IMF COMMITTEE ON BALANCE OF PAYMENTS STATISTICS

RESERVE ASSETS TECHNICAL EXPERT GROUP (RESTEG)

ISSUES PAPER (RESTEG) # 11

TREATMENT OF GOLD SWAPS AND GOLD DEPOSITS (LOANS)

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April 2006

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TREATMENT OF GOLD SWAPS AND GOLD DEPOSITS (LOANS)

1. In the current literature, gold swaps and gold deposits (loans) are considered as reverse transactions, implying that their statistical treatment should, in principle, be consistent with those of repo and securities lending, as discussed in *issues paper #8, Treatment of Reverse Transactions*. However, the special nature of monetary gold as a financial instrument may require further consideration. Currently, the *Balance of Payments Manual, fifth Edition (BPM5)* does not elaborate on gold swaps and does not include any explanation on gold deposits/loans.

I. CURRENT INTERNATIONAL STANDARDS FOR THE STATISTICAL TREATMENT OF THE ISSUE

Gold swaps

2. Paragraph 100 of the *International Reserves and Foreign Currency Liquidity: Guidelines for a Data Template (Guidelines)* states that, "In gold swaps, gold is exchanged for cash and a firm commitment is made by the monetary authorities to repurchase the quantity of gold exchanged at a future date." Such gold swaps generally are undertaken between monetary authorities and with financial institutions (footnote 31 in page 19 of the *Guidelines*). Gold swaps are typically undertaken when the cash-taking monetary authority has the need for foreign currency but does not wish to sell outright its gold holdings.

3. Paragraph 434 of *BPM5* states that gold swaps should be treated "in a similar manner" to "reciprocal facilities (swap arrangements) for temporary exchange of deposits between the central banks of two economies." That is, "Deposits (in foreign currencies) acquired by the central bank initiating the arrangement are treated as reserve assets". However, *BPM5* does not articulate how to treat gold swaps from the point of view of reverse transactions, so this particular treatment is unclear.

4. The *Guidelines* provide a clearer view stating that, "gold swaps the monetary authorities undertake be treated in the same way as repos and reverse repos" (paragraph 101). So, the treatment should be in line with the recommendations in paragraph 85 of the Guidelines, and therefore, two approaches are allowed. These are;

- A gold provider (a cash taker) should record the funds received as an increase in deposits[1] among reserve assets, and the gold provided should be removed from

[1] In the standard approach, the funds received under a repo (or provided via a reverse repo) are recorded as loans, rather than deposits (see paragraph 145 of *Monetary and Financial Statistics Manual (MFSM))*. However, regarding reserve assets, paragraph 93 of the *Guidelines* states that, "Because short-term loans

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reserve assets[2]. This transaction should be recorded under Section IV.(1)(d) under securities "lent or repoed but not included in Section I" of the data template (paragraph 85, 258 (i) of the *Guidelines*), or

- A gold provider can record both the funds and the gold as reserve assets but is required to record a predetermined drain in Section II.3 relating to when the gold swaps matures and the funds are to be returned. This transaction should be recorded under Section IV.(1)(d) under securities, "lent or repoed and included in Section I". (paragraph 85 (iii), 258 (i) of the *Guidelines*).

- A gold taker (a cash provider) should reflect a decrease in deposits (assets) but should not record the gold obtained in reserve assets (monetary gold). The gold should be recorded under Section IV. (1)(d) "borrowed or acquired but not included in Section I". Also, if the claim is liquid and available upon demand to the gold taker, this claim should be recorded as reserve assets under Section I.A.(5) "other reserve assets". If the claim acquired is not liquid and not available on demand to the gold taker, a future predetermined inflow associated with the return of the gold should be recorded in Section II.3 (paragraph 85 (iii), (iv) of the *Guidelines*).

Gold deposits/loans

5. Gold deposits (or loans) are commonly used in reserves management and may be undertaken to obtain income return on gold. Paragraph 99 of the *Guidelines* mentions that the monetary authority make gold deposits "to have their bullion physically deposited with a bullion bank, which may use the gold for trading purpose in world gold markets" and "The ownership of the gold effectively remains with the monetary authorities, which earn interest on the deposits, and the gold is returned to the monetary authorities on maturity of the deposits". Gold deposits are not backed by cash collateral and, in some cases, are not backed by non-cash collateral but "To minimize risks of default, monetary authorities can require adequate collateral (such as securities) from the bullion bank" (see paragraph 99 of the *Guidelines*).

6. *BPM5* is silent on the treatment of gold deposits/loans. However, the *Guidelines* states that, "To qualify as reserve assets, gold deposits must be available upon demand to the monetary authorities" and "Gold deposits are to be included in gold and not in total deposits" and when monetary authorities accept securities as collateral of deposited gold, "It is

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provided by the monetary authorities to other central banks, the BIS, the IMF...., and depository institutions are much like deposits, it is difficult in practice to distinguish the two. For this reason, the reporting of deposits in reserve assets should include short-term foreign currency loans, that are redeemable upon demand, made by the monetary authorities to these nonresident banking entities."

[2] The gold removed from reserve assets as a result of gold swaps stays in the balance sheet of the gold provider as non-monetary gold (goods, rather than financial assets). See paragraph 8.

important that compilers not include such securities collateral in reserve assets, thereby preventing double counting" (paragraph 99).

