WORLD GOLD COUNCIL

Adam Farkas
Executive Director
European Banking Authority
Tower 42 (level 18)
25 Old Broad Street
London EC2N 1HQ
United Kingdom
1 July 2014

Re: Consultation Submission

Dear Mr Farkas,

The World Gold Council welcomes the opportunity to submit comments to the joint EBA, ESMA and EIOPA consultation on the draft regulatory technical standards on risk-mitigation techniques for OTC-derivative contracts not cleared by a CCP under Article 11(15) of Regulation (EU) No 648/2012.

Our comments focus specifically on the eligibility and treatment of collateral as set out in paragraphs 36 to 48 of the draft impact assessment. The Joint Committee of the European Supervisory Authorities provides three options for the type of collateral that can be used when posting margins bilaterally for non-centrally cleared derivatives. The World Gold Council supports the Joint Committee's preferred option – option two – where ESMA is to provide quality requirements that are linked to the requirements set out for collateral posted to a CCP. To ensure consistency between previous regulations such as EMIR, such requirements should continue to include collateral that is sufficiently liquid and of sufficiently high credit quality. As recognised under European Market Infrastructure Regulation (EMIR) Article 46(3) and BIS/IOSCO guidance on collateral for non-centrally derivative contracts (September 2013), gold fulfils the characteristics of key principle 4[1] – "in addition to having good liquidity, eligible collateral should not be exposed to excessive credit, market and FX risk (including through differences between the currency of the collateral asset and the currency of settlement). To the extent that the value of the collateral is exposed to these risks, appropriately risk-sensitive haircuts should be applied."

The performance of gold during the recent financial crisis is a good example of the liquidity of the asset; when other assets experienced low liquidity under stress, gold demonstrated flight-to-quality tendencies as shown in Chart 1 during seven liquidity stress events. The periods were identified by examining instances when the US dollar basis, defined as the implied FX swap dollar interest rates, widened significantly, consistent with a pattern that indicates funding pressures among European banks. These instances were cross checked against instances when the spread between the Euro Interbank Offering Rate (Euribor) and Euro Overnight Index Average (EONIA) widened by a rate greater than two and a half standard deviations[2].

[1] BIS/IOSCO, *Margin Requirements for non-centrally cleared derivatives",* pg. 16, September 2013.
[2] European Case Study: Enhancing commercial bank liquidity buffers with gold, available at www.gold.org/government_affairs/research/.

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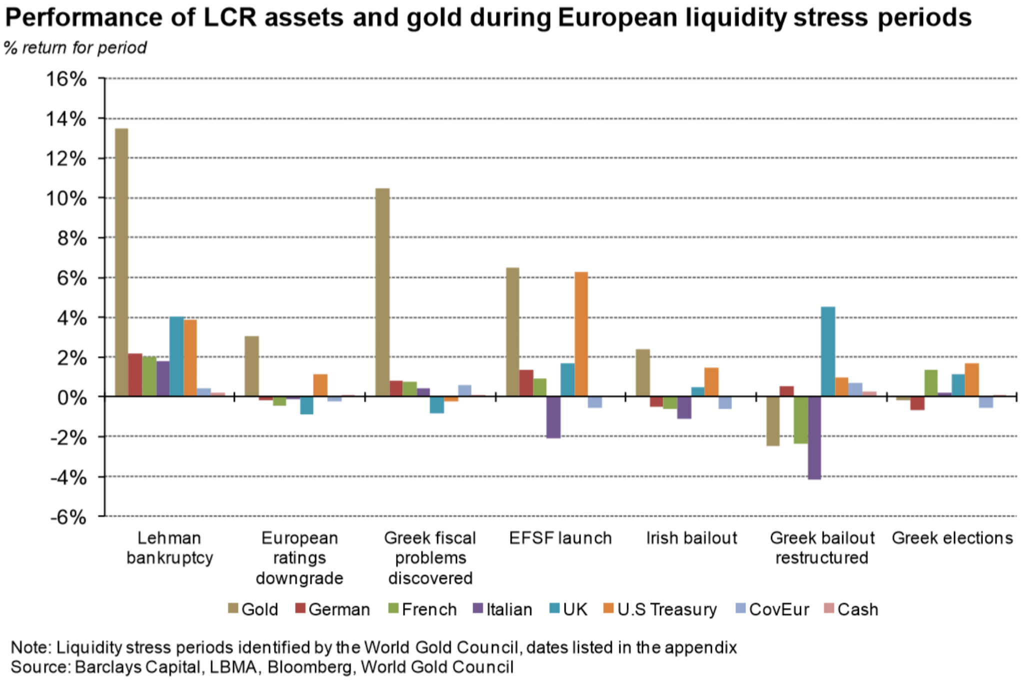
Chart 1: Gold returns (%) during liquidity stress periods



It is worth noting that since 2010, all of Europe's main Clearing Houses[3] have permitted gold to be accepted as collateral, applying a haircut of between 12% and 15%.

We would encourage the Joint Committee to proceed with the option to provide qualitative requirements that are linked to the requirements set out for collateral posted to a CCP.

Yours sincerely,

Natalie Dempster

Managing Director, Central Banks & Public Policy

[3] ICE Clear Europe, LCH.Clearnet and CME Group.