirements of the international non-financial assurance standards ISAE 3000, SSAE 10 or ISO 19011:2002 standards.

Audit report:

The audit report should include an attestation that:

- The Auditors possess the professional qualifications required;
- The Auditors are independent of the management, staff or shareholders of the audited refinery;
- The Auditors have carried out their audit in accordance with a national or international non-financial assurance standards ISAE 3000, SSAE 10 or ISO 19011:2002 standards;
- The Auditors assessment on the compliance with the LBMA responsible gold guidelines.

In addition, Auditors should make recommendations in the audit report for the refiner to improve their gold supply chain practice.

Audit periodicity:

A full audit will be carried out to ensure refiners are meeting the requirements of the guidance. After successfully passing a full audit without instances of non-compliance, refiners will conduct a reduced audit (audit review) for two years. A full audit will be required every three years; however some refiners may choose to conduct a full audit of every year. The required audit frequency will increase if instances of non-compliance are identified or if there is a significant change of circumstance in the refiner's supply chain. When a full audit is not being carried out, an audit review should be conducted within one year after the closing of the financial books.

Submission of Audit Report to LBMA

Both full audit reports and audit review reports should be submitted to the LBMA Chief Executive via email or hard copy on an annual basis.

STEP 5 - Report on supply chain due diligence

Companies should publicly report on their gold supply chain due diligence policies and practices, with appropriate regard for security, proprietary information, and the legal rights of the other supply chain actors.

Companies should therefore make available to the public their company policy regarding gold supply chain together with the audit report on the compliance with these guidelines.