# Guidance for Monetary Authorities on the recommended practice in accounting for gold

## Consultation paper

## About the World Gold Council

The World Gold Council is the market development organisation for the gold industry. Our purpose is to stimulate and sustain demand for gold, provide industry leadership, and be the global authority on the gold market.

We develop gold-backed solutions, services and products, based on authoritative market insight and we work with a range of partners to put our ideas into action. As a result, we create structural shifts in demand for gold across key market sectors. We provide insights into the international gold markets, helping people to understand the wealth preservation qualities of gold and its role in meeting the social and environmental needs of society.

Based in the UK, with operations in India, the Far East, Europe and the US, the World Gold Council is an association whose members include the world's leading and most forward thinking gold mining companies.

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## About the author

Kenneth Sullivan is a former Senior Financial Sector Expert with the International Monetary Fund. Previously, he spent seven years at the Reserve Bank of New Zealand as Chief Manager of both Accounting and Corporate Services where the bank won accounting prizes for the transparency of its published financial statements. Prior to that he provided a financial management information system consultancy, held senior accounting roles in insurance and wholesaling, and worked in education.

Starting in 1993, he served as central banking expert on IMF missions, providing technical assistance in accounting, risk management and recapitalisation to central banks around the world. He presented at central bank accounting workshops and participated in Financial Sector Assessment Program and Safeguard Assessment missions. He has written on issues of central bank financial reporting, capital adequacy, organisation and accountability. He is a qualified Chartered Accountant of New Zealand.

He has served as the IMF's representative on the International Financial Reporting Standards Advisory Council and currently chairs a range of annual central bank accounting study groups addressing issues of transparency in central bank financial reporting and balance sheet strength. In 2008, he completed a six-month secondment to a London bank where he worked on issues of structured financial instruments.

## About the editor

Robin Darbyshire is a chartered accountant who has worked, as an independent consultant for 10 years, mainly on central bank issues. He has undertaken a number of projects for the IMF, including implementation of International Financial Reporting Standards (IFRS) in central banks. Previously he spent 19 years with the Bank of England, for 17 of which he was responsible for the Bank's accounts.

He was a founder member of the committee that devised the accounting framework and policies for the European System of Central Banks and has recently undertaken projects for the ECB related to Eurosystem accounting. He has written a number of articles on issues in central bank accounting and regularly speaks at conferences on central bank finances.

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# Introduction

Monetary authorities hold gold in the performance of their official functions, typically as part of the country's official reserves. This functional purpose differs from the objectives of other entities who hold gold. Monetary authorities also commonly hold gold in much larger quantities than other entities. General purpose financial reporting frameworks lack appropriate guidance on accounting for gold, in particular for the gold classified as monetary gold, held by monetary authorities.

To match accounting for gold to its functional objectives, monetary authorities (an entity) require an accounting framework that recognises the several reasons that the entity may hold gold and reflects the economic substance of these holdings.

In the absence of a suitable framework, monetary authorities have adopted a variety of different treatments. In June 2016, the World Gold Council published a discussion paper (*"Working towards a common accounting framework for gold"*)[1] reviewing the different approaches to gold accounting demonstrated by monetary authorities. This report ultimately served as the foundation for the guidance recommended in this consultation paper.

It is important to note that such a variety of treatments limits the comparability of financial statements and risks a reduction in their credibility, a key element in monetary authorities' independence and accountability. There has, accordingly, been interest for some form of standardisation in this area.

This guidance, in the form of recommended practice, aims to help standardise accounting practices of monetary authorities with respect to gold, by establishing a suitable framework that is consistent with the conceptual framework of current financial reporting standards. The framework needs to consider both the presentation in the statement of financial position and in the income statement (or comprehensive income statement where presented), and the treatment of unrealised revaluations. For those monetary authorities where issues of distribution to the central government arise, guidance is included as to what should be regarded as distributable, though this will be subordinate to local laws.

