You asked, we answered: Does gold qualify as an HQLA under Basel III?

WORLD GOLD COUNCIL

Highlights

- Gold is not currently classified as a High Quality Liquid Asset (HQLA) under Basel III…
- …but its performance during times of crisis rivals that of intermediate and long-term Treasuries
- In this context, our analysis shows that gold is an HQLA in all but name.

Gold's role in Basel III

The Basel III requirements were first published in 2010 but its implementation has been years in the making. Most provisions have been in place since 2019, but its most recent iteration, dubbed Basel III Endgame (or Basel 3.1), was due to take effect in July 2025. While it now seems that Endgame will be delayed,[1] there has been renewed interest in the rules and implications of its framework. The role of gold within Basel III was no exception. But, not surprisingly, there were also a fair number of misconceptions.

In a recent article, Norton Rose Fulbright reviewed the Basel Framework and regulatory status of gold, covering gold's treatment under Basel III through the perspective of: 1) regulatory capital; 2) capital requirements; 3) collateral requirements – for credit mitigation as well as clearing counterparties and derivatives; and 4) liquidity requirements.[2]

The LBMA also set out to correct misleading information circulating online, highlighting that while **gold is a Tier 1 asset for purposes of capital requirements** with a 0% risk weight under the Risk Weighted Asset rules, and can be used as collateral with a 20% haircut, **it is not currently defined as an HQLA** for purposes of the Liquidity Coverage Ratio (LCR) and with an 85% Required Stable Funding (RSF) under the Net Stable Funding Ratio (NSFR).[3]

What's in a name? A practical perspective of HQLAs

Despite not being officially recognised as an HQLA, gold surely behaves like one. Over the years, we have collaborated with academics and the LBMA in multiple studies that have shown that gold meets many of the criteria that determine HQLAs.

These characteristics, as defined in the Basel Framework, are divided into two categories: fundamental and market related.

Fundamental characteristics include:

- *Low risk* – gold is an asset that does not hold credit risk
- *Ease and certainty of valuation* – while gold does not fit common valuation models used for bonds or some stocks, its behaviour is determined by market equilibrium with readily available market prices
- *Low correlation with risky assets* – gold is an effective diversifier that performs well in periods of crisis.

Market related characteristics include:

- *Active and sizable market* – the gold market is large and liquid, trading more than US$120bn per day on average on the over-the-counter market alone
- *Low volatility* – gold's volatility is at par with that of 30-year US Treasuries and below that of individual stocks
- *Flight to quality* – gold tends to be the recipient of investment flows during periods of risk, also seen through its negative correlation to the stock market.

1. Basel III endgame: The specter of global regulatory fragmentation, Atlantic Council, 13 May 2025
2. The Basel Framework and regulatory status of gold: Clarifying the status-quo, Norton Rose Fulbright, May 2025.
3. Gold and HQLA: Correcting Misleading Online Information, LBMA, 14 May 2025

Most recently, in their February 2025 paper *Is Gold a High-Quality Liquid Asset?* Baur et al. show that gold is among the most liquid assets across a sample of top tier government bonds, and that its performance does resemble that of an HQLA.[4]

Given that one of the key attributes of an HQLA is its behaviour – and usefulness – in periods of heightened risk, we have used the principles established by Baur et al. and analysed gold's market characteristics over the past six months. This period has been marked by high levels of uncertainty and volatility, as well as a less-than-stellar performance by US Treasuries…the epitomes of HQLAs.

Our report Gold: an HQLA in all but name finds that over the past six months gold has shown characteristics associated with HQLAs, including:

- **Volatility:** gold demonstrated comparable or superior stability to intermediate and long-term US Treasuries during recent market shocks, highlighting its lower-than-assumed volatility profile
- **Spreads:** gold's bid-ask spreads remained narrow – or normalised quickly – during periods of market stress, rivalling those seen in 10- and 30-year US Treasuries
- **Volume:** gold's robust daily trading volumes rival those of 10-year US Treasuries, reinforcing its status as a deep and actively traded market.

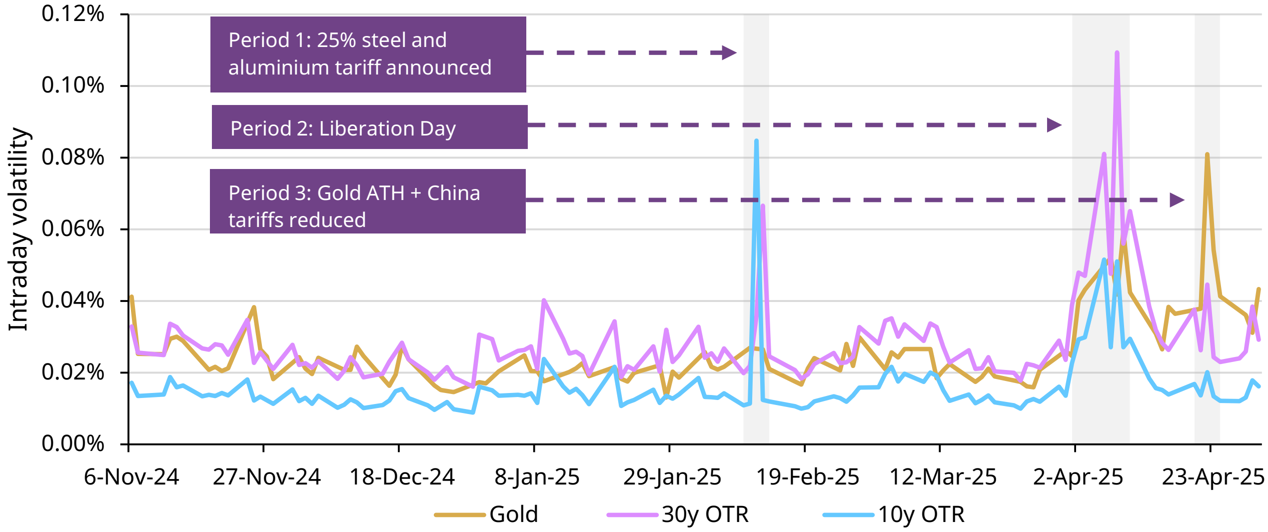
The report also contrasts gold's behaviour with that of equities, some of which may technically qualify as Level 2B assets under Basel III. Yet, gold outperforms them in virtually every metric.

In sum

While gold is not currently classified as an HQLA under Basel III and there are no announcements of prospective changes, there's also overwhelming evidence that gold does behave like one. Whenever the rules are revised, we believe regulatory authorities should revisit their initial decision and reconsider gold's standing.

Chart 1: Gold's volatility factor is in line with, if not more favourable than, US Treasuries during periods of turmoil

Level 1 HQLAs (10-year and 30-year US Treasuries) and gold intraday volatility*



*Daily volatility computed using returns on 1-minute data increments from 6 November 2024 to 30 April 2025. Gold based on spot price (XAU) in US$/oz. US Treasuries based on "on-the-run" (OTR) 10-year and 30-year notes, respectively.
Source: Bloomberg, World Gold Council

4. Is Gold a High-Quality Liquid Asset? Baur, Gornall, Hoang, Palmberg, 12 February 2025

World Gold Council

We are a membership organisation that champions the role gold plays as a strategic asset, shaping the future of a responsible and accessible gold supply chain. Our team of experts builds understanding of the use case and possibilities of gold through trusted research, analysis, commentary and insights.

We drive industry progress, shaping policy and setting the standards for a perpetual and sustainable gold market.

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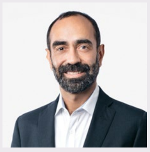

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