



ICE Benchmark Administration

Executive Summary for Gold Price RFP

CONFIDENTIAL

1. Executive Summary

- 1.1. ICE Benchmark Administration's ('IBA') proposal to manage the Gold Price is based on extensive discussions with participants of the Gold market. These discussions have shown that there are five elements that are important to the market in a new administrator: Governance, Market Involvement, Process, Tools and Commercials. In response to the feedback, our proposal provides a unique combination of:
 - Governance, oversight and surveillance from the world's most experienced administrator for regulated benchmarks;
 - Ongoing guidance from the London Bullion Market Association and the market through the Oversight Committee, the forum that brings together representatives of all stakeholders to ensure the Gold Price process will continue to fulfil the needs of the market. The Oversight Committee is responsible for decisions that affect the evolution of the process based on changes in the market and regulatory environments;
 - An electronic, physically settled auction, with live interest shown, and orders taken in multiple currencies;
 - Tried and tested tools (WebICE) for participants to manage their risk in the process – for Front Office, Compliance and Credit Risk; and
 - A fair and sustainable fee structure, designed to encourage direct participation from a diverse cross-section of market participants and broad use of the price as a benchmark.
- 1.2. IBA's application of these five elements would ensure the integrity of the Gold Price while de-risking the process for participants.
- 1.3. Our proposed process is a physically settled, electronic, tradeable auction with the ability to participate in three currencies. Aggregated gold bids and offers are published in real-time, with the imbalance calculated, and the price updated, every 30 seconds. Should the net volume of all participants fall within the pre-determined tolerance at the end of a round the auction will be complete, with all volume tradeable at that price.
- 1.4. This will be run on our WebICE platform which provides real-time order management as well as separation of house and client orders, live credit limit controls, a full audit history, advanced Excel integration and automated deal notifications. Traditional clients such as miners, refiners, jewelers and central banks can choose to become a direct participant and deal anonymously in the gold auction. Alternatively, if sponsored by a direct participant, they can be given their own screens and manage their own positions by trading through their sponsor.
- 1.5. One of the key benefits of WebICE is its ability to allow clients to participate in the auction process with the same information and order management capabilities as the direct participants. This reduces both operational and regulatory risk for direct participants, even before increasing the number of direct participants or moving to a centrally cleared model. WebICE's advanced capabilities for separation of house and client orders can help firms to avoid potential conflicts of interest.

- 1.6. Unlike other candidates, we do not outsource any aspect of the role of administrator. We take full responsibility for all aspects of the job so that our focus is on supporting the market. There will be no distractions and disagreements that can accompany joint ventures put together solely to win an RFP.

Unique Experience with Benchmark Regulation

- 1.7. The Fair and Effective Markets Review announced their proposal on 25th September that the Gold fixing process may become regulated under UK benchmark regulation, effective from April 2015. This makes it likely that the participants and administrator would be regulated under the FCA's Market Conduct (MAR) Sourcebook (MAR 8.2 and MAR 8.3).
- 1.8. IBA is the only administrator to already be fully compliant with the UK benchmark regulation (MAR 8.3) and we are also one of only four administrators in the world to have been formally assessed against the IOSCO principles (all other assessments at this stage are self-assessments). This combination means that we have unique expertise when it comes to managing regulated benchmarks and working with the official sector.
- 1.9. While the Gold fixing process will be regulated under the UK benchmark regulation, it is crystal clear to us that the process is primarily a facility for getting business done and delivering a physically settled, tradeable price. It is an auction process driven by market forces and, in contrast to a submission-based benchmark such as LIBOR, the benchmark is a by-product of this process, not a driver for it.
- 1.10. We see it as a key part of our role as administrator to make sure that this distinction is clear in the upcoming consultation on how to regulate the Gold fixing process, and that the updated regulations should reflect this fundamental difference. Our goal is to provide the appropriate level of oversight such that a diverse cross-section of the market is attracted to participate in the gold auction process.

Fair and Sustainable Commercial Model

- 1.11. The commercial aim with the benchmarks that we administer is to align ourselves with the long-term interests of the market by providing transparent, fair, and sustainable global access to the benchmarks.
- 1.12. We have designed our commercial model to promote direct participation in the fixing process and broad usage of the benchmark. And, in designing the commercial model, we have considered the particular nature of the London Gold Fix and its usage in the financial markets.
- 1.13. There will be no trade matching fees for direct participants or clients; additionally, usage licence and data access fees will be free for direct participants.
- 1.14. We propose a fee structure based on benchmark usage and timeliness of access to the data. Usage license and data fees will not be introduced until Q3 2015, and, to be clear, will continued to be waived for direct participants.

- 1.15. With respect to costs, we are in the unique position of being able to provide the market with an accurate cost base for providing governance and oversight to a regulated benchmark. We are likely in the position of having the lowest cost base for the Gold Fix because most of the necessary investments have already been made – both in technology and regulatory authorisation. We look forward to the opportunity to have an open discussion with the LBMA on a proposed fee structure and revenue share.

Track Record of Smooth Transitions

- 1.16. We have a track record for successfully transitioning benchmarks on time, with no disruption to the market and with no legal frustration. We are the only administrator to have successfully transitioned two systemically important benchmarks in the new regulatory and IOSCO-compliant environment (LIBOR and ISDAFIX).
- 1.17. IBA has accomplished these transitions smoothly by listening to the market to develop the right solution; engaging in pro-active stakeholder communication and co-ordination; professional programme management; and an attitude that it is our job to do the leg-work for the market. Our expertise and support will enable the market to continue business as usual.
- 1.18. Because of our experience in transitioning highly sensitive benchmarks, we already have the infrastructure, legal agreements and operational processes in place to streamline the transition of the London Gold Fix to an electronic platform.
- 1.19. WebICE requires no IT development from the direct participants or their clients, and is already in use in over 90% of the LBMA Market Maker firms, and 60% of the Ordinary Member firms.

Ongoing LBMA and Market Influence

- 1.20. Under the UK benchmark regulation, the governance structure for a regulated benchmark must include an Oversight Committee, made up of market participants, industry bodies, direct participant representatives, infrastructure providers and the administrator. It is through the Oversight Committee that the LBMA will continue to have significant involvement in the auction process, including, among many other things, changes to the methodology, approval of direct participants, and the decision on whether to move to a centrally cleared model (until that time, weaker credit names can be accommodated via pre-collateralisation).

Summary

- 1.21. IBA's unique combination of established governance, experience with regulation and user-friendly technology will promote the integrity of the Gold Price and protect participants by de-risking the process. Direct participants and their sponsored clients will have the tools they need to manage their risk, enabling them to sleep well at night. Like the other elements of our proposal, our commercial model is designed to broaden participation in the process and increase the use of the price as a global benchmark.

- 1.22. We won the mandates for LIBOR and ISDAFIX not by overpromising, or by choosing the easiest route, but by laying out a clear and realistic vision for what it would take to manage these benchmarks, taking full responsibility for the integrity of the process, its continued relevance to the market and its regulatory compliance. We believe this is the only sensible approach for a systematically important benchmark such as the London Gold Fix.

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