The World Gold Council is now seeking views on the guidance provided herein with respect to a recommended practice in accounting for gold. The views of monetary authorities, as well as those of international accounting standards boards, advisory institutions, global auditors, and other interested parties are requested by **Monday 31 July 2017.**

Please address all comments and enquiries to:

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1 The discussion paper can be found on the World Gold Council's website at: http://www.gold.org/research/working-towards-common-accounting-framework-gold

# Definitions

## The following terms are used in this guidance with the meanings specified:

### Monetary gold

Monetary gold is gold held by the monetary authority as an element of its foreign exchange reserves. It includes gold bullion and unallocated gold accounts with non-residents that give title to claim the delivery of gold. Gold bullion takes the form of coins, ingots, or bars with a purity of at least 995 parts per 1,000, including such gold held in allocated gold accounts. London Good Delivery (LGD) gold qualifies as monetary gold if so designated by the monetary authority.

### Allocated vs unallocated gold

Allocated gold is ownership of a discrete gold asset. Unallocated gold is a claim to a pool of gold assets with no claim to a specific element of that pool.

### Non-monetary gold

Non-monetary gold is gold that the monetary authority holds that does not meet the criteria of monetary gold or which the monetary authority has chosen not to classify as monetary gold. Examples may include, scrap jewellery, unrefined gold, alluvial gold dust and nuggets, antique gold.

### Antique gold

Antique gold comprises historic gold objects that may meet the criteria of monetary gold but which the monetary authority chooses to hold for cultural or historic reasons and not as a foreign reserve asset.

### Gold swaps (gold repos)

Gold swaps are a form of repurchase agreement in which gold is exchanged for foreign exchange at a specified price with a commitment to repurchase the gold at a fixed price on a specified future date.

### Gold deposits (loans, lending, leasing)

Gold deposits occur when the depositor lends gold to an entity for set a period after which the entity returns an identical amount of gold to the depositor in return for a fee. Collateral is not compulsory but if given is usually in securities.

# Recommended practice in accounting for gold

## Objective

1 To enable monetary authorities to recognise monetary gold in an appropriate manner in their financial statements. The approach is to regard monetary gold as a financial instrument denominated in the national currency.

## Scope

2 This guidance applies to all entities who hold monetary gold for meeting policy objectives specified in their relevant legislation. This will include, but not be limited to, monetary authorities responsible for managing their nation's foreign exchange reserves.

## Recognition and derecognition

### Initial recognition and classification

3 An entity shall recognise the gold when it acquires the contractual rights to the economic benefits of the gold ownership. On acquisition, it shall classify the gold as monetary gold, non-monetary gold or antiquity gold.

### Derecognition

4 An entity shall derecognise the gold when it surrenders the contractual rights to the economic benefits of the gold ownership.

## Measurement

### Initial measurement

5 On initial acquisition an entity shall recognise gold at fair value, plus transaction costs that are directly attributable to the acquisition of the gold.

### Subsequent measurement

6 For the purposes of measuring gold after initial recognition, this guidance adopts three (3) classifications:

A monetary gold

B non-monetary gold

C antique gold.

7 Monetary gold – Except for the situation described in para 10 an entity shall measure monetary gold after initial recognition at fair value without any deductions for transaction costs for sale or disposal; except in the following situations:

A the gold requires further refining to bring it to a form required in open markets

B the gold requires transportation from its current location to a recognised gold market to enable its trading and delivery.

In these situations, the entity will apply a discount factor to recognise these costs.

8 No entity shall apply any discount beyond those specified in 7(A), 7(B) to cover any other perceived market risks.

9 In the situation where the entity's overall accounting framework adopts amortised cost accounting and the adoption of fair value would represent a material distortion of the financial position and performance of the entity, the entity may apply cost as defined in its accounting framework for subsequent measurement.

10 Non-monetary gold – An entity shall account for non-monetary gold as a commodity as such gold is not held for policy purposes. This may be the lower of cost and net realisable value.

11 Antique gold – If an entity holds gold objects as part of art or museum collections then the accounting for these objects should follow the accounting policy for this function.

### Reclassification

12 In the event of a change in classification of gold the entity shall treat the reclassification as a derecognition as per para 16, and a new acquisition as per para 5. The entity shall disclose the change in classification in the notes to the accounts.

## Treatment of losses and gains

**Unrealised gains**

13 On recognition of unrealised revaluation gains an entity shall report, in the appropriate statement, the revaluation gains arising from movements in the gold price and the quoted currency as a single valuation entry included as other comprehensive income. The entity shall allocate the gold revaluations to a dedicated unrealised gold revaluations reserve within equity.