II. Issues Arising from the Current Treatment of Reverse Transactions

Gold swaps

7. The current statistical treatment of gold swaps should be consistent with that of repos. The guidance of paragraph 85 (iii) of the *Guidelines*, which is applied to gold swaps by paragraph 101, results in overstating reserve assets because both the funds received from the gold swap and the gold are included in reserve assets. While the gold is swapped, it cannot be the case that both the claims and the gold are simultaneously liquid and readily available to the monetary authority. Thus, the possible alternative could be, as presented in *issues paper #8*, to introduce a single approach set out in paragraph 85 (i) for the gold provider (and 85 (ii), (iv) for the gold taker, depending on the circumstances) of the *Guidelines*.

8. However, the issue on how to treat the gold excluded from reserve assets needs to be considered because once the gold is excluded from reserve assets (i.e., monetary gold), at the same time it should be excluded from financial instruments (demonetization)[3]. So, although the gold excluded from reserve assets through gold swaps still remains in a central bank balance sheet as goods (non-monetary gold), it would need to be removed from the international investment position (IIP).

Gold deposits/loans[4]

9. In order to clarify the treatment of gold deposits/loans in balance of payments and IIP, additional wording should be included in the new *Manual.* The current treatment of gold deposits/loans, as stated in paragraph 99 of the *Guidelines* seems appropriate.

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[3] This arises from the special nature of gold within the statistical framework, i.e., only monetary gold is treated as a financial instrument and other gold (non-monetary gold) is treated as goods. On the other hand, regarding other reverse transactions undertaken through securities (such as repo and reverse repo), these securities could be included in IIP, reclassified from reserve assets to portfolio investment of the monetary authorities. See footnote 2 of *issues paper #8*.

[4] This paper refers only to deposits/loans of allocated gold—that is, where the owner has title to physical gold. Regarding unallocated gold—that is, where the owner does not hold title to physical gold but has an unsecured claim against an account provider, who in turn holds a pool of gold, the IMF Committee on Balance of Payments Statistics and the Advisory Expert Group on National Accounts (AEG) have agreed that such assets are treated as deposits. So, investments in unallocated gold should be recorded as deposits and not as monetary gold. For detail on allocated/unallocated gold and their statistical treatment, see Chris Wright, Stuart Brown, *Non-monetary Gold (issues paper for the fourth meeting of the AEG (SNA/M1.06/30.1))*. We would welcome information from RESTEG members on the extent to which unallocated gold account are held by monetary authorities and how they are classified within reserve assets.

Double counting of gold from outright sales of gold acquired through gold swaps or gold deposits/loans

10. When the gold received under a gold swap is sold outright, the following treatments are recommended (paragraph 155 of *MFSM*);

- If the seller is a monetary authority, the seller should record on its balance sheet negative position in monetary gold.

- If the seller is a non-monetary authority and the purchaser is a monetary authority, a monetization will be involved. This could create the situation where monetary gold is overstated, in as far as the same holding of gold would be reported on the balance sheet of two monetary authorities at the same time[5].

- If the seller is a monetary authority and the purchaser is a non-monetary authority, a demonetization will be involved.

11. Similar double counting of gold can occur when a bullion bank sells outright gold acquired through gold deposits/loans from other monetary authorities.

12. These particular accounting principles could pose a problem when international statistical standards allow swapped/deposited gold to remain in the reserve assets of the gold provider.

III. Possible treatments

13. The new *Manual* should include a clearer description of the treatments of gold swaps and gold deposits/loans by introducing relevant text already available in the *Guidelines*.

14. Regarding the statistical treatment of gold swaps, its treatment should be consistent with that of other reverse transactions, as presented in paragraph 7 above. Thus, swapped gold should be excluded from both reserve assets and IIP (demonetization). This is a logical consequence, and overstating of reserve assets can be avoided. On the other hand, this results in a decrease in the financial assets of the monetary authorities.

15. Regarding the statistical treatment of gold deposits/loans, keeping the *status quo* is suggested. That is, if the deposited/loaned gold is available upon demand to the monetary authorities, it can be included in reserve assets as monetary gold (paragraph 99 of the *Guidelines*). However, if the gold is not available upon demand, it should be removed from reserve assets, and also from IIP (demonetization).

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[5] This double counting of reserve assets is not unique in gold swaps and gold deposits/loans but it can happen in other reverse transactions, such as repo, using securities held as reserves in a country, when the current treatment described in paragraph 85 (iii) of the *Guidelines* remains.

16. Regarding the statistical treatment of double counting, this issue would be resolved if the treatment in paragraphs 14 and 15 are adopted, except when the gold is available upon demand under a gold deposits/loans.

IV. Points for Discussion

(1) Do RESTEG member agree with recommendations in paragraph 13?

(2) Do RESTEG members agree to the recording method of gold swaps proposed in paragraph 14?

(3) On gold deposits/loans, do RESTG members agree with the recommendation in paragraph 15 (status quo)?

(4) Use of unallocated gold accounts by monetary authorities.

References

BPM5, paragraph 434

Guidelines, paragraphs 98-101, 178, 258

Monetary and Financial Statistics Manual, paragraphs 154-164

Annotated Outline, paragraph 5.51 (a), (c)
(http://www-stg-ext.imf.org/external/np/sta/bop/pdf/ao.pdf)

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