London, 08 December 2023

Response to Consultation Paper: Consultation on the adjustment of own funds requirements and design of stress testing programmes for issuers under MiCAR

The World Gold Council welcomes the opportunity to comment on the EBA's Consultation on the adjustment of own funds requirements and design of stress testing programmes for issuers under MiCAR.

About the World Gold Council

The World Gold Council is dedicated to ensuring that gold remains an integral part of the global economy.

We are an association whose 32 members are the world's leading gold mining companies with operations in over 45 countries, and our initiatives impact every aspect of the gold industry. We aim at:

- Improving access to gold by tackling regulatory and infrastructure barriers to gold investment
- Improving understanding of the gold market and the role of gold as an investment asset
- Developing industry standards and improving integrity and trust in gold.

Since we were founded in 1987, the structure and size of the gold industry has changed dramatically. The gold market has almost doubled in size and grown seven-fold in value. Today, gold is increasingly recognised as a mainstream asset that meaningfully contributes to prosperity, financial market stability, and society as a whole.

The World Gold Council's ambition is to further the digital transformation of the global gold market to meet the expectations of today's consumers, investors, and the financial services community. The tokenisation of gold and digitalisation of trading and supply management processes, is essential to the modernisation of the market.

Gold as an asset class

Gold has unique properties and is an essential investment for many individual and institutional investors. Private investments in gold account for nearly US$ 3 trillion in holdings, and more than US$ 2 trillion are held in gold reserves by central banks around the world.[1] Traditionally, investors purchase gold in the form of coins, bars, and gold ETFs. Gold tokens introduce an innovative approach to gold investment and offer a significant opportunity to modernise the market.

Several gold-backed tokens are already available to investors.

[1] Source: Gold Demand Trends and Above Ground Stocks, 2021, https://www.goldhub.com

Consultation

Below we provide specific feedback to applicable consultation questions.

We appreciate your consideration of our comments and remain at your disposal should you have any questions.

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Yours sincerely,

The World Gold Council

Responses to selected consultation questions

Question 1: Is the procedure clear and the timelines for the issuer to provide views on the assessment and submit the plan reasonable?

N/A

Question 2: Are the timeframes for issuers to adjust to higher own funds requirements feasible?

N/A

Question 3: During the period when own funds need to be increased by the issuer, should there be more restrictions on the issuer to ensure timely implementation of the additional own funds requirements, for example banning the issuance of further tokens?

N/A

Question 4: Do you agree with the criteria to identify if an issuer has a higher degree of risk?

In the case of gold, gold tokens carry a lower risk vis a vis other types of tokens. Therefore, when determining the criteria for mandating a specific level of own funds, the features and the risk profile of the tokens issued should be considered. A token which represents direct ownership in physical gold, avoids many of the risks that other types of tokens pose. It is not the financial liability of the issuer, but represents the investor's ownership in custodied gold. There are no risks from leverage as a physically backed gold token does not allow for leverage by the issuer. Such a token does not incur risks from asset-liability mismatch, nor maturity mismatch risks. The risk level of the token issued should be factored into the assessment of the issuer's risk level.

Question 5: Do you agree with the procedure to assess whether an issuer has a higher degree of risk?

N/A

Question 6: Do you consider the criteria and their evaluation benchmarks sufficiently clear?

N/A

Question 7: Do you agree with the need for a solvency and liquidity stress-test and the requirements of the stress-test?

N/A

Question 8: Do you agree with the frequency and time horizon of the solvency and liquidity stress-test?

N/A

- Should there be more differentiation between significant and not-significant issuers?

N/A.

- Should the stress testing be more frequent for issuers of asset-referenced tokens referenced to official currencies?

N/A.

Question 9: Should a reverse stress testing requirements/methodology be introduced? please provide your reasoning.

N/A.

Question 10: Do you have any other comments in relation to the stress-testing part in these RTS?

No.