**Unrealised losses**

14 On recognition of unrealised revaluation losses an entity shall report, in the appropriate statement, the revaluation losses arising from movements in the gold price and the quoted currency as a single valuation entry within other comprehensive income. The entity shall allocate the gold revaluations to a dedicated unrealised gold revaluations reserve within equity.

15 In the event of the unrealised losses exceeding the balance in the revaluation reserve, the entity shall charge the excess against the reported operating profit for the period.

**Realised gains and losses**

16 On the sale of gold, the entity will recycle existing unrealised gains and losses relating to the sold gold through profit and loss. This will require the entity to maintain a system for calculating the cost of gold sold.

## Transactions

**Gold swaps**

17 Two approaches exist for accounting for gold swaps:

A The entity shall account for the gold swap as a currency swap in accordance with its general financial reporting framework. Quoted gold swap prices provide data for pricing, revaluation and income recognition. The entity reports just the fair value of the forward leg in the financial statement and reports the gross amounts of the forward leg off balance sheet.

B The entity shall account for the gold swap as a repurchase agreement in accordance with its general financial reporting framework. The entity retains the gold on its financial statements as an encumbered asset.

**Gold deposits (lending, loans)**

18 An entity shall treat a gold deposit as a deposit. The financial statements will retain the gold holdings but will disclose them as an encumbered asset. The entity will report revenue as interest on a deposit.

19 The accounting for any collateral received under the gold deposit agreement shall be in accordance with the conditions relating to the collateral as specified in the gold deposit agreement.

**Gold commodity swap**

20 Where an entity undertakes a gold commodity swap it shall account for it as a commodity swap as prescribed under its general financial reporting framework.

## Disclosures

21 The objectives of this guidance is to enable entities to provide disclosures in their financial statements to enable users to evaluate:

A the functional reasons for holding monetary gold and its significance

B the accounting policies adopted when accounting for gold holdings.

22 The monetary authority should harmonise the disclosures recommended in this guidance with those required in its general financial reporting framework for accounting policies and those covering the nature and extent of risks arising from holding financial instruments and how the entity manages these risks.

23 Within the notes to the financial statements the monetary authority shall disclose information identifying:

A purpose and intention of holding gold

B amount of gold holdings for separate functions

C basis of recognition of gold holdings

D approach to gold revaluations (frequency, source of prices, discounts)

E classification of unrealised gold revaluation gains (profit, OCI, direct to reserves, or other)

F application of unrealised gold revaluations gains (retained earnings, dedicated gold reserve, general reserve or provision)

G treatment of gold revaluation losses including when they exceed any previously accumulated gains

H basis for determining the cost of sales for any gold sold

I treatment of realised gains arising from gold sales

J effects of changes in gold classifications

K swaps and gold lending transactions, disclosing encumbered assets.

**Reconciliation with IMF reporting**

24 In situations where the monetary authority is responsible for the reporting of the country's foreign exchange reserves arising from its IMF membership the entity shall provide sufficient information to allow reconciliation between the total monetary gold holding reported in the respective statements.

# Questions for feedback

## While certainly not an exhaustive list, this section highlights some conceptual questions for consultation. It is hoped that respondents will provide more technical commentary. Additionally, all responses should be given with the needs of, and unique circumstances faced by, monetary authorities taken into consideration.

Specific information provided in response to this consultation will not be made publicly available, but the World Gold Council reserves the right to publish a summary of the responses received.

**Q1:** Are the proposed classifications for gold adequate and appropriate?

**Q2:** Is the application of discounts to fair value appropriate? If not, what costs and risks do the discounts not cover?

**Q3:** Is the treatment of unrealised gold revaluation reserves appropriate? If not, please provide reasons.

**Q4:** Is there a greater tendency to account for a gold swap as a currency swap or as a repurchase agreement? Are separate accounting treatments needed for gold swaps and gold repos?

**Q5:** Are there other gold transactions that should be included in the guidance?

**Q6:** Are the disclosure requirements sufficient? What modifications, if any, would improve transparency?

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