London, 08 December 2023

Response to Consultation Paper: Consultation on RTS further specifying the liquidity requirements of the reserve of assets under MiCAR

The World Gold Council welcomes the opportunity to comment on the EBA's Consultation Paper EBA Draft RTS further specifying the liquidity requirements of the reserve of assets 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: Do respondents have any comment about the calibration of the percentages of reserve assets with specific maximum maturities as suggested in Article 1 and Article 2 of the draft RTS?

N/A

Question 2: Do respondents consider that the requirements in Article 1 and Article 2 related to the 1 and 5 working days maximum maturity could create excessive pressure in the repo market, taking into account the minimum required amount deposits in credit institutions in the case of tokens referenced to official currencies.

N/A

Question 3: Do respondents have any comment on the proposed approach in Article 3 of the draft RTS to not increase the minimum amount of deposits from 30 percent (or 60 percent if the token is significant) of the asset referenced in each official currency?

Question 4: Do respondents have any comment with the definition of the requirement of a minimum liquidity soundness and creditworthiness in the deposits with credit institutions as proposed in Article 4 of the draft RTS?

The WGC agrees with the minimum liquidity soundness and creditworthiness in deposits with credit institutions, however we would like to reiterate an excellent point made in the EBA's impact assessment for this consultation document, which is that overcollateralization of 1:1 gold backed tokens should be 0% as there is no difference in the value of reference versus the value of the reserve assets in this case.

Question 5: Do respondents have any comment about the definition of the requirement of a maximum concentration limit of deposits with credit institutions by counterparty in Article 5 of these draft RTS? And about the definition of the general limit considering, in addition to deposit with a bank, also the covered bonds issued by and unmargined OTC derivatives with the same bank counterparty?

We would like to stress that the requirement regarding the high diversification of custodians would be difficult to implement in practice, given the limited number of financial credit institutions/entities offering gold storage services.

For 1:1 gold tokens, the 10% concentration limit on the market value of the reserve assets seems too restrictive. While diversification of asset reserve locations is important, this rule poses challenges for gold and other tokens referencing physical assets.

In addition, many credit institutions do not directly hold physical gold but contract third-party gold storage providers. Therefore, a gold token issuer depositing 10% with one credit institution may actually hold a combined 20% deposit with the same third-party gold storage provider as another credit institution. Therefore, we would like to clarify that diversification requirements on physical assets for 1:1 tokens be excluded in this case.

Risk diversification considerations

Question 6: Do respondents have any concern about compliance with these concentration limits in Article 5, considering in particular paragraph 14 of the cost/benefit analysis in relation to the potential operational burden and risk of a wrong direction diversification, linked to the minimum required liquidity soundness and creditworthiness of deposits with banks, and taking into account the minimum amount required of deposits with credit institutions by MiCAR for tokens referenced to official currencies?.

N/A

Question 7. Do respondents have any comment about the definition of the mandatory over-collateralisation in article 6 of these draft RTS and the rationale for it? do respondents find it challenging from an operational perspective, in particular with respect to envisaging 5 days windows rather than 1 day windows for observation periods of the market value of the assets referenced versus the reserve of assets and over the previous 5 years? Please elaborate your response with detailed reasoning.

Referencing Table 1 in the consultation document which summarises the results on the exercise simulating the overcollateralization rules proposed, the WGC would like to note that results on the gold backed tokens clearly indicate that a 100% gold backed token would be the easiest to manage from an operational perspective. As such, we agree that overcollateralization rules do not need to apply to 1:1 gold backed tokens

Question 8: Do respondents think that any provision in the draft rts is confusing and that some clarification would be necessary?

Please see our response to Question 5 on the maximum concentration limits of deposits with credit institutions by a counterparty. The wording in Article 5 paragraph 4 could be written in a way that more clearly describes the assets to which the deposit limits actually apply.