

LMBA Good Delivery Standard, BullionVault Example

Project Summary

The London Bullion trading market has a list of accredited refiners whose bars are given “Good Delivery” status, and are accepted without question. The London Bullion Market Association ([LBMA](#)) sets the Good Delivery [standards](#), and proactively monitors refiners on its [Good Delivery](#) List to ensure quality. All bars are assayed and warranted to be 99.5% fine gold or better.

[BullionVault](#) is a gold-trading company that deals exclusively with Good Delivery Bars, making this "wholesale" gold available to private "retail" investors via an online dealing exchange, and ensuring quality by relying on the established protocols and protections of the Good Delivery circuit.

Following back along each bar's chain of integrity – the formal history of who held the bars, when, and in which approved facility – would ultimately lead to the producing refiner. It's this history, plus the liability for loss which each seller owes to their buyer under UK property law, which ensures that no un-approved bars enter the circuit.

Project Description

As an example, BullionVault is a trading company that uses the Good Delivery system as the basis for its business model. It was established in 2003 as the sole trading business of Galmarley Limited in the UK.

BullionVault stores only Good Delivery bars in recognized bullion vaults approved by the local gold trading communities in New York, London and Zurich. Whenever a Good Delivery bar changes hands, and provided it remains within approved storage, the chain of integrity enables the buyers to accept the bars without re-assay. Gold bullion bought and sold at BullionVault are constantly stored within approved vaults, maintaining the integrity of the bars.

To comply with anti-money-laundering regulations, and to defend against fraud, all BullionVault clients must provide proof of identity, address, and ownership of the bank account from where they transfer funds for purchase. Funds are only ever returned to that same bank account on sale and withdrawal – standard practice across the financial services industry.

To demonstrate full allocation of the gold owned by its clients, BullionVault conducts a daily audit to reconcile the total quantity of client property with formal Bar Lists, issued by the secure storage provider in each location (New York, London and Zurich).

The goal of the system is to ensure gold purity in order for investors to trade gold at the highest possible values. (Gold from private, non-assured actors typically costs more to buy and then must be sold at a discount.)

Nature of Supply Chain, Products, and Issues

The gold and silver bullion trade is mainly concerned with the quality, or purity, of the bars being traded, which is largely dependent on the practices of the bullion assayers and refiners. The bullion market is largely over-the-counter and organized on a principle-to-principle basis. Therefore, all the risk is assumed by the two parties.

London is the largest center for the over-the-counter bullion trade. There is currently no central clearing point for most wholesale over-the-counter trades, but the behavior, reputation and standards of the market are monitored and defended by the London Bullion Market Association (LBMA), a private trade association which works with the Bank of England and Financial Services Authority (FSA) to establish good practice in what is otherwise not covered by the statutes of FSMA 2000, the UK act of parliament covering finance and investment.

In order to facilitate trade and manage risk, the LBMA developed a Good Delivery List of accredited refiners and assayers, as well as secure storage providers, whose bars can then be accepted without question by LBMA members in transactions. This allows for lowered transaction costs because the bars' quality is accepted by the buyer and do not need to be tested and verified each time the bars are dealt.

To be included on the list, an applicant must meet specific requirements regarding their history, financial stability, and final product. In addition, the applicant must adhere to strict standards for both the assaying process and bar quality. Once on the list, refiners submit to a monitoring system, which the LBMA instituted in January 2004. The Proactive Monitoring program provides verification of the refiners' continued compliance of the Good Delivery requirements. Refiners on the LBMA Good Delivery List are monitored approximately every two months by appointed supervisors.

Analysis

A number of categories used in the analysis of related supply chain certification initiatives do not apply to the LMBA Good Delivery Standard.

Supply Chain Complexity - Steps (*Complex*)

The materials flow in this sector is highly complex. The complexity has been simplified by focusing on one segment of the typical supply chain. The assayers and refiners are the source of the Good Delivery Bars, and must meet strict standards. However, they are only standards that apply to the purity of a gold bar and its integrity from the point of processing and then into a marked bar—it is not concerned with chain-of-custody or material flow prior to this stage or after this stage (once gold moves to, for example, a manufacturer or fabricator.)

Stage of Development, Maturity (*Full Implementation*)

BullionVault was launched in 2003 by Galmarley Limited, and since then has become a major player in the retail gold bullion market globally. The business model utilizes the professional LBMA Good Delivery system, its warranties, low costs, and securities.

Nature of Governance (*Single Company, with Heavy Reliance on Sector Standards*)

BullionVault builds on the already strict standards and verification system that go into Good Delivery bars' manufacture. The company chose vaults approved by the LBMA to store the bullion bars on behalf of its users. The system was built by a specific company but has credibility with actors in the investment community.

Program or Issue Objectives (*Single Issue: Security in the Market through Mitigation of Financial Risk Utilizing a Guarantee of Quality/Integrity*)

The high bar refiners and assayers have to meet in order to be included in the Good Delivery List and BullionVault's high standards for security all drive towards reducing risk in the bullion marketplace for retail investors. BullionVault seeks to present investors with a system that eliminates risk as to the integrity and purity of the gold, thereby ensuring that they can earn top dollar in transactions.

Approach to Verification (*Third-Party*)

BullionVault relies on the verification established by the LBMA to certify their Good Delivery Bars. It then employs an independent assayer to conduct a full annual audit of the physical property, further ensuring the sound and secure presence of the Good Delivery bars held in custody. External auditors, with no stake in the system, also review these reports as part of the company's annual financial audit for UK tax.

Key Findings

The LBMA-approved Good Delivery system demonstrates that gold could be tracked from a refiner into the gold market, but most likely only backwards and only in the event of a legal case being brought against his/her seller by a Good Delivery bar's current owner. Clearly in this instance, the guarantee of purity has a financial benefit to traders.

The system is limited in that it only applies to the segment of the supply chain that starts at a refiner and it ends when a gold bar leaves the system. It does not address the source or chain-of-custody leading into the refiner, nor does it address gold that leaves this circle of traders and then enters the manufacturing process.

The system is also limited in that it only seeks to guarantee the quality of the gold in terms of its purity and does not guarantee or ensure other attributes.

The system does point to the potential to create a mechanism in the middle of the supply chain. The system could create a supply chain from mine to gold bar if a refiner could a) assure the pre-refiner sources and b) ensuring coherence or integrity in processing so that source could be maintained. A post-refiner supply chain would also need to be established to maintain integrity. Interestingly, specific companies, such as [Tiffany](#), [Birks](#) and [Wal-Mart](#), have in fact created company-specific supply chains for gold.