

## FMSB publishes Spotlight Review on precious metals market structure

18 November 2021 - The FICC Markets Standards Board (FMSB) has today published a [Spotlight Review](#) examining the existing structure of the precious metals market.

This Spotlight Review examines practices adopted in other asset classes and considers how certain features of the spot and forwards precious metals markets could be adapted in order to promote greater transparency, efficiency and participation in these markets.

Developed by the FMSB's Precious Metals Working Group ('PMWG'), the Spotlight Review identifies a number of ways in which the current precious metals market structure could potentially be enhanced through the increased use of:

- central limit order books (CLOBs)<sup>1</sup> to augment transparency and make liquidity easier to source and quantify;
- central counterparties (CCPs) for clearing and settlement to reduce bilateral credit and settlement risks and potentially drive greater market participation; and
- optimisation and compression solutions to reduce capital and margin costs of precious metals trading activity.

The Spotlight Review considers the benefits that such changes could bring as well as the hurdles to their implementation. The Spotlight Review concludes that while there are hurdles which could act as inhibitors to the widespread adoption of these mechanisms, supporting their adoption could potentially bring about notable long term benefits to the fairness and effectiveness of precious metals markets. The Spotlight Review also outlines a number of transitional steps that could be taken to deliver some of the benefits of the broader infrastructure changes without the corresponding hurdles to full adoption.

**Myles McGuinness, CEO of FMSB said:** "London currently accounts for the majority of OTC volumes in gold and silver spot and forwards.<sup>2</sup> Today's Spotlight Review identifies a number of developments which could further support a fair, transparent and effective spot and forward precious metals markets. Alongside our recently published Transparency Draft of the [Standard for the Conduct of Participants in LBMA Precious Metals Auctions](#), we hope that this Spotlight Review will initiate wider debate about how the structure of these markets could potentially evolve for the benefit of market participants, London as a global centre for the trading of precious metals and the UK economy as a whole."

**David Tait, Chair of the FMSB Precious Metals Working Group and CEO of the World Gold Council said:** "The FMSB Precious Metals Working Group aims to promote increased transparency, trust and understanding in precious metals markets for the benefit of all market stakeholders which may in turn help drive greater participation. The PMWG believes that London OTC precious metals markets are sufficiently liquid to support developments in market structure and could potentially benefit from greater choice in how trades are executed and how credit, capital and settlement are managed post-trade. The Spotlight Review identifies a number of developments to support this, as well as

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<sup>1</sup> A central limit order book is an exchange-style execution method that matches all bids and offers according to price and time priority.

<sup>2</sup> Estimated at circa \$322 billion weekly volumes in gold and silver spot, forwards, options, loans, leases and deposits (excluding volumes executed by non-LBMA members), as of September 2021



suggesting transitional steps for adoption. I look forward to continuing the important work of the PMWG and engaging with wider market stakeholders to encourage collaboration and progress on taking our ideas forward.”

The Spotlight Review is available for download here: [fmsb.com](https://fmsb.com)

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### Notes to Editors

1) The Fixed Income, Currencies and Commodities Markets Standards Board (FMSB) is practitioner led, funded by members and operated by the major participants in wholesale markets to improve standards of conduct in wholesale fixed income, currencies and commodities (FICC) markets. It aims to bring transparency to grey areas in the wholesale FICC markets by identifying emerging vulnerabilities, clarifying and documenting practice and agreeing standards to improve conduct and market behaviour. Ensuring that wholesale FICC markets are transparent, fair and effective for all participants is at the heart of FMSB’s mission.

FMSB Standards set out Core Principles and accompanying guidance on the most important aspects of practice where ambiguity risks undermining the transparency, fairness, and effectiveness of markets.

FMSB Statements of Good Practice set out clear expectations and guidance on good practice in relation to broader areas of uncertainty in wholesale FICC markets.

FMSB Spotlight Reviews encompass a broad range of publications used by FMSB to illuminate important emerging issues in FICC markets. Drawing on the insight of members and industry experts, they provide a way for FMSB to surface nascent challenges market participants face and may inform topics for future work. Spotlight Reviews will often include references to existing law, regulation and business practices. However, they do not set or define any new precedents or standards of business practice applicable to market participants.

All FMSB publications are available on the FMSB website at [fmsb.com/our-publications/](https://fmsb.com/our-publications/).

2) Setting up the FMSB was one of the main recommendations from the Fair and Effective Markets Review (FEMR), which was conducted by HM Treasury, the Bank of England, and the Financial Conduct Authority.

FEMR set FMSB four strategic goals:

- i. **Identifying global market vulnerabilities** through scanning the horizon for emerging business practice risks.
- ii. **Developing best market practice** through the production of standards and other materials that create a common understanding.
- iii. **Driving global adherence** through ensuring standards are comprehensible and practical.



- iv. **Developing consistent approaches to market practices** through identifying gaps and inconsistencies in existing regulatory standards and working with other standards setting bodies.

3) FMSB has a Standards Board drawn from senior executives from across wholesale markets, from corporate clients, asset managers, sell-side participants and intermediaries and infrastructure providers such as exchanges and custodians. In specialist, focused committees, sub-committees and working groups, industry experts debate issues and develop FMSB Standards and Statements of Good Practice, and undertake Spotlight Reviews that are made available to the global community of FICC market participants and regulatory authorities.

4) FMSB members bring together sell-side investment banks, buy-side asset managers, market infrastructure providers and exchanges, custodians and users of the market such as corporates. This constitution is unique.

The member firms are listed on the FMSB website at [fmsb.com/who-we-are/](https://fmsb.com/who-we-are/).