Stefan Ingves
Chairman
Basel Committee on Banking Supervision
Centralbahnplatz 2
4051 Basel
Switzerland

11th April, 2014

Dear Dr Ingves,

Re: Basel III – The Net Stable Funding Ratio Consultation

The London Bullion Market Association (LBMA) welcomes the opportunity to submit this letter in response to the Basel Banking Committee regarding the proposed Net Stable Funding Ratio. We also fully support the submission made by the World Gold Council on 10th April regarding gold's proposed Required Stable Funding (RSF) factor of 85%.

About the London Bullion Market Association
The LBMA is the international trade association that represents the market for gold and silver bullion, which is centred in London but has a global client base, including the majority of the central banks that hold gold, private sector investors, mining companies, producers, refiners and fabricators. The current membership includes 146 companies which are either actively involved in the loco London bullion market or which provide services to the market, such as supervising and assaying.

Bullion Market Liquidity
We would suggest that one RSF factor for all physically traded commodities is not appropriate. Although, we welcome the reduction in the RSF factor from 100% to 85% for physically traded commodities apart from gold, we would encourage for you to consider the unique attributes of gold & silver bullion before applying the same RSF factor to these commodities. The current proposal overly simplifies the differing liquidity values of commodity types and products. In particular, unallocated gold and silver accounts, which are more akin to cash accounts, have inherent liquidity value and deep markets, which would merit a lower RSF factor.

Central Bank Gold Reserves
Central banks recognise the value that gold provides to most of their underlying strategies, primarily because of the high liquidity that gold attracts, and respectively hold a large amount of allocated gold stocks. Large existing stocks are held in the US, London, Switzerland and other financial centres worldwide. The US government alone holds 8,133.5 tonnes (valued at $344.7 billion USD). The London vaults also hold a large quantity of gold – estimated to be well in excess of the annual output of the world's gold mines – on behalf of commercial, private and official sector investors. The latter include central banks, governments and multilateral agencies.

Financial Markets for Gold
Gold is traded widely, and provides many banks, trading houses, investors with the opportunity to invest confidently. Gold demonstrates many of the attributes common to assets of high liquidity values including price stability, tight bid/ask spreads, transparent pricing and transferability and importantly, is a run-to asset in periods of stress. When national and global economies are going through times of distress, investors rely on purchasing gold as a safe haven option and as an alternate to cash. This action may become unattractive to commercial wholesale market participants that are required to comply with the NSFR, due to the increased funding requirements, and will consequently affect bullion market dynamics during such periods. This disruption to the commercial side of the

The London Bullion Market Association
1-2 Royal Exchange Buildings, Royal Exchange, London EC3V 3LF
Tel: +44 20 7796 3067 Fax: +44 20 7283 0030 email: ruth.crowell@lbma.org.uk

wholesale market could negatively impact central banks' activity in the market and seriously questions the benefits of imposing such a high RSF factor for gold. This is particularly questionable given that all central bank reserves have a RSF factor of 0%, which includes central bank reserves of gold.

In conclusion, we would respectfully ask that the BCBS take a measured approach to individual commodities, particularly gold and silver bullion. In particular for gold, we ask the BCBS to consider gold's unique role in central banks reserves and to consider the adverse effect which an RSF factor of 85% would have on the gold market, particularly during times of stress.

Yours sincerely

Ruth Crowell
Chief Executive

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